
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period _____ from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 001-35866

KNOT OFFSHORE PARTNERS LP

(Exact Name of Registrant as Specified in its Charter)

Republic of the Marshall Islands
(Jurisdiction of Incorporation or Organization)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common units representing limited partner interests	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

32,694,094 common units representing limited partner interests

3,750,000 Series A Convertible Preferred Units

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "large accelerated filer", "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards* provided pursuant to Section 13(a) of the Exchange Act.

* The term "new or revised financial accounting standards" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

KNOT Offshore Partners LP

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F for the year ended December 31, 2017 (this “Annual Report”) contains certain forward-looking statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto, including our financial forecast. In addition, we and our representatives may from time to time make other oral or written statements that are also forward-looking statements. Such statements include, in particular, statements about our plans, strategies, business prospects, changes and trends in our business, and the markets in which we operate as described in this Annual Report. In some cases, you can identify the forward-looking statements by the use of words such as “may,” “could,” “should,” “would,” “expect,” “plan,” “anticipate,” “intend,” “forecast,” “believe,” “estimate,” “predict,” “propose,” “potential,” “continue” or the negative of these terms or other comparable terminology. These forward-looking statements reflect management’s current views only as of the date of this Annual Report and are not intended to give any assurance as to future results. As a result, unitholders are cautioned not to rely on any forward-looking statements.

Forward-looking statements appear in a number of places in this Annual Report and include statements with respect to, among other things:

- market trends in the shuttle tanker or general tanker industries, including hire rates, factors affecting supply and demand, and opportunities for the profitable operations of shuttle tankers;
- the ability of Knutsen NYK Offshore Tankers AS (“KNOT”) and KNOT Offshore Partners LP (“KNOT Offshore Partners”) to build shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers;
- forecasts of KNOT Offshore Partners’ ability to make or increase distributions on its common units and make distributions on its Series A Convertible Preferred Units (the “Series A Preferred Units”) and the amount of any such distributions;
- KNOT Offshore Partners’ ability to integrate and realize the expected benefits from acquisitions;
- KNOT Offshore Partners’ anticipated growth strategies;
- the effects of a worldwide or regional economic slowdown;
- turmoil in the global financial markets;
- fluctuations in currencies and interest rates;
- fluctuations in the price of oil;
- general market conditions, including fluctuations in hire rates and vessel values;
- changes in KNOT Offshore Partners’ operating expenses, including drydocking and insurance costs and bunker prices;
- KNOT Offshore Partners’ future financial condition or results of operations and future revenues and expenses;
- the repayment of debt and settling of any interest rate swaps;
- KNOT Offshore Partners’ ability to make additional borrowings and to access debt and equity markets;
- planned capital expenditures and availability of capital resources to fund capital expenditures;
- KNOT Offshore Partners’ ability to maintain long-term relationships with major users of shuttle tonnage;
- KNOT Offshore Partners’ ability to leverage KNOT’s relationships and reputation in the shipping industry;
- KNOT Offshore Partners’ ability to purchase vessels from KNOT in the future;
- KNOT Offshore Partners’ continued ability to enter into long-term charters, which KNOT Offshore Partners defines as charters of five years or more;
- KNOT Offshore Partners’ ability to maximize the use of its vessels, including the re-deployment or disposition of vessels no longer under long-term charter;
- the financial condition of KNOT Offshore Partners’ existing or future customers and their ability to fulfill their charter obligations;
- timely purchases and deliveries of newbuilds;
- future purchase prices of newbuilds and secondhand vessels;
- any impairment of the value of KNOT Offshore Partners’ vessels;

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- KNOT Offshore Partners' ability to compete successfully for future chartering and newbuild opportunities;
- acceptance of a vessel by its charterer;
- termination dates and extensions of charters;
- the expected cost of, and KNOT Offshore Partners' ability to, comply with governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by its charterers applicable to KNOT Offshore Partners' business;
- availability of skilled labor, vessel crews and management;
- KNOT Offshore Partners' general and administrative expenses and its fees and expenses payable under the technical management agreements, the management and administration agreements and the administrative services agreement;
- the anticipated taxation of KNOT Offshore Partners and distributions to KNOT Offshore Partners' unitholders;
- estimated future maintenance and replacement capital expenditures;
- KNOT Offshore Partners' ability to retain key employees;
- customers' increasing emphasis on environmental and safety concerns;
- potential liability from any pending or future litigation;
- potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists;
- future sales of KNOT Offshore Partners' securities in the public market; and
- KNOT Offshore Partners' business strategy and other plans and objectives for future operations.

Forward-looking statements in this Annual Report are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those risks discussed in "Item 3. Key Information—Risk Factors." The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond KNOT Offshore Partners' control. KNOT Offshore Partners cautions that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

KNOT Offshore Partners undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible to predict all of these factors. Further, KNOT Offshore Partners cannot assess the impact of each such factor on its business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement. KNOT Offshore Partners makes no prediction or statement about the performance of its common units. The various disclosures included in this Annual Report and in KNOT Offshore Partners' other filings made with the Securities and Exchange Commission (the "SEC") that attempt to advise interested parties of the risks and factors that may affect KNOT Offshore Partners' business, prospects and results of operations should be carefully reviewed and considered.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following selected financial data should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and accompanying notes included in this Annual Report. Unless the context otherwise requires, references herein to “KNOT Offshore Partners,” “we,” “our,” “us” and “the Partnership” or similar terms refer to KNOT Offshore Partners LP, a Marshall Islands limited partnership, or any one or more of its subsidiaries, or to all such entities. References to “KNOT” refer, depending on the context, to Knutsen NYK Offshore Tankers AS and to any one or more of its direct and indirect subsidiaries. References to “KNOT Management” refer to KNOT Management AS, the entity that provides us with crew, technical and commercial management services. References to “KNOT Management Denmark” refer to KNOT Management Denmark AS, a 100% owned subsidiary of KNOT which also provides us with management services. References to “our general partner” refer to KNOT Offshore Partners GP LLC, the general partner of the Partnership. References to “KNOT UK” refer to KNOT Offshore Partners UK LLC, a wholly owned subsidiary of the Partnership. References to “TSSI” refer to TS Shipping Invest AS, and references to “NYK Europe” refer to NYK Logistics Holding (Europe) B.V, each of which holds a 50% interest in KNOT. References to NYK are to Nippon Yusen Kabushiki Kaisha. References to “KOAS UK” refer to Knutsen OAS (UK) Ltd., a wholly owned subsidiary of TSSI. References to “KOAS” refer to Knutsen OAS Shipping AS, a wholly owned subsidiary of TSSI.

The following table presents, in each case for the periods and as of the dates indicated, our selected consolidated financial and operating data, which includes, for periods prior to the closing of our initial public offering (“IPO”) on April 15, 2013, selected consolidated carve-out financial and operating data of the Partnership and its subsidiaries that had interests in the *Windsor Knutsen*, the *Bodil Knutsen*, the *Recife Knutsen* and the *Fortaleza Knutsen*.

Pursuant to our partnership agreement, our general partner has irrevocably delegated to our board of directors the power to oversee and direct the operations of, manage and determine the strategies and policies of the Partnership. During the period from our IPO until the time of our first annual meeting of unitholders on June 25, 2013, our general partner retained the sole power to appoint, remove and replace all members of our board of directors. At our first annual meeting of unitholders, four of the seven board members became electable by the common unitholders and accordingly, from this date, KNOT, as the owner of our general partner, no longer retained the power to control our board of directors and hence us. As a result, we are no longer considered to be under common control with KNOT, and, as a consequence, we no longer account for any vessel acquisitions from KNOT after June 25, 2013 as a transfer of equity interests between entities under common control.

In August 2013, June 2014, December 2014, June 2015, October 2015, December 2016, March 2017, June, 2017, September 2017 and December 2017 we acquired KNOT’s 100% interest in the companies that own and operate the shuttle tankers, the *Carmen Knutsen*, the *Hilda Knutsen* and *Torill Knutsen*, the *Dan Cisne*, the *Dan Sabia*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen* and the *Brasil Knutsen* respectively, each of which we accounted for as an acquisition of a business. Accordingly, the results of these acquisitions are included in our results from the dates of their respective acquisition. There has been no retroactive restatement of our financial statements to reflect the historical results of the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen*, the *Dan Cisne*, the *Dan Sabia*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen* and the *Brasil Knutsen* prior to their respective acquisition.

The following financial data should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and accompanying notes included in this Annual Report.

Our financial position, results of operations and cash flows could differ from those that would have resulted if we operated autonomously or as an entity independent of KNOT in the periods prior to our IPO for which historical financial and operating data are presented below, and such data may not be indicative of our future operating results or financial performance.

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	Year Ended December 31,				
	2017	2016	2015	2014	2013
(U.S. Dollars in thousands, except per unit amounts and fleet data)					
Statement of Operations Data:					
Total revenues	\$ 219,203	\$ 173,671	\$ 155,024	\$ 112,841	\$ 73,401
Vessel operating expenses(1)	46,709	30,903	27,543	23,879	14,288
Depreciation	71,583	56,230	48,844	34,322	23,768
General and administrative expenses	5,555	4,371	4,290	4,323	5,361
Goodwill impairment charge	—	—	6,217	—	—
Operating income	95,356	82,167	68,130	50,317	29,984
Interest income	248	24	8	13	30
Interest expense	(30,714)	(20,867)	(17,451)	(15,271)	(10,773)
Other finance expense	(1,406)	(1,311)	(504)	(1,271)	(2,048)
Realized and unrealized gain (loss) on derivative instruments	4,831	1,213	(9,695)	(6,407)	505
Net gain (loss) on foreign currency transactions	(267)	(139)	(105)	26	193
Income (loss) before income taxes	68,048	61,087	40,383	27,407	17,891
Income tax benefit (expense)	16	15	59	(15)	(2,827)
Net income (loss)	\$ 68,064	\$ 61,102	\$ 40,442	\$ 27,392	\$ 15,064
Earnings Per Unit (Basic and Diluted):					
Common units (Basic)	\$ 2.050	\$ 2.291	\$ 1.499	\$ 1.369	\$ 1.063
Common units (Diluted)	2.037	2.291	1.499	1.369	1.063
Subordinated units(2)	—	1.542	1.708	1.343	1.065
General partner units	2.046	2.248	1.487	1.329	1.063
Cash distributions declared and paid per unit	2.080	2.080	2.030	1.795	0.752
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$ 46,104	\$ 27,664	\$ 23,573	\$ 30,746	\$ 28,836
Vessels and equipment, net	1,723,023	1,256,889	1,192,927	1,021,857	617,785
Total assets	1,793,168	1,292,275	1,223,870	1,070,748	660,173
Long-term debt (including current portion and seller's credits)	1,026,615	741,646	667,722	613,221	349,977
Series A Convertible Preferred Units	89,264	—	—	—	—
Partners' capital	639,950	521,712	520,770	419,365	281,927
Cash Flows Data:					
Net cash provided by operating activities	\$ 154,585	\$ 108,445	\$ 89,160	\$ 59,339	\$ 44,160
Net cash used in investing activities	(94,857)	(13,952)	(46,488)	(121,946)	(55,468)
Net cash provided by (used in) financing activities	(41,378)	(90,345)	(49,575)	64,768	38,890
Fleet Data:					
Number of shuttle tankers in operation at end of period	15	11	10	8	5
Average age of shuttle tankers in operation at end of period (years)	4.7	4.7	4.1	3.3	3.1
Total calendar days for fleet	4,643	3,691	3,197	2,209	1,613
Total operating days for fleet(3)	4,400	3,668	3,193	2,196	1,606
Other Financial Data:					
EBITDA(4)	\$ 170,097	\$ 138,160	\$ 106,670	\$ 76,987	\$ 52,402
Adjusted EBITDA(4)	166,939	138,397	123,191	84,639	53,752

- (1) Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses.
- (2) On May 18, 2016 all of the subordinated units converted into common units on a one-for-one basis.
- (3) The operating days for our fleet is the total number of days in a given period that the vessels were in our possession less the total number of days off-hire. We define days off-hire as days lost to, among other things, operational deficiencies, drydocking for repairs, maintenance or inspection, equipment breakdowns, special surveys and vessel upgrades, delays due to accidents, crewing strikes, certain vessel detentions or similar problems, our failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew, or periods of commercial waiting time during which we do not earn hire rates.
- (4) Please read “—Non-U.S. GAAP Financial Measures” below.

Non-U.S. GAAP Financial Measures

EBITDA and Adjusted EBITDA . EBITDA is defined as earnings before interest, depreciation and taxes. Adjusted EBITDA is defined as earnings before interest, depreciation, taxes, goodwill impairment charges and other financial items (including other finance expense, realized and unrealized gain (loss) on derivative instruments and net gain (loss) on foreign currency transactions). EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as our lenders, to assess our financial and operating performance and our compliance with the financial covenants and restrictions contained in our financing agreements. Adjusted EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as investors, to assess our financial and operating performance. We believe that EBITDA and Adjusted EBITDA assist our management and investors by increasing the comparability of our performance from period to period and against the performance of other companies in our industry that provide EBITDA and Adjusted EBITDA information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest, other financial items, taxes, goodwill impairment charges and depreciation, as applicable, which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. We believe that including EBITDA and Adjusted EBITDA as financial measures benefits investors in (1) selecting between investing in us and other investment alternatives and (2) monitoring our ongoing financial and operational strength in assessing whether to continue to hold common units.

EBITDA and Adjusted EBITDA should not be considered alternatives to net income or any other indicator of our performance calculated in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies. The following table reconciles EBITDA and Adjusted EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	<i>(dollars in thousands)</i>				
Net income	\$ 68,064	\$ 61,102	\$ 40,442	\$27,392	\$15,064
Interest income	(248)	(24)	(8)	(13)	(30)
Interest expense	30,714	20,867	17,451	15,271	10,773
Depreciation	71,583	56,230	48,844	34,322	23,768
Income tax (benefit) expense	(16)	(15)	(59)	15	2,827
EBITDA	<u>\$170,097</u>	<u>\$138,160</u>	<u>\$106,670</u>	<u>\$76,987</u>	<u>\$52,402</u>
Goodwill impairment charge	—	—	6,217	—	—
Other financial items (a)	(3,158)	237	10,304	7,652	1,350
Adjusted EBITDA	<u>\$166,939</u>	<u>\$138,397</u>	<u>\$123,191</u>	<u>\$84,639</u>	<u>\$53,752</u>

(a) Other financial items consist of other finance expense, realized and unrealized (gain) loss on derivative instruments, and net (gain) loss on foreign currency transactions.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common units. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results or cash available for distributions or the trading price of our common units.

Risks Inherent in Our Business

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses to enable us to pay the minimum quarterly distribution on our common units.

We may not have sufficient cash from operations to pay the minimum quarterly distribution on our common units. Furthermore, distributions to the holders of our common units are subject to the prior distribution rights of any holders of our preferred units outstanding. As of April 25, 2018, there were 3,750,000 Series A Preferred Units issued and outstanding. Under the terms of our partnership agreement, we are prohibited from declaring and paying distributions on our common units until we declare and pay (or set aside for payment) full distributions on the Series A Preferred Units. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which may fluctuate from quarter to quarter based on the risks described in this section, including, among other things:

- the charter rates we obtain from our customers;
- the number of off-hire days for our fleet and the timing of, and number of days required for, drydocking of vessels;
- the level of our operating costs, such as the cost of crews and insurance;
- currency exchange rate fluctuations;
- the supply of shuttle tankers;
- the demand for shuttle tankers;
- the price and level of production of, and demand for, crude oil;
- prevailing global and regional economic and political conditions;
- changes in local income tax rates; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business.

In addition, the actual amount of cash we have available for distribution depends on other factors, including:

- the level of capital expenditures we make, including for maintaining or replacing vessels, building new vessels, acquiring existing vessels and complying with regulations;
- the level of debt we will incur to fund future acquisitions;
- fluctuations in our working capital needs;
- our ability to make, and the level of, working capital borrowings; and
- the amount of any cash reserves, including reserves for future maintenance and replacement capital expenditures, working capital and other matters, established by our board of directors.

The amount of cash we generate from our operations may differ materially from our profit or loss for the period, which is affected by non-cash items. As a result of this and the other factors mentioned above, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Our ability to grow and to meet our financial needs may be adversely affected by our cash distribution policy.

Our cash distribution policy, which is consistent with our partnership agreement, requires us to distribute all of our available cash (as defined in our partnership agreement) each quarter. Accordingly, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations.

In determining the amount of cash available for distribution, our board of directors approves the amount of cash reserves to set aside, including reserves for future maintenance and replacement capital expenditures, working capital and other matters. We also rely upon external financing sources, including commercial borrowings, to fund our capital expenditures. Accordingly, to the extent we do not have sufficient cash reserves or are unable to obtain financing, our cash distribution policy may significantly impair our ability to meet our financial needs or to grow.

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We must make substantial capital expenditures to maintain the operating capacity of our fleet, which reduces cash available for distribution. In addition, each quarter we are required to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted.

We must make substantial capital expenditures to maintain and replace, over the long-term, the operating capacity of our fleet. Maintenance and replacement capital expenditures include capital expenditures associated with the removal of a vessel from the water for inspection, maintenance and/or repair of submerged parts (or drydocking) and modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain or replace the operating capacity of our fleet. These expenditures could vary significantly from quarter to quarter and could increase as a result of changes in:

- the cost of labor and materials;
- customer requirements;
- the size of our fleet;
- the cost of replacement vessels;
- length of charters;
- governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and
- competitive standards.

Our partnership agreement requires our board of directors to deduct estimated, rather than actual, maintenance and replacement capital expenditures from operating surplus each quarter in an effort to reduce fluctuations in operating surplus (as defined in our partnership agreement). The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our board of directors and our conflicts committee at least once a year. In years when estimated maintenance and replacement capital expenditures are higher than actual maintenance and replacement capital expenditures, the amount of cash available for distribution to unitholders may be lower than if actual maintenance and replacement capital expenditures were deducted from operating surplus. If our board of directors underestimates the appropriate level of estimated maintenance and replacement capital expenditures, we may have less cash available for distribution in future periods when actual capital expenditures exceed our previous estimates.

If capital expenditures are financed through cash from operations or by issuing debt or equity securities, our ability to make cash distributions may be diminished, our financial leverage could increase or our unitholders may be diluted.

Use of cash from operations to expand or maintain our fleet reduces cash available for distribution to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for future capital expenditures could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay cash distributions to unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to maintain our current level of quarterly distributions to unitholders, both of which could have a material adverse effect on our ability to make cash distributions.

Our debt levels may limit our flexibility in obtaining additional financing, pursuing other business opportunities and paying distributions to our unitholders.

As of December 31, 2017, we had consolidated debt of approximately \$1,026.6 million. We have the ability to incur additional debt. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.” Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- we will need a substantial portion of our cash flows to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;
- our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally;
- our debt level may limit our flexibility in responding to changing business and economic conditions; and

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- if we are unable to satisfy the restrictions included in any of our financing agreements or are otherwise in default under any of those agreements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to our unitholders, notwithstanding our stated cash distribution policy.

Our ability to service our debt depends upon, among other things, our future financial and operating performance, which is affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

Financing agreements containing operating and financial restrictions may restrict our business and financing activities.

The operating and financial restrictions and covenants in our financing agreements and any future financing agreements could adversely affect our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, the financing agreements may restrict the ability of us and our subsidiaries to:

- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- make dividends or distributions;
- make certain negative pledges and grant certain liens;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into a new line of business.

In addition, our financing agreements require us to comply with certain financial ratios and tests, including, among others, maintaining a minimum liquidity, maintaining positive working capital, ensuring that EBITDA exceeds interest payable, maintaining a minimum collateral value, and maintaining a minimum book equity ratio. Our ability to comply with the restrictions and covenants, including financial ratios and tests, contained in our financing agreements is dependent on future performance and may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired.

If we are unable to comply with the restrictions and covenants in the agreements governing our indebtedness or in current or future debt financing agreements, there could be a default under the terms of those agreements. If a default occurs under these agreements, lenders could terminate their commitments to lend and/or accelerate the outstanding loans and declare all amounts borrowed due and payable. We have pledged our vessels as security for our outstanding indebtedness. If our lenders were to foreclose on our vessels in the event of a default, this may adversely affect our ability to finance future operations or capital needs or to engage in, expand or pursue our business activities. If any of these events occur, we cannot guarantee that our assets will be sufficient to repay in full all of our outstanding indebtedness, and we may be unable to find alternative financing. Even if we could obtain alternative financing, that financing might not be on terms that are favorable or acceptable. Any of these events would adversely affect our ability to make cash distributions to our unitholders and cause a decline in the market price of our common units. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

Restrictions in our debt agreements may prevent us or our subsidiaries from paying distributions.

The payment of principal and interest on our debt reduces cash available for distribution to us and on our units. In addition, our and our subsidiaries’ financing agreements prohibit the payment of distributions upon the occurrence of the following events, among others:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure to notify the lenders of any material oil spill or discharge of hazardous material, or of any action or claim related thereto;
- breach or lapse of any insurance with respect to vessels securing the facilities;
- breach of certain financial covenants;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;
- default under other indebtedness;
- bankruptcy or insolvency events;

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- failure of any representation or warranty to be correct;
- a change of ownership, as defined in the applicable agreement; and
- a material adverse change, as defined in the applicable agreement.

For more information regarding our financing agreements, please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

The failure to consummate or integrate acquisitions in a timely and cost-effective manner could have an adverse effect on our financial condition and results of operations.

Acquisitions that expand our fleet are an important component of our strategy. We believe that acquisition opportunities may arise from time to time, and any such acquisition could be significant. Any acquisition of a vessel or business may not be profitable after the time of acquisition and may not generate cash flows sufficient to justify the investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;
- be unable to attract, hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

In addition, unlike newbuilds, existing vessels typically do not carry warranties as to their condition. While we generally inspect existing vessels prior to purchase, such an inspection would normally not provide us with as much knowledge of a vessel’s condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flows and reduce our liquidity.

Certain acquisition and investment opportunities may not result in the consummation of a transaction. In addition, we may not be able to obtain acceptable terms for the required financing for any such acquisition or investment that arises. We cannot predict the effect, if any, that any announcement or consummation of an acquisition would have on the trading price of our common units. Our future acquisitions could present a number of risks, including the risk of incorrect assumptions regarding the future results of acquired vessels or businesses or expected cost reductions or other synergies expected to be realized as a result of acquiring vessels or businesses, the risk of failing to successfully and timely integrate the operations or management of any acquired vessels or businesses and the risk of diverting management’s attention from existing operations or other priorities. We may also be subject to additional costs related to compliance with various international laws in connection with such acquisition. If we fail to consummate and integrate our acquisitions in a timely and cost-effective manner, our business, financial condition, results of operations and cash available for distribution could be adversely affected.

Our charters are subject to early termination under certain circumstances and any such termination could have a material adverse effect on our results of operations and cash available for distribution to unitholders.

As of April 25, 2018, our fleet consists of sixteen shuttle tankers. If any of our vessels are unable to generate revenues as a result of the expiration or termination of its charter or sustained periods of off-hire time, our results of operations and financial condition could be materially adversely affected. Each of our charters terminates automatically if the applicable vessel is lost or missing or damage to the vessel results in a constructive total loss. The customer, under certain circumstances, may also have an option to terminate a time charter if the vessel is requisitioned by any government for a period of time in excess of the time period specified in the time charter or if at any time we are in default under the time charter. In addition, either party may usually terminate a charter in the event of the outbreak of war between specified countries. Under our bareboat charters, the charter is deemed terminated as of the date of any compulsory acquisition of the vessel or requisition for title by any governmental or other competent authority. For more information regarding the termination of our charters, please read “Item 4. Information on the Partnership—Business Overview—Charters—Termination.”

We may experience operational problems with vessels that reduce revenue and increase costs.

Shuttle tankers are complex and their operation is technically challenging. Marine transportation operations are subject to mechanical risks and problems. Operational problems may lead to loss of revenue or higher than anticipated operating expenses or require additional capital expenditures. Any of these results could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

We currently derive all of our time charter and bareboat revenues from seven customers, and the loss of any such customers could result in a significant loss of revenues and cash flow.

We currently derive all of our time charter and bareboat revenues from seven customers. For the year ended December 31, 2017, Eni Trading and Shipping S.p.A. (“ENI”), Fronape International Company, a subsidiary of Petrobras Transporte S.A. (“Transpetro”), Statoil ASA (“Statoil”), Repsol Sinopec Brasil, S.A. (“Repsol”), Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell, formerly BG Group (“Shell”), Standard Marine Tønsberg AS a Norwegian subsidiary of ExxonMobil (“ExxonMobil”) and Galp Sinopec Brazil Services B.V (“Galp”) accounted for approximately 22%, 21%, 11%, 13%, 24%, 8%, and 1%, respectively, of our revenues.

Petrobras, the Brazil state-controlled oil company, is alleged to have participated in a widespread corruption scandal involving improper payments to Brazilian politicians and political parties. In January 2018, Petrobras agreed to pay \$2.95 billion to settle a shareholder lawsuit in the United States related to this scandal. In addition, Petrobras has announced its plans to maintain a reduced level of capital expenditures for the years 2018-2022. These, together with a national economy in recession, may affect Petrobras, its performance under existing charters with us, or the development of new projects. Any adverse effect on Petrobras’ ability to perform under its charters with us could harm us.

If we lose a key customer, we may be unable to obtain replacement long-term charters and may become subject to the volatile spot market, which is highly competitive and subject to significant price fluctuations. In addition, if a customer exercises its right to terminate a charter, we may be unable to re-charter such vessel on terms as favorable to us as those of the terminated charter. The loss of any of our key customers could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholder

Due to volatile oil prices, the equity value of many of our customers declined in 2015 and remained depressed in 2016 and 2017. The combination of a reduction of cash flow resulting from lower prices, a reduction in borrowing under related credit facilities and the limited or lack of availability of debt or equity financing could potentially reduce the ability of our customers to make charter payments. Any future decline in the price of oil, could result in similar effects on our customers or other third parties with which we do business, which in turn could harm our business, results of operations and financial condition.

We depend on subsidiaries of KNOT to assist us in operating our businesses and competing in our markets.

We and our operating subsidiaries have entered into various services agreements with certain subsidiaries of KNOT, including KNOT Management. Under these agreements the subsidiaries provide us with certain administrative, financial and other services. Our operating subsidiaries are provided with substantially all of their crew, technical and commercial management services (including vessel maintenance, periodic drydocking, cleaning and painting, performing work required by regulations and human resources and financial services) and other advisory and technical services, including the sourcing of new contracts and renewals of existing contracts. Our operational success and ability to execute our growth strategy depends significantly upon the satisfactory performance of these services by the KNOT subsidiaries. Our business will be harmed if such subsidiaries fail to perform these services satisfactorily or if they stop providing these services to us or our operating subsidiaries.

Our ability to compete to enter into new charters and expand our customer relationships depends largely on our ability to leverage our relationship with KNOT and its reputation and relationships in the shipping industry. If KNOT suffers material damage to its reputation or relationships, it may harm the ability of us or our subsidiaries to:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully contract with shipyards;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with suppliers and other third parties.

If our ability to do any of the things described above is impaired, it could have a materially adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Our growth depends on continued growth in demand for shuttle tanker transportation services.

Our growth strategy focuses on expansion in the shuttle tanker sector. Accordingly, our growth depends on continued growth in the demand for offshore oil transportation services. Factors beyond our control that affect the offshore oil transportation industry may have a

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significant impact on our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Fluctuations in the hire rate we can charge our customers result from changes in the supply of carrying capacity and demand for the crude oil carried. If a sustained period of reduced demand for crude oil and offshore oil transportation services were to occur it would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition. The factors affecting supply and demand for shuttle tankers and supply and demand for crude oil transported by shuttle tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

The factors that influence the demand for shuttle tanker capacity include:

- changes in the actual or projected price of oil, which could impact the exploration for or development of new offshore oil fields or the production of oil at certain fields we service;
- delayed production start on offshore fields under development;
- levels of demand for and production of oil, which, among other things, is affected by competition from alternative sources of energy, other factors making consumption of oil more or less attractive or energy conservation measures;
- changes in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;
- changes in laws and regulations affecting the shuttle tanker industry;
- global and regional economic and political conditions, particularly in oil-consuming regions, as well as environmental concerns and regulations, which could impact the supply of oil and gas as well as the demand for various types of vessels; and
- changes in trading patterns, including changes in the distances that cargoes are transported.

The factors that influence the supply of shuttle tanker capacity include:

- the number of deliveries of new vessels under construction or on order;
- the scrapping rate of older vessels;
- oil and gas company policy with respect to technical vessel requirements; and
- the number of vessels that are off-hire.

Declines in oil prices may adversely affect our growth prospects and results of operations.

In 2015, global crude oil prices were volatile and declined significantly. While oil prices recovered to a certain degree in 2016 and 2017, any renewed decline in oil prices may adversely affect our business, results of operations and financial condition and our ability to make cash distributions, as a result of, among other things:

- a reduction in exploration for or development of new offshore oil fields, or the delay or cancelation of existing offshore projects as energy companies lower their capital expenditures budgets, which may reduce our growth opportunities;
- lower demand for shuttle tankers, which may reduce available charter rates and revenue to us upon redeployment of our vessels following expiration or termination of existing contracts or upon the initial chartering of vessels;
- customers potentially seeking to renegotiate or terminate existing vessel contracts, or failing to extend or renew contracts upon expiration;
- the inability or refusal of customers to make charter payments to us due to financial constraints or otherwise; or
- declines in vessel values, which may result in losses to us upon vessel sales or impairment charges against our earnings.

The current state of the global financial markets and current economic conditions may impair our customers' and suppliers' ability to pay for our services and could have a material adverse effect on our revenue, profitability and financial position.

We depend on our customers' willingness and ability to fund operating and capital expenditures to provide crude oil shuttle tankers for new or expanding offshore projects. Existing and future adverse economic conditions, including low oil prices, may lead to a decline in our customers' operations or ability to pay for our services, which could result in decreased demand for our vessels. There has historically been a strong link between the development of the world economy and demand for energy, including oil and natural gas.

Global financial markets and economic conditions have been severely disrupted and volatile in recent years and remain subject to significant vulnerabilities, such as the deterioration of fiscal balances and the rapid accumulation of public debt, continued deleveraging in the banking sector and a limited supply of credit. Credit markets as well as the equity and debt capital markets were exceedingly distressed during 2008 and 2009 and while these markets have subsequently recovered, periods of volatility have subsequently occurred. Uncertainty surrounding the continuing sovereign debt crisis in Greece and other European Union member countries and turmoil and unrest in the Middle East, Africa, Korea, the Ukraine and elsewhere, have led to increased volatility in global credit and equity markets. An extended period of adverse development in the outlook for European countries or Brazil could reduce the overall demand for oil and have a negative impact on our customers. Potential developments, or market perceptions concerning these and related issues, could affect our business, financial position, results of operations and ability to make cash distributions to our unitholders.

Any global financial or credit crisis or disruption may further reduce the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. Shortage of liquidity and credit combined with uncertainty in worldwide equity markets could lead to an extended worldwide economic recession. Such deterioration of the worldwide economy could result in reduced demand for oil and natural gas, exploration and production activity and transportation of oil and natural gas that could lead to a decrease in the hire rate earned by our vessels and a decrease in new charter activity. In addition, any adverse development in the global financial markets or deterioration in economic conditions might adversely impact our ability to issue additional equity at prices that will not be dilutive to our existing unitholders or preclude us from issuing equity at all.

We also cannot be certain that additional financing will be available if needed and to the extent required, on acceptable terms or at all. As a result of the disruptions in the credit markets and higher capital requirements, many lenders have increased margins on lending rates, enacted tighter lending standards, required more restrictive terms (including higher collateral ratios for advances, shorter maturities and smaller loan amounts), or have refused to refinance existing debt at all. Furthermore, certain banks that have historically been significant lenders to the shipping industry have reduced or ceased lending activities in the shipping industry. If additional financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to expand our existing business, complete shuttle tanker acquisitions or otherwise take advantage of business opportunities as they arise.

Furthermore, any uncertainty in the financial markets could have an impact on our customers and/or suppliers including, among other things, causing them to fail to meet their obligations to us. Similarly, any shortage of credit could affect lenders participating in our financing agreements, making them unable to fulfill their commitments and obligations to us. Any reductions in activity owing to such conditions or failure by our customers, suppliers or lenders to meet their contractual obligations to us could adversely affect our business, financial position, results of operation and ability to make cash distributions to our unitholders.

Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we face substantial competition.

One of our principal objectives is to enter into additional long-term, fixed-rate charters. The process of obtaining new long-term charters is highly competitive, usually involving an intensive screening process and competitive bids and extending for several months. Shuttle tanker charters are awarded based upon a variety of factors relating to the vessel operator, including:

- industry relationships and reputation for customer service and safety;
- experience and quality of ship operations;
- quality, experience and technical capability of the crew;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new vessels according to customer specifications;
- willingness to accept operational risks pursuant to the charter, among other things such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

Our ability to win new charters depends upon a number of factors, including our ability to:

- leverage our relationship with KNOT and its reputation and relationships in the shipping industry;
- successfully manage our liquidity and obtain the necessary financing to fund our growth;
- attract, hire, train and retain qualified personnel and ship management companies to manage and operate our fleet;
- identify and consummate desirable acquisitions, joint ventures or strategic alliances; and
- identify and capitalize on opportunities in new markets.

We expect substantial competition for providing services for potential shuttle tanker projects from a number of experienced companies. This increased competition may cause greater price competition for charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

An increase in the global supply of shuttle tanker capacity without a commensurate increase in demand may have an adverse effect on hire rates and the values of our vessels, which could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

The supply of shuttle tankers in the industry is affected by, among other things, assessments of the demand for these vessels by oil companies. Any over-estimation of demand for vessels may result in an excess supply of new shuttle tankers. This may, in the long term when existing contracts expire, result in lower hire rates and depress the values of our vessels. In such an event, our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected.

During periods of high utilization and high hire rates, industry participants may increase the supply of shuttle tankers by ordering the construction of new vessels. This may result in an over-supply of shuttle tankers and may cause a subsequent decline in utilization and hire rates when the vessels enter the market. Lower utilization and hire rates could adversely affect revenues and profitability. Prolonged periods of low utilization and hire rate could also result in the recognition of impairment charges on shuttle tankers if future cash flow estimates, based upon information available at the time, indicate that the carrying value of these shuttle tankers may not be recoverable. Such impairment charge may cause lenders to accelerate loan payments under our financing agreements, which could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

The required drydocking of our vessels could be more expensive and time consuming than we anticipate, which could adversely affect our cash available for distribution to unitholders.

We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications required to comply with industry certification or governmental requirements. Generally, we drydock each vessel every 60 months until the vessel is 15 years old and every 30 months thereafter. The required drydocking of our vessels could be more expensive and time consuming than we anticipate, which could adversely affect our cash available for distribution. The drydocking of our vessels requires significant capital expenditures and results in loss of revenue while our vessels are off-hire. Any significant increase in the number of days of off-hire due to such drydocking or in the costs of any repairs could have a material adverse effect on our ability to pay distributions to our unitholders. Although we do not anticipate that more than one of the vessels in our current fleet will be out of service at any given time, we may underestimate the time required to drydock any of our vessels or unanticipated problems may arise. If more than one of our vessels is required to be out of service at the same time, if a vessel is drydocked longer than expected or if the cost of repairs during drydocking is greater than budgeted, our cash available for distribution to unitholders could be adversely affected.

We may be unable to re-charter our vessels upon termination or expiration of their existing charters.

We are dependent upon charters for our vessels to generate revenues and we may be adversely affected if we fail to renew or are unsuccessful in winning new charters, or if our existing charters are terminated. Our ability to re-charter our shuttle tankers following expiration of existing charters and the rates payable upon any renewal or replacement charters depends upon, among other things, the state of the shuttle tanker market. For example, an oversupply of shuttle tankers can significantly reduce their charter rates. A termination or renegotiation of our existing charters or a failure to secure new employment at the expiration of our current charters may have a negative effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business.

The hull and machinery of every large, oceangoing commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the International Convention for Safety of Life at Sea (“SOLAS”). All our vessels are certified either by DNV GL Group AS (“DNV GL”) or by the American Bureau of Shipping (“ABS”).

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As part of the certification process, a vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Each of the vessels in our existing fleet is on a planned maintenance system approval, and as such the classification society attends onboard once every year to verify that the maintenance of the equipment onboard is done correctly. Each of the vessels in our existing fleet is required to be qualified within its respective classification society for drydocking once every five years subject to an intermediate underwater survey done using an approved diving company in the presence of a surveyor from the classification society.

If any vessel does not maintain its class or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between certain ports and will be unemployable. We would lose revenue while the vessel was off-hire and incur costs of compliance. This would negatively impact our revenues and reduce our cash available for distribution to unitholders.

The value of our vessels may decline, which could adversely affect our operating results.

Vessel values for shuttle tankers can fluctuate substantially over time due to a number of different factors, including:

- the cost of newbuildings;
- prevailing economic conditions in oil and energy markets;
- a substantial or extended decline in demand for oil;
- increases in the supply of vessel capacity;
- the cost of retrofitting or modifying existing vessels, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, or otherwise; and
- a decrease in oil reserves in the fields and other fields in which our shuttle tankers might otherwise be deployed.

If operation of a vessel is not profitable, or if we cannot redeploy a vessel at attractive rates upon termination of its charter, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a reasonable value could result in a loss on its sale and adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Additionally, lenders may accelerate loan repayments should there be a loss in the market value of our vessels. Such repayment could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Further, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings. We review vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable, which occurs when the asset's carrying value is greater than the future undiscounted cash flows the asset is expected to generate over its remaining useful life. For example, during the three months ended June 30, 2015, we concluded that indicators of impairment were present due to a significant reduction in the price of our common units. Consequently, we performed an interim vessel and goodwill impairment analysis as of June 30, 2015 on our fleet, and concluded that although there was no impairment to the vessels' values, the carrying value of goodwill exceeded its fair value, and a goodwill impairment charge of \$6.2 million was recognized in 2015.

Climate change and greenhouse gas restrictions may adversely impact our operations and markets.

Due to concern over the risk of climate change, a number of countries and the International Maritime Organization (the "IMO") the United Nations agency that regulates international shipping have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions from vessels. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards and incentives or mandates for renewable energy. The Paris Agreement, which was announced by the Parties to the United Nations Framework Convention on Climate Change in December 2015, does not cover international shipping. However, in 2016, the IMO reaffirmed its strong commitment to continue to work to address greenhouse gas emissions from ships engaged in international trade. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil industry relating to climate change, including growing public concern about the environmental and other impacts of climate change, may also adversely affect demand for our shuttle tanker services. Although we do not expect that demand for oil will lessen dramatically over the short term, in the long term climate change may reduce the demand for oil or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

Our international operations expose us to political, governmental and economic instability, which could harm our operations.

Our operations are conducted in various countries, and they may be affected by economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered. Any disruption caused by these factors could harm our business, including by reducing the levels of oil exploration, development and production activities in these areas. We may derive some of our revenues from shipping oil from politically unstable regions. Conflicts in these regions have included attacks on ships and other efforts to disrupt shipping. Hostilities or other political instability in regions where we operate or where we may operate could have a material adverse effect on the growth of our business, financial condition, results of operations and ability to make cash distributions to our unitholders. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries as a result of terrorist attacks, hostilities or otherwise may limit trading activities with those countries, which could also harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and/or a termination of the charter and could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Marine transportation is inherently risky, particularly in the extreme conditions in which our vessels operate. An incident involving significant loss of product or environmental contamination by any of our vessels could harm our reputation and business.

Vessels and their cargoes and the oil production facilities we service are at risk of being damaged or lost because of events such as:

- marine disasters;
- bad weather;
- mechanical failures;
- grounding, capsizing, fire, explosions and collisions;
- piracy;
- human error; and
- war and terrorism.

The *Bodil Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen* and the *Ingrid Knutsen* currently operate in the North Sea. Harsh weather conditions in this region and other regions in which our vessels operate may increase the risk of collisions, oil spills or mechanical failures.

An accident involving any of our vessels could result in any of the following:

- death or injury to persons, loss of property or damage to the environment and natural resources;
- delays in the delivery of cargo;
- loss of revenues from charters;
- liabilities or costs to recover any spilled oil or other petroleum products and to restore the ecosystem affected by the spill;
- governmental fines, penalties or restrictions on conducting business;
- higher insurance rates; and
- damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders. In addition, any damage to, or environmental contamination involving, oil production facilities serviced could suspend that service and result in loss of revenues.

Our insurance may not be sufficient to cover losses that may occur to our property or as a result of our operations.

The operation of shuttle tankers is inherently risky. All risks may not be adequately insured against, and any particular claim may not be paid by insurance. Any claims relating to our operations covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain insurance is maintained through mutual protection and indemnity associations (“P&I clubs”), and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

We may be unable to procure adequate insurance at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill or marine disaster could exceed the insurance, and any uninsured or underinsured loss could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders. In addition, the insurance may be voidable by the insurers as a result of certain actions, such as vessels failing to maintain certification with applicable maritime self-regulatory organizations.

Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult to obtain. In addition, the insurance that may be available may be significantly more expensive than existing coverage.

Terrorist attacks, piracy, increased hostilities or war could lead to further economic instability, increased costs and disruption of business.

Terrorist attacks, piracy and the current conflicts in the Middle East, and other current and future conflicts, may adversely affect our business, financial condition, results of operations and ability to raise capital and future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability and disruption of oil production and distribution, which could result in reduced demand for our services.

In addition, oil production facilities, shipyards, vessels, pipelines, oil fields or other infrastructure could be targets of future terrorist attacks and our vessels could be targets of pirates or hijackers. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport oil to or from certain locations. Terrorist attacks, war, piracy, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of oil to be shipped by us could entitle customers to terminate their charters, which would harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and the Gulf of Aden off the coast of Somalia. If such piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war-risk insurance premiums payable for such coverage could increase significantly and such insurance coverage might become more difficult to obtain. In addition, crew costs, including costs that may be incurred to the extent we employ onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Vessels transporting oil are subject to substantial environmental and other regulations, which may significantly limit operations or increase expenses.

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters and the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those governing oil spills, air emissions, discharges to water and the handling and disposal of hazardous substances and wastes. Many of these requirements are designed to reduce the risk of oil spills and other pollution.

In addition, we believe that the heightened environmental, safety and security concerns of insurance underwriters, regulators and charterers will generally lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on vessels. These requirements are likely to add incremental costs to our operations and the failure to comply with these requirements may affect the ability of our vessels to obtain the required certificates for entry into the different ports where we operate and could also impact our ability to obtain insurance. We expect to incur substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports or detention in certain ports.

Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, natural resource damage claims and fines and penalties in the event that there is a release of petroleum or hazardous

substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of petroleum or hazardous substances associated with our operations. In addition, oil spills and failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations, including, in certain instances, seizure or detention of our vessels. Please read “Item 4. Information on the Partnership—Business Overview—Environmental and Other Regulation.”

Exposure to currency exchange rate fluctuations results in fluctuations in cash flows and operating results.

Our reporting currency and the functional currency of our operating subsidiaries is the U.S. Dollar. Certain of our operating subsidiaries are party to technical management agreements with KNOT Management, which govern the crew, technical and commercial management of the vessels in our fleet. Under the technical management agreements, KNOT Management is paid for reasonable direct and indirect expenses incurred in providing the services, including operating expenses relating to our fleet. A majority of the operating expenses are in currencies other than the U.S. Dollar. Fluctuating exchange rates may result in increased payments by us under the services agreements if the strength of the U.S. Dollar declines relative to such other currencies.

Many seafaring employees are covered by collective bargaining agreements and the failure to renew those agreements or any future labor agreements may disrupt operations and adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

A significant portion of seafarers that crew certain of our vessels are employed under collective bargaining agreements. We and our operating subsidiaries may become subject to additional labor agreements in the future. We and our operating subsidiaries may suffer labor disruptions if relationships deteriorate with the seafarers or the unions that represent them. The collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Salaries for seafarers are typically renegotiated annually or bi-annually, and higher compensation levels will increase our costs of operations. Although these negotiations have not caused labor disruptions in the past, any future labor disruptions could harm our operations and could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

KNOT may on our behalf be unable to attract and retain qualified, skilled employees or crew necessary to operate our business or may have to pay substantially increased costs for its employees and crew.

Our success depends in large part on KNOT’s ability to attract, hire, train and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract, hire, train and retain qualified crew members is intense, and crew manning costs continue to increase. If we are not able to increase our hire rates to compensate for any crew cost increases, our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected. Any inability we experience in the future to attract, hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

Our Chief Executive Officer and Chief Financial Officer faces conflicts in the allocation of his time to our business.

John Costain, our Chief Executive Officer and Chief Financial Officer, also serves as the Finance Director for Tankers (UK) Agencies Ltd. This company conducts substantial businesses and activities of its own in which the Partnership has no economic interest. As a result, there is competition for the time and effort of Mr. Costain.

Maritime claimants could arrest our vessels, which could interrupt our cash flow.

If we are in default on some kinds of obligations, such as those to our lenders, crew members, suppliers of goods and services to our vessels or shippers of cargo, these parties may be entitled to a maritime lien against one or more of our vessels. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. In a few jurisdictions, claimants could try to assert “sister ship” liability against one vessel in our fleet for claims relating to another of our vessels. The arrest or attachment of one or more of our vessels could interrupt our cash flows and require us to pay to have the arrest lifted. Under some of our present charters, if the vessel is arrested or detained as a result of a claim against us, we may be in default of our charter and the charterer may terminate the charter. This would negatively impact our revenues and reduce our cash available for distribution to unitholders.

Lack of diversification and adverse developments in the shuttle tanker market or the conventional oil tanker market would negatively impact our results.

Although our vessels also are able to operate as conventional oil tankers, we are focused on dynamic positioning shuttle tankers. Due to our lack of diversification, any adverse development in the shuttle tanker market and/or the conventional oil tanker market could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

If in the future our business activities involve countries, entities and individuals that are subject to restrictions imposed by the U.S. or other governments, we could be subject to enforcement action and our reputation and the market for our common units could be adversely affected.

The tightening of U.S. sanctions in recent years has affected non-U.S. companies. In particular, sanctions against Iran have been significantly expanded. In 2012, for example, the U.S. signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012 (“TRA”), which placed further restrictions on the ability of non-U.S. companies to do business or trade with Iran and Syria. A major provision in the TRA is that issuers of securities must disclose to the SEC in their annual and quarterly reports filed after February 6, 2013 if the issuer or “any affiliate” has “knowingly” engaged in certain activities involving Iran during the timeframe covered by the report. This disclosure obligation is broad in scope in that it requires the reporting of activity that would not be considered a violation of U.S. sanctions as well as violative conduct, and is not subject to a materiality threshold. The SEC publishes these disclosures on its website and the President of the United States must initiate an investigation in response to all disclosures. It should be noted that the U.S. and various other nations entered into a Joint Comprehensive Plan of Action (JCPOA) with Iran that provides for phased sanctions relief. On January 16, 2016, following verification that Iran had satisfied its commitments under the JCPOA, the U.S. lifted its nuclear-related “secondary” sanctions and the European Union also took action to lift its sanctions. As a result of sanctions relief, non-U.S. persons will be able to engage in business with Iran. Sanctions relief will not impact the SEC reporting requirements discussed above. In the event of any breach by Iran of the JCPOA, sanctions, including those targeting wholly non-U.S. persons, may “snap back” into place.

In addition to the sanctions against Iran, the U.S. also has sanctions that target other countries, entities and individuals. These sanctions have certain extraterritorial effects that need to be considered by non-U.S. companies. It should also be noted that other governments have implemented versions of U.S. sanctions. We believe that we are in compliance with all applicable sanctions and embargo laws and regulations imposed by the U.S., the United Nations or European Union countries and intend to maintain such compliance. However, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, to divest their interest, or not to invest, in our common units. Additionally, some investors may decide to divest their interest, or not to invest, in our common units simply because we may do business with companies that do business in sanctioned countries. Investor perception of the value of our common units may also be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Failure to comply with the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, the anti-corruption provisions in the Norwegian Criminal Code and other anti-bribery legislation in other jurisdictions could result in fines, criminal penalties, contract termination and an adverse effect on our business.

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977, the Bribery Act 2010 of the Parliament of the United Kingdom and the anti-corruption provisions of the Norwegian Criminal Code of 1902. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and could consume significant time and attention of our senior management.

A cyber-attack could materially disrupt our business

We rely on information technology systems and networks, the majority of which are provided by KNOT Management, in our operations and the administration of our business. Our operations could be targeted by individuals or groups seeking to sabotage or disrupt our information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt our operations, including the safety of our operations, or lead to unauthorized release of information or alteration of information on our systems. Any such attack or other breach of our information technology systems could have a material adverse effect on our business and results of operations.

Risks Inherent in an Investment in Us

KNOT and its affiliates may compete with us.

Pursuant to the omnibus agreement, we entered into with KNOT at the time of our IPO (the “Omnibus Agreement”), KNOT and its controlled affiliates (other than us, our general partner and our subsidiaries) generally have agreed not to acquire, own, operate or charter certain shuttle tankers operating under charters of five years or more. The Omnibus Agreement, however, contains significant exceptions that may allow KNOT or any of its controlled affiliates to compete with us, which could harm our business. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Omnibus Agreement—Noncompetition.”

Unitholders have limited voting rights, and our partnership agreement restricts the voting rights of Norwegian Resident Holders and unitholders owning more than 4.9% of our common units.

Unlike the holders of common stock in a corporation, holders of common units have only limited voting rights on matters affecting our business. We hold a meeting of the limited partners every year to elect one or more members of our board of directors and to vote on any other matters that are properly brought before the meeting. Common unitholders are entitled to elect only four of the seven members of our board of directors. The elected directors are elected on a staggered basis and generally serve for four-year terms. Our general partner in its sole discretion appoints the remaining three directors and sets the terms for which those directors serve. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting our unitholders' ability to influence the manner or direction of management. Unitholders have no right to elect our general partner, and our general partner may not be removed except by a vote of the holders of at least 66 2/3% of the outstanding common units, including any units owned by our general partner and its affiliates, voting together as a single class.

Our partnership agreement further restricts unitholders' voting rights by providing that Norwegian Resident Holders are not eligible to vote in the election of elected directors. Further, if any person or group owns beneficially more than 4.9% of any class of units then outstanding, any such units owned by that person or group in excess of 4.9% may not be voted on any matter and are not considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes (except for purposes of nominating a person for election to our board of directors), determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any unitholders not entitled to vote on a specific matter are effectively redistributed pro rata among the other common unitholders. Our general partner, its affiliates and persons who acquire common units with the prior approval of our board of directors are not subject to the 4.9% limitation except with respect to voting their common units in the election of the elected directors.

KNOT and its affiliates own a substantial interest in us and have conflicts of interest and limited fiduciary and contractual duties to us and our common unitholders, which may permit them to favor their own interests to the detriment of our unitholders.

As of April 25, 2018, KNOT owned 26.2% of our common units and owned and controlled our general partner, which owns a 1.85% general partner interest in us and 0.3% of our common units. Certain of our directors are directors of KNOT or its affiliates, and, as such, they have fiduciary duties to KNOT or its affiliates that may cause them to pursue business strategies that disproportionately benefit KNOT or its affiliates or which otherwise are not in the best interests of us or our unitholders. Conflicts of interest may arise between KNOT and its affiliates (including our general partner), on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner and its affiliates may favor their own interests over the interests of our unitholders. Please read "—Our partnership agreement limits our general partner's and our directors' fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner or our directors." These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our general partner or KNOT or its affiliates to pursue a business strategy that favors us or utilizes our assets, and KNOT's officers and directors have a fiduciary duty to make decisions in the best interests of the shareholders of KNOT, which may be contrary to our interests;
- our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. Specifically, our general partner is considered to be acting in its individual capacity if it exercises its call right, pre-emptive rights or registration rights, consents or withholds consent to any merger or consolidation of the Partnership, appoints any directors or votes for the election of any director, votes or refrains from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraws from the Partnership, transfers (to the extent permitted under our partnership agreement) or refrains from transferring its units or general partner interest or votes upon the dissolution of the Partnership;
- our general partner and our directors have limited their liabilities and reduced their fiduciary duties under the laws of the Marshall Islands, while also restricting the remedies available to our unitholders, and, as a result of purchasing common units, unitholders are treated as having agreed to the modified standard of fiduciary duties and to certain actions that may be taken by our general partner and our directors, all as set forth in our partnership agreement;
- our general partner is entitled to reimbursement of all reasonable costs incurred by it and its affiliates for our benefit;
- our partnership agreement does not restrict us from paying our general partner or its affiliates for any services rendered to us on terms that are fair and reasonable or entering into additional contractual arrangements with any of these entities on our behalf;
- our general partner may exercise its right to call and purchase our common units if it and its affiliates own more than 80.0% of our common units; and
- our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of its limited call right.

Although a majority of our directors have been elected by common unitholders, our general partner has substantial influence on decisions made by our board of directors. Please read "Item 7. Major Unitholders and Related Party Transactions."

Our partnership agreement limits our general partner's and our directors' fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner or our directors.

Our partnership agreement provides that our general partner irrevocably delegates to our board of directors the authority to oversee and direct our operations, management and policies on an exclusive basis, and such delegation is binding on any successor general partner of the Partnership. Our partnership agreement also contains provisions that reduce the standards to which our general partner and directors would otherwise be held by Marshall Islands law. For example, our partnership agreement:

- permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. Where our partnership agreement permits, our general partner may consider only the interests and factors that it desires, and in such cases it has no fiduciary duty or obligation to give any consideration to any interest of, or factors affecting us, our affiliates or our unitholders. Decisions made by our general partner in its individual capacity are made by its board of directors, which is appointed by KNOT. Specifically, pursuant to our partnership agreement, our general partner is considered to be acting in its individual capacity if it exercises its call right, pre-emptive rights or registration rights, consents or withholds consent to any merger or consolidation of the Partnership, appoints any directors or votes for the election of any director, votes or refrains from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraws from the Partnership, transfers (to the extent permitted under our partnership agreement) or refrains from transferring its units or general partner interest or votes upon the dissolution of the Partnership;
- provides that our general partner and our directors are entitled to make other decisions in "good faith" if they reasonably believe that the decision is in our best interests;
- generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of our board of directors and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be "fair and reasonable" to us and that, in determining whether a transaction or resolution is "fair and reasonable," our board of directors may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and
- provides that neither our general partner nor our officers or our directors is liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or our officers or directors or those other persons engaged in actual fraud or willful misconduct.

In order to become a limited partner of our partnership, a common unitholder is required to agree to be bound by the provisions in our partnership agreement, including the provisions discussed above.

Our partnership agreement provides that our general partner delegates all its management activities in relation to us to our board of directors, and arrangements are in place such that any activities that would otherwise constitute regulated activities under the Financial Services and Markets Act 2000 (Regulated Activities Order) 2001 were they to be performed in the United Kingdom (and that would not fall within a suitable exemption) are performed outside of the United Kingdom. However, there can be no assurance that this will not change (deliberately or otherwise) over time, and there is no current intention for our general partner, us or any of our subsidiaries to seek authorization from the Financial Conduct Authority in the United Kingdom, which would be required for any person to lawfully carry out such regulated activities in the United Kingdom.

Fees and cost reimbursements, which affiliates of KNOT determine for services provided to us and our subsidiaries, are substantial, payable regardless of our profitability and reduce our cash available for distribution to our unitholders.

Pursuant to technical management agreements, our subsidiaries that own vessels operating under time charters pay fees for services provided to them by KNOT Management and reimburse KNOT Management for all expenses incurred on their behalf. These fees and expenses include all costs and expenses incurred in providing the crew, technical and commercial management of the vessels in our fleet to our subsidiaries. Additionally our subsidiaries that own vessels operating under bareboat charters have entered into management and administration agreements with either KNOT Management or KNOT Management Denmark pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.

In addition, pursuant to an administrative services agreement, KNOT UK provides us with certain administrative services. KNOT UK is permitted to subcontract certain of the administrative services provided to us under this agreement to KOAS UK, KOAS and KNOT Management. We reimburse KNOT UK, and KNOT UK reimburses KOAS UK, KOAS and KNOT Management, as applicable, for their reasonable costs and expenses incurred in connection with the provision of the services subcontracted to KOAS UK, KOAS and KNOT Management under the administrative services agreement. In addition, KNOT UK pays to KOAS UK, KOAS and KNOT Management, as applicable, a service fee in U.S. Dollars equal to 5% of the costs and expenses incurred in connection with providing services.

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For a description of the technical management agreements, management and administration agreements and the administrative services agreement, please read “Item 7. Major Unitholders and Related Party Transactions.” The fees and expenses payable pursuant to the technical management agreements, management and administration agreements and the administrative services agreement are payable without regard to our business, results of operation and financial condition. The payment of fees to and the reimbursement of expenses of affiliates of KNOT could adversely affect our ability to pay cash distributions to our unitholders.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner, and even if public unitholders are dissatisfied, they are unable to remove our general partner without KNOT’s consent, unless KNOT’s ownership interest in us is decreased, all of which could diminish the trading price of our common units.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner.

- Our unitholders are unable to remove our general partner without its consent, because our general partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 66 2/3% of all outstanding common voting together as a single class is required to remove the general partner. As of April 25, 2018, KNOT and our general partner owned 26.5% of the outstanding common units.
- If our general partner is removed without “cause” and units held by our general partner and KNOT are not voted in favor of that removal, our general partner has the right to convert its general partner interest, and the holders of the incentive distribution rights have the right to convert such incentive distribution rights, into common units or to receive cash in exchange for those interests based on the fair market value of those interests at the time. Any conversion of the general partner interest or incentive distribution rights would be dilutive to existing unitholders. Furthermore, any cash payment in lieu of such conversion could be prohibitively expensive. “Cause” is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding our general partner liable for actual fraud or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor business decisions, such as charges of poor management of our business by the directors appointed by our general partner.
- Common unitholders are entitled to elect only four of the seven members of our board of directors. Our general partner in its sole discretion appoints the remaining three directors.
- Election of the four directors elected by common unitholders is staggered, meaning that the members of only one of four classes of our elected directors are selected each year. In addition, the directors appointed by our general partner serve for terms determined by our general partner.
- Our partnership agreement contains provisions limiting the ability of unitholders to call meetings of unitholders, to nominate directors and to acquire information about our operations as well as other provisions limiting our unitholders’ ability to influence the manner or direction of management.
- Unitholders’ voting rights are further restricted by our partnership agreement provision providing that if any person or group owns beneficially more than 4.9% of any class of units then outstanding, any such units owned by that person or group in excess of 4.9% may not be voted on any matter and are not considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes (except for purposes of nominating a person for election to our board of directors), determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such unitholders in excess of 4.9% effectively are redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates and persons who acquire common units with the prior approval of our board of directors are not subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.
- There are no restrictions in our partnership agreement on our ability to issue equity securities.

The effect of these provisions may be to diminish the price at which the common units trade.

The control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of our unitholders. In addition, our partnership agreement does not restrict the ability of the members of our general partner from transferring their respective membership interests in our general partner to a third party.

Substantial future sales of our common units or the issuance of additional preferred units in the public market could cause the price of our common units to fall.

The market price of our common units could decline due to sales of a large number of units, or the issuance of debt securities or warrants, in the market, or the perception that these sales could occur. These sales could also make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate to raise funds through future offerings of common units.

We have granted registration rights to KNOT and certain of its affiliates. These unitholders have the right, subject to some conditions, to require us to file registration statements covering any of our common or other equity securities owned by them or to include those securities in registration statements that we may file for ourselves or other unitholders. As of April 25, 2018, KNOT and our general partner owned 26.5% of the common units and all of the incentive distribution rights. We have also entered into a registration rights agreement with the holders of the Series A Preferred Units, pursuant to which we agreed to register resales of the common units underlying the Series A Preferred Units. Following their registration and sale under an applicable registration statement, these securities will become freely tradable. By exercising their registration rights and selling a large number of common units or other securities, our securityholders with registration rights could cause the price of our common units to decline.

Our common units are subordinated to our existing and future indebtedness and our Series A Preferred Units.

Our common units are equity interests in us and do not constitute indebtedness. The common units rank junior to all indebtedness and other non-equity claims on us with respect to the assets available to satisfy claims, including a liquidation of the Partnership. Additionally, holders of the common units are subject to the prior distribution and liquidation rights of the holders of the Series A Preferred Units and any other preferred units we may issue in the future.

As long as our outstanding Series A Preferred Units remain outstanding, distribution payments relating to our common units are prohibited under our partnership agreement until all accrued and unpaid distributions are paid on the Series A Preferred Units.

KNOT, as the holder of all of the incentive distribution rights, may elect to cause us to issue additional common units to it in connection with a resetting of the target distribution levels related to its incentive distribution rights without the approval of the conflicts committee of our board of directors or holders of our common units. This may result in lower distributions to holders of our common units in certain situations.

KNOT, as the holder of all of the incentive distribution rights, has the right, at a time when it has received incentive distributions at the highest level to which it is entitled (48.0%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by KNOT, the minimum quarterly distribution will be reset to an amount equal to the average cash distribution per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the “reset minimum quarterly distribution”), and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution.

In connection with resetting these target distribution levels, KNOT will be entitled to receive a number of common units equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to it on the incentive distribution rights in the prior two quarters. We anticipate that KNOT would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion; however, it is possible that KNOT could exercise this reset election at a time when it is experiencing, or may be expected to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued our common units, rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued additional common units to KNOT in connection with resetting the target distribution levels related to KNOT’s incentive distribution rights. Please read “Item 8. Financial Information—Consolidated Statements and Other Financial Information—Our Cash Distribution Policy—Incentive Distribution Rights.”

We may issue additional equity securities, including a limited amount of securities senior to the common units, without the approval of our unitholders, which would dilute their ownership interests.

We may, without the approval of our unitholders, issue an unlimited number of additional common units. In addition, we may issue units that are senior to the common units in right of distribution, liquidation and voting, provided that the aggregate amount of our Series A Preferred Units and any other securities on parity with the Series A Preferred Units, pro forma for such issuance, does not exceed 33.33% of the book value of the sum of our then outstanding aggregate amount of parity securities and junior securities (including the common units). The consent of the holders of the Series A Preferred Units will be necessary for us to issue any parity securities (or securities senior to our Series A Preferred Units) in excess of such pro forma book value.

The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders’ proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;

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- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

A substantial number of our common units may be issued upon conversion of our Series A Preferred Units or as redemption payments in respect of our Series A Preferred Units, which issuances could reduce the value of our common units.

Our Series A Preferred Units will be convertible, under certain circumstances, at the then applicable conversion rate, which will be subject to adjustment under certain circumstances. The conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to \$24.00 (the “Issue Price”) divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro-forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Issue Price divided by (ii) the book value per common unit on the initial issuance date of the Series A Preferred Units.

The Series A Preferred Units are generally convertible, at the option of the holders of the Series A Preferred Units, into common units commencing on February 2, 2019 at the then applicable conversion rate. In addition, we may redeem the Series A Preferred Units at any time between February 2, 2019 and February 2, 2027 at the redemption price applicable on any such redemption date, provided, however, that upon notice from us to the holders of Series A Preferred Units or our intention to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the then applicable conversion rate. In addition, at any time following February 2, 2019 and subject to certain conditions, we may convert the Series A Preferred Units into common units at the then applicable conversion rate. Upon a change of control of the Partnership, the holders of Series A Preferred Units may require us to redeem the Series A Preferred Units, in cash, at 100% of the Issue Price. Further, the holders of Series A Preferred Units may cause us to redeem the Series A Preferred Units on February 2, 2027 in, at our option, (i) cash at a price equal to 70% of the Issue Price or (ii) common units such that each Series A Preferred Unit receives common units worth 80% of the Issue Price. The value (and, therefore, the number) of the common units to be delivered pursuant thereto will be determined based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of our common units as reported on the NYSE for the 30 trading day period ending on the fifth trading day immediately prior to the redemption date.

If a substantial portion of the Series A Preferred Units are converted into common units or redeemed under certain circumstances, common unitholders could experience significant dilution. Furthermore, if holders of such Series A Preferred Units were to dispose of a substantial portion of these common units in the public market following such a conversion, whether in a single transaction or series of transactions, it could adversely affect the market price for our common units. These sales, or the possibility that these sales may occur, could make it more difficult for us to sell our common units in the future.

The number of our common units issuable upon conversion or redemption under certain circumstances of the Series A Preferred Units will be impacted by, among other things, the level of our quarterly cash distributions, as the conversion rate is redetermined each quarter, based on the pro forma per unit cash distributions we make on our common units (as described above) and the market price of our common units. Accordingly, the number of common units issuable upon conversion or redemption under certain circumstances could be substantial, especially during periods of significant declines in market prices of our common units or if we experience certain events, such as, among other things, a decline in the value of our vessels that results in an impairment or write-down of the value of our vessels or a write-off of any goodwill, decline in the fair value of our derivative instruments, change in accounting principle that results in a decline in our book value, or other event that results in a decline in our book value.

The issuance of common units upon conversion or redemption under certain circumstances of our Series A Preferred Units may have the following effects:

- an existing unitholder’s proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each common unit may decrease;
- the relative voting strength of each previously outstanding common unit may be diminished; and
- the market price of our common units may decline.

The market price of our common units is likely to be influenced by the Series A Preferred Units. For example, the market price of our common units could become more volatile and could be depressed by:

- investors’ anticipation of the potential resale in the market of a substantial number of additional common units received upon conversion of the Series A Preferred Units;
- possible sales of our common units by investors who view the Series A Preferred Units as a more attractive means of equity participation in us than owning our common units; and
- hedging or arbitrage trading activity that may develop involving the Series A Preferred Units and our common units.

Our Series A Preferred Units have rights, preferences and privileges that are not held by, and are preferential to the rights of, holders of our common units.

Our Series A Preferred Units rank senior to all our common units with respect to distribution rights and liquidation preference. These preferences could adversely affect the market price for our common units, or could make it more difficult for us to sell our common units in the future.

In addition, distributions on the Series A Preferred Units accrue and are cumulative. Our obligation to pay distributions on our Series A Preferred Units, or on the common units issued following conversion of such Series A Preferred Units, could impact our liquidity and reduce the amount of cash flow available for working capital, capital expenditures, growth opportunities, acquisitions, and other general partnership purposes. Our obligations to the holders of Series A Preferred Units could also limit our ability to obtain additional financing or increase our borrowing costs, which could have an adverse effect on our financial condition.

In establishing cash reserves, our board of directors may reduce the amount of cash available for distribution to our unitholders.

Our partnership agreement requires our board of directors to deduct from operating surplus cash reserves that it determines are necessary to fund our future operating expenditures. These reserves also affect the amount of cash available for distribution to our unitholders. As described above in “—Risks Inherent in Our Business—We must make substantial capital expenditures to maintain the operating capacity of our fleet, which reduces cash available for distribution. In addition, each quarter we are required to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted,” our partnership agreement requires our board of directors each quarter to deduct from operating surplus estimated maintenance and replacement capital expenditures, as opposed to actual maintenance and replacement capital expenditures, which could reduce the amount of available cash for distribution. The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our board of directors at least once a year, provided that any change must be approved by the conflicts committee of our board of directors.

Our general partner has a limited call right that may require our unitholders to sell their common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80.0% of the common units, our general partner has the right, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than the then-current market price of our common units. Our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of this limited call right. As a result, our unitholders may be required to sell their common units at an undesirable time or price and may not receive any return on their investment. Our unitholders may also incur a tax liability upon a sale of their units.

As of April 25, 2018, KNOT and our general partner owned 26.5% of our common units.

Our unitholders may not have limited liability if a court finds that unitholder action constitutes control of our business.

As a limited partner in a partnership organized under the laws of the Marshall Islands, our unitholders could be held liable for our obligations to the same extent as a general partner if our unitholders participate in the “control” of our business. Our general partner generally has unlimited liability for the obligations of the Partnership, such as its debts and environmental liabilities, except for those contractual obligations of the Partnership that are expressly made without recourse to our general partner. In addition, the limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some jurisdictions in which we do business.

We can borrow money to pay distributions, which would reduce the amount of credit available to operate our business.

Our partnership agreement allows us to make working capital borrowings to pay distributions. Accordingly, if we have available borrowing capacity, we can make distributions on all our units even though cash generated by our operations may not be sufficient to pay such distributions. Any working capital borrowings by us to make distributions reduces the amount of working capital borrowings we can make for operating our business. For more information, please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

Increases in interest rates may cause the market price of our common units to decline.

An increase in interest rates may cause a corresponding decline in demand for equity investments in general, and in particular for yield-based equity investments such as our common units. Any such increase in interest rates or reduction in demand for our common units resulting from other relatively more attractive investment opportunities may cause the trading price of our common units to decline.

Unitholders may have liability to repay distributions.

Under some circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under the Marshall Islands Limited Partnership Act (the “Marshall Islands Act”), we may not make a distribution to our unitholders if the distribution would cause our liabilities, other than liabilities to partners on account of their partnership interest and liabilities for which the recourse of creditors is limited to specified property of ours, to exceed the fair value of our assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited will be included in our assets only to the extent that the fair value of that property exceeds that liability. Marshall Islands law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Marshall Islands law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the limited partnership that are known to the assignee at the time it became a limited partner and for unknown obligations if the liabilities could be determined from our partnership agreement.

We are an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies make our common units less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies.” These provisions include an exemption from the auditor attestation requirement in the assessment of the emerging growth company’s internal control over financial reporting and an exemption from compliance with any new requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to our auditor’s report in which the auditor would be required to provide additional information about the audit and our financial statements. We cannot predict if investors find our common units less attractive, because we are relying on these exemptions. If some investors find our common units less attractive as a result, there may be a less active trading market for our common units, and our unit price may be more volatile.

In addition, under the JOBS Act, our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company. For as long as we take advantage of the reduced reporting obligations, the information that we provide unitholders may be different than information provided by other public companies.

We have been organized as a limited partnership under the laws of the Marshall Islands, which does not have a well-developed body of partnership law.

Our partnership affairs are governed by our partnership agreement and by the Marshall Islands Act. The provisions of the Marshall Islands Act resemble provisions of the limited partnership laws of a number of states in the United States, most notably Delaware. The Marshall Islands Act also provides that it is to be applied and construed to make it, with respect to the subject matter thereof, uniform with the laws of the State of Delaware and, so long as it does not conflict with the Marshall Islands Act or decisions of the High and Supreme Courts of the Marshall Islands, the non-statutory law (or case law) of the State of Delaware is adopted as the law of the Marshall Islands. There have been, however, few, if any, court cases in the Marshall Islands interpreting the Marshall Islands Act, in contrast to Delaware, which has a fairly well-developed body of case law interpreting its limited partnership statute. Accordingly, we cannot predict whether Marshall Islands courts would reach the same conclusions as the courts in Delaware. For example, the rights of our unitholders and the fiduciary responsibilities of our general partner under Marshall Islands law are not as clearly established as under judicial precedent in existence in Delaware. As a result, unitholders may have more difficulty in protecting their interests in the face of actions by our general partner and its officers and directors than would unitholders of a similarly organized limited partnership in the United States.

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and substantially all of our assets are located outside of the United States. In addition, our general partner is a Marshall Islands limited liability company, and our directors and officers generally are or will be non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible for our unitholders to bring an action against us or against these individuals in the United States if our unitholders believe that their rights have been infringed under securities laws or otherwise. Even if our unitholders are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict our unitholders from enforcing a judgment against our assets or the assets of our general partner or our directors or officers.

Tax Risks

In addition to the following risk factors, you should read “Item 4. Information on the Partnership—Business Overview—Taxation of the Partnership” and “Item 10. Additional Information—Taxation” for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our common units.

Additionally, we are currently evaluating the provisions of U.S. tax reform recently enacted in December 2017, informally known as the Tax Cuts and Jobs Act of 2017 (the “Act”). The Act made substantial changes in the taxation of U.S. and multinational corporations, and included, among other things, a reduction in the U.S. federal corporate income tax rate to 21% starting in 2018 and the creation of a territorial tax systems. We continue to evaluate the impacts of this tax reform on our business. Furthermore, we cannot predict whether any additional legislation or any regulatory or other administrative guidance could materially adversely affect us.

We are subject to taxes, which reduces our cash available for distribution to our unitholders.

We and our subsidiaries may be subject to tax in the jurisdictions in which we are organized or operate, reducing the amount of cash available for distribution. In computing our tax obligations in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that, upon review of these positions, the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, further reducing the cash available for distribution. In addition, changes in our operations or ownership could result in additional tax being imposed on us or our subsidiaries in jurisdictions in which operations are conducted.

A change in tax laws in any country in which we operate could adversely affect us.

Tax laws and regulations are highly complex and subject to interpretation. Consequently, we and our subsidiaries are subject to changing tax laws, treaties and regulations in and between countries in which we operate. Our income tax expense is based on our interpretation of the tax laws in effect at the time the expense was incurred. A change in tax laws, treaties or regulations, or in the interpretation thereof, could result in a materially higher tax expense or a higher effective tax rate on our earnings. Such changes may include measures enacted in response to the ongoing initiatives in relation to fiscal legislation at an international level, such as the Action Plan on Base Erosion and Profit Shifting of the Organization for Economic Co-operation and Development.

U.S. tax authorities could treat us as a “passive foreign investment company,” which would have adverse U.S. federal income tax consequences to U.S. unitholders.

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a “passive foreign investment company” (a “PFIC”) for U.S. federal income tax purposes if at least 75% of its gross income for any taxable year consists of “passive income” or at least 50% of the average value of its assets produce, or are held for the production of, “passive income.” For purposes of these tests, “passive income” includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute “passive income.” U.S. unitholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their interests in the PFIC.

Based on our current and projected method of operation, we believe that we were not a PFIC for any prior taxable year, and we expect that we will not be treated as a PFIC for the current or any future taxable year. We believe that more than 25% of our gross income for each taxable year was or will be non-passive income, and more than 50% of the average value of our assets for each such year was or will be held for the production of non-passive income. This belief is based on certain valuations and projections regarding our income and assets, and its validity is based on the accuracy of such valuations and projections. While we believe these valuations and projections to be accurate, the shipping market is volatile and no assurance can be given that they will continue to be accurate at any time in the future.

Moreover, there are legal uncertainties involved in determining whether the income derived from time-chartering activities constitutes rental income or income derived from the performance of services. In *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), the United States Court of Appeals for the Fifth Circuit (the “Fifth Circuit”) held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a provision of the Internal Revenue Code of 1986, as amended (the “Code”), relating to foreign sales corporations. In that case, the Fifth Circuit did not address the definition of passive income or the PFIC rules; however, the reasoning of the case could have implications as to how the income from a time charter would be classified under such rules. If the reasoning of this case were extended to the PFIC context, the gross income we derive or are deemed to derive from our time-chartering activities may be treated as rental income, and we would likely be treated as a PFIC. In published guidance, the Internal Revenue Service (the “IRS”) stated that it disagreed with the holding in *Tidewater* and specified that time charters similar to those at issue in the case should be treated as service contracts. We have not sought, and we do not expect to seek, an IRS ruling on the treatment of income generated from our time-chartering activities. As a result, the IRS or a court could disagree with our position. No assurance can be given that this result will not occur. In addition, although we intend to conduct our affairs in a manner to avoid, to the extent possible, being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future, or that we will not be a PFIC in the future. If the IRS were to find that we are or have been a PFIC for any taxable year (and regardless of whether we remain a PFIC for any subsequent taxable year), our U.S. unitholders would face adverse U.S. federal income tax consequences. Please read “Item 10. Additional Information—Taxation—U.S. Federal Income Taxation of U.S. Holders—PFIC Status and Significant Tax Consequences” for a more detailed discussion of the U.S. federal income tax consequences to U.S. unitholders if we are treated as a PFIC.

We may have to pay tax on U.S. source income, which would reduce our cash flow.

Under the Code, U.S. source gross transportation income generally is subject to a 4% U.S. federal income tax without allowance for deduction of expenses, unless an exemption from tax applies under a tax treaty or Section 883 of the Code and the Treasury Regulations promulgated thereunder. U.S. source gross transportation income consists of 50% of the gross shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States.

We expect that our vessel-owning subsidiaries will qualify for an exemption from U.S. tax on any U.S. source gross transportation income under the Convention Between the United States of America and the Kingdom of Norway with Respect to Taxes on Income and Property (the “U.S.-Norway Tax Treaty”), and we intend to take this position for U.S. federal income tax purposes. However, if we acquire interests in vessel-owning subsidiaries in the future that are not Norwegian residents for purposes of the U.S.-Norway Tax Treaty, U.S. source gross transportation income earned by those subsidiaries would generally be subject to a 4% U.S. federal income tax unless the exemption under Section 883 of the Code applied. In general, the Section 883 exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder, it will not be subject to the 4% U.S. federal income tax referenced above on its U.S. source gross transportation income. The Section 883 exemption does not apply to income attributable to transportation that begins and ends in the United States.

The vessels in our fleet do not currently engage in transportation that begins and ends in the United States, and we do not expect that our subsidiaries will in the future earn income from such transportation. If, notwithstanding this expectation, our subsidiaries earn income in the future from transportation that begins and ends in the United States, that income would not be exempt from U.S. federal income tax under the U.S.-Norway Tax Treaty or Section 883 of the Code and would be subject to a 35% net income tax in the United States (currently at a 21% rate).

The imposition of U.S. federal income tax on our income could have a negative effect on our business and would result in decreased earnings available for distribution to our unitholders.

Our unitholders may be subject to income tax in one or more non-U.S. jurisdictions as a result of owning our common units if, under the laws of any such jurisdiction, we are considered to be carrying on business there. Such laws may require our unitholders to file a tax return with, and pay taxes to, those jurisdictions.

We conduct our affairs and cause each of our subsidiaries to operate its business in a manner that minimizes income taxes imposed upon us and our subsidiaries. Furthermore, we conduct our affairs and cause each of our subsidiaries to operate its business in a manner that minimizes the risk that unitholders may be treated as having a permanent establishment or taxable presence in a jurisdiction where we or our subsidiaries conduct activities simply by virtue of their ownership of our common units. However, because we are organized as a partnership, there is a risk in some jurisdictions, including Norway, that our activities or the activities of our subsidiaries may rise to the level of a taxable presence that is attributed to our unitholders for tax purposes. We have obtained confirmation from the United Kingdom HM Revenue & Customs that unitholders should not be treated as trading in the United Kingdom merely by virtue of their ownership of our common units. If our unitholders are attributed such a taxable presence in a jurisdiction, our unitholders may be required to file a tax return with, and to pay tax in, that jurisdiction based on our unitholders’ allocable share of our income. In addition, we may be required to obtain information from our unitholders in the event a tax authority (including in the United Kingdom) requires such information to submit a tax return. We may be required to reduce distributions to our unitholders on account of any tax withholding obligations imposed upon us by that jurisdiction in respect of such allocation to our unitholders. The United States may not allow a tax credit for any foreign income taxes that our unitholders directly or indirectly incur by virtue of an investment in us.

Item 4. Information on the Partnership

A. History and Development of the Partnership

General

KNOT Offshore Partners LP is a publicly traded limited partnership formed on February 21, 2013 to own, operate and acquire shuttle tankers under long-term charters, which we define as charters of five years or more. On April 18, 2013, we completed our IPO of 8,567,500 common units. In connection with our IPO, through KNOT UK, a 100% owned limited liability company formed under the laws of the Marshall Islands, the Partnership acquired a 100% ownership interest in KNOT Shuttle Tankers AS, which as of February 27, 2013 directly or indirectly owned (1) 100% of Knutsen Shuttle Tankers XII KS, the owner of the *Recife Knutsen* and the *Fortaleza Knutsen*, (2) 100% of Knutsen Shuttle Tankers XII AS, the general partner of Knutsen Shuttle Tankers XII KS, and (3) the *Windsor Knutsen* and the *Bodil Knutsen* and all of their related charters, inventory and long-term debt. In establishing the new KNOT Shuttle Tankers AS structure, KNOT formed three new Norwegian subsidiaries, which acquired 90% of Knutsen Shuttle Tankers XII KS, 100% of the *Windsor Knutsen* and 100% of the *Bodil Knutsen*, respectively.

On August 1, 2013, we acquired Knutsen Shuttle Tankers 13 AS, the company that owns and operates the shuttle tanker, the *Carmen Knutsen*, from KNOT.

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In June and July 2014, we sold an aggregate of 5,240,000 common units in an underwritten public offering and used a portion of the proceeds to fund the acquisition from KNOT of Knutsen Shuttle Tankers 14 AS and Knutsen Shuttle Tankers 15 AS, the companies that own the *Hilda Knutsen* and the *Torill Knutsen*, respectively, which closed on June 30, 2014.

On December 15, 2014, we acquired KNOT Shuttle Tankers 20 AS, the company that owns the shuttle tanker, the *Dan Cisne*, from KNOT.

On June 2, 2015, we sold 5,000,000 common units in an underwritten public offering and used a portion of the net proceeds to fund the acquisition from KNOT of KNOT Shuttle Tankers 21 AS, the company that owns the shuttle tanker, the *Dan Sabia*, which closed on June 15, 2015.

On October 15, 2015, we acquired Knutsen NYK Shuttle Tankers 16 AS, the company that owns the shuttle tanker, the *Ingrid Knutsen*, from KNOT.

On December 1, 2016, we acquired Knutsen Shuttle Tankers 19 AS, the company that owns the shuttle tanker, the *Raquel Knutsen*, from KNOT.

On January 10, 2017, we sold 2,500,000 common units in an underwritten public offering, raising approximately \$54.9 million in net proceeds.

On February 2, 2017, we issued and sold in a private placement 2,083,333 Series A Preferred Units at a price of \$24.00 per unit, raising approximately \$48.6 million in net proceeds.

On March 1, 2017, we acquired KNOT Shuttle Tankers 24 AS, the company that owns the shuttle tanker, the *Tordis Knutsen*, from KNOT.

On June 1, 2017, we acquired KNOT Shuttle Tankers 25 AS, the company that owns the shuttle tanker, the *Vigdis Knutsen*, from KNOT.

On June 30, 2017, we issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at a price of \$24.00 per unit, raising approximately \$38.9 million in net proceeds.

On September 30, 2017, we acquired KNOT Shuttle Tankers 26 AS, the company that owns the shuttle tanker, the *Lena Knutsen*, from KNOT.

On November 9, 2017, we sold 3,000,000 common units in an underwritten public offering. In connection with the offering, our general partner contributed \$1.2 million to us to maintain its 1.85% general partner interest. The total net proceeds from the offering and the general partner contribution were \$66.0 million.

On December 15, 2017, we acquired KNOT Shuttle Tankers 32 AS, the company that owns the shuttle tanker, the *Brasil Knutsen*, from KNOT.

On March 1, 2018, we acquired KNOT Shuttle Tankers 30 AS, the company that owns the shuttle tanker, the *Anna Knutsen*, from KNOT.

For more information regarding recent acquisitions and other developments, please see “Item 5. Operating and Financial Review and Prospects—Significant Developments in 2017 and Early 2018”

As of April 25, 2018, we had a fleet of sixteen shuttle tankers.

We were formed under the law of the Marshall Islands and maintain our principal place of business at 2 Queen’s Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom. Our telephone number at that address is +44 (0) 1224 618420. Our agent for service of process in the United States is Watson Farley & Williams LLP, and its address is 250 West 55th Street, New York, New York 10019.

Capital Expenditures

We reserve cash from operations for future maintenance capital expenditures, working capital and other matters. Because of the substantial capital expenditures we are required to make to maintain our fleet, our annual estimated maintenance and replacement capital expenditures are currently \$50.1 million per year, which is comprised of \$42.7 million for replacing our current vessels at the end of their useful lives and \$7.4 million for drydocking maintenance and classification surveys.

B. Business Overview

General

We were formed to own and operate shuttle tankers under long-term charters. Our primary business objective is to increase quarterly distributions per unit over time by growing our business through accretive acquisitions of shuttle tankers and by chartering our vessels pursuant to long-term charters with high quality customers that generate long-term stable cash flows. All of the vessels in our current fleet are chartered to Statoil, Transpetro, Repsol, Shell, ExxonMobil, Galp and ENI under long-term charters. Our charters have an average remaining term of 3.9 years as of March 31, 2018 (including guaranteed option periods).

Since our IPO, we have increased our quarterly distribution from \$0.375 per unit to \$0.52 per unit for the quarter ended December 31, 2017.

We intend to leverage the relationships, expertise and reputation of KNOT, a leading independent owner and operator of shuttle tankers, to pursue potential growth opportunities and to attract and retain high-quality, creditworthy customers. As of April 25, 2018, KNOT and our general partner owned our general partner interest, all of our incentive distribution rights and 26.5% of our common units. KNOT intends to utilize us as its primary growth vehicle to pursue the acquisition of long-term, stable cash-flow-generating shuttle tankers.

Business Strategies

Our primary business objective is to increase quarterly distributions per unit over time by executing the following strategies:

- ***Pursue strategic and accretive acquisitions of shuttle tankers on long-term, fixed-rate charters.*** We seek to leverage our relationship with KNOT to make strategic and accretive acquisitions. During the term of the Omnibus Agreement, we have the opportunity to purchase from KNOT any newbuild under a long-term charter or existing shuttle tanker in the KNOT fleet that enters into a long-term charter.
- ***Expand global operations in high-growth regions.*** We seek to expand in proven areas of offshore production, such as the North Sea and Brazil, and in new production areas as they are developed. We believe that KNOT's leading market position, operational expertise and strong customer relationships will enable us to have early access to new production projects worldwide.
- ***Manage our fleet and deepen our customer relationships to continue to provide a stable base of cash flows.*** We intend to maintain and grow our cash flows by focusing on strong customer relationships and actively seeking the extension and renewal of existing charters in addition to new opportunities to serve our customers. KNOT charters its current fleet to a number of the world's leading energy companies. We believe the close relationships that KNOT has with these companies will provide attractive opportunities for us. We continue to incorporate safety, health, security and environmental stewardship into all aspects of vessel design and operation in order to satisfy our customers and comply with national and international rules and regulations.

We can provide no assurance, however, that we will be able to implement our business strategies described above. For further discussion of the risks that we face, please read "Item 3. Key Information—Risk Factors."

Shuttle Tanker Market

A shuttle tanker is a specialized vessel designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions.

Shuttle tankers are often described as "floating pipelines," because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor. Shuttle tankers can be either purpose-built or converted from existing conventional oil tankers.

The advantages of shuttle tankers as compared to pipelines include:

- the use of shuttle tankers is a more flexible option than pipelines for the transportation of oil from the oil field to onshore terminals and provides destination flexibility for the customers;
- shuttle tankers provide a more flexible solution to declining production profiles and abandonment as a pipeline has a fixed capacity, whereas shuttle tanker capacity may be adjusted through reduced frequency of calls or reduced number of vessels serving a field;
- shuttle tanker operators may provide back-up capacity during times when existing transportation infrastructure is closed for maintenance or otherwise unavailable, which would enable uninterrupted production;
- shuttle tankers require less significant up-front investment than pipelines; and

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- shuttle tankers provide customers the benefit of purchasing unblended crude qualities, whereas pipelines usually provide a blend of different crude qualities as several oilfields may be connected to the same pipeline. A shuttle tanker may load at several fields during one single voyage, but oil from different fields may be kept separated in different compartments onboard.

Shuttle tankers primarily differ from conventional oil tankers based on two significant features. First, shuttle tankers are fitted with position-keeping equipment enabling them to remain in a position without the assistance of tugs or mooring to installations. Second, shuttle tankers are equipped with bow-loading equipment and, in some cases, also fitted with equipment for submerged turret loading. Conventional oil tankers load from an offshore field installation usually through a taut hawser (mooring line onboard the discharging unit) operation and/or with tug assistance. In certain cases, dedicated shuttle tanker newbuilds are required to service the specific requirements of oil fields and installations. At times, conventional oil tankers can be converted to shuttle tankers after a substantial upgrade and investment in equipment.

Our Fleet

The following table provides information about the sixteen shuttle tankers in our fleet as of April 25, 2018:

Shuttle Tanker	Capacity (dwt)	Built	Current Operating Region	Charter		
				Type	Charterer	Term
<i>Fortaleza Knutsen</i>	106,316	2011	Brazil	Bareboat charter	Transpetro	2023
<i>Recife Knutsen</i>	105,928	2011	Brazil	Bareboat charter	Transpetro	2023
<i>Bodil Knutsen</i>	157,644	2011	North Sea	Time Charter	Statoil	2019(1)(2)
<i>Windsor Knutsen</i>	162,362	2007	Brazil	Time Charter	Shell	2018(1)(3)
<i>Carmen Knutsen</i>	157,000	2013	Brazil	Time Charter	Repsol	2023(4)
<i>Hilda Knutsen</i>	123,000	2013	North Sea	Time Charter	ENI	2018(2)
<i>Torill Knutsen</i>	123,000	2013	North Sea	Time Charter	ENI	2018(2)
<i>Dan Cisne</i>	59,000	2011	Brazil	Bareboat charter	Transpetro	2023
<i>Dan Sabia</i>	59,000	2012	Brazil	Bareboat charter	Transpetro	2024
<i>Ingrid Knutsen</i>	112,000	2013	North Sea	Time Charter	ExxonMobil	2024(2)
<i>Raquel Knutsen</i>	152,000	2015	Brazil	Time Charter	Repsol	2025(5)
<i>Tordis Knutsen</i>	156,000	2016	Brazil	Time Charter	Shell	2022(6)
<i>Vigdis Knutsen</i>	156,000	2017	Brazil	Time Charter	Shell	2022(6)
<i>Lena Knutsen</i>	156,000	2017	Brazil	Time Charter	Shell	2022(6)
<i>Brasil Knutsen</i>	154,000	2013	Brazil	Time Charter	Galp	2022(7)
<i>Anna Knutsen</i>	152,000	2017	Brazil	Time Charter	Galp	2022(7)

- Pursuant to the Omnibus Agreement, KNOT agreed in certain circumstances to guarantee the payments of the hire rate under the existing charters for a period of five years from the closing date of our IPO. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Omnibus Agreement—Guarantees Relating to the *Bodil Knutsen* and the *Windsor Knutsen* .”
- Customer has the option to extend the charter for up to five one-year periods.
- On July 14, 2017, Shell exercised its option to extend the time charter of the *Windsor Knutsen* by one additional year until October 2018. Following the exercise of the option, Shell has the option to extend the charter for up to five one-year periods.
- Customer has the option to extend the charter for up to three one-year periods.
- Customer has the option to extend the charter for up to one three-year period and one two-year period.
- Customer has the option to extend the charter for up to two five-year periods.
- Customer has the option to extend the charter for up to two three-year periods.

Customers

For the year ended December 31, 2017, Shell, ENI, Transpetro, Repsol, Statoil, ExxonMobil and Galp accounted for approximately 24%, 22%, 21%, 13%, 11%, 8% and 1% respectively, of our revenues.

Charters

We generate revenues by charging customers for the loading, transportation and storage of their crude oil using the vessels in our fleet. We provide all of these services under time charters and bareboat charters.

As of April 25, 2018, twelve of our shuttle tankers are chartered under time charters and four of our shuttle tankers are chartered under bareboat charters.

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A time charter is a contract for the use of a specified vessel for a fixed period of time at a specified daily rate. Under time charters, the shipowner is responsible for providing crewing and other vessel operating services, the cost of which is included in the daily rate, while the customer is responsible for substantially all of the voyage expenses. A bareboat charter is a contract for the use of a specified vessel for a fixed period of time at a specified daily or annual rate. Under bareboat charters, the shipowner is not responsible for providing crewing or other operational services, while the customer is responsible for all vessel operating expenses and voyage expenses. In addition, bareboat charters also provide that the shipowner is responsible for repairs or renewals occasioned by latent defects in the vessel existing at the time of delivery, provided such defects have manifested themselves within 18 months after delivery. However, under bareboat charters, the customer is responsible for ordinary repair and maintenance, including drydocking.

Initial Term; Extensions

The initial term for a time charter or bareboat charter commences upon the vessel's delivery to the customer. Our time charters include options, exercisable by the customer, to extend the charter's initial term. Under the time charters, the customer may also extend the term for periods in which the vessel is off-hire, as described below. Customers under each of our time charters and bareboat charters have rights to terminate the charter prior to expiration of the original or any extended term in specified circumstances.

Hire Rate

Hire rate refers to the basic payment from the customer for the use of the vessel. Under our time charters, the majority of hire rate is payable monthly in advance, in U.S. Dollars. The hire rate payable under our time charters is either a fixed amount for the firm period of the time charter with escalations to be made in case of option periods or increases annually based on a fixed percentage increase or fixed schedule, in order to enable us to offset expected increases in operating costs. Under our time charters, hire rate payments may be reduced if the vessel does not perform to certain of its specifications, such as if the average vessel speed falls below a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount.

The hire rate payable under our bareboat charters is fixed and payable monthly in advance, in U.S. Dollars. The customer is also required to maintain minimum levels of insurance to protect the interests of the customer, the shipowner and mortgagees, if any.

Off-hire

Under our time charters, when the vessel is off-hire, or not available for service, the customer generally is not required to pay the hire rate, and the shipowner is responsible for all costs. Prolonged off-hire may lead to a termination of the time charter. A vessel generally will be deemed off-hire if there is a loss of time due to, among other things:

- operational deficiencies; drydocking for repairs, maintenance or inspection; equipment breakdowns; or delays due to accidents, crewing strikes, certain vessel detentions or similar problems; or
- the shipowner's failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

Our bareboat charters do not contain provisions for off-hire.

Ship Management and Maintenance

Under our time charters, the shipowner is responsible for the technical management of the vessel and for maintaining the vessel, periodic drydocking, cleaning and painting and performing work required by regulations. KNOT Management and KNOT Management Denmark provide these services to our subsidiaries for all our vessels under time charters. Please read "Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions." Under our bareboat charters, the shipowner is not responsible for providing crewing or other operational services and the customer is responsible for all vessel operating expenses and voyage expenses. However, Transpetro has elected to subcontract the technical operation and management of the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Dan Cisne* and the *Dan Sabia* to an affiliate of KNOT.

Termination

Each of our time charters and bareboat charters terminates automatically if the applicable vessel is lost or missing. In addition, under certain circumstances, the customer may have an option to terminate the time charter if the vessel is requisitioned by any government for a period of time in excess of the time period specified in the time charter or if at any time the shipowner is in default under the time charter. Under the bareboat charters, the charter is deemed terminated as of the date of any compulsory acquisition of the vessel or requisition for title by any governmental or other competent authority. In addition, the shipowner is generally entitled to suspend performance (but with the continuing accrual to its benefit of hire rate payments and default interest) and terminate the charter if the customer defaults in its payment obligations. Under the time charters and bareboat charters, either party may also terminate the charter in the event of war in specified countries.

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However, under the bareboat charters, in the event of war, hire shall continue to be paid in accordance with the charter until redelivery. In addition, under the bareboat charters, the shipowner has the right to terminate the charter if the customer (1) does not take immediate steps to have the necessary repairs done within a reasonable time or (2) does not arrange and keep certain insurance.

Competition

The shuttle tanker industry is capital intensive and operational expertise is critical, which create high barriers to entry. The shuttle tanker industry is viewed as an integral part of offshore oil production creating a market with few alternative suppliers and therefore a low risk of substitution. A company with a solid track record, knowledge of the market and an experienced, well-trained crew is preferred to a new entrant since the cost and impact of vessel downtime is significant for the customer. Furthermore, the systems in place for operational procedures, such as offshore loading and vetting, have significant value when negotiating contracts with new and existing customers.

According to Fearnley Consultants AS, as of February 6, 2018, there were approximately 82 vessels in the world shuttle tanker fleet (including 6 newbuilds on order). Teekay Offshore Partners L.P. is the largest owner in the shuttle tanker market with approximately 33 shuttle tankers (including 5 newbuilds on order). KNOT is the second largest owner of shuttle tankers with 29 shuttle tankers (including our vessels). American Eagle Tankers (AET) is the third largest owner of shuttle tankers with 6 vessels (including 2 newbuilds on order). Petrobras, which owns two vessels, employs a total of 24 existing shuttle tankers through long-term bareboat and time charters. There are other shuttle tanker owners in the industry, but the majority of such owners have a limited fleet size and have chartered vessels out for the long term.

Classification, Inspection and Maintenance

Every large, commercial seagoing vessel must be “classed” by a classification society. The classification society certifies that the vessel is “in class,” signifying that the vessel has been built and maintained in accordance with the rules of the classification society. In most cases, the classification society is authorized by the flag state to certify that the vessels also complies with applicable rules and regulations of the vessel’s country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society may undertake them on application or by official order, acting on behalf of the authorities concerned. The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned. For maintenance of the class, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed by the classification society as follows:

- *Annual Surveys* . For seagoing vessels, annual surveys are conducted for the hull and the machinery, including the electrical plant and where applicable for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.
- *Intermediate Surveys* . Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys may be carried out on the occasion of the second or third annual survey.
- *Class Renewal Surveys* . Class renewal surveys, also known as special surveys, are carried out for the ship’s hull, machinery, including the electrical plant and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including ultrasonic gauging, in order to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would require steel renewals. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every five years, a shipowner has the option of arranging with the classification society for the vessel’s hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle. At an owner’s application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal and though we have not exercised this option for our existing vessels, we may do so in the future.

All of the vessel’s areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

A vessel’s underwater parts are required to be inspected every 24 to 36 months by the classification society. Drydocking of vessels is done, at the minimum, every 60 months until the vessel is 15 years old and every 30 months thereafter. If any defects are found, the classification surveyor will issue a condition of class that must be rectified by the shipowner.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as “in class” by a classification society that is a member of the International Association of Classification Societies. All of our vessels have been awarded International Safety Management certification and are certified as being “in class” by DNV GL or ABS, the Norwegian and American classification societies, respectively. All new and secondhand vessels that we purchase must be certified prior to their delivery under the standard purchase contracts and memoranda of agreement. If the vessel is not certified on the date of closing, we will have no obligation to take delivery of the vessel.

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KNOT, through certain of its subsidiaries, operates as our ship manager, and carries out inspections of the ships on a regular basis, both at sea and while the vessels are in port, as well as carrying out inspections and ship audits to verify conformity with managers' reports. The results of these inspections result in a report containing recommendations for improvements to the overall condition of the vessel, maintenance, safety and crew welfare. Based in part on these evaluations, we create and implement a program of continual maintenance and improvement for our vessels and their systems.

Safety, Management of Ship Operations and Administration

Safety and environmental compliance is our top operational priority. Our vessels are operated in a manner intended to protect the safety and health of our employees, the general public and the environment. We actively manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and petroleum spills. We are also committed to reducing emissions and waste generation. We have established key performance indicators to facilitate regular monitoring of our operational performance. We set targets on an annual basis to drive continuous improvement, and we review performance indicators monthly to determine if remedial action is necessary to reach our targets. KNOT's shore staff performs a full range of technical, commercial and business development services for us. This staff also provides administrative support to our operations in finance, accounting and human resources.

KNOT, through certain of its subsidiaries, assists us and our operating subsidiaries in managing our ship operations. DNV GL, a Norwegian classification society, has approved KNOT's safety management system, which has been implemented on all our ships, as complying with the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention (the "ISM Code"), International Standards Organization ("ISO") 9001 for Quality Assurance, ISO 14001 for Environment Management Systems and OHSAS 18001, for Occupational Health and Safety Management System. As part of KNOT's ISM Code compliance, all the vessels' safety management certificates are being maintained through ongoing internal audits performed by KNOT's certified internal auditors and external audits performed by DNV GL or the respective flag state. Subject to satisfactory completion of these internal and external audits, certification is valid for five years.

KNOT provides, through certain of its subsidiaries, expertise in various functions critical to the operations of our operating subsidiaries. We believe this arrangement affords a safe, efficient and cost-effective operation. KNOT's subsidiaries also provide to us access to human resources, financial and other administrative functions pursuant to technical management agreements. Please read "Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Technical Management Agreements."

Critical ship management functions that are provided by KNOT or its subsidiaries through various of its offices around the world include:

- technical management, maintenance and dockings;
- crew management;
- procurement, purchasing and forwarding logistics;
- marine operations;
- vetting, oil major and terminal approvals;
- shipyard supervision;
- insurance; and
- financial services.

These functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management. In addition, KNOT's day-to-day focus on cost control will be applied to our operations. We believe that the adoption of common standards should also result in operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair, and spare parts ordering.

Risk of Loss, Insurance and Risk Management

The operation of any vessel, including shuttle tankers, has inherent risks. These risks include mechanical failure, personal injury, collision, property loss, vessel or cargo loss or damage and business interruption due to political circumstances in foreign countries or hostilities. In addition, there is always an inherent possibility of marine disaster, including explosion, spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. We believe that our present insurance coverage is adequate to protect us against the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage consistent with standard industry practice. However, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

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We have obtained hull and machinery insurance on all our vessels to insure against marine and war risks, which include the risks of damage to our vessels, salvage or towing costs, and also insure against actual or constructive total loss of any of our vessels. However, our insurance policies contain deductible amounts for which we are responsible. We have also arranged additional total loss coverage for each vessel. This coverage, which is called hull interest and freight interest coverage, provides us additional coverage in the event of the total loss or the constructive total loss of a vessel.

We have also obtained loss of hire insurance to protect us against loss of income in the event one of our vessels cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Under our loss of hire policies, our insurer will pay us the hire rate agreed in respect of each vessel for each day, in excess of a certain number of deductible days, for the time that the vessel is out of service as a result of damage, for a maximum of 180 days. The number of deductible days for the vessels in our fleet is 14 days per vessel.

All of our hull and machinery, hull interest and freight interest and loss of hire insurance policies are written on the Norwegian Marine Insurance Plan (“NMIP”), which through the hull and maintenance coverage also offers comprehensive collision liability coverage of up to the insured hull and maintenance value of the vessel. NMIP is based on an “all risk principle” and offers what is considered to be the most comprehensive insurance obtainable in any of the world’s marine markets today. The agreed deductible on each vessel averages \$150,000 for the shuttle tankers in our fleet.

Protection and indemnity insurance, which covers our third-party legal liabilities in connection with our shipping activities, is provided by a P&I club. This includes third-party liability and other expenses related to the injury or death of crew members, passengers and other third-party persons, loss or damage to cargo, claims arising from collisions with other vessels or from contact with jetties or wharves and other damage to other third-party property, including pollution arising from oil or other substances, and other related costs, including wreck removal. Subject to the capping discussed below, our coverage, except for pollution, is unlimited.

Our current protection and indemnity insurance coverage for pollution is \$1 billion per vessel per incident. The 13 P&I clubs that comprise the International Group of Protection and Indemnity Clubs insure approximately 90% of the world’s commercial tonnage and have entered into a pooling agreement to reinsure each association’s liabilities. Each P&I club has capped its exposure in this pooling agreement so that the maximum claim covered by the pool and its reinsurance would be approximately \$1 billion per accident or occurrence. We are a member of Norwegian P&I Club Skuld. As a member of these P&I clubs, we are subject to a call for additional premiums based on the clubs’ claims record, as well as the claims record of all other members of the P&I clubs comprising the International Group. However, our P&I clubs have reinsured the risk of additional premium calls to limit our additional exposure. This reinsurance is subject to a cap, and there is the risk that the full amount of the additional call would not be covered by this reinsurance.

The insurers providing the covers for hull and machinery, hull interest and freight interest, protection and indemnity and loss of hire insurances have confirmed that they will consider the shuttle tankers as vessels for the purpose of providing insurance.

We use in our operations KNOT’s risk management program that includes, among other things, risk analysis tools, maintenance and assessment programs, a seafarers competence training program, seafarers workshops and membership in emergency response organizations. We benefit from KNOT’s commitment to safety and environmental protection as certain of its subsidiaries assist us in managing our vessel operations.

KNOT has achieved certification under the standards reflected in ISO 9001 for quality assurance, ISO 14001 for environment management systems and the ISM Code on a fully integrated basis.

Environmental and Other Regulation

General

Our business and the operation of our vessels are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, we cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of our vessels. While we believe that we are in substantial compliance with the current environmental laws and regulations, there is no assurance that compliance with current laws and regulations or amended or newly adopted laws and regulations can be maintained in the future. Additional conventions, laws, and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses and certificates required for the operations of the vessels we own depend on a number of factors, we believe that we will be able to continue to obtain all permits, licenses and certificates material to the conduct of our operations.

International Maritime Organization

The IMO is the United Nations' agency responsible for developing measures to improve the safety and security of international shipping and to prevent marine pollution from ships. IMO regulations relating to pollution prevention for oil tankers have been adopted by many of the jurisdictions in which our tanker fleet operates. Under IMO regulations and subject to limited exceptions, a tanker must be of double-hull construction, a mid-deck design with double-side construction or another approved design ensuring the same level of protection against oil pollution. All of our tankers are double-hulled.

Many countries, but not the United States, have ratified and follow the liability regime adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as updated by the 1992 Protocol (the "CLC"). Under this convention, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil (e.g. crude oil, fuel oil, heavy diesel oil or lubricating oil), subject to certain defenses. The right to limit liability to specified amounts that are periodically revised is forfeited under the CLC when the spill is caused by the owner's actual fault or when the spill is caused by the owner's intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative regimes or common law governs, and liability is imposed either on the basis of fault or in a manner similar to the CLC. IMO regulations also include SOLAS, including amendments to SOLAS implementing the International Security Code for Ports and Ships (the "ISPS"), the ISM Code and the International Convention on Load Lines of 1966. The IMO Marine Safety Committee has also published guidelines for vessels with dynamic positioning systems, which would apply to shuttle tankers. SOLAS provides rules for the construction of and equipment required for commercial vessels and includes regulations for safe operation. Flag states that have ratified the CLC generally utilize the classification societies, which have incorporated SOLAS requirements into their class rules, to undertake surveys to confirm compliance.

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Non-compliance with IMO regulations, including SOLAS, the ISM Code, and the ISPS, or the requirements for shuttle tankers under their flag regulations, may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to or detention in some ports. For example, the U.S. Coast Guard and European Union (the "EU") authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and EU ports.

The requirements contained in the ISM Code govern our operations. Among other requirements, the ISM Code requires vessel operators to obtain a safety management certification for each vessel they manage, evidencing the shipowner's development and maintenance of an extensive safety management system. Each of the existing vessels in our fleet is currently ISM Code-certified, and we expect to obtain safety management certificates for each newbuild upon delivery.

The International Labour Organization (the "ILO") is a specialized agency of the United Nations with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (the "MLC 2006") to improve safety onboard merchant vessels. A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance is required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. On August 20, 2012, the required number of countries ratified the MLC 2006 and it came into force on August 20, 2013. The MLC 2006 requires us to develop new procedures to ensure full compliance with its requirements. Each of the existing vessels in our fleet is currently MLC 2006-certified, and we expect to obtain MLC 2006 certificates for each newbuild upon delivery.

The IMO has adopted the International Convention for the Prevention of Pollution from Ships ("MARPOL"), including Annex VI to MARPOL that sets limits on sulfur dioxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances. Annex VI applies to all ships and, among other things, imposes a global cap on the sulfur content of fuel oil and allows for specialized areas to be established internationally with even more stringent controls on sulfur emissions. For vessels 400 gross tons and greater, platforms and drilling rigs, Annex VI imposes various survey and air pollution prevention certification requirements. Moreover, Annex VI regulations impose progressively stricter limitations on sulfur emissions from ships. As of January 2, 2015, these limitations require that fuels of vessels in covered Emission Control Areas ("ECAs") contain no more than 0.1% sulfur. For non-ECA areas, the capped sulfur limitations decrease progressively until they reach the global limit of 0.5% that applies on and after January 1, 2020. MARPOL Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. All of our vessels are in compliance with these requirements.

In addition, there are several other regulatory requirements to use low sulfur fuel or restrict emissions that are either already in force or are upcoming. The EU Directive 33/2005 requiring the use of low sulfur fuel came into force on January 1, 2010. Under this legislation, vessels are required to burn fuel with sulfur content below 0.1% while berthed or anchored in an EU port. The California Air Resources Board requires vessels to burn fuel with 0.1% sulfur content or less within 24 nautical miles of California as of January 1, 2014. Currently, the only grade of fuel meeting 0.1% sulfur content requirement is low sulfur marine gas oil. All of our vessels are able to comply with applicable low sulfur fuel requirements. The EU has issued regulations (EU Directive 2015/757) that require monitoring and reporting of the emissions of vessels exceeding 5,000 gross tons that call at EU ports, with the first reports due in 2019. At present the regulation is for monitoring and reporting only, but it is anticipated that in the future the EU may move from requiring reporting of emissions to regulations aimed at reducing them.

The IMO has negotiated international conventions that impose liability for oil pollution and other environmental harms in international waters and the territorial waters of the signatory to such conventions such as the International Convention for the Control and Management of Ships' Ballast Water and Sediments (the "BWM Convention"). The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements (which began in 2009), to be replaced in time with a requirement for mandatory ballast water treatment. The BWM Convention entered into force on September 8, 2017. As referenced below, the U.S. Coast Guard issued new ballast water management rules on March 23, 2012. Under the requirements of the BWM Convention for units with ballast water capacity more than 5,000 cubic meters that were constructed in 2011 or before, ballast water management exchange or treatment were accepted until 2016. From 2016 (or not later than the first intermediate or renewal survey after 2016), only ballast water treatment will be accepted by the BWM Convention. Installation of ballast water treatment systems will be needed on our vessels. Although the cost to comply with IMO ballast water treatment regulations for our vessels is difficult to estimate, it is anticipated to be approximately \$1.0–1.4 million per vessel for the *Fortaleza Knutsen*, *Recife Knutsen*, *Bodil Knutsen*, *Windsor Knutsen*, *Carmen Knutsen*, *Dan Cisne* and *Dan Sabia*. The *Anna Knutsen*, the *Brasil Knutsen*, the *Lena Knutsen*, the *Torill Knutsen*, the *Hilda Knutsen*, the *Ingrid Knutsen*, the *Raquel Knutsen* the *Vigdis Knutsen* and the *Tordis Knutsen* have all installed IMO approved ballast water treatment system.

The International Convention on Civil Liability for Bunker Oil Pollution 2001 (the "Bunker Convention") provides a liability, compensation and compulsory insurance system to protect and reimburse the victims of oil pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention became effective in 2008 and imposes strict liability on shipowners for certain pollution damage. Registered owners of any seagoing vessel and seaborne craft over 1,000 gross tonnage, of any type whatsoever, and registered in a signatory state (a "State Party"), or entering or leaving a port in the territory of a State Party, will be required to maintain insurance that meets the requirements of the Bunker Convention and to obtain a certificate issued by a State Party attesting that such insurance is in force. The state-issued certificate must be carried onboard at all times. P&I clubs in the International Group issue the required Bunkers Convention "Blue Cards" to enable signatory states to issue certificates. All of our vessels have received "Blue Cards" from their P&I club and are in possession of a CLC State-issued certificate attesting that the required insurance coverage is in force.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulation may have on our operations.

European Union Environmental Regulation of Vessels

In waters of the EU, our vessels are subject to regulation EU-level directives implemented by the various nations through laws and regulations adopting these requirements. These laws and regulations prescribe measures to prevent pollution, protect the environment, support maritime safety and set out civil and criminal penalties that are being progressively incorporated into domestic legislation. For instance, the EU has adopted legislation (EU Directive 2009/16/EC) that: bans from EU waters manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities, in the preceding two years, after July 2003); creates obligations on the part of EU member port states to inspect at least 24% of vessels using these ports annually; provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; and provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. If deficiencies are found that are clearly hazardous to safety, health or the environment, the state is required to detain the vessel until the deficiencies are addressed. Member states are also required to implement a system of penalties for breaches of these standards. EU Directive 2009/16/EC introduces a new harmonized and coordinated regime for port state control inspections and from January 1, 2011 a new on-line register to make public both the poorly performing shipping companies (who will attract more intensive and coordinated inspections) and those with good records. Like the IMO, the EU has adopted regulations phasing out single-hull tankers. All of our tankers are double-hulled.

Several regulatory requirements to use low sulfur fuel are in force or upcoming. See discussion of "low sulfur fuel" regulations above.

The EU is currently considering other proposals to further regulate vessel operations. We cannot predict what additional legislation or regulations, if any, may be promulgated by the EU or any other country or authority. The trend, however, is towards increasing regulation and our expectation is that requirements will become more extensive and more stringent over time. If more stringent requirements are put in effect in the future, they may require, individually or in the aggregate, significant expenditures and could increase our operating costs, potentially affecting financial performance.

North Sea Environmental Regulation of Vessels

Our shuttle tankers currently operate in the North Sea and Brazil.

In addition to the regulations imposed by the IMO and the EU, countries having jurisdiction over North Sea areas impose further regulatory requirements on operations in those areas, including Maritime and Coastguard Agency regulations in the United Kingdom and Norwegian Maritime Directorate regulations in Norway. These regulatory requirements, together with additional requirements imposed by operators in North Sea oil fields, require that we make further expenditures for sophisticated equipment, reporting and redundancy systems on the shuttle tankers and for the training of seagoing staff. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in the North Sea.

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In Norway, the Norwegian Pollution Control Authority requires the installation of volatile organic compound emissions (“VOC”) control equipment, on most shuttle tankers serving the Norwegian continental shelf. The license holders of the oil field are responsible for the costs to ensure that shuttle tankers operating in the field are using appropriate VOC control equipment. In recent contracts, the charterers have requested owners to install such equipment against an increase in the hire rate. We have installed the VOC control equipment required to operate on the Norwegian continental shelf in each of the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Bodil Knutsen*, the *Windsor Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen* and the *Ingrid Knutsen*.

Brazilian Environmental Regulation of Vessels

In Brazil, the field operator and in most cases Petrobras where it is involved are required to establish internal procedures to manage pollution risks, which must be approved by the competent environmental authority. Brazilian environmental law includes international treaties and conventions to which Brazil is a party, as well as federal, state and local laws, regulations and permit requirements related to the protection of health and the environment. The petroleum industry in Brazil is subject to extensive regulations by several governmental agencies, including the National Agency of Petroleum, the Brazilian Navy and the Brazilian Institute of the Environment and Renewable Natural Resources. Failure to comply may subject us to administrative, criminal and civil liability, with strict liability in administrative and civil cases.

United States Environmental Regulation of Vessels

In the United States, federal and state laws and regulations that require vessel owners and operators to obtain and maintain specified permits or governmental approvals; control the discharge of materials into the environment; remove and cleanup materials that may harm the environment; and otherwise comply with regulations intended to protect the environment. Vessel operations are subject to the jurisdiction of the U.S. Coast Guard, the National Transportation Safety Board, the U.S. Customs and Border Protection, the Department of Interior, the Bureau of Ocean Energy Management, and the Bureau of Safety and Environmental Enforcement, as well as classification societies such as the American Bureau of Shipping. The United States has enacted an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 (“OPA 90”) and the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”).

Oil Pollution Act and CERCLA. CERCLA applies to the discharge of “hazardous substances” rather than “oil” and imposes strict joint and several liability upon the owners, operators or bareboat charterers of vessels for cleanup costs and damages arising from discharges of hazardous substances. We believe that petroleum products should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on vessels might fall within its scope.

OPA 90 affects all owners, bareboat charterers and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in U.S. waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States.

Under OPA 90, vessel owners, operators and bareboat charterers are “responsible parties” and are jointly, severally and strictly liable (unless the oil spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and cleanup costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

- natural resources damages and the related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties in an amount it periodically updates. The liability limits do not apply if the incident was proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party’s gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. Liability under CERCLA is also subject to limits unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations. We currently maintain for each of our vessel’s pollution liability coverage in the maximum coverage amount of \$1 billion per incident. A catastrophic spill could exceed the coverage available, which could harm our business, financial condition and results of operations.

Under OPA 90, with limited exceptions, all newly built or converted tankers delivered after January 1, 1994 and operating in U.S. waters must be double-hulled. All of our tankers are double-hulled. OPA 90 also requires owners and operators of vessels to establish and maintain

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with the U.S. Coast Guard evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The U.S. Coast Guard has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA. Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to approval by the U.S. Coast Guard. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the U.S. Coast Guard regulations by using self-insurance for certain vessels and obtaining financial guaranties from a third party for the remaining vessels. If vessels in our fleet trade to the United States in the future, we expect to provide guaranties through self-insurance or obtain guaranties from third-party insurers.

OPA 90 and CERCLA permit individual U.S. states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, such as California, Washington and Alaska require state-specific evidence of financial responsibility and vessel response plans. We intend to comply with all applicable regulations in the ports where our vessels call.

Owners or operators of vessels, including tankers operating in U.S. waters are required to file vessel response plans with the U.S. Coast Guard, and their tankers are required to operate in compliance with their U.S. Coast Guard approved plans. Such response plans must, among other things:

- address a “worst case” scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a “worst case discharge;”
- describe crew training and drills; and
- identify a qualified individual with full authority to implement removal actions.

In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The U.S. Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances. OPA 90 and CERCLA do not preclude claimants from seeking damages resulting from the discharge of oil and hazardous substances under other applicable law, including maritime tort law. The application of this doctrine varies by jurisdiction.

Clean Water Act. The United States Clean Water Act (“CWA”) prohibits the discharge of oil or hazardous substances in United States navigable waters unless authorized by a permit or exemption, and imposes strict liability in the form of penalties for unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA. The U.S. Environmental Protection Agency (the “EPA”) has enacted rules governing the regulation of ballast water discharges and other discharges incidental to the normal operation of vessels within U.S. waters. This permit, which the EPA has designated as the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels (the “VGP”), incorporates the current U.S. Coast Guard requirements for ballast water management as well as supplemental ballast water requirements, and includes limits applicable to 26 specific discharge streams, such as deck runoff, bilge water and gray water.

The EPA updated the VGP in 2013 to incorporate numeric effluent limits for ballast water expressed as the maximum concentration of living organisms in ballast water, as opposed to the prior non-numeric requirements. These requirements correspond with the IMO’s requirements under the BWM Convention, as discussed above. The permit also contains maximum discharge limitations for biocides and residuals. The numeric effluent limits in the new VGP will not apply to all vessels. Those that will be required to comply with the numeric limits will do so under a staggered implementation schedule. Certain existing vessels must achieve the numeric effluent limits for ballast water by the first drydocking after January 1, 2014 or January 1, 2016, depending on the vessel size. Newbuilds are subject to the numeric limits upon the effective date of the new permit. Vessels that have deferred deadlines for meeting the numeric standards must meet Best Management Practices, which are substantially similar to the requirements under the previous VGP.

The VGP includes a tiered requirement for obtaining coverage based on the size of the vessel and the amount of ballast water carried. Vessels that are 300 gross tons or larger and have the capacity to carry more than eight cubic meters of ballast water must submit notices of intent (“NOIs”) to receive permit coverage between six and nine months after the permit’s issuance date. Vessels that do not need to submit NOIs are automatically authorized under the permit. The 2013 VGP expires on December 18, 2018. We expect a new VGP to be proposed this year.

In addition to the requirements in the VGP, vessel owners and operators must meet 25 sets of state-specific requirements under the CWA’s § 401 certification process. Because the CWA § 401 process allows tribes and states to impose their own requirements for vessels operating within their waters, vessels operating in multiple jurisdictions could face potentially conflicting conditions specific to each jurisdiction that they travel through.

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While we do not believe that the costs associated with obtaining the required permits and meeting related treatment requirements will be material, it is difficult to predict the overall impact of CWA permitting requirements on our business at this stage. In addition, state-specific requirements under the CWA's § 401 and any similar restrictions enacted in the future could increase our costs of operating in the relevant waters.

National Invasive Species Act ("NISA") . In March 2012, the U.S. Coast Guard issued a final rule establishing standards for the allowable concentration of living organisms in ballast water discharged in U.S. waters and requiring the phase-in of U.S. Coast Guard approved ballast water management systems. The rule went into effect in June 2012 and set ballast water discharge standards for vessels calling on U.S. ports and intending to discharge ballast water equivalent to those set in IMO's BWM Convention. The final rule requires that ballast water discharge have no more than ten living organisms per milliliter for organisms between ten and 50 micrometers in size. For organisms larger than 50 micrometers, the discharge can have no more than ten living organisms per cubic meter of discharge. New ships constructed on or after December 1, 2013 must comply with these ballast water treatment standards and some existing ships must comply by their first drydock after January 1, 2014.

Clean Air Act . The United States Clean Air Act requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes in regulated port areas and emission standards for so-called "Category 3" marine diesel engines operating in U.S. waters. The marine diesel engine emission standards are equivalent to those adopted set forth in Annex VI to MARPOL. Compliance with these standards may cause us to incur costs to install control equipment on our vessels in the future.

Trends in Environmental Regulation in the United States . Numerous governmental agencies issue regulations to implement and enforce the laws of the applicable jurisdiction, which often involve lengthy permitting procedures, impose difficult and costly compliance measures, particularly in ecologically sensitive areas, and subject operators to substantial administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. Some of these laws contain criminal sanctions in addition to civil penalties. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly compliance or limit contract drilling opportunities, including changes in response to a serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the April 2010 Macondo well blowout incident, could adversely affect our financial results. Although significant capital expenditures may be required to comply with these governmental laws and regulations, such compliance has not materially adversely affected our earnings or competitive position. We believe that we are currently in compliance in all material respects with the environmental regulations to which we are subject.

We may also be affected by or subject to permitting and other requirements under a variety of other environmental laws not discussed above, such as the Endangered Species Act, Marine Mammal Protection Act and National Environmental Policy Act.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Kyoto Protocol") entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases ("GHGs"). Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol or to the more recently announced Paris Agreement.

On July 15, 2011, the IMO approved mandatory measures to reduce emissions of greenhouse gases from international shipping. The amendments to Annex VI to MARPOL for the prevention of air pollution from ships add a new Chapter 4 to Annex VI on energy efficiency requiring the Energy Efficiency Design Index ("EEDI") for new ships, and the Ship Energy Efficiency Management Plan ("SEEMP") for all ships. The regulations apply to all ships of 400 gross tonnage and above and are entered into force on January 1, 2013. These rules will likely affect the operations of vessels that are registered in countries that are signatories to Annex VI to MARPOL or vessels that call upon ports located within such countries. The IMO also adopted a mandatory requirement in October 2016 that ships of 5000 gross tonnage and above record and report their fuel oil consumption. The requirement was entered into force on March 1, 2018. These requirements could cause us to incur additional compliance costs. The IMO is also considering the development of a market-based mechanism for greenhouse gas emissions from ships. At the October 2016 Marine Environmental Protection Committee session, the IMO adopted a roadmap for developing a comprehensive IMO strategy on reduction of GHG emissions. The IMO anticipates adopting an initial GHG reduction strategy in 2018. The EU has indicated that it intends to implement regulation in an effort to limit emissions of greenhouse gases from vessels if such emissions are not regulated through the IMO.

In the United States, the EPA issued an "endangerment finding" regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. The EPA has already been petitioned by the California Attorney General to regulate greenhouse gas emissions from oceangoing vessels. In addition, climate change initiatives have been or are being considered in the United States Congress and by individual states. In June 2013, the European Commission developed a strategy to integrate maritime emissions into the overall European Union strategy to reduce greenhouse gas emissions. In accordance with this strategy, in April 2015 the European Parliament and Council adopted regulations requiring large vessels using European Union ports to monitor, report and verify their carbon dioxide emissions beginning in January 2018.

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Any passage of climate control legislation or other regulatory initiatives by the IMO, the United States, the EU, Norway, Brazil or other countries where we operate, that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business, including requiring us to make significant financial expenditures that we cannot predict with certainty at this time. For example, the Paris Agreement could lead to increased regulation of greenhouse gases or other concerns relating to climate change. In addition, even without such regulation, our business may be indirectly affected to the extent that climate change results in sea level changes or more intense weather events.

Vessel Security Regulation

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002 (the “MTSA”), came into effect in the United States. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter came into effect in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the ISPS. The ISPS is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must maintain an International Ship Security Certificate (“ISSC”) from a recognized security organization approved by the vessel’s flag state.

Among the various requirements are:

- onboard installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship’s identity, position, course, speed and navigational status;
- onboard installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- a ship identification number to be permanently marked on a vessel’s hull;
- a continuous synopsis record kept onboard showing a vessel’s history, including the name of the ship and of the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship’s identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt non-U.S. vessels from the MTSA vessel security measures provided such vessels have onboard a valid ISSC that attests to the vessel’s compliance with SOLAS security requirements and the ISPS. KNOT has implemented the various security measures addressed by the MTSA, SOLAS and the ISPS.

Legal Proceedings

From time to time we have been, and expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business, principally personal injury and property casualty claims. These claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on us.

Taxation of the Partnership

Certain of our subsidiaries are subject to taxation in the jurisdictions in which they are organized, conduct business or own assets. We intend that our business and the business of our subsidiaries will be conducted and operated in a manner designed to minimize the tax imposed on us and our subsidiaries. However, we cannot assure this result as tax laws in these or other jurisdictions may change or we may enter into new business transactions relating to such jurisdictions, which could affect our tax liability.

Marshall Islands

Because we and our subsidiaries do not conduct business or operations in the Republic of the Marshall Islands, neither we nor our subsidiaries are subject to income, capital gains, profits or other taxation under current Marshall Islands law, other than taxes, fines or fees due to (i) the incorporation, dissolution, continued existence, merger, domestication (or similar concepts) of legal entities registered in the Republic

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of the Marshall Islands, (ii) filing certificates (such as certificates of incumbency, merger, or redomiciliation) with the Marshall Islands registrar, (iii) obtaining certificates of good standing from, or certified copies of documents filed with, the Marshall Islands registrar, (iv) compliance with Marshall Islands law concerning vessel ownership, such as tonnage tax, or (v) non-compliance with requests made by the Marshall Islands Registrar of Corporations relating to our books and records and the books and records of our subsidiaries. As a result, distributions KNOT UK receives from its subsidiary, distributions that such subsidiary receives from the operating subsidiaries, and distributions we receive from KNOT UK, are not expected to be subject to Marshall Islands taxation.

United States

We have elected to be treated as a corporation for U.S. federal income tax purposes. As a result, we are subject to U.S. federal income tax to the extent we earn income from U.S. sources or income that is treated as effectively connected with the conduct of a trade or business in the United States unless such income is exempt from tax under an applicable treaty or Section 883 of the Code. Because our fleet is owned by subsidiaries resident in Norway, we expect that we qualify for an exemption from U.S. federal income tax on any U.S. source gross transportation income we earn by virtue of the application of the U.S.-Norway Tax Treaty, and we intend to take this position for U.S. federal income tax purposes.

Norway

We are treated as fiscally transparent for Norwegian tax purposes and expect to organize our affairs and conduct our business in a manner such that we, and our remaining subsidiaries that are not organized under the laws of the Kingdom of Norway, are not subject to a material amount of Norwegian taxes.

Our vessel-owning subsidiaries have been organized under the laws of the Kingdom of Norway, and we have elected to be subject to the tonnage tax regime in Norway. Pursuant to this regime, our vessel-owning subsidiaries will be subject to Norwegian tax based upon the net tonnage of their available cargo space rather than income generated from operating the vessels (i.e., operating income), which is tax free. Based upon the cargo space of our current vessels and the applicable rate of taxation, we expect our Norwegian subsidiaries to be liable for approximately \$254,000 of Norwegian tonnage tax for the year ended December 31, 2018. In addition, under the tonnage tax regime, other income such as net financial income and expense (i.e. income not generated from operating the vessels) is subject to the regular corporate income tax rate.

On December 14, 2017, the Norwegian government concluded negotiations with the EFTA Surveillance Authority regarding the Norwegian tonnage tax regime, which has been approved for another ten years until 2027. Pursuant to the approval, Norway has introduced restrictions that eliminate the ability of companies that own vessels under certain bareboat charters to qualify for the Norwegian tonnage tax regime. Companies that no longer qualify for the Norwegian tonnage tax regime will instead be subject to Norwegian corporate income tax. However, there are no limitations on intra-group bareboat chartering, as well as bareboat charters where crewing services are carried out by a related party. In order to constitute a related party, a minimum of 25% ownership/control is required according to the “associated enterprise” definition in the ATAD directive (Council Directive EU 2016/1164). Due to the fact that KNOT owns more than 25% of our partnership interests and owns 100% of KNOT Management and KNOT Management Denmark (which provide these crewing services to us), our bareboat charters are effectively seen as time charter services to the customer. If this related party situation is ended, other alternatives and possibly mitigating measures would need to be evaluated by the Partnership.

United Kingdom

Although we are managed and controlled in the United Kingdom, we have obtained confirmation from HM Revenue & Customs that we are treated as a transparent partnership for United Kingdom tax purposes. Accordingly, we are not subject to UK tax in our own name, but rather any partners subject to UK tax will be taxed on their share of our profits.

Our general partner and KNOT UK expect to be a resident of the United Kingdom for taxation purposes subject to tax on ordinary income. Nonetheless, these companies are primarily expected to earn dividend income from our controlled affiliates, which should generally be exempt from United Kingdom taxation under applicable exemptions for distributions from subsidiaries.

Employees

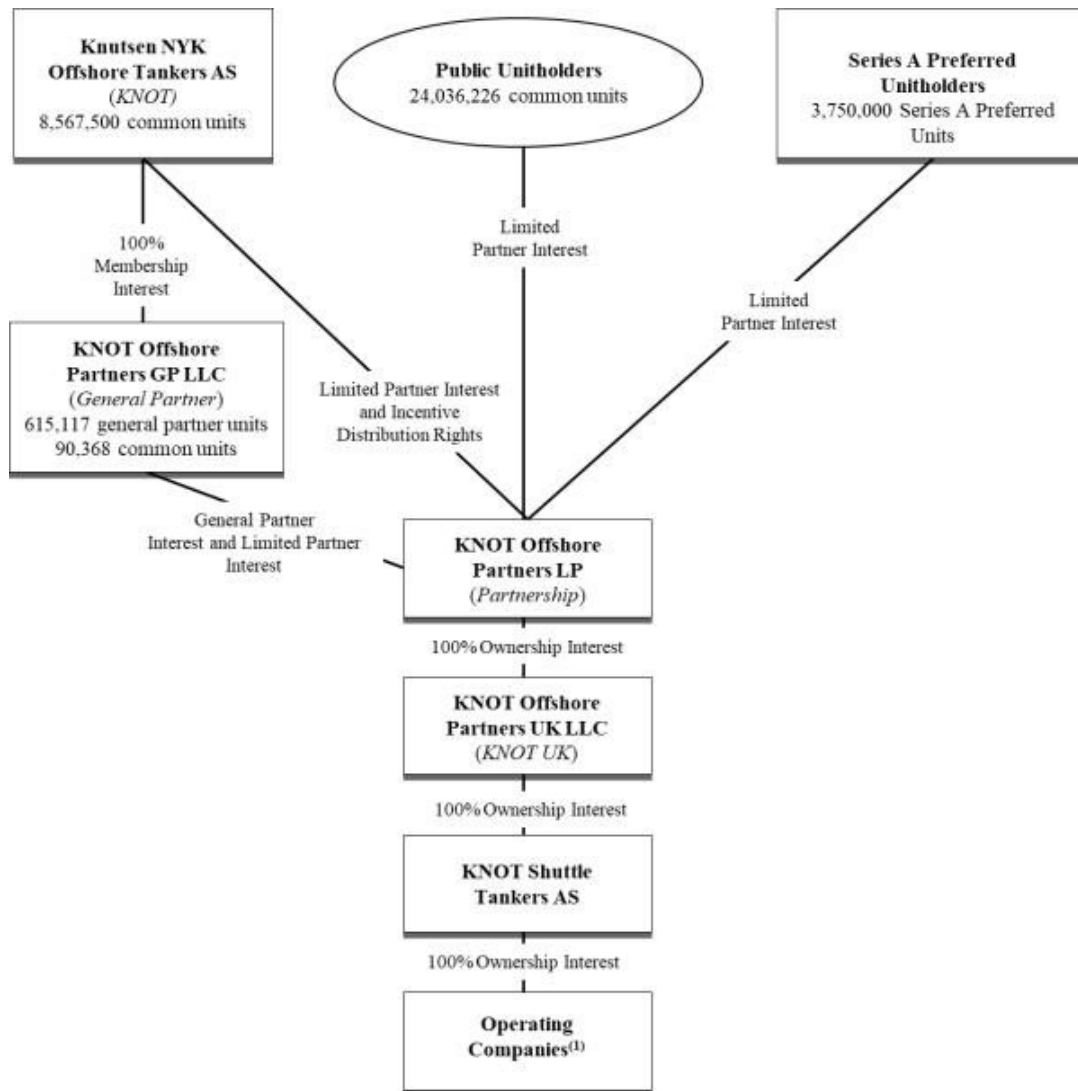
We directly employ one onshore employee and no seagoing employees. As of December 31, 2017, KNOT employed (directly and through ship managers) approximately 481 seagoing staff to serve on our vessels. KNOT and its affiliates may employ additional seagoing staff to assist us as we grow. KNOT, through certain of its subsidiaries, provides onshore advisory, commercial, technical and operational support to our operating subsidiaries pursuant to the technical management agreements and management and administration agreements. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions.”

We and KNOT regard attracting and retaining motivated seagoing personnel as a top priority. KNOT offers seafarers competitive employment packages and opportunities for personal and career development, which relates to a philosophy of promoting internally. The officers operating our vessels are engaged on individual employment contracts, and we have entered into collective bargaining agreements that cover substantially all of the sailing personnel that operate the vessels in our current fleet, which are flagged in Norway, the Isle of Man, Malta, Denmark, United Kingdom or the Bahamas. We believe our relationships with these labor unions are good. Our commitment to training is fundamental to the development of the highest caliber of seafarers for our marine operations. KNOT's cadet training approach is designed to balance academic learning with hands-on training at sea. KNOT trains personnel mainly in Norway and the Philippines and at institutions that utilize ship handling, dynamic positioning and cargo handling simulators. After receiving formal instruction at one of these institutions, our seafarers' training continues onboard one of KNOT's vessels. Additional vessel and equipment training and courses are arranged in accordance with our training policies and the training requirements of our charterers. We believe that high-quality crewing and training policies will play an increasingly important role in distinguishing the larger, independent shipping companies with shuttle tanker experience from those that are newcomers and lack experienced, in-house staff and established expertise on which to base their customer service and safety operations.

C. Organizational Structure

We are a publicly traded limited partnership formed on February 21, 2013.

The diagram below depicts our simplified organizational and ownership structure as of April 25, 2018.



(1) Each of our vessels are owned by certain vessel-owning subsidiaries.

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We listed our common units on the New York Stock Exchange (“NYSE”) in April 2013 under the ticker symbol “KNOP.”

We were formed under the law of the Marshall Islands and maintain our principal executive headquarters at 2 Queen’s Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom. Our telephone number at that address is +44 (0) 1224 618420. Our principal administrative offices are located at 2 Queen’s Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom.

A full list of our significant operating and vessel-owning subsidiaries is included in Exhibit 8.1.

D. Property, Plants and Equipment

Other than the vessels in our current fleet, we do not have any material property.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following should be read in conjunction with “Item 3. Key Information—Selected Financial Data,” “Item 4. Information on the Partnership,” “Forward-Looking Statements” and the consolidated financial statements and accompanying notes included in this Annual Report. Among other things, those financial statements include more detailed information regarding the basis of presentation for the following information. Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and are presented in U.S. Dollars.

The following discussion assumes that our business was operated as a separate entity prior to the closing of our IPO on April 15, 2013. References in this Annual Report to our “initial fleet” refer to the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Windsor Knutsen* and the *Bodil Knutsen*, all of which were contributed to us at or prior to our IPO. The historical financial statements for periods prior to the closing of our IPO on April 15, 2013, have been carved out of the consolidated financial statements of KNOT, which operated the vessels in our initial fleet for periods prior to our IPO.

In August 2013, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Carmen Knutsen*.

In June 2014, we acquired KNOT’s 100% interest in the companies that own and operate the shuttle tankers, the *Hilda Knutsen* and the *Torill Knutsen*.

In December 2014, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Dan Cisne*.

In June 2015, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Dan Sabia*.

In October 2015, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Ingrid Knutsen*.

In December 2016, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Raquel Knutsen*.

In March 2017, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Tordis Knutsen*.

In June 2017, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Vigdis Knutsen*.

In September 2017, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Lena Knutsen*.

In December 2017, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Brasil Knutsen*.

In March 2018, we acquired KNOT’s 100% interest in the company that owns and operates the shuttle tanker, the *Anna Knutsen*.

Overview

We were formed in February 2013 as a limited partnership under the laws of the Republic of the Marshall Islands to own and operate shuttle tankers under long-term charters. Our initial fleet of shuttle tankers was contributed to us by KNOT, a leading independent owner and operator of shuttle tankers. Our current fleet consists of sixteen shuttle tankers. Under the Omnibus Agreement, we have the right to purchase from KNOT any shuttle tankers operating under charters of five or more years.

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On April 18, 2013, we completed our IPO. In connection with our IPO, we sold 8,567,500 common units to the public, through the underwriters, at a price of \$21.00 per unit, and issued to KNOT 8,567,500 subordinated units and all of our incentive distribution rights. On May 18, 2016, all of the subordinated units converted into common units on a one for one basis. As of April 25, 2018, KNOT owned 26.2% of our common units, our general partner and our incentive distribution rights and our general partner owned a 1.85% general partner interest in us and 0.3% of our common units.

Significant Developments in 2017 and Early 2018

Series A Preferred Units

On February 2, 2017, the Partnership issued and sold in a private placement \$50 million of Series A Preferred Units at a price of \$24.00 per unit, resulting in the issuance of 2,083,333 Series A Preferred Units. Net proceeds from the private placement were \$48.6 million. The Partnership used the net proceeds to fund the cash portion of the purchase price for the *Tordis Knutsen* acquisition and to repay debt.

On June 30, 2017, the Partnership issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at a price of \$24.00 per unit. Net proceeds from the second private placement were \$38.9 million. The Partnership used \$30.0 million of the net proceeds to repay the revolving credit facility which was drawn in connection with the *Vigdis Knutsen* acquisition. For more information, please read Note 23—Equity Offerings and Sale of Series A Preferred Units—Sale of Series A Preferred Units in the consolidated financial statements included in this Annual Report.

The Series A Preferred Units rank senior to the common units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up. The Series A Preferred Units have a liquidation preference of \$24.00 per unit, plus any unpaid Series A cash distributions, plus all accrued but unpaid distributions on such Series A Preferred Unit with respect to the quarter in which the liquidation occurs to the date fixed for the payment of any amount upon liquidation. The Series A Preferred Units are entitled to cumulative distributions from their initial issuance date, with distributions being calculated at an annual rate of 8.0% on the stated liquidation preference and payable quarterly in arrears within 45 days after the end of each quarter, when, as and if declared by the board of directors of the Partnership.

The Series A Preferred Units are convertible, under certain circumstances, at the then applicable conversion rate, which is subject to adjustment under certain circumstances. The conversion rate will be redetermined on a quarterly basis and will be equal to the Issue Price divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Issue Price divided by (ii) the book value per common unit on the initial issuance date of the Series A Preferred Units. The Series A Preferred Units will be generally convertible, at the option of the holders of the Series A Preferred Units, into common units after February 2, 2019 at the then applicable conversion rate. In addition, we may redeem the Series A Preferred Units at any time between February 2, 2019 and February 2, 2027 at the redemption price applicable on any such redemption date, provided, however, that upon notice from us to the holders of Series A Preferred Units of our intent to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the then applicable conversion rate.

Upon a change of control of the Partnership, the holders of Series A Preferred Units may require us to redeem the Series A Preferred Units, in cash, at 100% of the Issue Price. In addition, the holders of Series A Preferred Units may cause us to redeem the Series A Preferred Units on February 2, 2027, at our option, in (i) cash at a price equal to 70% of the Issue Price or (ii) common units such that each Series A Preferred Unit receives common units worth 80% of the Issue Price (based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of our common units as reported on the NYSE for the 30 trading day period ending on the fifth trading day immediately prior to the redemption date). In addition, at any time following February 2, 2019 and subject to certain conditions, we may convert the Series A Preferred Units into common units at the then applicable conversion rate if the aggregate market value (calculated as set forth in the partnership agreement) of the common units into which the then outstanding Series A Preferred Units are convertible, based on the then applicable conversion rate, is greater than 130% of the aggregate Issue Price of the then outstanding Series A Preferred Units.

The Series A Preferred Units have voting rights that are identical to the voting rights of our common units, except they do not have any right to nominate, appoint or elect any member of our board of directors, except whenever distributions payable on the Series A Preferred Units have not been declared and paid for four consecutive quarters (a “Trigger Event”). Upon a Trigger Event, holders of Series A Preferred Units, together with the holders of any other series of preferred units upon which like rights have been conferred and are exercisable, will have the right to replace one of the board members appointed by our general partner with a person nominated by such holders, such nominee to serve until all accrued and unpaid distributions on the preferred units have been paid. The Series A Preferred Units are entitled to vote with our common units as a single class, so that the Series A Preferred Units are entitled to one vote for each common unit into which the Series A Preferred Units are convertible at the time of voting.

We have the right to issue junior securities in an unlimited amount and parity securities, provided that the aggregate amount of the Series A Preferred Units and the parity securities pro forma for such issuance, does not exceed 33.33% of the book value of the sum of our then outstanding aggregate amount of parity securities and junior securities (including common units). The consent of the holders of Series A Preferred Units will be necessary for us to issue any senior securities or parity securities in excess of such pro forma book value. In addition, the consent of the holders of at least 67% of the Series A Preferred Units will be necessary for us to, among other things, incur additional indebtedness that would result in our debt exceeding 70% of our total capitalization.

We have entered into a registration rights agreement with the holders of the Series A Preferred Units, pursuant to which we agreed to use commercially reasonable efforts to file a traditional shelf registration statement registering resales of the common units underlying the Series A Preferred Units and to have such registration statement declared effective by the SEC by February 2, 2019. The holders of the Series A Preferred Units also have certain demand and piggyback rights with respect to the underlying common units.

Common Unit Offerings

On January 10, 2017, the Partnership sold 2,500,000 common units in a public offering (the “January 2017 Offering”). The Partnership’s total net proceeds from the January 2017 Offering were approximately \$54.9 million. The net proceeds were used to repay the seller’s credit and the seller’s loan which were incurred in connection with the acquisition of the *Raquel Knutsen* and repay \$25.0 million of borrowings under the revolving credit facility.

On November 9, 2017, the Partnership sold 3,000,000 common units in a public offering (the “November 2017 Offering”). In connection with the November 2017 Offering, the general partner contributed a total of \$1.2 million in order to maintain its 1.85% general partner interest in the Partnership. The Partnership’s total net proceeds from the November 2017 Offering and the related general partner contribution were approximately \$66.0 million. The net proceeds were used to fund the cash portion of the purchase price for the *Brasil Knutsen* acquisition and to repay \$43.5 million of borrowings under the revolving credit facility. For more information, please read Note 23—Equity Offerings and Sale of Series A Preferred Units—Equity Offerings in the consolidated financial statements included in this Annual Report.

Tordis Knutsen Acquisition

On March 1, 2017, the Partnership’s wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT Shuttle Tankers 24 AS (“KNOT 24”), the company that owns the shuttle tanker, *Tordis Knutsen*, from KNOT, for a purchase price of \$147.0 million, less approximately \$137.7 million of outstanding indebtedness related to the *Tordis Knutsen*, plus approximately \$21.1 million for a receivable owed by KNOT to KNOT 24, plus approximately \$0.8 million for certain capitalized fees related to the financing of the *Tordis Knutsen* and plus \$1.7 million of post-closing adjustments for working capital and interest rate swaps. On the closing of the acquisition, KNOT 24 repaid approximately \$42.8 million of the indebtedness, leaving an aggregate of approximately \$94.9 million of debt outstanding under the secured credit facility related to the vessel, and KNOT repaid the receivable in full. The purchase price was settled in cash.

Vigdis Knutsen Acquisition

On June 1, 2017, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 25 AS (“KNOT 25”), the company that owns the shuttle tanker, *Vigdis Knutsen*, from KNOT, for a purchase price of \$147.0 million, less approximately \$137.7 million of outstanding indebtedness related to the *Vigdis Knutsen*, plus approximately \$17.9 million for a receivable owed by KNOT to KNOT 25, plus approximately \$0.9 million for certain capitalized fees related to the financing of the *Vigdis Knutsen* and plus \$3.7 million of post-closing adjustments for working capital and interest rate swaps. On the closing of the acquisition, KNOT 25 repaid approximately \$42.9 million of the indebtedness, leaving an aggregate of approximately \$94.8 million of debt outstanding under the secured credit facility related to the vessel, and KNOT repaid the receivable in full. The purchase price was settled in cash.

Lena Knutsen Acquisition

On September 30, 2017, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 26 AS (“KNOT 26”), the company that owns the shuttle tanker, *Lena Knutsen*, from KNOT, for a purchase price of \$142.0 million, less approximately \$133.8 million of outstanding indebtedness related to the *Lena Knutsen*, plus approximately \$24.1 million for a receivable owed by KNOT to KNOT 26, plus approximately \$1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen* and less \$0.1 million of post-closing adjustments for working capital and interest rate swaps. On the closing of the acquisition, KNOT 26 repaid approximately \$41.9 million of the indebtedness, leaving an aggregate of approximately \$91.9 million of debt outstanding under the secured credit facility related to the vessel, and KNOT repaid the receivable in full. The purchase price was settled in cash.

Brasil Knutsen Acquisition

On December 15, 2017, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 32 AS (“KNOT 32”), the company that owns the shuttle tanker, *Brasil Knutsen*, from KNOT. The purchase price of the acquisition was \$96.0 million, less \$59.0 million of outstanding indebtedness related to the *Brasil Knutsen*, less approximately \$35.2 million for a loan owed by KNOT 32 to KNOT (the “Company Liquidity Loan”), plus approximately \$0.6 million for certain capitalized fees related to the financing of the *Brasil Knutsen* and plus \$3.4 million of post-closing adjustments for working capital. On the closing of the acquisition, KNOT 32 repaid the Company Liquidity Loan in full. The purchase price was settled in cash.

Anna Knutsen Acquisition

On March 1, 2018, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 30 AS (“KNOT 30”), the company that owns the shuttle tanker, *Anna Knutsen*, from KNOT, for a purchase price of \$120.0 million, less approximately \$106.8 million of outstanding indebtedness related to the *Anna Knutsen* plus approximately \$1.4 million for certain capitalized fees related to the financing of the *Anna Knutsen*. On the closing of the acquisition, KNOT 30 repaid approximately \$32.3 million of the indebtedness, leaving an aggregate of approximately \$74.4 million of debt outstanding under the secured credit facility related to the vessel. The purchase price was settled in cash and is subject to certain post-closing adjustments for working capital and interest rate swaps.

Common Unit Purchase Program

On August 10, 2016, the boards of directors of the Partnership and the General Partner each authorized an extension of the common unit purchase program to August 31, 2017. Originally approved on August 12, 2015, the program authorized the Partnership to repurchase up to 666,667 of its common units and the General Partner to purchase up to 333,333 common units of the Partnership. On August 9, 2017, the boards of directors of the Partnership and the General Partner authorized a further extension of the program to August 31, 2018. As of December 31, 2015, the Partnership and the General Partner had purchased 180,906 and 90,368 common units, respectively, pursuant to the program at an average purchase price of \$12.71 per unit. No additional common units had been purchased by the Partnership or the General Partner as of December 31, 2017. The Partnership and the General Partner may therefore purchase up to an additional 485,761 and 242,965 common units, respectively, under the extended program.

Extension of Windsor Knutsen Charter

On July 14, 2017, Shell utilized its option to extend the time charter of the vessel *Windsor Knutsen* by one additional year until October 2018. Following the extension, Shell has five remaining one-year options to extend the time charter until October 2023.

New Hilda Facility

On May 26, 2017, the Partnership’s subsidiary, KNOT Shuttle Tankers 14 AS, which owns the vessel *Hilda Knutsen*, closed a new \$100 million senior secured term loan facility with Mitsubishi UFJ Lease & Finance (Hong Kong) Limited (the “New Hilda Facility”). The New Hilda Facility refinanced the \$117 million loan facility associated with the *Hilda Knutsen* that bore interest at a rate of London Interbank Offered Rate (“LIBOR”) plus 2.5% and was due to be paid in full in August 2018. The New Hilda Facility is repayable in twenty-eight (28) consecutive quarterly installments with a balloon payment of \$58.5 million due at maturity. The New Hilda Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.2%. The facility matures in May 2024.

Revolving Credit Facility

On August 31, 2017, the Partnership entered into a \$25 million unsecured revolving credit facility with NTT Finance Corporation. The facility will mature in August 2019, bears interest at LIBOR plus a margin of 1.8% and has a commitment fee of 0.5% on the undrawn portion of the facility.

New Torill Facility

On January 30, 2018, the Partnership’s subsidiary, KNOT Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, closed a new \$100 million senior secured term loan facility with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent (the “New Torill Facility”). The New Torill Facility refinanced a \$117 million loan facility associated with the *Torill Knutsen* that bore interest at a rate of LIBOR plus 2.5% and was due to be paid in full in November 2018. The New Torill Facility is repayable in twenty-four (24) consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The New Torill Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.1%. The facility matures in January 2024.

Our Charters

We generate revenues by charging customers for the transportation of their crude oil using our vessels. These services are provided under the following basic types of contractual relationships:

- *Time charters*, whereby the vessels that we operate and are responsible for the crewing of are chartered to customers for a fixed period of time at hire rates that are either fixed for the firm period of the time charter with escalations to be made in case of option periods or that increase annually based on a fixed percentage increase or fixed schedule in order to enable us to offset expected increases in operating costs. Under our time charters, hire rate payments may be reduced if the vessel does not perform to certain of its specifications, such as if the average vessel speed falls below a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount, and the customer is generally responsible for any voyage expenses incurred; and
- *Bareboat charters*, whereby customers charter our vessels for a fixed period of time at hire rates that are generally fixed, but the customers are responsible for the vessel operation and bear the operating and voyage expenses, including crewing and other operational services.

The table below compares the primary features of a time charter and a bareboat charter:

	<u>Time Charter</u>	<u>Bareboat Charter</u>
Typical charter length	One year or more	One year or more
Hire rate basis(1)	Daily	Daily
Voyage expenses(2)	Customer pays	Customer pays
Vessel operating expenses(2)	Owner pays	Customer pays
Off-hire(3)	Varies	Customer typically pays

(1) "Hire rate" refers to the basic payment from the charterer for the use of the vessel.

(2) Defined below under "— Important Financial and Operational Terms and Concepts."

(3) "Off-hire" refers to the time a vessel is not available for service. Our time charters contain provisions whereby the customer is generally not required to pay the hire rate during off-hire. Our bareboat charters do not contain such provisions.

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The following table describes the operations of the vessels in our fleet.

Vessel	Description of Historical Operations
<i>Fortaleza Knutsen</i>	Delivered in March 2011. Has operated under a long-term bareboat charter with a subsidiary of Transpetro since delivery. Included in the Partnership's initial fleet.
<i>Recife Knutsen</i>	Delivered in August 2011. Has operated under a long-term bareboat charter with a subsidiary of Transpetro since delivery. Included in the Partnership's initial fleet.
<i>Bodil Knutsen</i>	Delivered in February 2011. Completed an interim spot voyage and testing prior to commencing operations under a long-term time charter with Statoil in May 2011. Included in the Partnership's initial fleet.
<i>Windsor Knutsen</i>	Delivered in May 2007. Operated as a conventional oil tanker under short-term time charters and in the spot market from its delivery until commencement of retrofitting in November 2010. Following completion of its retrofitting as a shuttle tanker, operated under a long-term time charter with a subsidiary of Shell from April 2011 until July 2014. From July 2014 operated under a charter with KNOT until the vessel commenced on a long term time charter with a subsidiary of Shell in October 2015.
<i>Carmen Knutsen</i>	Delivered in January 2013. Has operated under a long-term time charter with a subsidiary of Repsol since delivery. Acquired by the Partnership in August 2013.
<i>Hilda Knutsen</i>	Delivered in August 2013. Has operated under a long-term time charter with ENI, which commenced on delivery. Acquired by the Partnership in June 2014.
<i>Torill Knutsen</i>	Delivered in November 2013. Has operated under a long-term time charter with ENI, which commenced on delivery. Acquired by the Partnership in June 2014.
<i>Dan Cisne</i>	Delivered in September 2011. Has operated under a long-term bareboat charter with a subsidiary of Transpetro, which commenced on delivery. Acquired by the Partnership in December 2014.
<i>Dan Sabia</i>	Delivered in January 2012. Has operated under a long-term bareboat charter with a subsidiary of Transpetro, which commenced on delivery. Acquired by the Partnership in June 2015.
<i>Ingrid Knutsen</i>	Delivered in December 2013 and commenced on long-term time charter with Standard Marine Tonsberg, a subsidiary of ExxonMobil in February 2014. Acquired by the Partnership in October 2015.
<i>Raquel Knutsen</i>	Delivered in March 2015 and commenced on long-term time charter with Repsol in June 2015. Acquired by the Partnership in December 2016.
<i>Tordis Knutsen</i>	Delivered in November 2016 and commenced on long term time charter with a subsidiary of Shell in January 2017. Acquired by the Partnership in March 2017.
<i>Vigdis Knutsen</i>	Delivered in February 2017 and commenced on long-term time charter with a subsidiary of Shell in April 2017. Acquired by the Partnership in June 2017.
<i>Lena Knutsen</i>	Delivered in June 2017 and commenced on long term time charter with a subsidiary of Shell in September 2017. Acquired by the Partnership in September 2017.
<i>Brasil Knutsen</i>	Delivered in May 2013 and commenced on long-term time charter with Galp Sinopec Brazil Services B.V. ("Galp") in June 2015. Acquired by the Partnership in December 2017.
<i>Anna Knutsen</i>	Delivered in March 2017 and commenced on long term time charter with Galp in May 2017. Acquired by the Partnership in March 2018.

Market Overview and Trends

As of April 2018, the shuttle tanker market consisted of approximately 82 vessels (including 6 newbuilds on order) characterized by long-term charters with offshore oil producers. Most shuttle tankers operate in the North Sea or offshore Brazil. Demand for shuttle tankers is based on offshore oilfield development and up to mid-2014, higher oil prices and a positive long-term offshore oil outlook led to increased activity. In the past three years, oil companies delayed oil production start-ups in both the North Sea and Brazil. Project startups are increasing and the existing fleet is aging. As there has been no speculative ordering of vessels, the market is coming close to being balanced. In 2017, we saw increased activity for vessels without fixed charters and vessels on fixed charters have not been affected. Due to the age structure of the fleet, the lack of speculative contracting and the relatively high number of projects under development, we believe the medium to long-term outlook continues to be positive and tendering activity for new projects is expected in 2018. For 2017, one new shuttle tanker contract for two vessels was awarded to North Sea operations. In addition, there was one new shuttle tanker contract awarded for Brazilian operations during 2017.

Oil prices declined significantly in the latter part of 2014 and in 2015 due to an increase in US shale oil production, coupled with increased production from certain OPEC states. Oil prices recovered to a certain degree in 2016 and this continued throughout 2017 and into 2018. Existing offshore oil production projects already under development where shuttle tankers are required, have been unaffected by the volatility in oil prices. Longer term reductions in oil prices may impact the rate of growth of offshore oil production activity when existing projects and projects under development are completed.

Items You Should Consider When Evaluating Our Historical Financial Performance and Assessing Our Future Prospects

You should consider the following facts when evaluating our historical results of operations and assessing our future prospects:

- **The size of our fleet continues to change.** Our historical results of operations reflect changes in the size and composition of our fleet due to our acquisitions of the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen*, the *Dan Cisne*, the *Dan Sabia*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Brasil Knutsen* and the *Anna Knutsen*.
- **We may enter into different financing agreements.** Our financing agreements currently in place may not be representative of the agreements we will enter into in the future. For example, we may amend our existing credit facilities or enter into new financing agreements. For descriptions of our current financing agreements, please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities.”
- **Our results are affected by fluctuations in the fair value of our derivative instruments.** The change in fair value of our derivative instruments is included in our net income as our derivative instruments are not designated as hedges for accounting purposes. These changes may fluctuate significantly as interest rates fluctuate. Please read Note 11—Derivative Instruments in the consolidated financial statements included in this Annual Report. The unrealized gain or losses related to the change in fair value of our derivatives do not impact our cash flows.
- **Our historical results of operations are affected by fluctuations in currency exchange rates.** All of the vessels in our fleet are on time charters and bareboat charters with hire rates payable in U.S. Dollars. Approximately 42%, 47% and 45% of the vessel operating expenses related to our vessels operating under time charters are denominated in U.S. Dollars and approximately 30%, 42% and 45% of such vessel operating expenses are denominated in Norwegian Kroner (“NOK”), for the years ended December 31, 2017, 2016 and 2015, respectively. The composition of our vessel operating expenses may vary over time depending upon the location of future charters and/or the composition of our crews. All of our financing and interest expenses are also denominated in U.S. Dollars. We anticipate that all of our future financing agreements will also be denominated in U.S. Dollars.
- **We are subject to a one-time entrance tax into the Norwegian tonnage tax regime.** Our Norwegian subsidiaries are subject to a one-time entrance tax into the tonnage tax regime due to our acquisition in 2013 of the shares in the subsidiary that owns the *Fortaleza Knutsen* and the *Recife Knutsen*. The entrance tax arises when the related party seller is taxed under the ordinary tax regime, and the buyer is taxed under the tonnage tax regime. The tax is based on the difference between the market value of the shares and the seller’s tax value of the shares as of the date of contribution. The entrance tax on this gain is payable over several years and is calculated by multiplying the Norwegian tax rate by the declining balance of the gain, which will decline by 20% each year. The Norwegian corporate tax rate has been reduced from 27% in 2015 to 25% in 2016 and 24% in 2017.
- **Our historical results of operations reflect income taxes for part of the activities under the ordinary tax regime in Norway.** Our Norwegian subsidiaries are subject only to Norwegian tonnage tax rather than a combination of ordinary taxation and tonnage taxation as reflected in the consolidated financial statements and accompanying notes included in this Annual Report. Under the tonnage tax regime, the tonnage tax is based on the tonnage of the vessel, and operating income is tax free. Tonnage tax is calculated based on the vessel’s net tonnage (in thousands), according to its certificate, multiplied by the days in operation and the applicable dayrate. The net financial income and expense remains taxable as ordinary income tax at the regular corporate income tax rate of 24% for Norwegian subsidiaries subject to the tonnage tax regime.

Factors Affecting Our Results of Operations

We believe the principal factors that will affect our future results of operations include:

- our ability to successfully employ our vessels at economically attractive hire rates as long-term charters expire or are otherwise terminated;
- our ability to maintain good relationships with our existing customers and to increase the number of customer relationships;
- whether our customers, exercise their options to extend their time charters;
- the number and availability of our vessels;

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- the level of demand for shuttle tanker services;
- the hire rate earned by our vessels, unscheduled off-hire days and the level of our vessel operating expenses;
- the effective and efficient technical management of our vessels;
- our ability to obtain and maintain major oil and gas company approvals and to satisfy their technical, health, safety and compliance standards;
- economic, regulatory, political and governmental conditions that affect the offshore marine transportation industry;
- interest rate changes;
- mark-to-market changes in interest rate swap contracts and foreign currency derivatives, if any;
- foreign currency exchange gains and losses;
- our access to capital required to acquire additional vessels and/or to implement our business strategy;
- increases in crewing and insurance costs;
- the level of debt and the related interest expense; and
- the level of any distribution on our common units.

Please read “Item 3. Key Information—Risk Factors” for a discussion of certain risks inherent in our business.

Important Financial and Operational Terms and Concepts

We use a variety of financial and operational terms and concepts when analyzing our performance. These include the following:

Time Charter and Bareboat Revenues. Revenues from time charters and bareboat charters are recognized as operating leases on a straight-line basis over the term of the charter, net of any commissions. Under time charters, revenue is not recognized during days a vessel is off-hire. Revenue is recognized from delivery of the vessel to the charterer until the end of the lease term. Under time charters, we are responsible for providing the crewing and other services related to the vessel’s operation, the cost of which is included in the daily hire rate, except when off-hire. Under bareboat charters, we provide a specified vessel for a fixed period of time at a specified hire rate. Revenues are affected by hire rates and the number of days a vessel operates as well as the mix of business between time charters and bareboat charters.

Voyage Expenses. Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees. Voyage expenses are typically paid by the customer under time charters and bareboat charters. Voyage expenses are paid by the shipowner during spot contracts and periods of off-hire and are recognized when incurred.

Vessel Operating Expenses. Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oil and communication expenses. Vessel operating expenses are generally paid by the shipowner under time charters and spot contracts and are recognized when incurred. Vessel operating expenses are paid by the customer under bareboat charters.

Off-hire. Under our time charters, when the vessel is off-hire, or not available for service, the customer generally is not required to pay the hire rate, and the shipowner is responsible for all costs. Prolonged off-hire may lead to a termination of the time charter. A vessel generally will be deemed off-hire if there is a loss of time due to, among other things, operational deficiencies, drydocking for repairs, maintenance or inspection, equipment breakdowns, delays due to accidents, crewing strikes, certain vessel detentions or similar problems or the shipowner’s failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew. Our bareboat charters do not contain provisions for off-hire. We have obtained loss of hire insurance to protect us against loss of income in the event one of our vessels cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Under our loss of hire policies, our insurer generally will pay us the hire rate agreed in respect of each vessel for each day in excess of 14 days and with a maximum period of 180 days.

Drydocking. We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications required to comply with industry certification or governmental requirements. In accordance with industry certification requirements, we drydock our vessels at least every 60 months until the vessel is 15 years old, after which drydocking takes place at least every 30 months thereafter as required for the renewal of certifications required by classification societies. For vessels operating on time charters, we capitalize the costs directly associated with the classification and regulatory requirements for inspection of the vessels, major repairs and improvements incurred during drydocking that increase the earnings capacity or improve the efficiency or safety of the vessels. We expense costs related to routine repairs and maintenance performed during drydocking or as otherwise incurred. For vessels operating on bareboat charters, the customer bears the cost of any drydocking. The number of drydockings undertaken in a given period and the nature of the work performed determine the level of drydocking expenditures.

Depreciation. Depreciation on vessels and equipment is calculated on a straight-line basis over the asset's estimated useful life of 25 years for the hull and equipment, less an estimated residual value. Drydocking cost is depreciated on a straight-line basis over the period until the next planned drydocking takes place. For vessels that are newly built or acquired, an element of the cost of the vessel is allocated initially to a drydock component and depreciated on a straight-line basis over the period until the next planned drydocking. When significant drydocking expenditures occur prior to the expiration of this period, we expense the remaining balance of the original drydocking cost in the month of the subsequent drydocking.

Impairment of Long-Lived Assets. Vessels and equipment, vessels under construction and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, we first compare the undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Other Finance Expense. Other finance expense includes external bank fees, financing service fees paid to related parties and guarantee commissions paid to external and related parties in connection with our debt and other bank services.

Revenue Days. Revenue days are the total number of calendar days our vessels were in our possession during a period, less the total number of off-hire days during the period associated with major repairs, or drydockings. Consequently, revenue days represent the total number of days available for the vessel to earn revenue. Idle days, which are days when the vessel is available to earn revenue, yet is not employed, are included in revenue days. We use revenue days to highlight changes in net voyage revenues between periods.

Average Number of Vessels. For periods prior to our IPO, the historical average number of vessels consists of the average number of owned vessels that were in our possession during a period. For periods after our IPO, the average number of ships will consist of the average number of owned vessels that are in our possession during the periods presented. We use average number of ships primarily to highlight changes in vessel operating expenses, hire rate expense and depreciation and amortization.

Insurance

Hull and Machinery Insurance . We have obtained hull and machinery insurance on all our vessels to insure against marine and war risks, which include the risks of damage to our vessels, salvage and towing costs, and also insures against actual or constructive total loss of any of our vessels. However, our insurance policies contain deductible amounts for which we are responsible. We have also arranged additional total loss coverage for each vessel. This coverage, which is called hull interest and freight interest coverage, provides us additional coverage in the event of the total loss or the constructive total loss of a vessel.

Loss of Hire Insurance . We have obtained loss of hire insurance to protect us against loss of income in the event one of our vessels cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Under our loss of hire policies, our insurer will pay us the hire rate agreed in respect of each vessel for each day, in excess of a certain number of deductible days, for the time that the vessel is out of service as a result of damage, for a maximum of 180 days. The number of deductible days for the vessels in our fleet is 14 days per vessel.

All of our hull and machinery, hull interest and freight interest and loss of hire insurance policies are written on the NMIP, which through the hull and maintenance coverage also offers comprehensive collision liability coverage of up to the insured hull and maintenance value of the vessel. NMIP is based on an "all risk principle" and offers what is considered to be the most comprehensive insurance obtainable in any of the world's marine markets today. The agreed deductible on each vessel averages \$150,000.

Protection and Indemnity Insurance . Protection and indemnity insurance, which covers our third-party legal liabilities in connection with our shipping activities, is provided by a P&I club. This includes third-party liability and other expenses related to the injury or death of crew members, passengers and other third-party persons, loss or damage to cargo, claims arising from collisions with other vessels or from contact with jetties or wharves and other damage to other third-party property, including pollution arising from oil or other substances, and other related costs, including wreck removal. Our current protection and indemnity insurance coverage is unlimited, except for pollution, which is limited to \$1 billion per vessel per incident.

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Customers

In the years ended December 31, 2017, 2016 and 2015, revenues from the following customers accounted for over 10% of our revenues:

Customer	Vessels	Year Ended December 31,					
		2017		2016		2015	
(U.S. Dollars in thousands)							
ENI Trading and Shipping S.p.A.	<i>Hilda Knutsen</i>						
	<i>Torill Knutsen</i>	\$46,441	22%	\$47,001	27%	\$46,806	30%
Fronape International Company, a subsidiary of Transpetro	<i>Fortaleza Knutsen</i>						
	<i>Recife Knutsen</i>						
	<i>Dan Cisne</i>						
	<i>Dan Sabia</i>	\$45,115	21%	\$45,236	26%	\$40,618	26%
Statoil ASA	<i>Bodil Knutsen</i>	\$23,189	11%	\$21,760	13%	\$23,203	15%
Repsol Sinopec Brasil, S.A., a subsidiary of Repsol Sinopec Brasil, B.V.	<i>Carmen Knutsen</i>						
	<i>Raquel Knutsen</i>	\$28,129	13%	\$20,904	12%	\$19,789	13%
Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell	<i>Windsor Knutsen</i>						
	<i>Tordis Knutsen</i>						
	<i>Vigdis Knutsen</i>						
	<i>Lena Knutsen</i>	\$51,259	24%	\$20,496	12%	\$ 4,466	3%
Standard Marine Tonsberg AS, a subsidiary of ExxonMobil	<i>Ingrid Knutsen</i>	\$17,634	8%	\$17,482	10%	\$ 3,637	2%
KNOT	<i>Windsor Knutsen</i>	\$ —	—	\$ —	—	\$16,231	11%

A. Operating Results

Year Ended December 31, 2017 Compared with the Year Ended December 31, 2016

(U.S. Dollars in thousands)	Year Ended December 31,			
	2017	2016	Change	% Change
Time charter and bareboat revenues	\$ 212,501	\$ 172,878	\$ 39,623	23%
Loss of hire insurance recoveries	5,176	—	5,176	N/A
Other income	1,526	793	733	92%
Vessel operating expenses	(46,709)	(30,903)	(15,806)	51%
Depreciation	(71,583)	(56,230)	(15,353)	27%
General and administrative expenses	(5,555)	(4,371)	(1,184)	27%
Interest income	248	24	224	933%
Interest expense	(30,714)	(20,867)	(9,847)	47%
Other finance expense	(1,406)	(1,311)	(95)	7%
Realized and unrealized gain on derivative instruments	4,831	1,213	3,618	298%
Net gain (loss) on foreign currency transactions	(267)	(139)	(128)	92%
Income tax benefit	16	15	1	7%
Net income	68,064	61,102	6,962	11%

Time Charter and Bareboat Revenues. Time charter and bareboat revenues for the year ended December 31, 2017 were \$212.5 million, an increase of \$39.6 million compared to \$172.9 million for the year ended December 31, 2016. This increase was mainly due to increased revenues of \$48.9 million resulting from the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen*, the *Tordis Knutsen* and the *Raquel Knutsen* being included in our results of operations from December 15, 2017, September 30, 2017, June 1, 2017, March 1, 2017 and December 1, 2016, respectively, and full earnings from the *Bodil Knutsen* due to planned drydocking in 2016. The increase was partially offset by a \$8.7 million decrease in time charter revenues due to drydocking and repairs of the *Carmen Knutsen* and drydocking of the *Windsor Knutsen* in 2017 and by a \$0.4 million decrease due to an accrual for estimated underperformance of the *Hilda Knutsen* and the *Torill Knutsen* in 2017.

Loss of hire insurance recoveries. Loss of hire insurance recoveries for the year ended December 31, 2017 were \$5.2 million compared to \$nil million for the year ended December 31, 2016. The loss of hire insurance recoveries were related to a technical default with the *Raquel Knutsen*'s controllable pitch propeller and a default with the *Carmen Knutsen*'s propeller shaft.

Other Income. Other income for the year ended December 31, 2017 was \$1.5 million, an increase of \$0.7 million compared to \$0.8 million for the year ended December 31, 2016. Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payment of the hire rate that is equal to or greater than the hire rate payable under the initial charters of the *Bodil Knutsen* and *Windsor Knutsen* for a period of five years from the closing date of the IPO.

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In October 2015, the *Windsor Knutsen* commenced operating under a new time charter. The hire rate for the new charter is below the initial charter hire rate and the difference between the new hire rate and the initial rate is paid by KNOT. During the year ended December 31, 2017, \$1.2 million was recognized as other income pursuant to this guarantee for the *Windsor Knutsen* compared with \$0.8 million in 2016. In addition, \$0.3 million connected to the reimbursement for repairs and lost hire from KNOT for the *Vigdis Knutsen* due to a hull damage incident in June 2017 was recognized as other income.

Vessel Operating Expenses. Vessel operating expenses for the year ended December 31, 2017 were \$46.7 million, an increase of \$15.8 million from \$30.9 million in the year ended December 31, 2016. The increase was primarily due to increase of \$11.5 million due to the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen*, the *Tordis Knutsen* and the *Raquel Knutsen* being included in the results of operations from December 15, 2017, September 30, 2017, June 1, 2017, March 1, 2017 and December 1, 2016, respectively. \$2.9 million of the increase is due to incidents and insurance claims relating to the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Carmen Knutsen* and \$1.4 million of the increase is due to bunkers consumption in connection with the drydocking of the *Carmen Knutsen* and the *Windsor Knutsen*.

Depreciation. Depreciation for the year ended December 31, 2017 was \$71.6 million, an increase of \$15.4 million from \$56.2 million in the year ended December 31, 2016. This increase was mainly due to the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen*, the *Tordis Knutsen* and the *Raquel Knutsen* being included in results of operations from December 15, 2017, September 30, 2017, June 1, 2017, March 1, 2017 and December 1, 2016, respectively.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2017 were \$5.6 million, compared to \$4.4 million for 2016. The increase is mainly due to incremental expenses incurred in connection with the common unit offerings, private placements of Series A Preferred Units and the acquisitions of the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen*, the *Tordis Knutsen* and the *Raquel Knutsen*.

Interest Income. Interest income for the year ended December 31, 2017 was \$248,000 compared to \$24,000 for 2016.

Interest Expense. Interest expense for the year ended December 31, 2017 was \$30.7 million, an increase of \$9.8 million from \$20.9 million for the year ended December 31, 2016. The increase was mainly due to additional debt incurred in connection with the acquisitions of the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen*, the *Tordis Knutsen* and the *Raquel Knutsen*, the refinancing of the *Hilda Knutsen* and the drawdowns of the revolving credit facilities and higher LIBOR during the year ended December 31, 2017 compared to the year ended December 31, 2016.

Other Finance Expense. Other finance expense for the year ended December 31, 2017 was \$1.4 million, an increase of \$0.1 million from \$1.3 million for the year ended December 31, 2016. Other finance expenses are primarily related to bank fees and guarantee commissions.

Realized and Unrealized Gain (Loss) on Derivative Instruments. Realized and unrealized gain on derivative instruments for the year ended December 31, 2017 was \$4.8 million, compared to \$1.2 million for the year ended December 31, 2016, as set forth in the table below:

(U.S. Dollars in thousands)	Year Ended December 31,		\$ Change
	2017	2016	
Realized gain (loss):			
Interest rate swap contracts	\$ (2,840)	\$ (3,886)	\$ 1,046
Foreign exchange forward contracts	280	66	214
Total realized gain (loss):	<u>(2,560)</u>	<u>(3,820)</u>	<u>1,260</u>
Unrealized gain:			
Interest rate swap contracts	5,514	4,254	1,260
Foreign exchange forward contracts	1,877	779	1,098
Total unrealized gain:	<u>7,391</u>	<u>5,033</u>	<u>2,358</u>
Total realized and unrealized gain on derivative instruments:	<u>\$ 4,831</u>	<u>\$ 1,213</u>	<u>\$ 3,618</u>

The unrealized non-cash element of the mark-to-market gain was \$7.4 million for the year ended December 31, 2017 compared to the unrealized non-cash element of the mark-to-market gain of \$5.0 million for the year ended December 31, 2016. Of the unrealized gain for the year ended December 31, 2017, \$5.5 million related to mark-to-market gains on interest rate swaps due to an increase in swap rates during the year, and an unrealized gain of \$1.9 million related to foreign exchange contracts due to the weakness of the U.S Dollar against the Norwegian Kroner (NOK).

Net Gain (Loss) on Foreign Currency Transactions. Net loss on foreign currency transactions for the year ended December 31, 2017 was \$0.3 million, compared to \$0.1 million for the year ended December 31, 2016.

Income Tax Benefit. Income tax benefit for the year ended December 31, 2017 was \$16,000 compared to \$15,000 for the year ended December 31, 2016.

Net Income. As a result of the foregoing, we earned net income of \$68.1 million for the year ended December 31, 2017 compared to net income of \$61.1 million for the year ended December 31, 2016.

Year Ended December 31, 2016 Compared with the Year Ended December 31, 2015

(U.S. Dollars in thousands)	Year Ended December 31,		Change	% Change
	2016	2015		
Time charter and bareboat revenues	\$ 172,878	\$ 154,750	\$18,128	12%
Other income	793	274	519	189%
Vessel operating expenses	(30,903)	(27,543)	(3,360)	12%
Depreciation	(56,230)	(48,844)	(7,386)	15%
General and administrative expenses	(4,371)	(4,290)	(81)	2%
Goodwill impairment charge	—	(6,217)	6,217	N/A
Interest income	24	8	16	200%
Interest expense	(20,867)	(17,451)	(3,416)	20%
Other finance expense	(1,311)	(504)	(807)	160%
Realized and unrealized gain (loss) on derivative instruments	1,213	(9,695)	10,908	(113)%
Net gain (loss) on foreign currency transactions	(139)	(105)	(34)	32%
Income tax benefit (expense)	15	59	(44)	(75)%
Net income	61,102	40,442	20,660	51%

Time Charter and Bareboat Revenues. Time charter and bareboat revenues for the year ended December 31, 2016 were \$172.9 million, an increase of \$18.1 million compared to \$154.8 million for the year ended December 31, 2015. This increase was mainly due to increased revenues of \$19.9 million resulting from the *Raquel Knutsen*, the *Ingrid Knutsen* and the *Dan Sabia* being included in our results of operations from December 1, 2016, October 15, 2015 and June 15, 2015, respectively, and \$1.0 million due to one additional calendar day and better utilization during 2016. The increase was partially offset (i) by a \$1.3 million decrease in time charter revenues due to the *Bodil Knutsen* drydocking in 2016, (ii) a \$0.4 million decrease in time charter revenues due to a reduction in the charter rate for the *Carmen Knutsen* effective October 1, 2015, (iii) a \$0.7 million decrease in time charter earnings from the *Windsor Knutsen*, and (iv) a \$0.4 million reduction in income recognition of prepaid charter hire for the *Bodil Knutsen*, which was a non-cash element.

Other Income. Other income for the year ended December 31, 2016 was \$0.8 million compared to \$0.3 million for 2015. As discussed above, in October 2015, the *Windsor Knutsen* commenced operating under a new time charter. The hire rate for the new charter is below the initial charter hire rate and the difference between the new hire rate and the initial rate is paid by KNOT. During the year ended December 31, 2016, \$0.8 million was recognized as other income pursuant to this guarantee compared to \$0.1 million for 2015.

Vessel Operating Expenses. Vessel operating expenses for the year ended December 31, 2016 were \$30.9 million, an increase of \$3.4 million from \$27.5 million in the year ended December 31, 2015. The increase was primarily due to an increase of \$4.4 million due to the *Raquel Knutsen* and the *Ingrid Knutsen* being included in our results of operations from December 1, 2016 and October 15, 2015, respectively. The increase was partially offset by lower operating expenses mainly due to the strengthening of the U.S. dollar against the NOK during 2016.

Depreciation. Depreciation for the year ended December 31, 2016 was \$56.2 million, an increase of \$7.4 million from \$48.8 million in the year ended December 31, 2015 that was mainly due to the *Raquel Knutsen*, the *Ingrid Knutsen* and the *Dan Sabia* being included in our results of operations from December 1, 2016, October 15, 2015 and June 15, 2015, respectively.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2016 were \$4.4 million, compared to \$4.3 million for 2015.

Goodwill Impairment Charge. Goodwill impairment charge for the year ended December 31, 2016 was \$nil compared to \$6.2 million for the year ended December 31, 2015. During the three months ended June 30, 2015, we concluded that there were indicators of impairment due to a significant reduction in the price of our common units during the quarter. Consequently, we performed an interim vessel and goodwill impairment analysis as of June 30, 2015 on our fleet, and concluded that there was no impairment to the vessels' values. However, we determined that the carrying value of the goodwill exceeded its fair value. The impairment charge relates mainly to capitalized goodwill which arose in 2008 when the Partnership's predecessor acquired the *Windsor Knutsen* and three other vessels then under construction, in a transaction that was then accounted for as a step transaction. As a result, a goodwill impairment charge of \$6.2 million was recognized for the year ended December 31, 2015. The fair value was determined using the present value of the expected future cash flows discounted at a rate equivalent to a market participant's weighted average cost of capital. The estimates and assumptions regarding expected future cash flows and appropriate discount rates were based on existing contracts, future shuttle tanker rates, historical experience, financial forecasts and industry trends and conditions.

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Interest Income. Interest income for the year ended December 31, 2016 was \$24,000 compared to \$8,000 for 2015.

Interest Expense. Interest expense for the year ended December 31, 2016 was \$20.9 million, an increase of \$3.4 million from \$17.5 million for the year ended December 31, 2015. The increase is mainly due to the increased indebtedness related to the acquisitions of the *Raquel Knutsen*, the *Ingrid Knutsen* and the *Dan Sabia* on December 1, 2016, October 15, 2015 and June 15, 2015, respectively and higher LIBOR margin during 2016.

Other Finance Expense. Other finance expense for the year ended December 31, 2016 was \$1.3 million, an increase of \$0.8 million from \$0.5 million for the year ended December 31, 2015. Other finance expenses are primarily related to bank fees and guarantee commissions. The increase is mainly due to the guarantee commission for the outstanding amount under the Guarantee Institute for Export Credits (GIEC) guarantee for the *Ingrid Knutsen* facility.

Realized and Unrealized Gain (Loss) on Derivative Instruments. The Partnership does not apply hedge accounting for derivative instruments. Realized and unrealized gain on derivative instruments for the year ended December 31, 2016 was \$1.2 million, compared to a loss of \$9.7 million for the year ended December 31, 2015, as set forth in the table below:

(U.S. Dollars in thousands)	Year Ended December 31,		\$ Change
	2016	2015	
Realized gain (loss):			
Interest rate swap contracts	\$ (3,886)	\$ (4,957)	\$ 1,071
Foreign exchange forward contracts	66	(4,348)	4,414
Total realized gain (loss):	(3,820)	(9,305)	5,485
Unrealized gain (loss):			
Interest rate swap contracts	4,254	(1,088)	5,342
Foreign exchange forward contracts	779	698	81
Total unrealized gain (loss):	5,033	(390)	5,423
Total realized and unrealized gain on derivative instruments:	\$ 1,213	\$ (9,695)	\$ 10,908

As of December 31, 2016, the total notional amount of our outstanding interest rate swap contracts that were entered into in order to economically hedge outstanding or forecasted debt obligations was \$446.7 million. During 2016, long-term interest rates have increased and the U.S. dollar has strengthened against the Norwegian Kroner which resulted in a reduction in realized losses on derivative instruments and an unrealized gain on derivative instruments.

Net Gain (Loss) on Foreign Currency Transactions. Net loss on foreign currency transactions for the year ended December 31, 2016 and 2015 were \$0.1 million.

Income Tax Benefits (Expense). Income tax benefits for the year ended December 31, 2016 was \$15,000 compared to \$59,000 for the year ended December 31, 2015.

Net Income. As a result of the foregoing, we earned net income of \$61.1 million for the year ended December 31, 2016 compared to net income of \$40.4 million for the year ended December 31, 2015.

B. Liquidity and Capital Resources

Liquidity and Cash Needs

We operate in a capital-intensive industry, and we expect to finance the purchase of additional vessels and other capital expenditures through a combination of borrowings from commercial banks, cash generated from operations and debt and equity financings. In addition to paying distributions, our other liquidity requirements relate to servicing our debt, funding investments (including the equity portion of investments in vessels), funding working capital and maintaining cash reserves against fluctuations in operating cash flows. We believe our current resources are sufficient to meet our working capital requirements for our current business. Generally, our long-term sources of funds are cash from operations, long-term bank borrowings and other debt and equity financings. Because we distribute our available cash, we expect to rely upon external financing sources, including bank borrowings and the issuance of debt and equity securities, to fund acquisitions and other expansion capital expenditures.

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Our funding and treasury activities are intended to maximize investment returns while maintaining appropriate liquidity. Cash and cash equivalents are held primarily in U.S. Dollars with some balances held in NOK, British Pounds and Euros. We have not made use of derivative instruments other than for interest rate and currency risk management purposes, and we expect to continue to economically hedge our exposure to interest rate fluctuations in the future by entering into new interest rate swap contracts.

We estimate that we will spend in total approximately \$29.0 million for drydocking and classification surveys for the twelve vessels under time charters in our fleet as of March 31, 2018 between 2018 and 2022. As our fleet matures and expands, our drydocking expenses will likely increase. Ongoing costs for compliance with environmental regulations are primarily included as part of our drydocking and society classification survey costs or are a component of our vessel operating expenses. We are not aware of any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations. There will be further costs related to voyages to and from the drydocking yard that will depend on the distance from the vessel's ordinary trading area to the drydocking yard.

On January 10, 2017, the Partnership sold 2,500,000 common units in a public offering raising approximately \$54.9 million in net proceeds.

On February 2, 2017, the Partnership issued and sold in a private placement 2,083,333 Series A Preferred Units at a price of \$24.00 per unit, raising approximately \$48.6 million in net proceeds.

On June 30, 2017, the Partnership issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at price of \$24.00 per unit, raising approximately \$38.9 million in net proceeds.

On May 26, 2017, the Partnership's subsidiary, KNOT Shuttle Tankers 14 AS, which owns the vessel *Hilda Knutsen*, closed a new \$100 million senior secured term loan facility with Mitsubishi UFJ Lease & Finance (Hong Kong) Limited (the "New Hilda Facility"). The New Hilda Facility refinanced the \$117 million loan facility associated with the *Hilda Knutsen* that bore interest at a rate of LIBOR plus a margin of 2.5% and was due to be paid in full in August 2018. The New Hilda Facility is repayable in 28 consecutive quarterly installments with a balloon payment of \$58.5 million due at maturity. The New Hilda Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.2%. The New Hilda Facility matures in May 2024.

On August 31, 2017, the Partnership entered into a \$25 million unsecured revolving credit facility with NTT Finance Corporation. The facility will mature in August 2019, bears interest at LIBOR plus a margin of 1.8% and has a commitment fee of 0.5% on the undrawn portion of the facility.

On August 9, 2017, the boards of directors of the Partnership and the General Partner each authorized an extension of the common unit purchase program. Originally approved on August 12, 2015, the program authorized the Partnership to repurchase up to 666,667 of its common units and the General Partner to purchase up to 333,333 common units of the Partnership. The program was originally scheduled to expire on August 31, 2016, and the extended program will conclude on August 31, 2018. As of December 31, 2015, the Partnership and the General Partner had purchased 180,906 and 90,368 common units, respectively, pursuant to the program at an average purchase price of \$12.71 per unit. No additional common units were purchased by the Partnership or the General Partner in 2016 and in 2017. The Partnership and the General Partner may therefore purchase up to an additional 485,761 and 242,965 common units, respectively, under the extended program.

On November 9, 2017, the Partnership sold 3,000,000 common units in a public offering. In connection with the offering, the General Partner contributed a total of \$1.2 million in order to maintain its 1.85% general partner interest in the Partnership. The total net proceeds from the offering and the related General Partners's contribution were \$66.0 million.

On January 30, 2018, the Partnership's subsidiary, KNOT Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, closed a new \$100 million senior secured term loan facility (the "New Torill Facility") with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent. The New Torill Facility refinanced a \$73.2 million loan facility associated with the *Torill Knutsen* that bore interest at a rate of LIBOR plus a margin of 2.5% and was due to be paid in full in November 2018. The New Torill Facility is repayable in 24 consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The New Torill Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.1%. The New Torill Facility matures in January 2024.

As of December 31, 2017, the Partnership had available liquidity of \$81.1 million, which consisted of cash and cash equivalents of \$46.1 million and availability under the revolving credit facilities of \$35.0 million. As of April 25, 2018, the revolving credit facilities had an aggregate undrawn capacity of \$13.0 million.

The consolidated financial statements have been prepared assuming that the Partnership will continue as a going concern. As of December 31, 2017, the Partnership's net current liabilities were \$66.7 million. Included in current liabilities are short term loan obligations that mature before December 31, 2018 and are therefore, presented as current debt.

The Partnership expects that its primary future sources of funds will be available cash, cash from operations, borrowings under any new loan agreements and the proceeds of any equity financings. The Partnership believes that these sources of funds (assuming the current rates earned from existing charters) will be sufficient to cover operational cash outflows and ongoing obligations under the Partnership's financing commitments to pay loan interest and make scheduled loan repayments and to make distributions on its outstanding units. Accordingly, the Partnership believes that its current resources, including amounts available to be drawn under the revolving credit facilities of \$13.0 million, are sufficient to meet working capital requirements for its current business for at least the next twelve months.

Capital Expenditures

We reserve cash from operations for future maintenance capital expenditures, working capital and other matters. Because of the substantial capital expenditures we are required to make to maintain our fleet, our annual estimated maintenance and replacement capital expenditures are \$50.1 million, which is comprised of \$42.7 million for replacing our current vessels at the end of their useful lives and \$7.4 million for drydocking maintenance and classification surveys.

Cash Flows

The following table summarizes our net cash flows from operating, investing and financing activities and our cash and cash equivalents for the periods presented:

(U.S. Dollars in thousands)	Year Ended December 31,		
	2017	2016	2015
Net cash provided by operating activities	\$ 154,585	\$ 108,445	\$ 89,160
Net cash used in investing activities	(94,857)	(13,952)	(46,488)
Net cash used in financing activities	(41,378)	(90,345)	(49,575)
Effect of exchange rate changes on cash	90	(57)	(270)
Net increase (decrease) in cash and cash equivalents	18,440	4,091	(7,173)
Cash and cash equivalents at the beginning of the year	27,664	23,573	30,746
Cash and cash equivalents at the end of the year	46,104	27,664	23,573

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased by \$46.1 million to \$154.6 million for the year ended December 31, 2017 compared to \$108.5 million for 2016. The increase was mainly due to higher earnings through the contributions from the *Brasil Knutsen*, the *Lena Knutsen*, the *Vigdis Knutsen*, the *Tordis Knutsen* and the *Raquel Knutsen* being included in our results of operations as of December 15, 2017, September 30, 2017, June 1, 2017, March 1, 2017 and December 1, 2016, respectively. The increase was partially offset by increased drydocking expenditures of \$6.9 million for the scheduled drydocking of the *Windsor Knutsen* and *Carmen Knutsen* in 2017 compared to drydocking expenditures of \$2.5 million for the scheduled drydocking of the *Bodil Knutsen* in 2016.

Net cash provided by operating activities increased by \$19.3 million to \$108.5 million for the year ended December 31, 2016 compared to \$89.2 million for 2015. The increase was mainly due to higher earnings through the contributions from the *Raquel Knutsen*, the *Ingrid Knutsen* and the *Dan Sabia* being included in our results of operations as of December 1, 2016, October 15, 2015, and June 15, 2015, respectively. The increase was partially offset by increased drydocking expenditures of \$2.5 million for the scheduled drydocking of the *Bodil Knutsen* in 2016.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$94.9 million for the year ended December 31, 2017 compared to \$14.0 million for the year ended December 31, 2016. Net cash used in investing activities in 2017 of \$94.4 million related to the following acquisitions:

- (i) The acquisition of the *Tordis Knutsen* on March 1, 2017, for which we paid a net cash amount to cover the difference between the purchase consideration of \$147.0 million, less approximately \$137.7 million of outstanding indebtedness, plus approximately \$21.1 million for a receivable, plus approximately \$0.8 million for certain capitalized fees related to the financing of the *Tordis Knutsen* and plus \$1.7 million of other purchase price adjustments. Net cash used in investing activities is net of cash acquired from the acquisition of the *Tordis Knutsen* of \$0.6 million.
- (ii) The acquisition of the *Vigdis Knutsen* on June 1, 2017, which we paid a net cash amount to cover the difference between the purchase consideration of \$147.0 million, less approximately \$137.7 million of outstanding indebtedness, plus approximately \$17.9 million for a receivable, plus approximately \$0.9 million for certain capitalized fees related to the financing of the *Vigdis Knutsen* and plus \$3.7 million of other purchase price adjustments. Net cash used in investing activities is net of cash acquired from the acquisition of the *Vigdis Knutsen* of \$3.4 million.
- (iii) The acquisition of the *Lena Knutsen* on September 30, 2017, which we paid a net cash amount to cover the difference between the purchase consideration of \$142.0 million, less approximately \$133.8 million of outstanding indebtedness, plus approximately \$24.1 million for a receivable, plus approximately \$1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen* adjusted by \$0.1 million of other purchase price adjustments. Net cash used in investing activities is net of cash acquired from the acquisition of the *Lena Knutsen* of \$0.5 million.
- (iv) The acquisition of the *Brasil Knutsen* on December 15, 2017, for which we paid a net cash amount to cover the difference between the purchase consideration of \$96.0 million, less \$59.0 million of outstanding indebtedness, less approximately \$35.2 million for a loan (the "Company Liquidity Loan"), plus approximately \$0.6 million for certain capitalized fees related to the financing of the *Brasil Knutsen* and plus \$3.4 million of other purchase price adjustments. Net cash used in investing activities is net of cash acquired from the acquisition of the *Brasil Knutsen* of \$5.2 million.

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- (v) Net cash used in investing activities was \$14.0 million for the year ended December 31, 2016 compared to \$46.5 million for the year ended December 31, 2015. Net cash used in investing activities in 2016 of \$14.0 million was mainly due to the acquisition of the *Raquel Knutsen* for which we paid a net cash amount to cover the difference between the purchase consideration of \$116.5 million less \$103.5 million of outstanding indebtedness and other purchase price adjustments of \$7.3 million. Net cash used in investing activities is net of cash acquired from the acquisition of the *Raquel Knutsen* of \$7.1 million.

Net Cash Used in Financing Activities

Net cash used in financing activities during the year ended December 31, 2017 was \$41.4 million and mainly related to the following:

- Net proceeds from issuance of common units in public offerings in January 2017 and in November 2017 of \$120.9 million, of which \$1.2 million was contributed from the General Partner in order to maintain the 1.85% general partner interest in the Partnership;
- Net proceeds from issuance of Series A Preferred Units in February 2017 and in June 2017 of \$87.5 million;
- Proceeds of \$100 million from the refinancing of the *Hilda Knutsen* ;
- Proceeds of \$10 million from drawdown on the Brasil Facility (as defined below); and
- Proceeds from drawdowns under the two revolving credit facilities of \$101.5 million, of which \$101.5 million was repaid during 2017. The total limit of \$60 million on the two credit facilities was drawn down and repaid several times during 2017.

This was offset by the following:

- Repayment of long-term debt of \$297.7 million, of which \$76.9 million was repaid in connection with refinancing of the *Hilda Knutsen* ;
- Payments of \$1.2 million in debt issuance costs in relation to the refinancing of the *Hilda Knutsen* ;
- Repayments of long-term debt from related parties of \$93.4 million; and
- Payment of cash distributions to unitholders of \$69.0 million, of which \$3.5 million was distributions to Series A Preferred Units.

Net cash used in financing activities during the year ended December 31, 2016 was \$90.3 million and mainly related to the following:

- Proceeds from the utilization of our revolving credit facility of \$30.0 million, of which \$5.0 million was repaid in July 2016 and \$25.0 million was repaid in January 2017; and
- Proceeds from the Seller's Credit and Seller's Loan of total \$25.0 million, provided by KNOT for the acquisition of the *Raquel Knutsen*.

This was offset by the following:

- Repayment of long-term debt of \$61.0 million;
- Repayment of long-term debt from related parties of \$24.0 million;
- Payment of cash distributions to unitholders during 2016 of \$60.2 million.

Net cash used in financing activities during the year ended December 31, 2015 was \$49.6 million and mainly related to the following:

- The net proceeds from a public offering of common units in June 2015 (the "June 2015 Offering") of \$116.6 million net of offering costs.

This was offset by the following:

- Repayment of long-term debt of \$78.3 million;
- Repayment of long-term debt from related parties of \$32.3 million;
- Repurchase of common units of \$2.3 million; and
- Payment of cash distributions to unitholders during 2015 of \$53.4 million.

Borrowing Activities

Long-Term Debt. As of December 31, 2017 and 2016, our long-term debt consisted of the following:

<i>(U.S. Dollars in thousands)</i>	Vessel	December 31, 2017	December 31, 2016
\$220 million term loan facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	\$ 165,000	\$ 180,714
\$35 million revolving credit facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	—	25,000
\$140 million secured loan facility	<i>Fortaleza Knutsen & Recife Knutsen</i>	109,375	118,125
\$117 million loan facility	<i>Hilda Knutsen</i>	—	76,871
Hilda loan facility	<i>Hilda Knutsen</i>	96,923	—
Torill loan facility	<i>Torill Knutsen</i>	73,177	78,105
\$172.5 million secured loan facility	<i>Dan Cisne, Dan Sabia</i>	91,339	100,539
Ingrid loan facility	<i>Ingrid Knutsen</i>	61,085	67,652
Raquel loan facility	<i>Raquel Knutsen</i>	68,414	73,643
\$25 million Seller's Credit and Seller's Loan	<i>Raquel Knutsen</i>	—	25,000
Tordis loan facility	<i>Tordis Knutsen</i>	91,051	—
Vigdis loan facility	<i>Vigdis Knutsen</i>	92,316	—
Lena loan facility	<i>Lena Knutsen</i>	90,650	—
Brasil loan facility	<i>Brasil Knutsen</i>	69,000	—
\$25 million revolving credit facility		25,000	—
Total long-term debt		1,033,330	745,649
Less: current installments		95,176	60,314
Less: unamortized deferred loan issuance costs		2,191	1,330
Current portion of long-term debt		92,985	58,984
Amounts due after one year		938,154	685,335
Less: unamortized deferred loan issuance costs		4,524	2,673
Less: \$25 million Seller's Credit and Seller's Loan		—	25,000
Long-term debt, less current installments, Seller's Credit and Seller's Loan and unamortized deferred loan issuance costs		\$ 933,630	\$ 657,662

The Partnership's outstanding debt of \$1,033.3 million as of December 31, 2017 is repayable as follows :

<i>(U.S. Dollars in thousands)</i>	Period repayment	Balloon repayment
2018 (1)	\$ 76,749	\$ 86,677
2019	61,158	262,678
2020	50,337	—
2021	50,937	70,811
2022	38,662	179,411
2023 and thereafter	54,009	101,901
Total	\$ 331,852	\$ 701,478

¹ Although \$68.3 million of the \$73.2 million loan facility financing *Torill Knutsen* is due to mature in October 2018, the Partnership has classified \$68.3 million of the loan facility as long-term debt on the face of the consolidated balance sheet as a result of the January 2018 refinancing transaction discussed under Note 25—Subsequent Events.

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As of December 31, 2017, the interest rates on our loan agreements (other than tranche two of the Ingrid loan facility) were LIBOR plus a fixed margin ranging from 1.8% to 2.5%. On the export credit loan of \$42.0 million, which is tranche two of the Ingrid loan facility, the annual rate is 3.85% composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The guarantee commission of 1.35% is classified as other finance expense. See Note 2(f)—Financial Income (Expense) in the consolidated financial statements included in this Annual Report.

\$220 Million Term Loan Facility and \$35 Million Revolving Credit Facilities

In June 2014, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS entered into a senior syndicate secured loan facility in an aggregate amount of \$240 million (the "Senior Secured Loan Facility") to repay existing debt under previous credit facilities and a \$10.5 million seller's credit from KNOT. The Senior Secured Loan Facility consisted of (i) a \$220 million term loan (the "Term Loan Facility") and (ii) a \$20 million revolving credit facility (the "Revolving Credit Facility").

The Revolving Credit Facility matures in June 2019, and bears interest at LIBOR plus a fixed margin of 2.125%, and has a commitment fee equal to 40% of the margin of the Revolving Credit Facility calculated on the daily undrawn portion of the Revolving Credit Facility. As of December 31, 2017, the Revolving Credit Facility was undrawn. The Term Loan Facility is repayable in quarterly installments over five years with a final balloon payment due at maturity at June 2019. The Term Loan Facility bears interest at LIBOR plus a margin of 2.125%.

On June 30, 2016, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS, as borrowers, entered into an amended and restated senior secured credit facility (the "Amended Senior Secured Loan Facility"), which amended the Senior Secured Loan Facility. The Amended Senior Secured Loan Facility includes a new revolving credit facility tranche of \$15 million, bringing the total revolving credit commitments under the facility to \$35 million. The new revolving credit facility matures in June 2019, bears interest at LIBOR plus a fixed margin of 2.5% and has a commitment fee equal to 40% of the margin of the revolving facility tranche calculated on the daily undrawn portion of such tranche. As of December 31, 2017 the new revolving credit facility was undrawn. The other material terms of the Senior Secured Loan Facility remain unaltered.

The *Windsor Knutsen*, the *Bodil Knutsen* and the *Carmen Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Amended Senior Secured Loan Facility. The Amended Senior Secured Loan Facility is guaranteed by the Partnership and KNOT Shuttle Tankers AS, and secured by vessel mortgages on the *Windsor Knutsen*, the *Bodil Knutsen* and the *Carmen Knutsen*.

The Amended Senior Secured Loan Facility contains the following financial covenants:

- The aggregate market value of the *Windsor Knutsen*, *Bodil Knutsen* and *Carmen Knutsen* shall not be less than 110% of the outstanding balance under the Amended Senior Secured Loan Facility for the first two years, 120% for the third and fourth years, and 125% thereafter;
- Positive working capital of the borrowers and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Amended Senior Secured Loan Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrowers and the guarantors were in compliance with all covenants under this facility.

\$140 Million Secured Loan Facility

In June 2014, the Partnership's subsidiary Knutsen Shuttle Tankers XII KS, as the borrower, entered into a senior syndicate secured loan facility in the amount of \$140 million (the "New Fortaleza and Recife Facility"). The New Fortaleza and Recife Facility was drawn in November 2014 and replaced a \$160 million loan facility previously secured by the *Fortaleza Knutsen* and the *Recife Knutsen*. The New Fortaleza and Recife Facility is repayable in quarterly installments over five years with a final balloon payment due at maturity in June 2019. The facility bears interest at LIBOR plus a margin of 2.125%. The *Fortaleza Knutsen* and the *Recife Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the New Fortaleza and Recife Facility. The facility is guaranteed by the Partnership and KNOT Shuttle Tankers AS and is secured by vessel mortgages on the *Fortaleza Knutsen* and the *Recife Knutsen*.

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The New Fortaleza and Recife Facility contains the following financial covenants:

- The aggregate market value of the *Fortaleza Knutsen* and *Recife Knutsen* shall not be less than 110% of the outstanding balance under the New Fortaleza and Recife Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The New Fortaleza and Recife Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Hilda Loan Facility

On May 26, 2017, the Partnership's subsidiary, KNOT Shuttle Tankers 14 AS, which owns the vessel *Hilda Knutsen*, entered into a new \$100 million senior secured term loan facility with Mitsubishi UFJ Lease & Finance (Hong Kong) Limited (the "New Hilda Facility"). The New Hilda Facility replaced the \$117 million loan facility, which was due to be paid in full in August 2018. The New Hilda Facility is repayable in 28 consecutive quarterly installments with a balloon payment of \$58.5 million due at maturity. The New Hilda Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.2%. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors. The facility matures in May 2024.

The New Hilda Facility contains the following primary financial covenants:

- Market value of the *Hilda Knutsen* shall not be less than 110% of the outstanding balance under the Hilda Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The New Hilda Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Torill Loan Facility

In November 2011, Knutsen Shuttle Tankers 15 AS, the subsidiary owning the *Torill Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$117 million (the "Old Torill Facility"). The Old Torill Facility was repayable in quarterly installments over five years with a final balloon payment due at maturity in October 2018. The Old Torill Facility bore interest at LIBOR plus a fixed margin of 2.5%. The facility was secured by a vessel mortgage on the *Torill Knutsen*. The *Torill Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Old Torill Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors. The Old Torill Facility contained the following primary financial covenants:

- Market value of the *Torill Knutsen* shall not be less than 110% of the outstanding balance under the Torill Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

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The Old Torill Facility also identified various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

On January 30, 2018, Knutsen Shuttle Tankers 15 AS closed a new \$100 million senior secured term loan facility which replaced the Old Torill Facility (the “New Torill Facility”) with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent. The New Torill Facility is repayable in 24 consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The New Torill Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.1%. The facility will mature in January 2024 and is guaranteed by the Partnership. The New Torill Facility contains the following primary financial covenants:

- Market value of the *Torill Knutsen* shall not be less than 110% of the outstanding balance under the New Hilda Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

\$172.5 Million Secured Loan Facility

In April 2014, KNOT Shuttle Tankers 20 AS and KNOT Shuttle Tankers 21 AS, the subsidiaries owning the *Dan Cisne* and *Dan Sabia*, as the borrowers, entered into a \$172.5 million senior secured loan facility. In connection with the Partnership’s acquisition of the *Dan Cisne*, in December 2014, the \$172.5 million senior secured loan facility was split into a tranche related to the *Dan Cisne* (the “Dan Cisne Facility”) and a tranche related to *Dan Sabia* (the “Dan Sabia Facility”).

The Dan Cisne Facility and the Dan Sabia Facility are guaranteed by the Partnership and secured by a vessel mortgage on the *Dan Cisne* and *Dan Sabia*. The Dan Cisne Facility and the Dan Sabia Facility bear interest at LIBOR plus a margin of 2.4% and are repayable in semiannual installments with a final balloon payment due at maturity in September 2023 and January 2024, respectively.

The Dan Cisne Facility and Dan Sabia Facility contain the following financial covenants:

- Market value of each of the *Dan Cisne* and *Dan Sabia* shall not be less than 100% of the outstanding balance under the Dan Cisne Facility and Dan Sabia Facility, respectively, for the first three years, and 125% thereafter;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and
- Minimum book equity ratio for the Partnership of 30%.

The facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrowers and the guarantor were in compliance with all covenants under this facility.

Ingrid Loan Facility

In June 2012, Knutsen NYK Shuttle Tankers 16 AS, the subsidiary owning the *Ingrid Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$90.0 million (the “Ingrid Facility”). The Ingrid Facility includes two tranches. Tranche one is a commercial bank loan of \$19.1 million, repayable in semi-annual installments with a final balloon payment due at maturity in December 2018. Tranche one bears interest at LIBOR, plus a margin of 2.25%.

Tranche two is an export credit loan of \$42.0 million, repayable in semi-annual installments and maturing in November 2025. Tranche two bears interest at an annual fixed rate of 3.85%, composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The facility is secured by a vessel mortgage on the *Ingrid Knutsen*. The *Ingrid Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Ingrid Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Ingrid Facility contains the following financial covenants:

- Market value of the *Ingrid Knutsen* shall not be less than 125% of the outstanding balance under the Ingrid Facility;

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- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Ingrid Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Raquel Loan Facility

In December 2014, Knutsen Shuttle Tankers 19 AS, the subsidiary owning the *Raquel Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$90.0 million (the “Raquel Facility”). The Raquel Facility is repayable in quarterly installments with a final balloon payment of \$30.5 million due at maturity in March 2025. The Raquel Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.0%. The facility is secured by a vessel mortgage on the *Raquel Knutsen*. The *Raquel Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Raquel Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Raquel Facility contains the following financial covenants:

- Market value of the *Raquel Knutsen* shall not be less than 100% of the of the outstanding balance under the Raquel Facility for the first three years, and 125% thereafter;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and
- Minimum book equity ratio for the Partnership of 30%.

The Raquel Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$25 Million Seller’s Credit and Seller’s Loan

As part of financing for the purchase of the *Raquel Knutsen*, on December 1, 2016, KNOT provided a \$13.0 million seller’s credit (the “Seller’s Credit”) and a \$12.0 million seller’s loan (the “Seller’s Loan”), each of which was guaranteed by the Partnership, had a maturity date of December 2021 and bore interest at LIBOR plus a fixed margin of 4.5%. Accrued interest on the Seller’s Credit and the Seller’s Loan accumulated and was capitalized. On January 13, 2017, the Seller’s Credit and the Seller’s Loan were repaid in full.

Tordis Loan Facility

In April 2015, KNOT Shuttle Tankers 24 AS, the subsidiary owning the *Tordis Knutsen*, as the borrower, entered into a secured loan facility (the “Tordis Facility”). As of the time of the acquisition of the *Tordis Knutsen* on March 1, 2017, the aggregate amount outstanding under the facility was \$114.4 million. The Tordis Facility is repayable in quarterly installments with a final balloon payment of \$70.8 million due at maturity in November 2021. The Tordis Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Tordis Knutsen*. The *Tordis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Tordis Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Tordis Facility contains the following financial covenants:

- Aggregate market value of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

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- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Tordis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Vigdis Loan Facility

In April 2015, KNOT Shuttle Tankers 25 AS, the subsidiary owning the *Vigdis Knutsen*, as the borrower, entered into a secured loan facility (the “Vigdis Facility”). At the time of the acquisition of the *Vigdis Knutsen* on June 1, 2017, the aggregate amount outstanding under the facility was \$114.4 million. The Vigdis Facility is repayable in quarterly installments with a final balloon payment of \$70.8 million due at maturity in February 2022. The Vigdis Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Vigdis Knutsen*. The *Vigdis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Vigdis Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Vigdis Facility contains the following financial covenants:

- Aggregate market value of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Vigdis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Lena Loan Facility

In April 2015, KNOT Shuttle Tankers 26 AS, the subsidiary owning the *Lena Knutsen*, as the borrower, entered into a secured loan facility (the “Lena Facility”). The Lena Facility is repayable in quarterly installments with a final balloon payment of \$68.6 million due at maturity in June 2022. The Lena Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Lena Knutsen*. The *Lena Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Lena Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Lena Facility contains the following financial covenants:

- Aggregate market value of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Lena Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Brasil Loan Facility

In June 2017, KNOT Shuttle Tankers 32 AS, the subsidiary owning the *Brasil Knutsen*, as the borrower, entered into a secured loan facility (the “Brasil Facility”). The Brasil Facility is repayable in quarterly installments with a final balloon payment of \$41.0 million due at maturity in July 2022. The Brasil Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.3%. The facility is secured by a vessel mortgage on the *Brasil Knutsen*. The *Brasil Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Brasil Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Brasil Facility contains the following financial covenants:

- Market value of the *Brasil Knutsen* shall not be less than 125% of the of the outstanding balance under the Brasil Facility for the first four years, and 135% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Brasil Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Anna Loan Facility

In September 2016, KNOT Shuttle Tankers 30 AS, the subsidiary owning the *Anna Knutsen*, as the borrower, entered into a secured loan facility (the “Anna Facility”). The Anna Facility is repayable in quarterly installments with a final balloon payment of \$57.1 million due at maturity in March 2022. The Anna Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.0%. The facility is secured by a vessel mortgage on the *Anna Knutsen*. The *Anna Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Anna Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Anna Facility contains the following financial covenants:

- Market value of the *Anna Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Anna Facility at any time;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Anna Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default.

\$25 Million Revolving Credit Facility

On August 31, 2017, KNOT Shuttle Tankers AS entered into an unsecured revolving credit facility of \$25 million with NTT Finance Corporation. The facility will mature in August 2019, bears interest at LIBOR plus a margin of 1.8% and has a commitment fee of 0.5% on the undrawn portion of the facility.

Derivative Instruments and Hedging Activities

We use derivative instruments to reduce the risks associated with fluctuations in interest rates. We have a portfolio of interest rate swap contracts that exchange or swap floating rate interest to fixed rates, which, from a financial perspective, hedges our obligations to make payments based on floating interest rates. As of December 31, 2017, the Partnership’s net exposure to floating interest rate fluctuations on its outstanding debt was approximately \$294.7 million based on total interest bearing debt outstanding of \$1,033.3 million, less interest rate swaps of \$650.5 million, less a 3.85% fixed rate export credit loan of \$42.0 million and less cash and cash equivalents of \$46.1 million. Our interest rate swap contracts mature between April 2018 and August 2027. Under the terms of the interest rate swap agreements, we will receive from the counterparty interest on the notional amount based on three-month and six-month LIBOR and will pay to the counterparty a fixed rate. For the interest rate swap agreements above, we will pay to the counterparty a weighted average interest rate of 1.69%.

We enter into foreign exchange forward contracts in order to manage our exposure to the risk of movements in foreign currency exchange rate fluctuations. As of December 31, 2017, the total contract amount in foreign currency of our outstanding foreign exchange forward contracts that were entered into to economically hedge our outstanding future payments in currencies other than the U.S. Dollar was NOK 249.9 million. We do not apply hedge accounting for derivative instruments.

Critical Accounting Estimates

The preparation of the Partnership's consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures about contingent assets and liabilities. We base these estimates and assumptions on historical experience and on various other information and assumptions that we believe to be reasonable. Our critical accounting estimates are important to the portrayal of both our financial condition and results of operations and require us to make subjective or complex assumptions or estimates about matters that are uncertain. Significant accounting policies are discussed in Note 2—Summary of Significant Accounting Policies in the consolidated financial statements included in this Annual Report. We believe that the following are the critical accounting estimates used in the preparation of our Partnership's consolidated financial statements. In addition, there are other items within the Partnership's consolidated financial statements that require estimation.

Vessel Lives and Impairment

Description . The carrying value of vessels and equipment represent its historical acquisition or construction cost, including capitalized interest, supervision and technical and delivery cost, net of accumulated depreciation and impairment loss, if any. Expenditures for subsequent conversions and major improvements are capitalized, provided that such costs increase the earnings capacity or improve the efficiency or safety of the vessels. We depreciate the original cost, less an estimated residual value, of our vessels on a straight-line basis over each vessel's estimated useful life. Depreciation on our shuttle tankers is calculated using an estimated useful life of 25 years, commencing at the date the vessel was originally delivered from the shipyard. However, the actual life of a vessel may be different than the estimated useful life, with a shorter actual useful life resulting in an increase in the depreciation and potentially resulting in an impairment loss. The estimated useful life of our vessels takes into account design life, commercial considerations and regulatory restrictions. The carrying value of our vessels may not represent their market value at any point in time, because the market prices of second-hand vessels tend to fluctuate with changes in hire rates and the cost of newbuilds.

We review vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable, which occurs when the asset's carrying value is greater than the future undiscounted cash flows the asset is expected to generate over its remaining useful life. For a vessel under charter, the discounted cash flows from that vessel may exceed its market value, as market values may assume the vessel is not employed on an existing charter. If the estimated future undiscounted cash flows of an asset exceed the asset's carrying value, no impairment is recognized even though the fair value of the asset may be lower than its carrying value. If the estimated future undiscounted cash flows of an asset are less than the asset's carrying value and the fair value of the asset is less than its carrying value, the asset is written down to its fair value. Fair value may be determined through various valuation techniques but is generally calculated as the net present value of estimated future cash flows.

Our business model is to employ our vessels on fixed-rate charters with major energy companies. These charters typically have original terms between five to ten years in length. Consequently, while the market value of a vessel may decline below its carrying value, the carrying value of a vessel may still be recoverable based on the future undiscounted cash flows the vessel is expected to obtain from servicing its existing and future charters.

Judgments and Uncertainties . Our estimates of future cash flows involve assumptions about future hire rates, vessel utilization, operating expenses, drydocking expenditures, vessel residual values and the remaining estimated life of our vessels. Our estimated hire rates are based on rates under existing vessel charters and market rates at which we expect we can re-charter our vessels. Our estimates of vessel utilization, including estimated off-hire time and the estimated amount of time our shuttle tankers may spend operating in the spot market when not being used in their capacity as shuttle tankers, are based on historical experience of KNOT and our projections of future shuttle tanker voyages. Our estimates of operating expenses and drydocking expenditures are based on historical operating and drydocking costs of KNOT and our expectations of future cost and operating requirements. Vessel residual values are a product of a vessel's lightweight tonnage and an estimated scrap rate. The remaining estimated lives of our vessels used in our estimates of future cash flows are consistent with those used in the calculation of depreciation. Certain assumptions relating to our estimates of future cash flows are more predictable by their nature in our experience, including estimated revenue under existing charter terms, ongoing operating costs and remaining vessel lives. Certain assumptions relating to our estimates of future cash flows require more discretion and are inherently less predictable, such as future hire rates beyond the firm period of existing charters and vessel residual values, due to factors such as the volatility in hire rates and vessel residual values. We believe that the assumptions used to estimate future cash flows of our vessels are reasonable at the time they are made. We can make no assurances, however, as to whether our estimates of future cash flows, particularly future hire rates or vessel residual values, will be accurate.

Effect If Actual Results Differ from Assumptions . If we conclude that a vessel or equipment is impaired, we recognize a loss in an amount equal to the excess of the carrying value of the asset over its fair value at the date of impairment. The fair value at the date of the impairment becomes the new cost basis and will result in a lower depreciation expense than for periods before the vessel or equipment impairment.

Vessel Market Values

In “—Vessel Lives and Impairment” above, we discuss our policy for assessing impairment of the carrying value of our vessels. During the past few years, the market values of certain vessels in the worldwide fleet have experienced particular volatility, with substantial declines in many vessel classes. There is a future risk that the sale value of certain of our vessels could decline below those vessels’ carrying value, even though we would not impair those vessels’ carrying value under our accounting impairment policy, due to our belief that future undiscounted cash flows expected to be earned by such vessels over their operating lives would exceed such vessels’ carrying value.

In connection with monitoring compliance with our credit facilities and as a general business matter, we periodically monitor the market value of our vessels, including obtaining various broker valuations as of specific dates. We generally do not include the impact of market fluctuations in vessel prices in our financial statements. We do, however, monitor our business and assets on a regular basis for potential asset impairment as described above. The total carrying value of our vessels was \$1,723 million as of December 31, 2017. With respect to the vessels, based on broker valuations as of December 31, 2017 on a charter free basis, we believe the aggregate market value of these vessels was less than their aggregate carrying value as of that date. We believe the aggregate amount of this deficit as of December 31, 2017 for the vessels was approximately \$168 million. These vessels do, however, have fixed rates charters contracts. We did not identify any impairment indicators for our vessels as of December 31, 2017, and we believe that undiscounted cash flows for each of these vessels significantly exceeded the applicable carrying value as of December 31, 2017, and, accordingly, have not recorded impairment charges.

Drydocking

Description. We drydock each of our vessels periodically for inspection, repairs and maintenance and for any modifications to comply with industry certification or governmental requirements. For vessels operating on time charters, we capitalize the costs directly associated with the classification and regulatory requirements for inspection of the vessels, major repairs and improvements incurred during drydocking that increase the earnings capacity or improve the efficiency or safety of the vessels. Drydocking cost is amortized on a straight-line basis over the period until the next planned drydocking. We expense costs related to routine repairs and maintenance performed during drydocking or as otherwise incurred. For vessels that are newly built or acquired, an element of the cost of the vessel is allocated initially to a drydock component and amortized on a straight-line basis over the period until the next planned drydocking. When significant drydocking expenditures occur prior to the expiration of this period, we expense the remaining unamortized balance of the original drydocking cost in the month of the subsequent drydocking. For vessels operating on bareboat charters, the charterer bears the cost of any drydocking.

Judgments and Uncertainties. Amortization of capitalized drydock expenditures requires us to estimate the period of the next drydocking or estimated useful life of drydock expenditures. While we typically drydock our vessels every 60 months until the vessel is 15 years old and every 30 months thereafter, we may drydock the vessels at an earlier date.

Effect if Actual Results Differ from Assumptions. A change in our estimate of the useful life of a drydock will have a direct effect on our amortization of drydocking expenditures.

Purchase Price Allocation, Including Goodwill and Intangible Assets

Description. We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as above-market contracts, are being amortized over time. Our future operating performance will be affected by the amortization of intangible assets and potential impairment charges related to goodwill or intangible assets. Accordingly, the allocation of purchase price to intangible assets and goodwill may significantly affect our future operating results. Goodwill is not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment at many points during the analysis. No goodwill or intangible assets arose as a result of acquisitions carried out for the years ended December 31, 2017, 2016 and 2015.

Judgments and Uncertainties. The allocation of the purchase price of acquired companies requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows. In addition, the process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis. We test goodwill for impairment using a two-step analysis, with the option of performing a qualitative assessment before performing the first step of the two-step analysis, whereby the carrying value of the reporting unit is compared to its fair value in the first step. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its fair value. The fair value is estimated using the net present value of discounted cash flows of the reporting unit. The estimates and assumptions regarding expected future cash flows and appropriate discount rates are in part based upon existing contracts, future shuttle tanker rates, historical experience, financial forecasts and industry trends and conditions.

Effect if Actual Results Differ from Assumptions. During the three months ended June 30, 2015, the Partnership concluded that indicators of impairment were present due to a significant reduction in the price of the Partnership’s common units during that quarter. Consequently, the Partnership performed an interim vessel and goodwill impairment analysis as of June 30, 2015 on its fleet, concluding that there was no impairment to the vessels’ values. However, the Partnership determined that the carrying value of the goodwill exceeded its fair value. The impairment charge relates mainly to capitalized goodwill which arose in 2008 when the Partnership’s predecessor acquired the *Windsor Knutsen* and three other vessels then under construction, in a transaction that was then accounted for as a step transaction. As a result, a goodwill impairment charge of \$6.2 million was recognized for the year ended December 31, 2015. The fair value was determined using the present value of the expected future cash flows discounted at a rate equivalent to a market participant’s weighted average cost of capital. The estimates and assumptions regarding expected future cash flows and appropriate discount rates were based on existing contracts, future shuttle tanker rates, historical experience, financial forecasts and industry trends and conditions. This non-cash impairment charge reduced the Partnership’s remaining goodwill balance to zero as of December 31, 2015.

Taxes

Description . We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized.

Judgments and Uncertainties . We record a valuation allowance for deferred tax assets when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. The future realization of deferred tax assets depends on the existence of sufficient taxable income of the appropriate character in the carry forward period. This analysis requires, among other things, the use of estimates and projections in determining future reversals of temporary differences and forecasts of future profitability and evaluating potential tax-planning strategies. The valuation allowances as of December 31, 2017 were related to the financial loss carry forwards and other net deferred tax assets

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for Norwegian tonnage tax. In assessing the realizability of deferred tax assets, we considered all the positive and negative evidence available. Given our cumulative loss position for tonnage tax, we determined it was more likely than not that some of the benefit from the deferred tax assets would not be realized based on the weight of available evidence. As of December 31, 2017, we determined that the deferred tax assets are likely to not be realized, and the booked value was, therefore, zero.

Effect If Actual Results Differ from Assumptions . If we determined that we were able to realize a net deferred tax asset in the future, in excess of the net recorded amount, an adjustment to decrease the valuation allowance related to the deferred tax assets would typically increase our net income (or decrease our loss) in the period such determination was made. As of December 31, 2017 and 2016, we had a valuation allowance for deferred tax assets of \$15.7 million and \$12.4 million, respectively.

Recently Adopted Accounting Standards

In July 2015, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-11, *Simplifying the Measurement of Inventory* . The new guidance simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value and only one measure of net realizable value should be calculated. Net realizable value is the estimated selling price in the ordinary course of business, minus reasonably predicible costs of completion, disposal and transportation. The standard is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. The Partnership has adopted the standard, which did not impact the Partnership’s consolidated financial statements.

There are no other recent accounting pronouncements whose adoption had a material impact on the consolidated financial statements in the current year.

New Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (ASC 606)* , as subsequently updated by the FASB, which provides new authoritative guidance on the methods of revenue recognition and related disclosure requirements. This new standard supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. This update creates a five-step model and requires a company to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligation in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. Under the new standard, additional qualitative and quantitative disclosures are required. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Partnership made an assessment on the various implementation aspects of ASU 2014-09 and its amendments and concluded that the effect of the implementation of this new guidance will cause no material cumulative effect to the Partnership’s future or historical financial position, results of operations or cash flows. The *ASC 606* is effective for the Partnership January 1, 2018 and the Partnership will apply the modified retrospective approach. Prior periods will not be retrospectively adjusted.

In February 2016, the FASB issued ASU 2016-02, *Leases (ASC 842)* . The objective of the revised guidance for leasing is to establish the principles that lessors and lessees shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. The Partnership is the lessor for its vessels that operate on time charters and bareboat charters. Accounting by a lessor is largely unchanged from the previous standard. The Partnership does not have any material leased assets. A lessee will be required to recognize in its balance sheet a lease liability to make lease payments and a right-of-use asset. The standard provides for optional practical expedients in implementing the standard under the modified retrospective approach. The practical expedients will, if elected, allow an entity to continue to account for leases that commence before the effective date in accordance with the previous standard, unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases. In January 2018, the FASB issued a proposed amendment to ASU 2016-02 that would allow lessors to elect, as a practical expedient, to not separate lease and non-lease components and allow these components to be accounted for as a single lease component if both (i) the timing and pattern of the revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. If the proposed practical expedient mentioned above is adopted and elected, it is expected that revenue from time charters will be presented under a single lease component presentation. However, without the proposed practical expedient, it is expected that time charter revenue will be separated into lease and non-lease components, respectively. The standard is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted. The standard requires a modified retrospective transition method for all entities. Based upon preliminary assessments performed to date, the Partnership does not expect material effects on the accounting for existing leases applied in the consolidated financial statements. The Partnership will adopt ASC 842 and implement the revised guidance as of January 1, 2019.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. The new guidance clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Partnership will implement the guidance in the interim periods after December 15, 2017 and does not expect a material impact on its consolidated statement of cash flow.

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In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. The standard eliminates the presentation of transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals in the cash flows to the related captions in the balance sheet are required, either on the face of the cash flow or in the notes to the financial statements. Additional disclosures are required for the nature of the restricted cash and restricted cash equivalents. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Partnership will implement the guidance in the interim periods after December 15, 2017 and does not expect a material impact on its consolidated statement of cash flow.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business*. The amendments clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions of businesses. The amendments provide a screen to determine when an acquisition is not a business. The screen may apply when substantially all of the fair value related to a single, or group of similar, identifiable asset(s). If the screen is not met, it (1) requires that to be considered a business, an acquisition must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) removes the evaluation of whether a market participant could replace the missing elements. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The new standard will be applied prospectively and will be implemented by the Partnership on January 1, 2018. The impact on the consolidated financial statements will depend on facts and circumstances of any future acquisition.

C. Research and Development, Patents and Licenses, Etc.

Not applicable.

D. Trend Information

Please read “Item 5. Operating and Financial Review and Prospects—Market Overview and Trends.”

E. Off-Balance Sheet Arrangements

At December 31, 2017, we did not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our long-term contractual obligations as of December 31, 2017:

(U.S. Dollars in thousands)	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	\$1,033,330	\$163,426	\$374,173	\$339,821	\$155,910
Interest commitments on long-term debt (1)	125,736	38,728	48,564	29,591	8,853
Interest commitments on interest rate swaps (2)	10,715	1,866	4,623	3,567	659
Total	\$1,169,781	\$204,020	\$427,360	\$372,979	\$165,422

- (1) The interest commitments on long-term debt have been calculated assuming interest rates based on the 6-month LIBOR as of December 31, 2017, plus the applicable margin for all periods presented.
- (2) We have entered into interest rate swap contracts and under the terms of the interest rate swap contracts, we receive LIBOR-based variable interest and payments and make fixed interest rate payments. The interest commitments on interest rate swaps have been calculated assuming interest rates based on the 6-month LIBOR as of December 31, 2017.

G. Safe Harbor

Please read “Forward-Looking Statements.”

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management The following table provides information about our directors and executive officer. The business address for each of our directors and executive officer is 2 Queen’s Cross, Aberdeen, Aberdeenshire AB15 4YB, United Kingdom.

Name	Age	Position
Trygve Seglem	67	Chairman of the Board of Directors
John Costain	54	Chief Executive Officer and Chief Financial Officer
Hans Petter Aas	72	Director, Chairman of the Audit Committee and Member of the Conflicts Committee
Edward A. Waryas, Jr.	70	Director and Chairman of the Conflicts Committee and Member of the Audit Committee
Andrew Beveridge	70	Director and Member of the Audit Committee
Richard Beyer	49	Director
Takuji Banno	51	Director
Simon Bird	58	Director

Trygve Seglem has served as Chairman of our board of directors since 2013. Mr. Seglem is the owner of TSSI, which is a 50% owner of KNOT. In addition, Mr. Seglem serves as chairman of the board of directors of Simsea Real Operations, a member of the board of directors of Koralfisk AS and a member of the board of directors of Assuranceforeningen SKULD (Gjensidig). Mr. Seglem began his career at Statoil at its inception and has been involved in the development of offshore loading tankers since 1975. In 1984, Mr. Seglem became the project director and a part owner, through TSSI, of the Knutsen Group. In September 2008, Mr. Seglem became the sole owner of the shuttle tanker operations of the Knutsen Companies. Mr. Seglem has a degree from Newcastle University.

Hans Petter Aas has served on our board of directors since 2013. Mr. Aas has had a long career as a banker in the international shipping and offshore markets and retired from his position as Global Head of the Shipping, Offshore and Logistics Division of DnB NOR Bank ASA in August 2008. Mr. Aas joined DnB NOR Bank ASA (then Bergen Bank) in 1989 and has previously worked for the Petroleum Division of the Norwegian Ministry of Industry and the Ministry of Energy, as well as for Vesta Insurance and Nevi Finance. Mr. Aas is also the Chairman of the board of directors of Ship Finance International Limited and a director of Seadrill Limited, Golden Ocean Group Limited, Deep Sea Supply Plc, Gearbulk Holding Ltd., and Solvang ASA. Mr. Aas has a degree from the Norwegian School of Economics and Business Administration.

Edward A. Waryas, Jr. has served on our board of directors since 2013. He was Vice President-Marine Business Development for Lloyd’s Register North America, Inc. where he was responsible for marine business development, account management, marketing and product development in North America. Prior to joining Lloyd’s Register North America, Inc. in 2000, Mr. Waryas was President of the marine division of Clay Marketing & Public Relations, Inc., as well as President of Windward Maritime, LLC, a maritime consultancy company. In the 1990s, Mr. Waryas was Director, Business Development for Newport News Shipbuilding and Vice President of the Tenneco Foreign Sales Corporation. Prior to these positions, Mr. Waryas was a

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U.S. Coast Guard licensed engineer for Mobil Shipping & Transportation Company. While at Mobil Shipping & Transportation Company, Mr. Waryas served as chairman of the bow-loading coordination committee that developed the offshore loading system for the Statfjord Field off the coast of Norway. Mr. Waryas is a member of the North American panel for Intertanko and a former member of American Petroleum Institute's Marine Committee. Mr. Waryas has a Bachelor of Science, Marine Engineering, from the United States Merchant Marine Academy and a Master of Science, Transportation Management, from the State University of New York.

Andrew Beveridge has served on our board of directors since 2013. Mr. Beveridge also serves as a director of KNOT UK, a position he has held since 2013. He is an entrepreneur with a track record of running capital-intensive businesses in the offshore service and shipping industries. From 2006 to 2008, Mr. Beveridge was the Deputy Managing Director and Business Development Manager of Fugro Rovtech Ltd, a shipping and remotely operated vehicle ("ROV") company. From 1996 to 2006, Mr. Beveridge was the Managing Director of Rovtech Ltd., a company that specializes in the operation of underwater ROVs and the ships they deploy in the oil service and underwater cable-burial industries. Prior to 1996, Mr. Beveridge held various positions as the Managing Director, commercial director or manager of Slingsby Engineering Ltd, HMB Subwork Ltd, Star Offshore Services Ltd, Cunard Steamship Co Ltd and Offshore Marine Ltd. Mr. Beveridge has an engineering degree from Trinity College, Cambridge.

Richard Beyer has served on our board of directors since April 2017 when he was appointed by our general partner to replace Mr. Hiroaki Nishiyama as an appointed director. Mr. Beyer has been a member of the board of directors of the Partnership's general partner and KNOT UK since 2013 and is a director of NYK Group Europe Limited and NYK Energy Transport (Atlantic) Limited. Before joining NYK Group in 2007, Mr. Beyer was a Senior Legal Adviser to BP Shipping Limited. Mr. Beyer was admitted as an English solicitor in 1995.

Takuji Banno has served on our board of directors since April 2016. Mr. Banno has served as the Senior General Manager, Offshore Business Group, Energy Division of NYK since April 2012. From April 2011 to April 2012, he served as Director of Yusen Logistics (Singapore) Pte. Ltd. From October 2006 to April 2011, he was Director of NYK Logistics (Asia) Pte. Ltd. From June 2002 to October 2006, he was Manager of NYK's LNG Group. Mr. Banno joined NYK in April 1990 and has a master's degree in Business Administration from the University of Wisconsin-Madison.

Simon Bird has served on our board of directors since May 2015. Mr. Bird is currently Director Humber for Associated Ports, a board role, having taken up this position in September 2015. Mr. Bird previously served as the Chief Executive of Bristol Port Company from 2000 until August 2015. From 1997 to 1999, Mr. Bird served as Commercial Director at Mersey Docks & Harbour Company plc. From 1995 to 1997 he was Joint Managing Director and Executive Director at International Water Ltd. Prior to 1995, Mr. Bird held various positions at British Aerospace plc, Thorn EMI plc, Philips, the Royal Navy and Her Majesty's Diplomatic Service. Mr. Bird is also a director of Bristol Bulk Company, the chairman of UK Major Parts Group, a vice chairman of Maritime UK and a member of the Strategic Advisory Group of the Royal Navy.

John Costain has served as our Chief Executive Officer and Chief Financial Officer since June 2015. From February 2013 until May 2015, Mr. Costain served as a member our board of directors. Since 2004, Mr. Costain has also been employed by Tankers (UK) Agencies Ltd, which acts as agent to Tankers International Ltd. serving as Finance Director since 2005. At Tankers (UK) Agencies Ltd, Mr. Costain is responsible for group reporting results under U.S. GAAP. Mr. Costain also serves on the board of directors of Tankers International Ltd. From 1991 to 2004, Mr. Costain held various positions at Euronav (UK) Agencies Ltd., including Finance Director and Managing Director of the offshore holding shipping company, as well as other positions in finance. Mr. Costain is a Chartered Accountant with a degree in Civil Engineering from Manchester University.

B. Compensation

Reimbursement of Expenses of Our General Partner

Our general partner does not receive compensation from us for any services it provides on our behalf, although it is entitled to reimbursement for expenses incurred on our behalf. In addition, we pay certain fees to KNOT Management and KNOT Management Denmark pursuant to technical management agreements and management and administration agreements with our operating subsidiaries, and we reimburse KOAS UK, KOAS and KNOT Management for their reasonable costs and expenses (plus a 5% service fee) incurred in connection with provision of services pursuant to an administrative services agreement. Please read "Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions."

Executive Compensation

Pursuant to the administrative services agreement, John Costain, as an officer of KNOT UK, provides executive officer functions for our benefit. Mr. Costain is responsible for our day-to-day management subject to the direction of our board of directors. Under the administrative services agreement, we reimburse KNOT UK for its reasonable costs and expenses in connection with the provision of an executive officer and other administrative services to us. In addition, we pay KNOT UK a management fee equal to 5% of its costs and expenses incurred on our behalf. For the year ended December 31, 2017, we incurred total costs, expenses and fees under this agreement of approximately \$1.8 million (which includes \$1.1 million that was paid to KOAS, KOAS UK and KNOT Management for services they provided for us as subcontractors)

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under the administrative services agreement). Our officers and employees and officers and employees of our subsidiaries and affiliates of KNOT and our general partner may participate in employee benefit plans and arrangements sponsored by KNOT, our general partner or their affiliates, including plans that may be established in the future.

Mr. Costain entered into an employment agreement with KNOT UK effective June 1, 2015. Pursuant to the employment agreement, Mr. Costain serves as KNOT UK's Chief Executive Officer and Chief Financial Officer and is based in London. His annualized base salary is 213,000 British Pounds. In addition, the employment agreement also provides for a discretionary annual bonus (as determined by the board of directors of KNOT UK), 30 working days of paid vacation per year (plus public holidays) and up to 13 weeks of paid sick leave per year. Mr. Costain's employment may be terminated on 6 months' prior written notice by either Mr. Costain or KNOT UK. In addition, Mr. Costain's employment agreement provides KNOT UK with the option to make a payment in lieu of notice or to place Mr. Costain on garden leave during his notice period. KNOT UK may also terminate the employment agreement with immediate effect upon certain specified "cause" events. The employment agreement includes post-termination restrictive covenants prohibiting Mr. Costain from competing or soliciting customers or employees for a period of 12 months after the termination of his employment. For the year ended December 31, 2017, Mr. Costain received \$284,963 in total compensation.

In addition, an accrual of \$nil for 2017 was made to cover insurance and pension expenses for Mr. Costain.

Compensation of Directors

Each director receives compensation for attending meetings of our board of directors, as well as committee meetings. During the year ended December 31, 2017 each of our directors and our Chairman received aggregate compensation of \$50,000. Members of the audit and conflicts committees each received a committee fee of \$12,000 and the Chairman of each such committee received a fee of \$15,000 per year. In addition, each director is reimbursed for out-of-pocket expenses in connection with attending meetings of our board of directors or committees. Each director is fully indemnified by us for actions associated with being a director to the extent permitted under Marshall Islands law.

C. Board Practices

General

Our partnership agreement provides that our general partner irrevocably delegates to our board of directors the authority to oversee and direct our operations, management and policies on an exclusive basis, and such delegation is binding on any successor general partner of the Partnership. Our general partner, KNOT Offshore Partners GP LLC, is wholly owned by KNOT. Our officers manage our day-to-day activities consistent with the policies and procedures adopted by our board of directors.

Our current board of directors consists of seven members, Trygve Seglem, Richard Beyer, Takuji Banno, Hans Petter Aas, Edward A. Waryas, Jr., Andrew Beveridge and Simon Bird. Mr. Seglem, Mr. Beyer and Mr. Bannno and have been appointed by our general partner. Mr. Aas, Mr. Waryas, Mr. Beveridge and Mr. Bird were elected by our common unitholders. Directors appointed by our general partner serve as directors for terms determined by our general partner. Directors elected by our common unitholders are divided into four classes serving staggered four-year terms. Mr. Waryas is designated as the Class I elected director and will serve until our annual meeting of unitholders in 2018. Mr. Beveridge is designated as the Class II elected director and will serve until our annual meeting of unitholders in 2019, Mr. Bird is designated as our Class III elected director and will serve until our annual meeting of unitholders in 2020, Mr. Aas is designated as our Class IV elected director and will serve until our annual meeting of unitholders in 2021. At each annual meeting of unitholders, directors will be elected to succeed the class of director whose term has expired by a plurality of the votes of the common unitholders. Directors elected by our common unitholders will be nominated by our board of directors or by any limited partner or group of limited partners that holds at least 10% of the outstanding common units.

Each outstanding common unit is entitled to one vote on matters subject to a vote of common unitholders. However, if at any time, any person or group owns beneficially more than 4.9% or more of any class of units then outstanding (excluding units held by Norwegian Resident Holders in the election of the elected directors as discussed below), any such units owned by that person or group in excess of 4.9% may not be voted (except for purposes of nominating a person for election to our board of directors). The voting rights of any such unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of such class of units. Our general partner, its affiliates and persons who acquire common units with the prior approval of our board of directors are not subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

In addition, common unitholders that are Norwegian Resident Holders will not be eligible to vote in the election of the elected directors. The voting rights of any Norwegian Resident Holders will effectively be redistributed pro rata among the remaining common unitholders (subject to the limitation described above for 4.9% common unitholders) in these elections.

The Series A Preferred Units do not have any right to nominate, appoint or elect any member of our board of directors unless distributions payable on the Series A Preferred Units have not been declared and paid for four consecutive quarters (a "Trigger Event"). Upon a Trigger Event, holders of Series A Preferred Units together with the holders of any other series of preferred units upon which like rights have been conferred and are exercisable, will have the right to replace one of the board members appointed by our general partner with a person nominated by such holders, such nominee to serve until all accrued and unpaid distributions on the preferred units have been paid.

Committees

We have an audit committee that, among other things, reviews our external financial reporting, engages our external auditors and oversees our internal audit activities and procedures and the adequacy of our internal accounting controls. Our audit committee is comprised of Hans Petter Aas, Andrew Beveridge and Edward A. Waryas, Jr. Our board of directors has determined that each of Mr. Aas, Mr. Beveridge and Mr. Waryas satisfies the independence standards established by the NYSE. Mr. Aas qualifies as an “audit committee financial expert” for purposes of SEC rules and regulations.

We also have a conflicts committee comprised of Mr. Waryas and Mr. Aas. The conflicts committee is available at our board of directors’ discretion to review specific matters that our board of directors believes may involve conflicts of interest. The conflicts committee may determine if the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers or employees of us or directors, officers or employees of our general partner or its affiliates and must meet the independence standards established by the NYSE to serve on an audit committee of a board of directors and certain other requirements. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners and not a breach by our directors, our general partner or its affiliates of any duties any of them may owe us or our unitholders.

Exemptions from NYSE Corporate Governance Rules

Because we qualify as a foreign private issuer under SEC rules, we are permitted to follow the corporate governance practices of the Marshall Islands (the jurisdiction in which we are organized) in lieu of certain of the NYSE corporate governance requirements that would otherwise be applicable to us. The NYSE rules do not require a listed company that is a foreign private issuer to have a board of directors that is comprised of a majority of independent directors. Under Marshall Islands law, we are not required to have a board of directors comprised of a majority of directors meeting the independence standards described in the NYSE rules. In addition, the NYSE rules do not require limited partnerships like us to have boards of directors comprised of a majority of independent directors. The NYSE rules do not require foreign private issuers or limited partnerships like us to establish a compensation committee or a nominating/corporate governance committee.

Similarly, under Marshall Islands law, we are not required to have a compensation committee or a nominating/corporate governance committee. Accordingly, we do not have a compensation committee or a nominating/corporate governance committee. For a listing and further discussion of how our corporate governance practices differ from those required of U.S. companies listed on the NYSE, please read “Item 16G. Corporate Governance.”

D. Employees

Employees of affiliates of KNOT provide services to our subsidiaries pursuant to the technical management agreements, the management and administration agreements and the administrative services agreement. As of December 31, 2017, we directly employed one onshore employee and no seagoing employees. As of December 31, 2017, KNOT, through subsidiaries and affiliated companies, employed approximately 481 seagoing staff to serve on our vessels. Certain affiliates of KNOT, including KNOT Management, provide commercial and technical management services, including all necessary crew-related services, to our subsidiaries pursuant to the technical management agreements and the management and administration agreements. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions” and “Item 4. Information on the Partnership—Business Overview—Employees.”

E. Unit Ownership

Other than those common units in which Trygve Seglem may be deemed to share beneficial ownership, as of April 25, 2018, there were no common units beneficially owned by our current directors or executive officer. Please read “Item 7. Major Unitholders and Related Party Transactions—Major Unitholders.”

Item 7. Major Unitholders and Related Party Transactions**A. Major Unitholders**

The following table sets forth the beneficial ownership of our common units as of April 25, 2018 by each person that we know to beneficially own more than 5.0% of our common units. The number of units beneficially owned by each person is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose:

<u>Name of Beneficial Owner</u>	<u>Common Units Beneficially Owned</u>	
	<u>Number</u>	<u>Percent</u>
KNOT(1)	8,657,868	26.5%
Kayne Anderson Capital Advisors, L.P. and Richard A. Kayne(2)	2,048,663	6.3%
Oppenheimer Funds Inc. (3)	1,812,087	5.5%

- (1) KNOT is a joint venture between TSSI and NYK Europe, each of which owns a 50% interest in KNOT. Excludes the general partner interest held by our general partner, a wholly owned subsidiary of KNOT. Includes common units held by our general partner. NYK Europe is a wholly owned subsidiary of NYK, a broadly owned Japanese public company. TSSI is a wholly owned subsidiary of Seglem Holding AS (“Seglem Holding”), of which 70% is owned by Trygve Seglem with the remainder owned by members of his immediate family. Accordingly, each of NYK Europe, NYK, TSSI, Seglem Holding and Trygve Seglem may be deemed to share beneficial ownership of the 8,657,868 common units held by KNOT and our general partner.
- (2) Kayne Anderson Capital Advisors, L.P. and Richard A. Kayne have shared voting power as to 1,602,011 units and shared dispositive power as to 2,048,663 units. This information is based on the Schedule 13G/A filed by Kayne Anderson Capital Advisors, L.P. and Richard A. Kayne on February 6, 2018.
- (3) Oppenheimer Funds Inc. has shared voting power and dispositive power, as to 1,812,087 common units. This information is based on the Schedule 13G/A filed by Oppenheimer Funds Inc. on February 7, 2018.

Each outstanding common unit is entitled to one vote on matters subject to a vote of common unitholders. However, if at any time, any person or group owns beneficially more than 4.9% or more of any class of units then outstanding (excluding units held by Norwegian Resident Holders in the election of the elected directors as discussed below), any such units owned by that person or group in excess of 4.9% may not be voted (except for purposes of nominating a person for election to our board of directors). The voting rights of any such unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of such class of units. Our general partner, its affiliates and persons who acquire common units with the prior approval of our board of directors are not subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

In addition, common unitholders that are Norwegian Resident Holders will not be eligible to vote in the election of the elected directors. The voting rights of any Norwegian Resident Holders will effectively be redistributed pro rata among the remaining common unitholders (subject to the limitation described above for 4.9% common unitholders) in these elections.

As of April 25, 2018, we had 3,750,000 Series A Preferred Units issued and outstanding, of which 2,083,333 units, 1,250,000 units and 416,677 units are held by OMP AY Preferred Limited, Pierfront Capital Mezzanine Fund Pte. Ltd. and Tortoise Direct Opportunities Fund, LP., respectively. Please read “Item 5. Operating and Financial Review and Prospects—Significant Developments in 2017 and Early 2018—Series A Convertible Preferred Units.”

The Series A Preferred Units have voting rights that are identical to the voting rights of our common units, except they do not have any right to nominate, appoint or elect any member of our board of directors, except upon a Trigger Event. Upon a Trigger Event, holders of Series A Preferred Units together with the holders of any other series of preferred units upon which like rights have been conferred and are exercisable, will have the right to replace one of the board members appointed by our general partner with a person nominated by such holders, such nominee to serve until all accrued and unpaid distributions on the preferred units have been paid. The Series A Preferred Units are entitled to vote with our common units as a single class, so that the Series A Preferred Units are entitled to one vote for each common unit into which the Series A Preferred Units are convertible at the time of voting. The 4.9% limitation described above applies to the holders of the Series A Preferred Units with respect to the voting of the Series A Preferred Units on an as-converted basis with the common units.

KNOT exercises influence over the Partnership through our general partner, a wholly owned subsidiary of KNOT, which in its sole discretion appoints three directors to our board of directors. Please read “Item 6. Directors, Senior Management and Employees—Board Practices.” KNOT also exercises influence over the Partnership through its ownership of 26.5% of our common units as of April 25, 2018.

B. Related Party Transactions

From time to time we have entered into agreements and have consummated transactions with certain related parties. We may enter into related party transactions from time to time in the future. In connection with our IPO, we established a conflicts committee, comprised entirely of independent directors, which must approve all proposed material related party transactions. The related party transactions that we have entered into or were party to since January 1, 2015 are discussed below.

Omnibus Agreement

Upon the closing of our IPO, we entered into an Omnibus Agreement with KNOT, our general partner and certain of our other subsidiaries. The following discussion describes certain provisions of the Omnibus Agreement.

Noncompetition

Pursuant to the Omnibus Agreement, KNOT agreed, and caused its controlled affiliates (other than us, our general partner and our subsidiaries) to agree, not to acquire, own, operate or charter any shuttle tanker operating under a charter for five or more years. For purposes of this section, we refer to these vessels, together with any related charters, as “Five-Year Vessels” and to all other shuttle tankers, together with any related charters, as “Non-Five-Year Vessels.” The restrictions in this paragraph do not prevent KNOT or any of its controlled affiliates (other than us and our subsidiaries) from:

- (1) acquiring, owning, operating or chartering Non-Five-Year Vessels;
- (2) acquiring one or more Five-Year Vessels if KNOT promptly offers to sell the vessel to us for the acquisition price plus any administrative costs (including re-flagging and reasonable legal costs) associated with the transfer to us at the time of the acquisition;
- (3) putting a Non-Five-Year Vessel under charter for five or more years if KNOT offers to sell the vessel to us for fair market value (x) promptly after the time it becomes a Five-Year Vessel and (y) at each renewal or extension of that charter for five or more years;
- (4) acquiring one or more Five-Year Vessels as part of the acquisition of a controlling interest in a business or package of assets and owning, operating or chartering those vessels; provided, however, that:
 - (a) if less than a majority of the value of the business or assets acquired is attributable to Five-Year Vessels, as determined in good faith by KNOT’s board of directors, KNOT must offer to sell such vessels to us for their fair market value plus any additional tax or other similar costs that KNOT incurs in connection with the acquisition and the transfer of such vessels to us separate from the acquired business; and
 - (b) if a majority or more of the value of the business or assets acquired is attributable to Five-Year Vessels, as determined in good faith by KNOT’s board of directors, KNOT must notify us of the proposed acquisition in advance. Not later than 30 days following receipt of such notice, we will notify KNOT if we wish to acquire such vessels in cooperation and simultaneously with KNOT acquiring the Non-Five-Year Vessels. If we do not notify KNOT of our intent to pursue the acquisition within 30 days, KNOT may proceed with the acquisition and then offer to sell such vessels to us as provided in paragraph (1)(a) above;
- (5) acquiring up to a 9.9% equity ownership, voting or profit participation interest in any company, business or pool of assets;
- (6) acquiring, owning, operating or chartering any Five-Year Vessel if we do not fulfill our obligation to purchase such vessel in accordance with the terms of any existing or future agreement;
- (7) acquiring, owning, operating or chartering a Five-Year Vessel subject to the offers to us described in paragraphs (2), (3) and (4) above pending our determination whether to accept such offers and pending the closing of any offers we accept;
- (8) providing ship management services relating to any vessel;
- (9) owning or operating any Five-Year Vessel that KNOT owned as of April 15, 2013 and that was not part of our initial fleet as of such date; or
- (10) acquiring, owning, operating or chartering a Five-Year Vessel if we have previously advised KNOT that we consent to such acquisition, ownership, operation or charter.

If KNOT or any of its controlled affiliates (other than us or our subsidiaries) acquires, owns, operates or charters Five-Year Vessels pursuant to any of the exceptions described above, it may not subsequently expand that portion of its business other than pursuant to those exceptions. However, such Five-Year Vessels could eventually compete with our vessels upon their re-chartering.

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In addition, pursuant to the Omnibus Agreement, we agree, and cause our subsidiaries to agree, to acquire, own, operate or charter Five-Year Vessels only. The restrictions in this paragraph do not:

- (1) prevent us from owning, operating or chartering any Non-Five-Year Vessel that was previously a Five-Year Vessel while owned by us;
- (2) prevent us or any of our subsidiaries from acquiring Non-Five-Year Vessels as part of the acquisition of a controlling interest in a business or package of assets and owning, operating or chartering those vessels; provided, however, that:
 - (a) if less than a majority of the value of the business or assets acquired is attributable to Non-Five-Year Vessels, as determined in good faith by us, we must offer to sell such vessels to KNOT for their fair market value plus any additional tax or other similar costs that we incur in connection with the acquisition and the transfer of such vessels to KNOT separate from the acquired business; and
 - (b) if a majority or more of the value of the business or assets acquired is attributable to Non-Five-Year Vessels, as determined in good faith by us, we must notify KNOT of the proposed acquisition in advance. Not later than 30 days following receipt of such notice, KNOT must notify us if it wishes to acquire the Non-Five-Year Vessels in cooperation and simultaneously with us acquiring the Five-Year Vessels. If KNOT does not notify us of its intent to pursue the acquisition within 30 days, we may proceed with the acquisition and then offer to sell such vessels to KNOT as provided in paragraph (2)(a) above;
- (3) prevent us or any of our subsidiaries from acquiring, owning, operating or chartering any Non-Five-Year Vessels subject to the offer to KNOT described in paragraph (2) above, pending its determination whether to accept such offer and pending the closing of any offer it accepts; or
- (4) prevent us or any of our subsidiaries from acquiring, owning, operating or chartering Non-Five-Year Vessels if KNOT has previously advised us that it consents to such acquisition, ownership, operation or charter.

If we or any of our subsidiaries acquires, owns, operates or charters Non-Five-Year Vessels pursuant to any of the exceptions described above, neither we nor such subsidiary may subsequently expand that portion of our business other than pursuant to those exceptions.

Upon a change of control of us or our general partner, the noncompetition provisions of the Omnibus Agreement terminate immediately. Upon a change of control of KNOT, the noncompetition provisions of the Omnibus Agreement applicable to KNOT terminate at the time of the change of control. On the date on which a majority of our directors ceases to consist of directors that were (1) appointed by our general partner prior to our first annual meeting of unitholders and (2) recommended for election by a majority of our appointed directors, the noncompetition provisions applicable to KNOT terminate immediately.

Rights of First Offer on Shuttle Tankers

Pursuant to the Omnibus Agreement, we and our subsidiaries granted to KNOT a right of first offer on any proposed sale, transfer or other disposition of any Five-Year Vessels or Non-Five-Year Vessels owned by us. Pursuant to the Omnibus Agreement, KNOT agreed, and caused its subsidiaries to agree, to grant a similar right of first offer to us for any Five-Year Vessels they might own. These rights of first offer do not apply to a (1) sale, transfer or other disposition of vessels between any affiliated subsidiaries or pursuant to the terms of any current or future charter or other agreement with a charterparty or (2) merger with or into, or sale of substantially all of the assets to, an unaffiliated third party.

Prior to engaging in any negotiation regarding any vessel disposition with respect to a Five-Year Vessel with an unaffiliated third party or any Non-Five-Year Vessel, we or KNOT, as the case may be, will deliver a written notice to the other relevant party setting forth the material terms and conditions of the proposed transaction. During the 30-day period after the delivery of such notice, we and KNOT, as the case may be, will negotiate in good faith to reach an agreement on the transaction. If we do not reach an agreement within such 30-day period, we or KNOT,

as the case may be, will be able within the next 180 calendar days to sell, transfer, dispose or re-charter the vessel to a third party (or to agree in writing to undertake such transaction with a third party) on terms generally no less favorable to us or KNOT, as the case may be, than those offered pursuant to the written notice.

Upon a change of control of us or our general partner, the right-of-first-offer provisions of the Omnibus Agreement terminate immediately. Upon a change of control of KNOT, the right-of-first-offer provisions applicable to KNOT pursuant to the Omnibus Agreement terminate at the time of the change of control. On the date on which a majority of our directors ceases to consist of directors that were (1) appointed by our general partner prior to our first annual meeting of unitholders and (2) recommended for election by a majority of our appointed directors, the provisions related to the rights of first offer granted to us by KNOT terminate immediately.

Indemnification

Pursuant to the Omnibus Agreement, KNOT indemnified us until April 15, 2018 (and KNOT indemnifies us for a period of at least three years after our purchase of the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen* and the *Raquel Knutsen*, as applicable) against certain environmental and toxic tort liabilities with respect to the assets contributed or sold to us to the extent arising prior to the time they were contributed or sold to us. Liabilities resulting from a change in law after the closing of our IPO are excluded from the environmental indemnity. There is an aggregate cap of \$5 million on the amount of indemnity coverage provided by KNOT for environmental and toxic tort liabilities. No claim may be made unless the aggregate U.S. Dollar amount of all claims exceeds \$500,000, in which case KNOT is liable for claims only to the extent such aggregate amount exceeds \$500,000.

KNOT also indemnifies us for liabilities related to:

- certain defects in title to the assets contributed or sold to us and any failure to obtain, prior to the time they were contributed to us, certain consents and permits necessary to conduct our business, which liabilities arose before April 15, 2018 (or, in the case of the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen* and the *Raquel Knutsen*, within three years after our purchase of the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen* and the *Raquel Knutsen*, as applicable); and
- certain tax liabilities attributable to the operation of the assets contributed or sold to us prior to the time they were contributed or sold.

Amendments

The Omnibus Agreement may not be amended without the prior approval of the conflicts committee of our board of directors if the proposed amendment will, in the reasonable discretion of our board of directors, adversely affect holders of our common units.

Guarantees Relating to the Bodil Knutsen and the Windsor Knutsen

If at any time until April 15, 2018, the *Bodil Knutsen* was not receiving from any charterer a hire rate equal to or greater than the hire rate payable under the initial *Bodil Knutsen* charter, then KNOT was required to pay us such hire rate that would have been in effect and payable under the initial *Bodil Knutsen* charter; provided, however, that in the event that, if at any time until April 15, 2018, the *Bodil Knutsen* was chartered under a charter other than the initial *Bodil Knutsen* charter and the hire rate being paid under such charter was lower than the hire rate that would have been in effect and payable under the initial *Bodil Knutsen* charter during any such period, then KNOT was required to pay us the difference between the hire rate that would have been in effect and payable under the initial *Bodil Knutsen* charter during such period and the hire rate then in effect and payable under such other charter.

If at any time until April 15, 2018, the *Windsor Knutsen* was not receiving from any charterer a hire rate that is equal to or greater than the hire rate payable under the initial *Windsor Knutsen* charter, then KNOT was required to pay us such hire rate that would have been in effect and payable under the initial *Windsor Knutsen* charter; provided, however, that in the event that, if at any time until April 15, 2018, the *Windsor Knutsen* was chartered under a charter other than the initial *Windsor Knutsen* charter and the hire rate being paid under such charter was lower than the hire rate that would have been in effect and payable under the initial *Windsor Knutsen* charter during any such period, then KNOT was required to pay us the difference between the hire rate that would have been in effect and payable under the initial *Windsor Knutsen* charter during the period between the final termination date of the initial *Windsor Knutsen* charter (assuming that all extension options thereunder would have been exercised) and the last day of the five-year period following the closing date of our IPO was be deemed to have been the hire rate that would have been in effect and payable during the last option extension period under the initial *Windsor Knutsen* charter (assuming that all extension options thereunder would have been exercised).

Windsor Knutsen Time Charter

In order to comply with its obligations under the Omnibus Agreement, in July 2014, KNOT entered into a time charter for the *Windsor Knutsen* at a rate of hire that would have been in effect during the option period under the initial *Windsor Knutsen* time charter. This charter expired when the new Shell time charter for the *Windsor Knutsen* commenced in October of 2015.

Administrative Services Agreement

Effective as of February 26, 2013, in connection with our IPO, we entered into an administrative services agreement with KNOT UK, pursuant to which KNOT UK provides certain management and administrative services to us. The agreement has an initial term of five years. The services provided under the administrative services agreement are provided in a diligent manner, as we may reasonably direct. KNOT UK is permitted to subcontract certain of the administrative services provided under this agreement to KOAS UK and KOAS, each of which is a wholly owned subsidiary of TSSI and KNOT Management. On May 7, 2015, we entered into an amendment to the administrative services agreement, which allows KNOT UK to also subcontract administrative services to KNOT Management.

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The administrative services agreement may be terminated prior to the end of its term by us upon 90 days' notice for any reason in the sole discretion of our board of directors. In addition, the administrative services agreement may be terminated by KNOT UK upon 90 days' notice if:

- there is a change of control of us or our general partner;
- a receiver is appointed for all or substantially all of our property;
- an order is made to wind up our partnership;
- a final judgment or order that materially and adversely affects our ability to perform the agreement is obtained or entered and not vacated or discharged; or
- we make a general assignment for the benefit of our creditors, file a petition in bankruptcy or liquidation or commence any reorganization proceedings.

Under the administrative services agreement, John Costain, as an officer of KNOT UK, provides executive officer functions for our benefit. Mr. Costain is responsible for our day-to-day management subject to the direction of our board of directors. Our board of directors has the ability to terminate the arrangement with KNOT UK regarding the provision of executive officer services to us with respect to Mr. Costain at any time in its sole discretion.

The administrative services provided by KNOT UK include:

- *commercial management services* : assistance with our commercial management and the execution of our business strategies, although KNOT UK does not make any strategic decisions;
- *bookkeeping, audit and accounting services* : assistance with the maintenance of our corporate books and records, assistance with the preparation of our tax returns and arranging for the provision of audit and accounting services;
- *legal and insurance services* : arranging for the provision of legal, insurance and other professional services and maintaining our existence and good standing in necessary jurisdictions;
- *administrative and clerical services* : assistance with office space, arranging meetings for our common unitholders pursuant to our partnership agreement, arranging the provision of IT services, providing all administrative services required for subsequent debt and equity financings and attending to all other administrative matters necessary to ensure the professional management of our business;
- *banking and financial services* : providing cash management including assistance with preparation of budgets, overseeing banking services and bank accounts, arranging for the deposit of funds and monitoring and maintaining compliance therewith;
- *advisory services* : assistance in complying with United States and other relevant securities laws;
- *client and investor relations* : arranging for the provision of, advisory, clerical and investor relations services to assist and support us in our communications with our common unitholders; and
- assistance with the integration of any acquired businesses.

Each month, we reimburse KNOT UK, and KNOT UK reimburses KOAS UK, KOAS and KNOT Management, as applicable, for their reasonable costs and expenses incurred in connection with the provision of the services under the administrative services agreement. In addition, KNOT UK, KOAS UK, KOAS and KNOT Management, as applicable, receives a service fee in U.S. Dollars equal to 5% of the costs and expenses incurred by them in connection with providing services. Amounts payable by us under the administrative services agreement must be paid on a monthly basis within 30 days after receipt of an invoice for such costs and expenses, together with any supporting detail that may be reasonably required.

Under the administrative services agreement, we indemnify KNOT UK's subcontractors against all actions which may be brought against them as a result of their performance of the administrative services including, without limitation, all actions brought under the environmental laws of any jurisdiction, and against and in respect of all costs and expenses they may suffer or incur due to defending or settling such actions; provided, however, that such indemnity excludes any or all losses to the extent that they are caused by or due to the fraud, gross negligence or willful misconduct of the subcontractor or its officers, employees and agents.

Technical Management Agreements

Each of the *Bodil Knutsen* , the *Windsor Knutsen*, the *Carmen Knutsen*, the *Hilda Knutsen* , the *Torill Knutsen*, the *Ingrid Knutsen* , the *Raquel Knutsen* , the *Tordis Knutsen* , the *Vigdis Knutsen*, the *Lena Knutsen* , the *Brasil Knutsen* and the *Anna Knutsen* , which operate under time charters, is subject to technical management agreements pursuant to which certain crew, technical and commercial management services are provided by KNOT Management. Under these technical management agreements, our operating subsidiaries pay fees to and reimburse the

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costs and expenses of the managers as described below. The *Recife Knutsen*, the *Fortaleza Knutsen*, the *Dan Sabia* and the *Dan Cisne* operate under bareboat charters and, as a result, the customer is responsible with providing for the crew, technical and commercial management of the vessel. However, each of these vessels are subject to management and administration agreements with either KNOT Management or KNOT Management Denmark pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee. Please read “— Management and Administration Agreements”.

Management services . Each of the technical management agreements requires that KNOT Management and its subcontractors use their best endeavors to perform the following management services:

- the provision of suitably qualified crew in accordance with International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, 1978, as amended, and the attendance to all matters pertaining to discipline, labor relations, welfare and amenities of the crew;
- the provision of technical management, including arranging and supervising drydockings, maintenance and repairs of the vessel, arranging for the supply of stores, spares and lubricating oil, appointing surveyors and technical consultants and developing, implementing and maintaining a Safety Management System in accordance with the ISM Code;
- the provision of applicable documentation and compliance with applicable regulations;
- the establishment of an accounting system that meets the requirements of the owner, provides regular accounting services and supplies reports and records and the maintenance of records of costs and expenditures incurred, as well as data necessary for the settlement of accounts between the parties;
- the arrangement for the supply of provisions and necessary stores;
- the handling and settlement of claims arising out of the management services;
- the arrangement for the provision of bunker;
- the arrangement of the loading and discharging and all related matters, subject to the provisions of the time charters;
- the arrangement of all insurances;
- the giving of instructions to the master and officers, subject to the provisions of the time charters; and
- the arrangement of the lay-up of each vessel.

With respect to the technical management agreements, KNOT Management and its subcontractors use their best endeavors to also provide the commercial operations, including arranging payment to the owner’s account of all hire and/or freight revenues, calculating hire, freight and other money due from or to the charterer, issuing voyage instructions, appointing agents and stevedores and arranging surveys associated with the commercial operations.

Annual management fee . Pursuant to each of the technical management agreements, each of KNOT Shuttle Tankers 17 AS, KNOT Shuttle Tankers 18 AS, Knutsen Shuttle Tankers 13 AS, Knutsen Shuttle Tankers 14 AS, Knutsen Shuttle Tankers 15 AS, Knutsen NYK Shuttle Tankers 16 AS, Knutsen Shuttle Tankers 19 AS, KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS and KNOT Shuttle Tankers 26 AS and KNOT Shuttle Tankers 32 AS as owners, paid a fee of \$0.52 million per year for 2017 to KNOT Management, as manager, payable in equal monthly installments. This annual rate is subject to an adjustment on January 1 of each year pursuant to a procedure set forth in the agreements. The annual management fee for 2018 has been set at \$0.55 million per vessel. Any dispute relating to the annual rate adjustment would be settled by dispute resolution provisions set forth in the applicable technical management agreement.

Term . Each of the technical management agreements for the *Windsor Knutsen* and the *Bodil Knutsen* continues indefinitely until terminated by either party after giving three months’ written notice. Each of the technical management agreements for the *Carmen Knutsen* , the *Hilda Knutsen* , the *Torill Knutsen*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen* , the *Brasil Knutsen* and the *Anna Knutsen* continues indefinitely until terminated by either party after giving six months’ notice.

Automatic termination and termination by either party . Each technical management agreement terminates or is deemed to be terminated if:

- the vessel is sold, requisitioned, declared a constructive, compromised or arranged total loss or becomes a total loss; or
- an order is made or a resolution is passed for the winding up, dissolution, liquidation or bankruptcy of either party (otherwise than for the purpose of reconstruction or amalgamation), a receiver is appointed or either party suspends payment, ceases to carry on business or makes any special arrangement or composition with its creditors.

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Termination by the manager . Under each technical management agreement, the manager may terminate the agreement with immediate effect by written notice if:

- any money payable to the manager pursuant to the agreement has not been paid within a specified period of days after demand by the manager for payment or the vessel is repossessed by the mortgagees; or
- the owner proceeds with the employment of or continues to employ the vessel (1) in the carriage of contraband, blockade running or an unlawful trade or (2) on a voyage that in the reasonable opinion of the applicable manager is unduly hazardous or improper. The manager may only terminate if the owner is given notice of such default and fails to cure within a reasonable time to the satisfaction of the manager.

KNOT Management also may terminate each technical management agreement if the applicable owner elects to provide officers and, for any reason within its control, fails to (1) procure that all officers and ratings supplied by it or on its behalf comply with the requirements of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, as amended in 1995, or (2) instruct such officers and ratings to obey all reasonable orders of KNOT Management in connection with the operation of KNOT Management's safety management system. The manager may only terminate if the owner is given notice of such default and fails to cure within a reasonable time to the satisfaction of the manager.

Termination by the owner . Under each technical management agreement, the owner may terminate the applicable agreement with immediate effect by written notice to the manager if the manager, for any reason, is in default and fails to cure within a reasonable time.

Additional fees and provisions . In addition to the fees payable under each technical management agreement, the agreement also provides that the owner must make available to the manager each month within 60 days of a demand by the manager for payment an amount equal to the working capital required to run the vessel for the ensuing quarter. Further, under each technical management agreement, the manager and its employees, agents and subcontractors are indemnified by the owner against all actions that may be brought against them or incurred or suffered by them arising out of or in connection with their performance under such agreement in an amount not to exceed ten times the annual management fee payable under such agreement; provided, however, that such indemnity excludes any or all losses that may be caused by or due to the fraud, gross negligence or willful misconduct of the manager or its employees, agents and subcontractors.

Management and Administration Agreements

The *Recife Knutsen*, the *Fortaleza Knutsen*, the *Dan Sabia* and the *Dan Cisne* operate under bareboat charters and, as a result, the customer is responsible with providing for the crew, technical and commercial management of the vessel. However, each of these vessels are subject to management and administration agreements pursuant to which the subsidiaries that own and operate these vessels paid a fee of \$0.03 million per year per vessel for 2017 to either KNOT Management or KNOT Management Denmark, as manager, in exchange for general monitoring services. This annual fee is subject to an adjustment on January 1 of each year pursuant to a procedure set forth in the agreements. The annual fee for 2018 has been set at \$0.05 million per vessel. Any dispute relating to the annual fee adjustment would be settled by dispute resolution provisions set forth in the agreements. The management and administration agreements continue indefinitely until terminated by either party after giving two months' written notice, in the case of the *Dan Sabia* and *Dan Cisne* agreements or three months' written notice, in the case of the *Recife Knutsen* and *Fortaleza Knutsen* agreements. The management and administration agreements also may be terminated by the owner or manager on terms similar to the technical management agreements.

Acquisition of the *Dan Sabia*

In June 2015, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT Shuttle Tankers 21 AS, the company that owns and operates the shuttle tanker the *Dan Sabia* for consideration of \$103.0 million less approximately \$64.5 million of outstanding indebtedness related to the vessel and other purchase price adjustments of \$2.7 million. The purchase price was settled by way of a cash payment financed by proceeds from our common unit offering in June 2015. The Conflicts Committee approved the acquisition.

Acquisition of the *Ingrid Knutsen*

In October 2015, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in Knutsen NYK Shuttle Tankers 16 AS, the company that owns and operates the shuttle tanker the *Ingrid Knutsen* for consideration of \$115.0 million less approximately \$104.5 million of outstanding indebtedness related to the vessel and other purchase price adjustments of \$2.4 million. The purchase price was settled by way of a cash payment financed by cash on hand. The Conflicts Committee approved the acquisition.

Acquisition of the *Raquel Knutsen*

In December 2016, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in Knutsen Shuttle Tankers 19 AS, the company that owns and operates the shuttle tanker the *Raquel Knutsen* for consideration of \$116.5 million less approximately \$103.5 million of outstanding indebtedness related to the vessel plus \$7.3 million of post-closing adjustments. The purchase

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price was settled by way of a Seller's Credit in the amount of approximately \$13.0 million. In connection with the acquisition, KNOT provided us a Seller's Loan in the amount of approximately \$12.0 million. For a description of the Seller's Credit and Seller's Loan, please read "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—\$25 Million Seller's Credit and Seller's Loan." On January 13, 2017, the Seller's Credit and the Seller's Loan were repaid in full. The Conflicts Committee approved the acquisition of the *Raquel Knutsen*.

Acquisition of the *Tordis Knutsen*

In February 2017, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 24, the company that owns and operates the shuttle tanker the *Tordis Knutsen* for consideration of \$147.0 million, less approximately \$137.7 million of outstanding indebtedness related to the vessel, plus approximately \$21.1 million for a receivable owed by KNOT to KNOT 24, plus approximately \$0.8 million for certain capitalized fees related to the financing of the *Tordis Knutsen* and other purchase price adjustments of \$1.7 million. On the closing of the acquisition on March 1, 2017, KNOT 24 repaid approximately \$42.8 million of the indebtedness and KNOT repaid the receivable. The cash portion of the purchase price was financed with the proceeds from our sale and issuance of 2,083,333 Series A Preferred Units which closed on February 2, 2017. See Note 23—Equity Offerings and Sale of Series Preferred Units—Sale of Preferred Units in the consolidated financial statements included in this Annual Report. The Conflicts Committee approved the acquisition of the *Tordis Knutsen*.

Acquisition of the *Vigdis Knutsen*

In May 2017, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 25, the company that owns and operates the shuttle tanker the *Vigdis Knutsen* for consideration of \$147.0 million, less approximately \$137.7 million of outstanding indebtedness related to the vessel, plus approximately \$17.9 million for a receivable owed by KNOT to KNOT 25, plus approximately \$0.9 million for certain capitalized fees related to the financing of the *Vigdis Knutsen* and plus other purchase price adjustments of \$3.7 million for working capital and interest rate swaps. On the closing of the acquisition on March 1, 2017, KNOT 25 repaid approximately \$42.9 million of the indebtedness and KNOT repaid the receivable. The purchase price was settled by way of a cash payment financed by cash on hand. The Conflicts Committee approved the acquisition of the *Vigdis Knutsen*.

Acquisition of the *Lena Knutsen*

In August 2017, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 26, the company that owns and operates the shuttle tanker the *Lena Knutsen* for consideration of \$142.0 million, less approximately \$133.8 million of outstanding indebtedness related to the vessel, plus approximately \$24.1 million for a receivable owed by KNOT to KNOT 26, plus approximately \$1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen* and less other purchase price adjustments of \$0.1 million. On the closing of the acquisition on September 30, 2017, KNOT 26 repaid approximately \$41.9 million of the indebtedness and KNOT repaid the receivable. The purchase price was settled by way of a cash payment financed by cash on hand. The Conflicts Committee approved the acquisition of the *Lena Knutsen*.

Acquisition of the *Brasil Knutsen*

In December 2017, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 32, the company that owns and operates the shuttle tanker the *Brasil Knutsen* for consideration of \$96.0 million, less \$59.0 million of outstanding indebtedness related to the vessel, less approximately \$35.2 million for a loan owed by KNOT 32 to KNOT (the "Company Liquidity Loan"), plus approximately \$0.6 million for certain capitalized fees related to the financing of the *Brasil Knutsen* and other purchase price adjustments of \$3.4 million. On the closing of the acquisition on December 15, 2017, KNOT 32 paid the Company Liquidity Loan in full. The cash portion of the purchase price was financed with the proceeds from our public offering of 3,000,000 common units which closed on November 9, 2017. See Note 23—Equity Offerings and Sale of Series Preferred Units—Equity Offerings in the consolidated financial statements included in this Annual Report. The Conflicts Committee approved the acquisition. The Conflicts Committee approved the acquisition of the *Brasil Knutsen*.

Please read Note 22—Business Acquisitions in the consolidated financial statements included in this Annual Report.

Acquisition of the *Anna Knutsen*

In February 2018, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 30, the company that owns the shuttle tanker, *Anna Knutsen*, for a purchase price of \$120.0 million, less approximately \$106.8 million of outstanding indebtedness related to the *Anna Knutsen*, plus approximately \$1.4 million for certain capitalized fees related to the financing of the *Anna Knutsen*. On the closing of the acquisition on March 1, 2018, KNOT 30 repaid approximately \$32.3 million of the indebtedness, leaving an aggregate of approximately \$74.4 million of debt outstanding under the secured credit facility related to the vessel. The purchase price was settled in cash and is subject to certain post-closing adjustments for working capital and interest rate swaps. The Conflicts Committee approved the acquisition of the *Anna Knutsen*.

Other Related Party Transactions

The following table summarizes related party expenses charged or allocated to us for the year ended December 31, 2017 and included in the consolidated financial statements. Please read Note 19—Related Party Transactions in the consolidated financial statements included in this Annual Report.

	Year Ended December 31, 2017
	(U.S. Dollars in thousands)
Statement of Operations Data:	
Time charter and bareboat revenues	\$ —
Other income	1,499
Operating expenses	4,617
General and administrative expenses	2,189
Finance income (expense)	(52)
Total income (expense)	\$ (5,359)

Payables to KNOT and KOAS were \$4.6 million and \$0.9 million, respectively, for the year ended December 31, 2017. In addition, included in trade accounts payable, trading balances due to KOAS were \$0.9 million and trading balances due to KNOT were \$0.5 million for the year ended December 31, 2017. Outstanding balances are settled on a monthly basis.

As a result of our relationships with KNOT and its affiliates, we, our general partner and our subsidiaries have entered into various agreements that were not the result of arm's length negotiations. We generally refer to these agreements and the transactions that they provide for as "affiliated transactions" or "related party transactions."

Our partnership agreement sets forth procedures by which future related party transactions may be approved or resolved by our board of directors. Pursuant to our partnership agreement, our board of directors may, but is not required to, seek the approval of a related party transaction from the conflicts committee of our board of directors or from the common unitholders. Affiliated transactions that are not approved by the conflicts committee of our board of directors and that do not involve a vote of unitholders must be on terms no less favorable to us than those generally provided to or available from unrelated third parties or be "fair and reasonable" to us. In determining whether a transaction or resolution is "fair and reasonable," our board of directors may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us. If the above procedures are followed, it will be presumed that, in making its decision, our board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. When our partnership agreement requires someone to act in good faith, it requires that person to reasonably believe that he is acting in the best interests of the partnership, unless the context otherwise requires.

Our conflicts committee is comprised of at least two members of our board of directors. The conflicts committee is available at our board of directors' discretion to review specific matters that our board of directors believes may involve conflicts of interest. The conflicts committee may determine if the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers or employees of us or directors, officers or employees of our general partner or its affiliates, and must meet the independence standards established by the NYSE to serve on an audit committee of a board of directors and certain other requirements.

Distributions to KNOT

We have declared and paid quarterly distributions totaling \$21.8 million and \$21.6 million to KNOT for each of the years ended December 31, 2017 and 2016, respectively.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Please read "Item 18. Financial Statements" for additional information required to be disclosed under this item.

Legal Proceedings

From time to time we have been, and expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business, principally personal injury and property casualty claims. These claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on us.

Our Cash Distribution Policy

Rationale for Our Cash Distribution Policy

Our cash distribution policy reflects a judgment that our unitholders will be better served by our distributing our available cash (after deducting expenses, including estimated maintenance and replacement capital expenditures and reserves) rather than retaining it. Because we believe we will generally finance any expansion capital expenditures from external financing sources, we believe that our investors are best served by our distributing all of our available cash. Our cash distribution policy is consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash quarterly (after deducting expenses, including estimated maintenance and replacement capital expenditures and reserves).

Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy

There is no guarantee that unitholders will receive quarterly distributions from us. Our distribution policy is subject to certain restrictions and may be changed at any time, including:

- Our unitholders have no contractual or other legal right to receive distributions other than the obligation under our partnership agreement to distribute available cash on a quarterly basis, which is subject to the broad discretion of our board of directors to establish reserves and other limitations.
- We are subject to restrictions on distributions under our financing agreements. Our financing agreements contain material financial tests and covenants that must be satisfied in order to pay distributions. If we are unable to satisfy the restrictions included in any of our financing agreements or are otherwise in default under any of those agreements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to our unitholders, notwithstanding our stated cash distribution policy. These financial tests and covenants are described in this Annual Report in “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”
- We are required to make substantial capital expenditures to maintain and replace our fleet. These expenditures may fluctuate significantly over time, particularly as our vessels near the end of their useful lives. In order to minimize these fluctuations, our partnership agreement requires us to deduct estimated, as opposed to actual, maintenance and replacement capital expenditures from the amount of cash that we would otherwise have available for distribution to our unitholders. In years when estimated maintenance and replacement capital expenditures are higher than actual maintenance and replacement capital expenditures, the amount of cash available for distribution to unitholders will be lower than if actual maintenance and replacement capital expenditures were deducted.
- Although our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including provisions contained therein requiring us to make cash distributions, may be amended with the approval of a majority of the outstanding common units.
- Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by our board of directors, taking into consideration the terms of our partnership agreement.
- Under Section 51 of the Marshall Islands Act, we may not make a distribution to our unitholders if the distribution would cause our liabilities, other than liabilities to partners on account of their partnership interest and liabilities for which the recourse of creditors is limited to specified property of ours, to exceed the fair value of our assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in our assets only to the extent that the fair value of that property exceeds that liability.
- Our common units are subject to the prior distribution rights of any holders of preferred units then outstanding. As of April 25, 2018, there were 3,750,000 Series A Preferred Units issued and outstanding. Under the terms of our partnership agreement, we are prohibited from declaring and paying distributions on our common units until we declare and pay (or set aside for payment) full distributions on the Series A Preferred Units.
- We may lack sufficient cash to pay distributions to our unitholders due to decreases in total operating revenues, decreases in hire rates, the loss of a vessel, increases in operating or general and administrative expenses, principal and interest payments on outstanding debt, taxes, working capital requirements, maintenance and replacement capital expenditures or anticipated cash needs. Please read “Item 3. Key Information—Risk Factors” for a discussion of these factors.

Our ability to make cash distributions to our unitholders depends on the performance of our subsidiaries and their ability to distribute cash to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, the provisions of existing and future indebtedness, applicable limited partnership and limited liability company laws in the Marshall Islands and Norway and other laws and regulations.

Series A Convertible Preferred Units

The Series A Preferred Units rank senior to the common units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up. The Series A Preferred Units have a liquidation preference of \$24.00 per unit, plus any unpaid Series A cash distributions, plus all accrued but unpaid distributions on such Series A Preferred Unit with respect to the quarter in which the liquidation occurs to the date fixed for the payment of any amount upon liquidation. The Series A Preferred Units are entitled to cumulative distributions from their initial issuance date, with distributions being calculated at an annual rate of 8.0% on the stated liquidation preference and payable quarterly in arrears within 45 days after the end of each quarter, when, as and if declared by the board of directors of the Partnership.

During the year ended December 31, 2017, the aggregate amount of cash distributions paid to the holders of the Series A Preferred Units was \$3.5 million.

Minimum Quarterly Distribution

Common unitholders are entitled under our partnership agreement to receive a minimum quarterly distribution of \$0.375 per unit to the extent we have sufficient cash on hand to pay the distribution, after establishment of cash reserves, distribution payments on the Series A Preferred Units and payment of fees and expenses. There is no guarantee that we will pay the minimum quarterly distribution on the common units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our board of directors, taking into consideration the terms of our partnership agreement. We are prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is then existing, under our financing agreements. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources” for a discussion of the restrictions contained in our credit facilities and lease arrangements that may restrict our ability to make cash distributions to our unitholders.

During the year ended December 31, 2017, the aggregate amount of cash distributions paid to common unitholders was \$64.3 million.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. KNOT currently holds the incentive distribution rights. The incentive distribution rights may be transferred separately from any other interest, subject to restrictions in our partnership agreement. Any transfer by KNOT of the incentive distribution rights would not change the percentage allocations of quarterly distributions with respect to such rights.

The following table illustrates the percentage allocations of the additional available cash from operating surplus among our unitholders, our general partner and the holders of the incentive distribution rights up to the various target distribution levels. The amounts set forth under “Marginal Percentage Interest in Distributions” are the percentage interests of our unitholders, our general partner and the holders of the incentive distribution rights in any available cash from operating surplus we distribute up to and including the corresponding amount in the column “Total Quarterly Distribution Target,” until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for our unitholders, our general partner and the holders of the incentive distribution rights for the minimum quarterly distribution are also applicable to quarterly distributions that are less than the minimum quarterly distribution. The percentage interests set forth in the table below assume that our general partner owns a 1.85% general partner interest and that we do not issue additional classes of equity securities.

	Total Quarterly Distribution Target	Marginal Percentage Interest in Distributions		Holders of Incentive Distribution Rights
		Unitholders	General Partner	
Minimum Quarterly Distribution	\$0.375	98.15%	1.85%	0%
First Target Distribution	up to \$0.43125	98.15%	1.85%	0%
Second Target Distribution	above \$0.43125 up to \$0.46875	85.15%	1.85%	13.0%
Third Target Distribution	above \$0.46875 up to \$0.5625	75.15%	1.85%	23.0%
Thereafter	above \$0.5625	50.15%	1.85%	48.0%

B. Significant Changes

Please read Note 25—Subsequent Events in the consolidated financial statements included in this Annual Report.

Item 9. The Offer and Listing

A. Offer and Listing Details

The high and low sales prices of our common units as reported by the NYSE, for the quarters and months indicated, are as follows:

	<u>High</u>	<u>Low</u>
Year ended December 31, 2017	\$24.67	\$19.15
Year ended December 31, 2016	23.95	9.68
Year ended December 31, 2015	26.49	10.38
Year ended December 31, 2014	29.89	18.78
Year ended December 31, 2013(1)	29.39	20.68
Second quarter 2018 (2)	21.00	19.40
First quarter 2018	22.30	19.15
Fourth quarter 2017	23.85	19.15
Third quarter 2017	24.00	22.11
Second quarter 2017	24.42	20.85
First quarter 2017	24.67	21.00
Fourth quarter 2016	23.95	18.90
Third quarter 2016	21.00	18.00
Second quarter 2016	20.80	16.07
First quarter 2016	17.70	9.68
Month ended April 30, 2018 (2)	21.00	19.40
Month ended March 31, 2018	20.65	19.50
Month ended February 28, 2018	21.33	19.15
Month ended January 31, 2018	22.30	20.75
Month ended December 31, 2017	21.10	19.15
Month ended November 30, 2017	23.45	19.80
Month ended October 31, 2017	23.85	22.90

(1) For the period from April 9, 2013 through December 31, 2013.

(2) For the period from April 1, 2018 through April 24, 2018.

B. Plan of Distribution

Not applicable.

C. Markets

Our common units started trading on the NYSE under the symbol “KNOP” on April 9, 2013.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The information required to be disclosed under Item 10B is incorporated by reference to our Registration Statement on Form 8-A/A filed with the SEC on June 30, 2017.

C. Material Contracts

The following is a summary of each material contract, other than material contracts entered into in the ordinary course of business, to which we or any of our subsidiaries is a party, for the two years immediately preceding the date of this Annual Report, each of which is included in the list of exhibits in “Item 19. Exhibits”:

- (1) Omnibus Agreement, dated April 15, 2013, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Offshore Partners GP LLC, KNOT Shuttle Tankers 17 AS and KNOT Shuttle Tankers 18 AS. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Omnibus Agreement.”
- (2) Administrative Services Agreement, dated February 26, 2013, among KNOT Offshore Partners LP, KNOT Offshore Partners UK LLC, Knutsen OAS (UK) Ltd., Knutsen OAS Shipping AS and KNOT Management AS, as amended by Amendment No. 1, dated May 7, 2015. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Administrative Services Agreement.”
- (3) Management and Administration Agreements with respect to each of the *Fortaleza Knutsen*, *Recife Knutsen*, *Dan Cisne* and *Dan Sabia* and Technical Management Agreements with respect to each of the other vessels in our fleet. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Management and Administration Agreements” and “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Technical Management Agreements”, respectively.
- (4) Term Facility Agreement, dated June 10, 2014, among Knutsen Shuttle Tankers XII KS, as borrower, and the other parties thereto. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—\$140 Million Secured Loan Facility.”
- (5) Amendment and Restated Agreement, dated June 30, 2016, related to the Term and Revolving Facilities Agreement, dated June 10, 2014, among KNOT Shuttle Tankers 18 AS, Knot Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS, as borrowers, and the other parties thereto. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—\$220 Million Term Loan Facility and \$35 Million Revolving Credit Facilities.”
- (6) Loan Agreement, dated March 31, 2017, among Knutsen Shuttle Tankers 14 AS, as borrower, and Mitsubishi UFJ Lease & Finance (Hong Kong) Limited, as lender. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Hilda Loan Facility.”
- (7) Facility Agreement, dated November 8, 2017, among Knutsen Shuttle Tankers 15 AS, as borrower, and the other parties thereto. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Torill Loan Facility.”
- (8) Senior Secured Credit Facilities Agreement, dated April 3, 2014, among KNOT Shuttle Tankers 20 AS and KNOT Shuttle Tankers 21 AS, as borrowers, and the other parties thereto. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—\$172.5 Million Secured Loan Facility.”
- (9) Accession Letter, dated December 15, 2014, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers 20 AS and Sumitomo Mitsui Banking Corporation Europe Limited, pursuant to which the Partnership guaranteed all amounts outstanding with respect to the Dan Cisne Facility. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—\$172.5 Million Secured Loan Facility.”
- (10) Letter Agreement, dated June 15, 2015, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers 20 AS and Sumitomo Mitsui Banking Corporation Europe Limited, relating to the Accession Letter, dated December 15, 2014, pursuant to which the Partnership guaranteed all amounts outstanding with respect to the Dan Sabia Facility. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—\$172.5 Million Secured Loan Facility.”
- (11) Amended and Restated Term Loan Facility Agreement, dated June 7, 2012, among Knutsen NYK Shuttle Tankers 16 AS, as borrower, and the other parties thereto, as amended and restated by the First Supplemental Agreement, dated February 5, 2015, and the Second Supplemental Agreement, dated October 13, 2015. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Ingrid Loan Facility.”

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- (12) Facility Agreement, dated December 17, 2014, among Knutsen Shuttle Tankers 19 AS, as borrower, and the other parties thereto, as amended by Amendment Agreement No. 1, dated November 29, 2016. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Raquel Loan Facility.”
- (13) Accession Letter, dated November 30, 2016, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, Knutsen Shuttle Tankers 19 AS and Sumitomo Mitsui Banking Corporation Europe Limited Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Raquel Loan Facility.”
- (14) Seller’s Credit and Seller’s Loan, dated December 1, 2016, between KNOT Shuttle Tankers AS, Knutsen NYK Offshore Tankers AS and KNOT Offshore Partners LP. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt— \$25 Million Seller’s Credit and Seller’s Loan.”
- (15) Facilities Agreement, dated April 27, 2015, among KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS and KNOT Shuttle Tankers 26 AS, as borrowers, and the other parties thereto, as amended and restated on October 23, 2015. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt— Tordis Loan Facility”, “—Vigdis Loan Facility” and “—Lena Loan Facility”
- (16) Accession Letter, dated February 28, 2017, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS and DNB Bank ASA. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Tordis Loan Facility.”
- (17) Accession Letter, dated June 1, 2017, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS and DNB Bank ASA. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Vigdis Loan Facility.”
- (18) Accession Letter, dated September 29, 2017, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS and DNB Bank ASA. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Lena Loan Facility.”
- (19) Term Loan Facility Agreement, dated June 27, 2017, among KNOT Shuttle Tankers 32 AS, as borrower, and the other parties thereto, as amended by Amendment Agreement No. 1, dated December 15, 2017. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Brasil Loan Facility.”
- (20) Accession Letter, dated December 15, 2017, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 32 AS and ABN AMRO Bank N.V. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Brasil Loan Facility.”
- (21) Term Loan Facility Agreement, dated September 30, 2016, among KNOT Shuttle Tankers 30 AS, as borrower, and the other parties thereto. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Anna Loan Facility.”
- (22) Accession Letter, dated March 1, 2018, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 30 AS and Nordea Bank AB. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Anna Loan Facility.”
- (23) Employment Agreement, dated May 7, 2015, between KNOT Offshore Partners UK LLC and John Costain. Please read “Item 6. Directors, Senior Management and Employees—Compensation—Executive Compensation.”
- (24) Share Purchase Agreement, dated November 1, 2016, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Acquisition of the *Raquel Knutsen* .”
- (25) Share Purchase Agreement, dated February 14, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Acquisition of the *Tordis Knutsen* .”

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- (26) Share Purchase Agreement, dated May 16, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS, as amended by the Addendum, dated May 30, 2017. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Acquisition of the *Vigdis Knutsen* .”
- (27) Share Purchase Agreement, dated August 9, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS, as amended by the Addendum, dated September 26, 2017. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Acquisition of the *Lena Knutsen* .”
- (28) Share Purchase Agreement, dated December 15, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Acquisition of the *Brasil Knutsen* .”
- (29) Share Purchase Agreement, dated February 20, 2018, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS. Please read “Item 7. Major Unitholders and Related Party Transactions—Related Party Transactions—Acquisition of the *Anna Knutsen* .”
- (30) Series A Preferred Unit Purchase Agreement, dated December 6, 2016, among KNOT Offshore Partners LP and the Purchasers party thereto, as amended pursuant to the Assignment and Novation Agreement, dated December 20, 2016, the First Amendment to Series A Preferred Unit Purchase Agreement, dated February 2, 2017 and the Second Amendment to Series A Preferred Unit Purchase Agreement, dated May 16, 2017. Please read “Item 5. Operating and Financial Review and Prospects—Significant Developments in 2017 and Early 2018—Series A Convertible Preferred Units.”
- (31) Registration Rights Agreement, dated February 2, 2017, among KNOT Offshore Partners LP and the Purchasers party thereto. Please read “Item 5. Operating and Financial Review and Prospects—Significant Developments in 2017 and Early 2018—Series A Convertible Preferred Units.”
- (32) Joinder Agreement, dated June 30, 2017, among KNOT Offshore Partners LP, OMP AY Preferred Limited, Pierfront Capital Mezzanine Fund Pte. Ltd. and Tortoise Direct Opportunities Fund, LP. Please read “Item 5. Operating and Financial Review and Prospects—Significant Developments in 2017 and Early 2018—Series A Convertible Preferred Units.”

D. Exchange Controls

We are not aware of any governmental laws, decrees, regulations or other legislation, including foreign exchange controls, in the Republic of the Marshall Islands that may affect the import or export of capital, including the availability of cash and cash equivalents for use by the Partnership, or the remittance of dividends, interest or other payments to non-resident holders of our securities.

E. Taxation

The following is a discussion of the material U.S. federal income tax considerations that may be relevant to current and prospective unitholders. This discussion is based upon provisions of the Code, Treasury Regulations and current administrative rulings and court decisions, all as in effect or existence on the date of this Annual Report and all of which are subject to change, possibly with retroactive effect. Changes in these authorities may cause the tax consequences of unit ownership to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to “we,” “our” or “us” are references to KNOT Offshore Partners LP.

The following discussion applies only to beneficial owners of common units that own the common units as “capital assets” within the meaning of Section 1221 of the Code (i.e., generally, for investment purposes) and is not intended to be applicable to all categories of investors, such as unitholders subject to special tax rules (e.g., financial institutions, insurance companies, broker-dealers, tax-exempt organizations, retirement plans, or individual retirement accounts or former citizens or long-term residents of the United States), persons who hold the units as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes, or persons that have a functional currency other than the U.S. Dollar, each of whom may be subject to tax rules that differ significantly from those summarized below. If a partnership or other entity classified as a partnership for U.S. federal income tax purposes holds our common units, the tax treatment of its partners generally will depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our common units, you should consult your own tax advisor regarding the tax consequences to you of the partnership’s ownership of our common units.

No ruling has been or will be requested from the IRS regarding any matter affecting us or current and prospective unitholders. The statements made herein may be challenged by the IRS and, if so challenged, may not be sustained upon review in a court.

This discussion does not contain information regarding any U.S. state or local, estate, gift or alternative minimum tax considerations concerning the ownership or disposition of common units. This discussion does not comment on all aspects of U.S. federal income taxation that may be important to particular unitholders in light of their individual circumstances, and each prospective unitholder is urged to consult its own tax advisor regarding the U.S. federal, state, local and other tax consequences of the ownership or disposition of common units.

Election to be Treated as a Corporation

We have elected to be treated as a corporation for U.S. federal income tax purposes. As a result, U.S. Holders (as defined below) will not be directly subject to U.S. federal income tax on our income, but rather will be subject to U.S. federal income tax on distributions received from us and dispositions of units as described below.

U.S. Federal Income Taxation of U.S. Holders

As used herein, the term “U.S. Holder” means a beneficial owner of our common units that owns (actually or constructively) less than 10% of our equity (in terms of voting power or equity value) and that is:

- an individual U.S. citizen or resident (as determined for U.S. federal income tax purposes),
- a corporation (or other entity that is classified as a corporation for U.S. federal income tax purposes) organized under the laws of the United States or any of its political subdivisions,
- an estate the income of which is subject to U.S. federal income taxation regardless of its source, or
- a trust if (1) a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) the trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes.

Distributions

Subject to the discussion below of the rules applicable to PFICs, any distributions to a U.S. Holder made by us with respect to our common units generally will constitute dividends to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. If we make distributions to U.S. Holders in excess of our earnings and profits, the excess portion of those distributions will be treated first as a nontaxable return of capital to the extent of the U.S. Holder’s tax basis in its common units and thereafter as capital gain. U.S. Holders that are corporations generally will not be entitled to claim a dividends-received deduction with respect to distributions that they receive from us. Dividends received with respect to our common units generally will be treated as “passive category income” for purposes of computing allowable foreign tax credits for U.S. federal income tax purposes.

Dividends received with respect to our common units by a U.S. Holder that is an individual, trust or estate (a “U.S. Individual Holder”) generally will be treated as “qualified dividend income,” which is taxable to such U.S. Individual Holder at preferential tax rates provided that: (1) our common units are readily tradable on an established securities market in the United States (such as the NYSE, on which our common units are traded); (2) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (which we do not believe we are, have been or will be, as discussed below under “—PFIC Status and Significant Tax Consequences”); (3) the U.S. Individual Holder has owned the common units for more than 60 days during the 121-day period beginning 60 days before the date on which the common units become ex-dividend (and has not entered into certain risk limiting transactions with respect to such common units); and (4) the U.S. Individual Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property. Because of the uncertainty of these matters, including whether we are or will be a PFIC, there is no assurance that any dividends paid on our common units will be eligible for these preferential rates in the hands of a U.S. Individual Holder, and any dividends paid on our common units that are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Individual Holder.

Special rules may apply to any amounts received in respect of our common units that are treated as “extraordinary dividends.” In general, an extraordinary dividend is a dividend with respect to a common unit that is equal to or in excess of 10% of a unitholder’s adjusted tax basis (or fair market value upon the unitholder’s election) in such common unit. In addition, extraordinary dividends include dividends received within a one-year period that, in the aggregate, equal or exceed 20% of a unitholder’s adjusted tax basis (or fair market value). If we pay an “extraordinary dividend” on our common units that is treated as “qualified dividend income,” then any loss recognized by a U.S. Individual Holder from the sale or exchange of such common units will be treated as long-term capital loss to the extent of the amount of such dividend.

Sale, Exchange or Other Disposition of Common Units

Subject to the discussion of PFIC status below, a U.S. Holder generally will recognize capital gain or loss upon a sale, exchange or other taxable disposition of our units in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other taxable disposition and the U.S. Holder’s adjusted tax basis in such units. The U.S. Holder’s initial tax basis in its units generally will be the U.S. Holder’s purchase price for the units and that tax basis will be reduced (but not below zero) by the amount of any distributions on the units that are treated as non-taxable returns of capital (as discussed above under “—Distributions”). Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder’s holding period is greater than one year at the time of the sale, exchange or other taxable disposition. Certain U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. A U.S. Holder’s ability to deduct capital losses is subject to limitations. Any such capital gain or loss generally will be treated as U.S. source income or loss, as applicable, for U.S. foreign tax credit purposes.

Medicare Tax on Net Investment Income

Certain U.S. Holders, including individuals, estates and trusts, will be subject to an additional 3.8% Medicare tax on, among other things, dividends and capital gains from the sale or other disposition of equity interests. For individuals, the additional Medicare tax applies to the lesser of (1) “net investment income” or (2) the excess of “modified adjusted gross income” over \$200,000 (\$250,000 if married and filing jointly or \$125,000 if married and filing separately). “Net investment income” generally equals the taxpayer’s gross investment income reduced by deductions that are allocable to such income. Unitholders should consult their tax advisors regarding the implications of the additional Medicare tax resulting from their ownership and disposition of our common units.

PFIC Status and Significant Tax Consequences

Adverse U.S. federal income tax rules apply to a U.S. Holder that owns an equity interest in a non-U.S. corporation that is classified as a PFIC for U.S. federal income tax purposes. In general, we will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which the holder held our units, either:

- at least 75% of our gross income (including the gross income of our vessel-owning subsidiaries) for such taxable year consists of passive income (e.g., dividends, interest, capital gains from the sale or exchange of investment property and rents derived other than in the active conduct of a rental business); or
- at least 50% of the average value of the assets held by us (including the assets of our vessel-owning subsidiaries) during such taxable year produce, or are held for the production of, passive income.

Income earned, or treated as earned (for U.S. federal income tax purposes), by us in connection with the performance of services would not constitute passive income. By contrast, rental income generally would constitute “passive income” unless we were treated as deriving that rental income in the active conduct of a trade or business under the applicable rules.

Based on our current and projected methods of operation, we believe that we were not a PFIC for any prior taxable year, and we expect that we will not be treated as a PFIC for the current or any future taxable year. We believe that more than 25% of our gross income for each taxable year was or will be non-passive income, and more than 50% of the average value of our assets for each such year was or will be held for the production of non-passive income. This belief is based on certain valuations and projections regarding our income and assets, and its validity is based on the accuracy of such valuations and projections. While we believe these valuations and projections to be accurate, the shipping market is volatile and no assurance can be given that they will continue to be accurate at any time in the future.

Moreover, there are legal uncertainties involved in determining whether the income derived from time-chartering activities constitutes rental income or income derived from the performance of services. In *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), the Fifth Circuit held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a provision of the Code relating to foreign sales corporations. In that case, the Fifth Circuit did not address the definition of passive income or the PFIC rules; however, the reasoning of the case could have implications as to how the income from a time charter would be classified under such rules. If the reasoning of the case were extended to the PFIC context, the gross income we derive from our time-chartering activities may be treated as rental income, and we would likely be treated as a PFIC. In published guidance, the IRS stated that it disagreed with the holding in *Tidewater* and specified that time charters similar to those at issue in this case should be treated as service contracts.

Distinguishing between arrangements treated as generating rental income and those treated as generating services income involves weighing and balancing competing factual considerations, and there is no legal authority under the PFIC rules addressing our specific method of operation. Conclusions in this area therefore remain matters of interpretation. We are not seeking a ruling from the IRS on the treatment of income generated from our time-chartering operations. Thus, it is possible that the IRS or a court could disagree with our position. In addition, although we intend to conduct our affairs in a manner to avoid being classified as a PFIC with respect to any taxable year, we cannot assure unitholders that the nature of our operations will not change in the future and that we will not become a PFIC in any future taxable year.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year (and regardless of whether we remain a PFIC over the subsequent taxable years), a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election to treat us as a “Qualified Electing Fund,” which we refer to as a “QEF election.” As an alternative to making a QEF election, a U.S. Holder should be able to make a “mark-to-market” election with respect to our common units, as discussed below. In addition, if a U.S. Holder owns our common units during any taxable year that we are a PFIC, such holder must file an annual report with the IRS.

Taxation of U.S. Holders Making a Timely QEF Election

If a U.S. Holder makes a timely QEF election (or an Electing Holder), then, for U.S. federal income tax purposes, that holder must report as income for its taxable year its pro rata share of our ordinary earnings and net capital gain, if any, for our taxable years that end with or within the taxable year for which that holder is reporting, regardless of whether or not the Electing Holder received distributions from us in that year. The Electing Holder’s adjusted tax basis in the common units will be increased to reflect taxed but undistributed earnings and profits.

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Distributions of earnings and profits that were previously taxed will result in a corresponding reduction in the Electing Holder's adjusted tax basis in common units and will not be taxed again once distributed. An Electing Holder generally will recognize capital gain or loss on the sale, exchange or other disposition of our common units. A U.S. Holder makes a QEF election with respect to any year that we are a PFIC by filing IRS Form 8621 with its U.S. federal income tax return. If contrary to our expectations, we determine that we are treated as a PFIC for any taxable year, we will provide each U.S. Holder with the information necessary to make the QEF election described above. Although the QEF election is available with respect to subsidiaries, in the event we acquire or own a subsidiary in the future that is treated as a PFIC, no assurances can be made that we will be able to provide U.S. Holders with the necessary information to make the QEF election with respect to such subsidiary.

Taxation of U.S. Holders Making a "Mark-to-Market" Election

If we were to be treated as a PFIC for any taxable year and, as we anticipate, our units were treated as "marketable stock," then, as an alternative to making a QEF election, a U.S. Holder would be allowed to make a "mark-to-market" election with respect to our common units, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the U.S. Holder's common units at the end of the taxable year over the holder's adjusted tax basis in the common units. The U.S. Holder also would be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common units over the fair market value thereof at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in its common units would be adjusted to reflect any such income or loss recognized. Gain recognized on the sale, exchange or other disposition of our common units would be treated as ordinary income, and any loss recognized on the sale, exchange or other disposition of the common units would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included in income by the U.S. Holder. The mark-to-market election generally will not be available with respect to subsidiaries. Accordingly, in the event we acquire or own a subsidiary in the future that is treated as a PFIC, the mark-to-market election generally will not be available with respect to such subsidiary.

Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election

If we were to be treated as a PFIC for any taxable year, a U.S. Holder that does not make either a QEF election or a "mark-to-market" election for that year (or a Non-Electing Holder) would be subject to special rules resulting in increased tax liability with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on our common units in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common units) and (2) any gain realized on the sale, exchange or other disposition of the units. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common units;
- the amount allocated to the current taxable year and any taxable year prior to the taxable year we were first treated as a PFIC with respect to the Non-Electing Holder would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayers for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These penalties would not apply to a qualified pension, profit sharing or other retirement trust or other tax-exempt organization that did not borrow money or otherwise utilize leverage in connection with its acquisition of our common units. If we were treated as a PFIC for any taxable year and a Non-Electing Holder who is an individual dies while owning our common units, such holder's successor generally would not receive a step-up in tax basis with respect to such units.

U.S. Federal Income Taxation of Non-U.S. Holders

A beneficial owner of our common units (other than a partnership or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder is referred to as a Non-U.S. Holder. If you are a partner in a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holding our common units, you should consult your own tax advisor regarding the tax consequences to you of the partnership's ownership of our common units.

Distributions

Distributions we pay to a Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax if the Non-U.S. Holder is not engaged in a U.S. trade or business. If the Non-U.S. Holder is engaged in a U.S. trade or business, our distributions will be subject to U.S. federal income tax to the extent such distributions constitute income effectively connected with the Non-U.S. Holder's U.S. trade or business. However, distributions paid to a Non-U.S. Holder that is engaged in a U.S. trade or business may be exempt from taxation under an income tax treaty if the income arising from the distribution is not attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder.

Disposition of Units

In general, a Non-U.S. Holder is not subject to U.S. federal income tax or withholding tax on any gain resulting from the disposition of our common units provided the Non-U.S. Holder is not engaged in a U.S. trade or business. A Non-U.S. Holder that is engaged in a U.S. trade or business will be subject to U.S. federal income tax in the event the gain from the disposition of units is effectively connected with the conduct of such U.S. trade or business (provided, in the case of a Non-U.S. Holder entitled to the benefits of an income tax treaty with the United States, such gain also is attributable to a U.S. permanent establishment). However, even if not engaged in a U.S. trade or business, individual Non-U.S. Holders may be subject to tax on gain resulting from the disposition of our common units if they are present in the United States for 183 days or more during the taxable year in which those units are disposed or they meet certain other requirements.

Backup Withholding and Information Reporting

In general, payments to a non-corporate U.S. Holder of distributions or the proceeds of a disposition of common units will be subject to information reporting. These payments to a non-corporate U.S. Holder also may be subject to backup withholding if the non-corporate U.S. Holder:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that it has failed to report all interest or corporate distributions required to be reported on its U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8BEN, W-8BEN-E, W-8ECI or W-8IMY, as applicable.

Backup withholding is not an additional tax. Rather, a unitholder generally may obtain a credit for any amount withheld against its liability for U.S. federal income tax (and obtain a refund of any amounts withheld in excess of such liability) by timely filing a U.S. federal income tax return with the IRS.

In addition, individual citizens or residents of the United States holding certain “foreign financial assets” (which generally includes stock and other securities issued by a foreign person unless held in an account maintained by a financial institution) that exceed certain thresholds (the lowest being holding foreign financial assets with an aggregate value in excess of: (1) \$50,000 on the last day of the tax year or (2) \$75,000 at any time during the tax year) are required to report information relating to such assets. Significant penalties may apply for failure to satisfy the reporting obligations described above. Unitholders should consult their tax advisors regarding their reporting obligations, if any, that would result from their purchase, ownership or disposition of our units.

Non-United States Tax Considerations

Unless the context otherwise requires, references in this section to “we,” “our” or “us” are references to KNOT Offshore Partners LP.

Marshall Islands Tax Consequences

Because we and our subsidiaries do not and do not expect to conduct business or operations in the Republic of the Marshall Islands, under current Marshall Islands law, unitholders that are neither citizens nor residents of the Marshall Islands and do not maintain offices in nor engage in business in the Republic of the Marshall Islands will not be subject to Marshall Islands taxation or withholding on distributions, including upon distribution treated as a return of capital, we make to them as unitholders. In addition, such unitholders will not be subject to Marshall Islands stamp, capital gains or other taxes on the purchase, ownership or disposition of common units, and they will not be required by the Republic of the Marshall Islands to file Marshall Islands tax returns relating to their ownership of common units.

Norwegian Tax Consequences

Current and prospective unitholders who are resident in Norway for taxation purposes are urged to consult their own tax advisors regarding the potential Norwegian tax consequences to them of an investment in our common units. For this purpose, a company incorporated outside of Norway will be treated as resident in Norway in the event its central management and control is carried out in Norway.

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The discussion that follows is based upon existing Norwegian legislation and current Norwegian Tax Administration practice. Changes in these authorities may cause the tax consequences to vary substantially from the consequences of unit ownership described below. Unless the context otherwise requires, references in this section to “we,” “our” or “us” are references to KNOT Offshore Partners LP.

Under the Tax Act on Income and Wealth, persons not resident in Norway for taxation purposes (“Non-Norwegian Holders”) will not be subject to any taxes in Norway on income or profits in respect of the acquisition, holding, disposition or redemption of the common units, provided that:

- we are not treated as carrying on business in Norway; and
- either of the following conditions is met:
 - if such holders are resident in a country that does not have an income tax treaty with Norway, such holders are not engaged in a Norwegian trade or business to which the common units are effectively connected; or
 - if such holders are resident in a country that has an income tax treaty with Norway, such holders do not have a permanent establishment in Norway to which the common units are effectively connected.

A Non-Norwegian Holder that carries on a business in Norway through a partnership is subject to Norwegian tax on income derived from the business if managed from Norway or carried on by the Partnership in Norway.

While we expect to conduct our affairs in such a manner that our business will not be treated as managed from or carried on in Norway at any time in the future, this determination is dependent upon the facts existing at such time, including (but not limited to) the place where our board of directors meets and the place where our management makes decisions or takes certain actions affecting our business. Our Norwegian tax counsel has advised us regarding certain measures we can take to limit the risk that our business may be treated as managed from or carried on in Norway and has concluded that, provided we adopt these measures and otherwise conduct our affairs in a manner consistent with our Norwegian tax counsel’s advice, which we intend to do, our business should not be treated as managed from or carried on in Norway for taxation purposes, and consequently, Non-Norwegian Holders should not be subject to tax in Norway solely by reason of the acquisition, holding, disposition or redemption of their common units. Nonetheless, there is no legal authority addressing our specific circumstances, and conclusions in this area remain matters of interpretation. Thus, it is possible that the Norwegian taxation authority could challenge, or a court could disagree with, our position.

While we do not expect it to be the case, if the arrangements we propose to enter into result in our being considered to carry on business in Norway for the purposes of the Tax Act on Income and Wealth, unitholders would be considered to be carrying on business in Norway and would be required to file tax returns with the Norwegian Tax Administration and, subject to any relief provided in any relevant double taxation treaty (including, in the case of holders resident in the United States, the U.S.-Norway Tax Treaty), would be subject to taxation in Norway on any income considered to be attributable to the business carried on in Norway.

United Kingdom Tax Consequences

The following is a discussion of the material United Kingdom tax consequences that may be relevant to prospective unitholders who are persons not resident in the United Kingdom for taxation purposes and who do not acquire their units as part of a trade, profession or vocation carried on in the United Kingdom, which we refer to as “Non-UK Holders.”

Prospective unitholders who are resident or domiciled in the United Kingdom for taxation purposes, or who hold their units through a trade, profession or vocation in the United Kingdom are urged to consult their own tax advisors regarding the potential United Kingdom tax consequences to them of an investment in our common units and are responsible for filing their own UK tax returns and paying any applicable UK taxes (which may be due on amounts received by us but not distributed). The discussion that follows is based upon current United Kingdom tax law and what is understood to be the current practice of HMRC as at the date of this document, both of which are subject to change, possibly with retrospective effect.

Taxation of income and disposals . We expect to conduct our affairs so that Non-UK Holders should not be subject to United Kingdom income tax, capital gains tax or corporation tax on income or gains arising from our partnership. Distributions may be made to Non-UK Holders without withholding or deduction for or on account of United Kingdom income tax.

Stamp taxes . No liability to United Kingdom stamp duty or stamp duty reserve tax should arise in connection with the issue of units to unitholders or the transfer of units in our partnership.

EACH PROSPECTIVE UNITHOLDER IS URGED TO CONSULT ITS OWN TAX COUNSEL OR OTHER ADVISOR WITH REGARD TO THE LEGAL AND TAX CONSEQUENCES OF UNIT OWNERSHIP UNDER ITS PARTICULAR CIRCUMSTANCES.

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F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

Documents concerning us that are referred to in this Annual Report may be inspected at our principal executive headquarters at 2 Queen's Cross, Aberdeen, Aberdeenshire AB15 4YB, United Kingdom. Those documents electronically filed via the SEC's Electronic Data Gathering, Analysis, and Retrieval system may also be obtained from the SEC's website at www.sec.gov, free of charge, or from the SEC's Public Reference Section at 100 F Street, NE, Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC Public Reference Section may be obtained by calling the SEC at 1-800-SEC-0330.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including interest rate, foreign currency exchange rate and concentration of credit risks. Historically, we have entered into certain derivative instruments and contracts to maintain the desired level of exposure arising from interest rate and certain foreign currency exchange rate risks.

Our policy is to economically hedge our exposure to risks, where possible, within boundaries deemed appropriate by management.

Interest Rate Risk

A portion of our debt obligations and surplus funds placed with financial institutions are subject to movements in interest rates. It is our policy to obtain the most favorable interest rates available without increasing our foreign currency exposure. In keeping with this, our surplus funds may in the future be placed in fixed deposits with reputable financial institutions that yield better returns than bank deposits. The deposits generally have short-term maturities so as to provide us with the flexibility to meet working capital and capital investments.

We have historically used interest rate swap contracts to manage our exposure to interest rate risks. Interest rate swap contracts were used to convert floating rate debt obligations based on LIBOR to a fixed rate in order to achieve an overall desired position of fixed and floating rate debt. The extent to which interest rate swap contracts are used is determined by reference to our net debt exposure and our views regarding future interest rates. Our interest rate swap contracts do not qualify for hedge accounting, and movements in their fair values are reflected in the statements of operations under "Realized and unrealized gain (loss) on derivative instruments." Interest rate swap contracts that have a positive fair value are recorded as "Other current assets," while swaps with a negative fair value are recorded as "Derivative liabilities."

As of December 31, 2017, we were party to interest rate swap contracts with a combined notional amount of approximately \$650.5 million. Under the terms of the interest rate swap contracts, we receive LIBOR-based variable interest rate payments and make fixed interest rate payments at fixed rates between 1.25% per annum and 2.49% per annum for all periods. The interest rate swap contracts mature between October 2018 and February 2025. The notional amount and fair value of our interest rate swap contracts recognized as net derivative liabilities as of December 31, 2017 are as follows:

<i>(U.S. Dollars in thousands)</i>	<u>December 31, 2017</u>	
	<u>Notional Amount</u>	<u>Fair Value (asset)</u>
Interest rate swap contracts	\$ 650,501	\$ 9,675

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As of December 31, 2017, our net exposure to floating interest rate fluctuations on our outstanding debt was approximately \$294.7 million, based on our total interest bearing debt of approximately \$1,033.3 million, less the notional amount of our floating to fixed interest rate swap contracts of approximately \$650.5 million, less a 3.85% fixed rate export credit loan of \$42.0 million and less cash and cash equivalents of \$46.1 million. A 1% change in short-term interest rates would result in an increase or decrease to our interest expense of approximately \$2.9 million on an annual basis as of December 31, 2017. Please read Note 10—Derivative Instruments—Interest Rate Risk Management in the consolidated financial statements included in this Annual Report.

Foreign Currency Exchange Rate Risk

We and our subsidiaries have the U.S. Dollar as our functional and reporting currency, because all of our revenues and the majority of our expenditures, including the majority of our investments in vessels and our financing transactions, are denominated in U.S. Dollars. We could, however, earn revenue in other currencies, and we currently incur a portion of our expenses in other currencies. Therefore, there is a risk that currency fluctuations could have an adverse effect on the value of our cash flows.

Our foreign currency risk arises from:

- the measurement of monetary assets and liabilities denominated in foreign currencies converted to U.S. Dollars, with the resulting gain or loss recorded as “Net loss on foreign currency transactions;” and
- the impact of fluctuations in exchange rates on the reported amounts of our revenues, if any, and expenses that are denominated in foreign currencies.

As of December 31, 2017, we had entered into foreign exchange forward contracts, selling a total notional amount of \$30.0 million against NOK at an average exchange rate of NOK 8.33 per 1 U.S. Dollar, which are economic hedges for certain vessel operating expenses and general expenses in NOK. We did not apply hedge accounting to our foreign exchange forward contracts.

Concentration of Credit Risk

The market for our services is the offshore oil transportation industry, and our customers consist primarily of major oil and gas companies, independent oil and gas producers and government-owned oil companies. As of December 31, 2017 and 2016, seven and six customers, respectively, accounted for substantially all of our revenues. Ongoing credit evaluations of our customers are performed and generally do not require collateral in our business agreements. Typically, under our time charters and bareboat charters, the customer pays for the month’s charter the first day of each month, which reduces our level of credit risk. Provisions for potential credit losses are maintained when necessary.

We have bank deposits that expose us to credit risk arising from possible default by the counterparty. We manage the risk by using credit-worthy financial institutions.

Retained Risk

For a description of our insurance coverage, including the risks retained by us related to our insurance policies, please read “Item 4. Information on the Partnership—Business Overview—Risk of Loss, Insurance and Risk Management.”

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

As of December 31, 2017, we were in compliance with all covenants under our debt agreements.

Item 14. Material Modifications to the Rights of Securities Holders and Use of Proceeds

Not applicable.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities and Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that (i) information required to be disclosed in our reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms, and (ii) information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

We conducted an evaluation of our disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2017.

The Chief Executive Officer and Chief Financial Officer does not expect that our disclosure controls or internal controls will prevent all errors and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Partnership have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining for us adequate internal controls over financial reporting.

Our internal controls were designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Our internal controls over financial reporting include those policies and procedures that: 1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; 2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of management and the directors; and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements even when determined to be effective and can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. However, based on the evaluation, management has concluded that our internal controls over financial reporting were effective as of December 31, 2017.

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There were no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the year ended December 31, 2017.

Attestation Report of the Registered Public Accounting Firm

This Annual Report does not include an attestation report of the Partnership's registered public accounting firm due to a transition period established by rules of the SEC for emerging growth companies.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this Annual Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Hans Petter Aas qualifies as an audit committee financial expert and is independent under applicable NYSE and SEC standards.

Item 16B. Code of Ethics

We have adopted the KNOT Offshore Partners LP Code of Business Conduct and Ethics that applies to all of our employees, officers and directors. This document is available under the "Corporate Governance" tab in the "Investor Relations" section of our website www.knotoffshorepartners.com. We intend to disclose, under this tab of our website, any waivers to or amendments of the KNOT Offshore Partners LP Corporate Code of Business Ethics and Conduct for the benefit of any of our directors and executive officers.

Item 16C. Principal Accountant Fees and Services

Our principal accountant for 2017 was Ernst & Young AS.

The audit committee of our board of directors has the authority to pre-approve permissible audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees. Engagements for proposed services either may be separately pre-approved by the audit committee or entered into pursuant to detailed pre-approval policies and procedures established by the audit committee, as long as the audit committee is informed on a timely basis of any engagement entered into on that basis. The audit committee separately pre-approved all engagements and fees paid to our principal accountant in 2017 and 2016.

Fees Incurred by the Partnership for Ernst & Young AS' Services:

	<u>2017</u>	<u>2016</u>
Audit Fees	\$703,924	\$611,679
Audit-Related Fees	55,128	48,926
Tax Fees	2,815	3,503
	<u>\$761,867</u>	<u>\$664,108</u>

Audit Fees

Audit fees for 2017 and 2016 are the aggregate fees billed for professional services rendered by the principal accountant for the audit of the Partnership's annual financial statements and services normally provided by the principal accountant in connection with statutory and regulatory filings or engagements, including services related to comfort letters, consents and assistance with and review of documents filed with the SEC.

Audit-Related Fees

Audit-related fees for 2017 and 2016 are the aggregate fees billed for professional services rendered by the principal accountant related primarily to assurance work in connection with accounting consultations and acquisitions.

Tax Fees

Tax fees for 2017 and 2016 are the aggregate fees billed for professional services rendered by the principal accountant related primarily to tax compliance services.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrants' Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

Overview

Pursuant to an exemption under the NYSE listing standards for foreign private issuers, the Partnership is not required to comply with the corporate governance practices followed by U.S. companies under the NYSE listing standards. However, pursuant to Section 303A.11 of the NYSE Listed Company Manual, we are required to state any significant differences between our governance practices and the practices required by the NYSE for U.S. companies. We believe that our established practices in the area of corporate governance are in line with the spirit of the NYSE standards and provide adequate protection to our unitholders. The significant differences between our corporate governance practices and the NYSE standards applicable to listed U.S. companies are set forth below.

Independence of Directors

The NYSE rules do not require a listed company that is a foreign private issuer to have a board of directors that is comprised of a majority of independent directors. Under Marshall Islands law, we are not required to have a board of directors comprised of a majority of directors meeting the independence standards described in the NYSE rules. In addition, the NYSE rules do not require limited partnerships like us to have boards of directors comprised of a majority of independent directors. However, our board of directors has determined that each of Hans Petter Aas, Edward A. Waryas, Jr., Simon Bird and Andrew Beveridge satisfies the independence standards established by the NYSE as applicable to us.

Executive Sessions

The NYSE requires that non-management directors of a listed U.S. company meet regularly in executive sessions without management. The NYSE also requires that all independent directors of a listed U.S. company meet in an executive session at least once a year. As permitted under Marshall Islands law and our partnership agreement, our non-management directors do not regularly hold executive sessions without management and we do not expect them to do so in the future.

Nominating/Corporate Governance Committee

The NYSE requires that a listed U.S. company have a nominating/corporate governance committee of independent directors and a committee charter specifying the purpose, duties and evaluation procedures of the committee. As permitted under Marshall Islands law and our partnership agreement, we do not currently have a nominating or corporate governance committee.

Compensation Committee

The NYSE requires that a listed U.S. company have a compensation committee of independent directors and a committee charter specifying the purpose, duties and evaluation procedures of the committee. As permitted under Marshall Islands law and our partnership agreement, we do not currently have a compensation committee.

Corporate Governance Guidelines

The NYSE requires listed U.S. companies to adopt and disclose corporate governance guidelines. The guidelines must address, among other things: director qualification standards, director responsibilities, director access to management and independent advisers, director compensation, director orientation and continuing education, management succession and an annual performance evaluation. We are not required to adopt such guidelines under Marshall Islands law, and we have not adopted such guidelines.

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We make available a statement of significant differences on our website (www.knotoffshorepartners.com).

We believe that our established corporate governance practices satisfy the NYSE listing standards.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

The following financial statements listed below and set forth on pages F-3 through F-47, together with the related report of Ernst & Young AS, Independent Registered Public Accounting Firm thereon, are filed as part of this Annual Report:

Consolidated Statements of Operations for the Years Ended December 31, 2017, 2016 and 2015	F-3
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015	F-4
Consolidated Balance Sheets as of December 31, 2017 and 2016	F-5
Consolidated Statements of Changes in Partners' Capital for the Years Ended December 31, 2017, 2016 and 2015	F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015	F-7
Notes to Consolidated Financial Statements	F-8

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required, are inapplicable or have been disclosed in the notes to the consolidated financial statements and therefore have been omitted.

Item 19. Exhibits

The following exhibits are filed as part of this Annual Report:

Exhibit Number	Description
1.1	Certificate of Limited Partnership of KNOT Offshore Partners LP (incorporated by reference to Exhibit 3.1 to the registrant's Form F-1 Registration Statement (333-186947), filed on February 28, 2013)
1.2	Third Amended and Restated Agreement of Limited Partnership of KNOT Offshore Partners LP, dated as of June 30, 2017 (incorporated by reference to Exhibit 3.2 of the registrant's Report on Form 8-A/A filed on June 30, 2017)
4.1	Omnibus Agreement, dated April 15, 2013, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Offshore Partners GP LLC, KNOT Shuttle Tankers 17 AS and KNOT Shuttle Tankers 18 AS (incorporated by reference to Exhibit 4.2 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2013 filed on April 15, 2014)
4.2	Administrative Services Agreement, dated February 26, 2013, among KNOT Offshore Partners LP, KNOT Offshore Partners UK LLC, Knutsen OAS (UK) Ltd. and Knutsen OAS Shipping AS (incorporated by reference to Exhibit 10.3 to the registrant's Amendment No. 1 to Form F-1 Registration Statement (333-186947), filed on March 19, 2013)
4.3	Amendment No. 1 to the Administrative Services Agreement, dated May 7, 2015, between KNOT Offshore Partners LP, KNOT Offshore Partners UK LLC, Knutsen OAS (UK) Ltd., Knutsen OAS Shipping AS and KNOT Management AS (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on June 2, 2015)
4.4	Form of Ship Management Agreement, dated October 28, 2010, between KNOT Shuttle Tankers 17 AS and KNOT Management AS, as amended (incorporated by reference to Exhibit 10.4 to the registrant's Form F-1 Registration Statement (333-186947), filed on February 28, 2013)
4.5	Form of Ship Management Agreement, dated May 13, 2014, between KNOT Shuttle Tankers 20 AS and KNOT Management Denmark AS, as amended (incorporated by reference to Exhibit 4.9 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2014 filed on March 25, 2015)
4.6	Term Facility Agreement, dated June 10, 2014, among Knutsen Shuttle Tankers XII KS, as borrower, and the other parties thereto (incorporated by reference to Exhibit 10.1 to the registrant's report on Form 6-K filed on December 9, 2014)
4.7	Amendment and Restated Agreement, dated June 30, 2016, related to the Term and Revolving Facilities Agreement, dated June 10, 2014, among KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS, as borrowers, and the other parties thereto (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on September 7, 2016)

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- 4.8 [Loan Agreement, dated March 31, 2017, among Knutsen Shuttle Tankers 14 AS, as borrower, and Mitsubishi UFJ Lease & Finance \(Hong Kong\) Limited, as lender \(incorporated by reference to Exhibit 4.3 to the registrant's report on Form 6-K filed on August 10, 2017\)](#)
- 4.9* [Facility Agreement, dated November 8, 2017, among Knutsen Shuttle Tankers 15 AS, as borrower, and the other parties thereto](#)
- 4.10 [Senior Secured Credit Facilities Agreement, dated April 3, 2014, among KNOT Shuttle Tankers 20 AS and KNOT Shuttle Tankers 21 AS, as borrowers, and the other parties thereto \(incorporated by reference to Exhibit 4.15 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2014 filed on March 25, 2015\)](#)
- 4.11 [Accession Letter, dated December 15, 2014, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers 20 AS and Sumitomo Mitsui Banking Corporation Europe Limited \(incorporated by reference to Exhibit 4.16 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2014 filed on March 25, 2015\)](#)
- 4.12 [Letter Agreement, dated June 15, 2015, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers 20 AS and Sumitomo Mitsui Banking Corporation Europe Limited, relating to the Accession Letter, dated December 15, 2014 \(incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on June 29, 2015\)](#)
- 4.13 [Amended and Restated Term Loan Facility Agreement, dated June 7, 2012, among Knutsen NYK Shuttle Tankers 16 AS, as borrower, and the other parties thereto, as amended and restated by the First Supplemental Agreement, dated February 5, 2015, and the Second Supplemental Agreement, dated October 13, 2015 \(incorporated by reference to Exhibit 4.2 to the registrant's report on Form 6-K filed on December 3, 2015\)](#)
- 4.14 [Facility Agreement, dated December 17, 2014, among Knutsen Shuttle Tankers 19 AS, as borrower, and the other parties thereto, as amended by Amendment Agreement No. 1, dated November 29, 2016 \(incorporated by reference to Exhibit 4.2 to the registrant's report on Form 6-K filed on December 5, 2016\)](#)
- 4.15 [Accession Letter, dated November 30, 2016, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, Knutsen Shuttle Tankers 19 AS and Sumitomo Mitsui Banking Corporation Europe Limited \(incorporated by reference to Exhibit 4.3 to the registrant's report on Form 6-K filed on December 5, 2016\)](#)
- 4.16 [Seller's Credit and Seller's Loan, dated December 1, 2016, between KNOT Shuttle Tankers AS, Knutsen NYK Offshore Tankers AS and KNOT Offshore Partners LP \(incorporated by reference to Exhibit 4.4 to the registrant's report on Form 6-K filed on December 5, 2016\)](#)
- 4.17 [Facilities Agreement, dated April 27, 2015, among KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS and KNOT Shuttle Tankers 26 AS, as borrowers, and the other parties thereto, as amended and restated on October 23, 2015 \(incorporated by reference to Exhibit 4.27 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2016 filed on March 17, 2017\)](#)
- 4.18 [Accession Letter, dated February 28, 2017, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS and DNB Bank ASA \(incorporated by reference to Exhibit 4.28 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2016 filed on March 17, 2017\)](#)
- 4.19 [Accession Letter, dated June 1, 2017, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS and DNB Bank ASA \(incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on August 10, 2017\)](#)
- 4.20 [Accession Letter, dated September 29, 2017, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS and DNB Bank ASA \(incorporated by reference to Exhibit 4.2 to the registrant's report on Form 6-K filed on November 6, 2017\)](#)
- 4.21* [Term Loan Facility Agreement, dated June 27, 2017, among KNOT Shuttle Tankers 32 AS, as borrower, and the other parties thereto, as amended by Amendment Agreement No. 1, dated December 15, 2017](#)
- 4.22* [Accession Letter, dated December 15, 2017, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 32 AS and ABN AMRO Bank N.V.](#)
- 4.23* [Term Loan Facility Agreement, dated September 30, 2016, among KNOT Shuttle Tankers 30 AS, as borrower, and the other parties thereto](#)

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4.24*	Accession Letter, dated March 1, 2018, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 30 AS and Nordea Bank AB
4.25	Employment Agreement, dated May 7, 2015, between KNOT Offshore Partners UK LLC and John Costain (incorporated by reference to Exhibit 4.2 to the registrant's report on Form 6-K filed on June 2, 2015)
4.26	Share Purchase Agreement, dated November 1, 2016, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on December 5, 2016)
4.27	Share Purchase Agreement, dated February 14, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS (incorporated by reference to Exhibit 4.33 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2016 filed on March 17, 2017)
4.28	Share Purchase Agreement, dated May 16, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on May 17, 2017)
4.29	Addendum, dated May 30, 2017, to Share Purchase Agreement, dated May 16, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS (incorporated by reference to Exhibit 4.4 to the registrant's report on Form 6-K filed on August 10, 2017)
4.30	Share Purchase Agreement, dated August 9, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS (incorporated by reference to Exhibit 4.5 to the registrant's report on Form 6-K filed on August 10, 2017)
4.31	Addendum, dated September 26, 2017, to Share Purchase Agreement, dated August 9, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on November 6, 2017)
4.32*	Share Purchase Agreement, dated December 15, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS
4.33*	Share Purchase Agreement, dated February 20, 2018, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS
4.34	Series A Preferred Unit Purchase Agreement, dated December 6, 2016, among KNOT Offshore Partners LP and the Purchasers party thereto (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on December 6, 2016)
4.35	Assignment and Novation Agreement, dated December 20, 2016, among Offshore Merchant Partners Asset Yield Fund, L.P., OMP AY Preferred Limited and KNOT Offshore Partners LP (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on February 2, 2017)
4.36	First Amendment to Series A Preferred Unit Purchase Agreement, dated February 2, 2017, among KNOT Offshore Partners LP and the Purchasers party thereto (incorporated by reference to Exhibit 4.2 to the registrant's report on Form 6-K filed on February 2, 2017)
4.37	Second Amendment to Series A Preferred Unit Purchase Agreement, dated May 16, 2017, between KNOT Offshore Partners LP and the Purchasers party thereto (incorporated by reference to Exhibit 4.2 to the registrant's report on Form 6-K filed on May 17, 2017)
4.38	Joinder Agreement, dated June 30, 2017, among KNOT Offshore Partners LP, OMP AY Preferred Limited, Pierfront Capital Mezzanine Fund Pte. Ltd. and Tortoise Direct Opportunities Fund, LP (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on June 30, 2017)
4.39	Registration Rights Agreement, dated February 2, 2017, among KNOT Offshore Partners LP and the Purchasers party thereto (incorporated by reference to Exhibit 4.3 to the registrant's report on Form 6-K filed on February 2, 2017)
8.1*	Subsidiaries of KNOT Offshore Partners LP
12.1*	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer and the Principal Financial Officer
13.1*	Certification under Section 906 of the Sarbanes-Oxley Act of 2002 of the Principal Executive Officer and the Principal Financial Officer
15.1*	Consent of Independent Registered Public Accounting Firm
101.INS	XBRL Instance Document

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101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Schema Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Schema Definition Linkbase
101.LAB	XBRL Taxonomy Extension Schema Label Linkbase
101.PRE	XBRL Taxonomy Extension Schema Presentation Linkbase

* Filed herewith.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

KNOT OFFSHORE PARTNERS LP

By: /s/ John Costain

Name: John Costain

Title: Chief Executive Officer and Chief Financial Officer

Date: April 25, 2018

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Unitholders of KNOT Offshore Partners LP

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of KNOT Offshore Partners LP (the “Partnership”) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, partners’ capital and cash flows for each of the three years in the period ended December 31, 2017 and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Partnership at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on the Partnership’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Partnership’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young AS

We have served as the Partnership’s auditor since 2013.

Oslo, Norway
April 25, 2018

KNOT OFFSHORE PARTNERS LP

Consolidated Statements of Operations
For the Years Ended December 31, 2017, 2016 and 2015
(U.S. Dollars in thousands, except per unit amounts)

	Year Ended December 31,		
	2017	2016	2015
Operating revenues: (Notes 2(e), 5 and 19)			
Time charter and bareboat revenues	\$212,501	\$172,878	\$154,750
Loss of hire insurance recoveries (Notes 2(t) and 8)	5,176	—	—
Other income	1,526	793	274
Total revenues (Notes 2(e), 5, 6 and 19)	219,203	173,671	155,024
Operating expenses: (Note 19)			
Vessel operating expenses (Note 2(e))	46,709	30,903	27,543
Depreciation (Note 14)	71,583	56,230	48,844
General and administrative expenses	5,555	4,371	4,290
Goodwill impairment charge (Note 9)	—	—	6,217
Total operating expenses	123,847	91,504	86,894
Operating income	95,356	82,167	68,130
Finance income (expense): (Notes 2(f) and 19)			
Interest income	248	24	8
Interest expense (Note 10(a))	(30,714)	(20,867)	(17,451)
Other finance expense (Note 10(b))	(1,406)	(1,311)	(504)
Realized and unrealized gain (loss) on derivative instruments (Note 11)	4,831	1,213	(9,695)
Net gain (loss) on foreign currency transactions	(267)	(139)	(105)
Total finance expense	(27,308)	(21,080)	(27,747)
Income before income taxes	68,048	61,087	40,383
Income tax benefit (Notes 2(r) and 18)	16	15	59
Net income	\$ 68,064	\$ 61,102	\$ 40,442
Series A Preferred unitholders' interest in net income	\$ 5,253	\$ —	\$ —
General Partner's interest in net income	1,160	1,256	767
Limited Partners' interest in net income	61,651	59,846	39,675
Earnings per unit (Basic): (Note 21)			
Common unit (basic)	\$ 2.050	\$ 2.291	\$ 1.499
Subordinated unit (basic)	\$ —	\$ 1.542	\$ 1.708
General Partner unit (basic)	\$ 2.046	\$ 2.248	\$ 1.487
Earnings per unit (Diluted): (Note 21)			
Common unit (diluted)	\$ 2.037	\$ 2.291	\$ 1.499
Subordinated unit (diluted)	\$ —	\$ 1.542	\$ 1.708
General Partner unit (diluted)	\$ 2.046	\$ 2.248	\$ 1.487

The accompanying notes are an integral part of these financial statements.

KNOT OFFSHORE PARTNERS LP
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2017, 2016 and 2015
(U.S. Dollars in thousands)

	<u>Year Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net income	\$68,064	\$61,102	\$40,442
Other comprehensive income, net of tax	—	—	—
Comprehensive income	<u>\$68,064</u>	<u>\$61,102</u>	<u>\$40,442</u>

The accompanying notes are an integral part of these financial statements.

KNOT OFFSHORE PARTNERS LP
**Consolidated Balance Sheets
As of December 31, 2017 and 2016
(U.S. Dollars in thousands)**

	<u>At December 31, 2017</u>	<u>At December 31, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2(g) and 12)	\$ 46,104	\$ 27,664
Trade accounts receivable, less allowance for doubtful accounts of \$0 in 2017 and \$0 in 2016 (Notes 2(i) and 13(a))	—	—
Amounts due from related parties (Note 19(d))	571	150
Inventories (Note 2(j))	2,241	1,176
Derivative assets (Notes 2(q), 11 and 12)	1,579	—
Other current assets (Notes 2(k) and 13(b))	5,610	2,089
Total current assets	56,105	31,079
Long-term assets:		
Vessels, net of accumulated depreciation (Notes 2(l), 2(m), 2(n), 14 and 19(f))	1,723,023	1,256,889
Intangible assets, net (Notes 2(o) and 15(a))	2,497	—
Derivative assets (Notes 2(q), 11 and 12)	9,850	3,154
Accrued income	1,693	1,153
Total long term assets	1,737,063	1,261,196
Total assets	\$ 1,793,168	\$ 1,292,275
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable (Note 19(e))	\$ 5,224	\$ 2,221
Accrued expenses (Note 16)	6,504	3,368
Current portion of long-term debt (Notes 2(p), 12 and 17)	92,985	58,984
Current portion of derivative liabilities (Notes 2(q), 11 and 12)	978	3,304
Income taxes payable (Notes 2(r) and 18)	175	190
Current portion of contract liabilities (Notes 2(o) and 15(b))	1,518	1,518
Prepaid charter and deferred revenue (Note 2(s))	9,980	7,218
Amount due to related parties (Note 19(d))	5,450	834
Total current liabilities	122,814	77,637
Long-term liabilities:		
Long-term debt (Notes 2(p), 12 and 17)	933,630	657,662
Long-term debt from related parties (Notes 12, 17 and 19)	—	25,000
Derivative liabilities (Notes 2(q), 11 and 12)	164	285
Contract liabilities (Notes 2(o) and 15(b))	6,722	8,239
Deferred tax liabilities (Notes 2(r) and 18)	624	685
Other long-term liabilities (Note 2(s))	—	1,057
Total long-term liabilities	941,140	692,928
Total liabilities	1,063,954	770,565
Commitments and contingencies (Notes 2(t) and 20)		
Series A Convertible Preferred Units (Notes 23 and 24)	89,264	—
Equity:		
Partners' capital:		
Common unitholders: 32,694,094 units issued and outstanding at December 31, 2017, and 27,194,094 units issued and outstanding at December 31, 2016	628,471	511,413
General partner units: 615,117 units issued and outstanding at December 31, 2017, and 558,674 units issued and outstanding at December 31, 2016	11,479	10,297
Total partners' capital	639,950	521,710
Total liabilities and equity	\$ 1,793,168	\$ 1,292,275

The accompanying notes are an integral part of these financial statements.

KNOT OFFSHORE PARTNERS LP

Consolidated Statements of Changes in Partners' Capital
For the Years Ended December 31, 2017, 2016 and 2015
(U.S. Dollars in thousands)

	Partners' Capital			Accumulated Other Comprehensive Income (Loss)	Total Partners' Capital	Series A Convertible Preferred Units
	Common Units	Subordinated Units	General Partner Units			
Consolidated balance at December 31, 2014	\$307,544	\$ 103,680	\$ 8,141	\$ —	\$419,365	\$ —
Net income	25,038	14,637	767	—	40,442	—
Other comprehensive income	—	—	—	—	—	—
Cash distributions	(33,179)	(19,159)	(1,032)	—	(53,370)	—
Net proceeds from issuance of common units (Note 23)	114,212	—	2,419	—	116,631	—
Repurchase common units	(2,298)	—	—	—	(2,298)	—
Consolidated balance at December 31, 2015	\$411,317	\$ 99,158	\$10,295	\$ —	\$520,770	\$ —
Net income	54,794	5,052	1,256	—	61,102	—
Other comprehensive income	—	—	—	—	—	—
Cash distributions	(48,820)	(10,088)	(1,253)	—	(60,161)	—
Conversion of subordinated units to common units	94,123	(94,123)	—	—	—	—
Consolidated balance at December 31, 2016	\$511,413	\$ —	\$10,297	\$ —	\$521,710	\$ —
Net income	61,651	—	1,160	—	62,811	5,253
Other comprehensive income	—	—	—	—	—	—
Cash distributions	(64,307)	—	(1,210)	—	(65,517)	(3,453)
Net proceeds from issuance of common units (Note 23)	119,714	—	1,232	—	120,946	—
Net proceeds from sale of Series A Convertible Preferred Units (Note 23)	—	—	—	—	—	87,464
Consolidated balance at December 31, 2017	\$628,471	\$ —	\$11,479	\$ —	\$639,950	\$ 89,264

The accompanying notes are an integral part of these financial statements.

KNOT OFFSHORE PARTNERS LP
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2017, 2016 and 2015
(U.S. Dollars in thousands)

	Year Ended December 31,		
	2017	2016	2015
OPERATING ACTIVITIES			
Net income	\$ 68,064	\$ 61,102	\$ 40,442
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	71,583	56,230	48,844
Amortization of contract intangibles / liabilities	(1,089)	(1,518)	(1,518)
Amortization of deferred revenue	(1,487)	(1,629)	(1,913)
Amortization of deferred debt issuance cost	1,737	1,198	1,149
Goodwill impairment charge	—	—	6,217
Drydocking expenditure	(6,885)	(2,595)	—
Income tax expense	(16)	(15)	(59)
Income taxes paid	(219)	(255)	(348)
Unrealized (gain) loss on derivative instruments	(7,391)	(5,033)	390
Unrealized (gain) loss on foreign currency transactions	45	93	22
Changes in operating assets and liabilities:			
Decrease (increase) in amounts due from related parties	62,391	(33)	1,008
Decrease (increase) in inventories	(358)	(20)	210
Decrease (increase) in other current assets	(1,724)	(110)	1,222
Increase in accrued revenue	(540)	(1,153)	—
Increase in trade accounts payable	2,195	45	45
Increase (decrease) in accrued expenses	142	(1,699)	(737)
Increase (decrease) prepaid revenue	1,435	3,995	(4,306)
Increase (decrease) in amounts due to related parties	(33,298)	(159)	(1,508)
Net cash provided by operating activities	154,585	108,445	89,160
INVESTING ACTIVITIES			
Additions to vessel and equipment	(849)	(846)	(1,526)
Acquisition of <i>Tordis Knutsen</i> (net of cash acquired)	(32,374)	—	—
Acquisition of <i>Vigdis Knutsen</i> (net of cash acquired)	(28,321)	—	—
Acquisition of <i>Lena Knutsen</i> (net of cash acquired)	(32,766)	—	—
Acquisition of <i>Brasil Knutsen</i> (net of cash acquired)	(547)	—	—
Acquisition of <i>Raquel Knutsen</i> (net of cash acquired)	—	(13,106)	—
Acquisition of <i>Ingrid Knutsen</i> (net of cash acquired)	—	—	(8,119)
Acquisition of <i>Dan Sabia</i> (net of cash acquired)	—	—	(36,843)
Net cash used in investing activities	(94,857)	(13,952)	(46,488)
FINANCING ACTIVITIES			
Proceeds from long-term debt (Note 17)	211,500	30,000	—
Repayment of long-term debt (Note 17)	(297,708)	(60,992)	(78,276)
Proceeds from issuance of long-term debt from related parties (Notes 17 and 19)	—	25,000	—
Repayment of long-term debt from related parties (Notes 17 and 19)	(93,369)	(24,018)	(32,253)
Payment of debt issuance cost	(1,241)	(174)	(9)
Repurchase of common units	—	—	(2,298)
Cash distribution	(68,970)	(60,161)	(53,370)
Net proceeds from issuance of common units (Note 23)	120,946	—	116,631
Net proceeds from sale of Series A Convertible Preferred Units (Note 23)	87,464	—	—
Net cash used in financing activities	(41,378)	(90,345)	(49,575)
Effect of exchange rate changes on cash	90	(57)	(270)
Net increase (decrease) in cash and cash equivalents	18,440	4,091	(7,173)
Cash and cash equivalents at the beginning of the period	27,664	23,573	30,746
Cash and cash equivalents at the end of the period	\$ 46,104	\$ 27,664	\$ 23,573

The accompanying notes are an integral part of these financial statements.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements

1) Description of Business

KNOT Offshore Partners LP (the “Partnership”) was formed as a limited partnership under the laws of the Republic of the Marshall Islands. The Partnership was formed for the purpose of acquiring 100% ownership interests in four shuttle tankers owned by Knutsen NYK Offshore Tankers AS (“KNOT”) in connection with the Partnership’s initial public offering of its common units (the “IPO”), which was completed on April 15, 2013.

In connection with the consummation of the IPO, (1) the Partnership issued to KNOT 8,567,500 subordinated units, representing a 49.0% limited partner interest in the Partnership, and 100% of the incentive distribution rights (“IDRs”); (2) KNOT Offshore Partners GP LLC, a wholly owned subsidiary of KNOT and the general partner of the Partnership (the “General Partner”), continued its 2.0% general partner interest in the Partnership; and (3) the Partnership issued and sold to the public, through the underwriters, 8,567,500 common units (including 1,117,500 common units sold pursuant to the full exercise of the underwriters’ option to purchase additional units), representing a 49.0% limited partner interest in the Partnership, all as further described in Note 3—Formation Transactions and Initial Public Offering.

Pursuant to the Partnership’s Agreement of Limited Partnership (the “Partnership Agreement”), the General Partner has irrevocably delegated to the Partnership’s board of directors the power to oversee and direct the operations of, manage and determine the strategies and policies of the Partnership. During the period from the IPO until the time of the Partnership’s first annual meeting of unitholders (“AGM”) on June 25, 2013, the General Partner retained the sole power to appoint, remove and replace all members of the Partnership’s board of directors. At the first AGM, four of the seven board members became electable by the common unitholders and accordingly, from this date, KNOT, as the owner of the General Partner, no longer retained the power to control the Partnership’s board of directors and hence the Partnership. As a result, the Partnership is no longer considered to be under common control with KNOT, and, as a consequence, the Partnership accounts for acquisitions of businesses under the purchase method of accounting and not as transfers of entities under common control. All acquisitions have been consolidated into the Partnership’s results as of the date of acquisition. Please read Note 2—Summary of Significant Accounting Policies and Note 22—Business Acquisitions.

As of December 31, 2017, the Partnership had a fleet of fifteen shuttle tankers, the *Windsor Knutsen*, the *Bodil Knutsen*, the *Recife Knutsen*, the *Fortaleza Knutsen*, the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen*, the *Dan Cisne*, the *Dan Sabia*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen* and the *Brasil Knutsen*, each referred to as a “Vessel” and, collectively, as the “Vessels”. The Vessels operate under fixed long-term charter contracts to charterers, with expiration dates between 2018 and 2025. Please see Note 6—Operating Leases.

The consolidated financial statements have been prepared assuming that the Partnership will continue as a going concern.

On January 10, 2017, the Partnership sold 2,500,000 common units in a public offering, raising \$54.9 million in net proceeds. See Note 23—Equity Offerings and Sale of Series A Preferred Units.

On February 2, 2017, the Partnership issued and sold in a private placement 2,083,333 8.0% Series A Convertible Preferred Units (the “Series A Preferred Units”) at a price of \$24.00 per unit. After deducting fees and expenses the net proceeds from the sale were \$48.6 million. See Note 23—Equity Offerings and Sale of Series A Preferred Units.

On March 1, 2017, the Partnership’s wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT Shuttle Tankers 24 AS, the company that owns the *Tordis Knutsen*, from KNOT. The acquisition of the *Tordis Knutsen* was accounted for as an acquisition of a business. As a result, the Partnership has recorded the results of operations of the *Tordis Knutsen* in the consolidated statements of operations from March 1, 2017. See Note 22—Business Acquisitions.

On June 1, 2017, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 25 AS, the company that owns the *Vigdis Knutsen*, from KNOT. The acquisition of the *Vigdis Knutsen* was accounted for as an acquisition of a business. As a result, the Partnership has recorded the results of operations of the *Vigdis Knutsen* in the consolidated statements of operations from June 1, 2017. See Note 22—Business Acquisitions.

On June 30, 2017, the Partnership issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at a price of \$24.00 per unit. After deducting fees and expenses the net proceeds from the sale were \$38.9 million. See Note 23—Equity Offerings and Sale of Series A Preferred Units.

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On September 30, 2017, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 26 AS, the company that owns the *Lena Knutsen*, from KNOT. The acquisition of the *Lena Knutsen* was accounted for as an acquisition of a business. As a result, the Partnership has recorded the results of operations of the *Lena Knutsen* in the consolidated statements of operations from September 30, 2017. See Note 22—Business Acquisitions.

On November 9, 2017, the Partnership sold 3,000,000 common units in a public offering. In connection with the offering, the General Partner contributed a total of \$1.2 million in order to maintain its 1.85% general partner interest in the Partnership. Total net proceeds from the offering and the related General Partner's contribution were \$66.0 million. See Note 23—Equity Offerings and Sale of Series A Preferred Units.

On December 15, 2017, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 32 AS, the company that owns the *Brasil Knutsen*, from KNOT. The acquisition of the *Brasil Knutsen* was accounted for as an acquisition of a business. As a result, the Partnership has recorded the results of operations of the *Brasil Knutsen* in the consolidated statements of operations from December 15, 2017. See Note 22—Business Acquisitions.

On March 1, 2018, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 30 AS, the company that owns the *Anna Knutsen*, from KNOT. See Note 25—Subsequent Events.

The Partnership expects that its primary future sources of funds will be available cash, cash from operations, borrowings under any new loan agreements and the proceeds of any equity financings. The Partnership believes that these sources of funds (assuming the current rates earned from existing charters) will be sufficient to cover operational cash outflows and ongoing obligations under the Partnership's financing commitments to pay loan interest and make scheduled loan repayments and to make distributions on its outstanding units. Accordingly, as of April 25, 2018, the Partnership believes that its current resources, including the undrawn portion of its revolving credit facilities of \$13.0 million, are sufficient to meet working capital requirements for its current business for at least the next twelve months.

2) Summary of Significant Accounting Policies

(a) Basis of Preparation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). All intercompany balances and transactions are eliminated.

The consolidated financial statements include the financial statements of the entities listed in Note 4—Subsidiaries.

(b) Business combinations

Business combinations are accounted for under the acquisition method. On acquisition, the identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. bargain purchase) is credited to the statement of operations in the period of acquisition. The consideration transferred for an acquisition is measured at fair value of the consideration given. Acquisition related costs are expensed as incurred. The results of operations of the acquired businesses are included in the consolidated results as of the date of the applicable acquisition.

(c) Reporting Currency

The consolidated financial statements are prepared in the reporting currency of U.S. Dollars. The functional currency of the vessel-owning Partnership subsidiaries is the U.S. Dollar, because the subsidiaries operate in the international shipping market, in which all revenues are U.S. Dollar-denominated and the majority of expenditures are made in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. As of the balance sheet dates, monetary assets and liabilities that are denominated in currencies other than the U.S. Dollar are translated to reflect the year-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of operations.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives and impairment of Vessels, drydocking, purchase price allocation, goodwill impairment (for year ended December 31, 2015) and income taxes.

(e) Revenues and Operating Expenses

The Partnership recognizes revenues from time charters and bareboat charters as operating leases on a straight-line basis over the term of the charter, net of any commissions. Under time charters, revenue is not recognized during days the Vessel is off-hire. Revenue is recognized from delivery of the Vessel to the charterer, until the end of the contract period. Under time charters, the Partnership is responsible for providing the crewing and other services related to the Vessel's operations, the cost of which is included in the daily hire rate, except when off-hire. Fees received from customers for customized equipment are deferred and recognized over the contract period. Under bareboat charters, the Partnership provides a specified Vessel for a fixed period of time at a specified day rate. The Partnership recognizes revenues from spot contracts as voyage revenues using the percentage of completion method on a discharge-to-discharge basis.

Voyage expenses are all expenses unique to a particular voyage, including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees. Voyage expenses are paid by the customer under time charter and bareboat charters. Voyage expenses are paid by the Partnership for spot contracts and during periods of off-hire and are recognized when incurred.

Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Vessel operating expenses are paid by the Partnership for time charters, spot contracts and during off-hire and are recognized when incurred.

As further discussed in Note 19—Related Party Transactions, related parties have provided the management services for the Vessels and employ the crews that work on the Vessels. The Partnership has no direct employees and, accordingly, is not liable for any pension or post-retirement benefits.

(f) Financial Income (Expense)

Other finance expense includes external bank fees, commitment fees paid on undrawn revolving credit facility, financing service fees paid to related parties and guarantee commissions paid to external and related parties in connection with the Partnership's debt and other bank services.

(g) Cash and Cash Equivalents

The Partnership considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

(h) Restricted Cash

Restricted cash consists of bank deposits, which may only be used to settle principal payments under the Partnership's Vessel financing arrangements.

(i) Trade Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Under terms of the current time charters and bareboat charters, the customers are committed to pay for the full month's charter the first day of each month. See Note 2(s)—Prepaid Charter and Deferred Revenue. The allowance for doubtful accounts is the Partnership's best estimate of the amount of probable credit losses in existing accounts receivable. The Partnership establishes provisions for doubtful accounts on a case-by-case basis when it is unlikely that required payments of specific amounts will occur. In establishing these provisions, the Partnership considers the financial condition of the customer as well as specific circumstances related to the receivable. Receivable amounts determined to be unrecoverable are written-off. There were no allowances for doubtful accounts or amounts written off against the allowance for doubtful accounts as of December 31, 2017 and 2016. The Partnership does not have any off-balance-sheet credit exposure related to its customers.

(j) Inventories

Inventories, which are comprised principally of lubricating oils, are stated at the lower of cost or net realizable value. For vessels on time charters or bareboat charters, there are no bunkers, as the charterer supplies the bunkers, which principally consist of fuel oil. Cost is determined using the first-in, first-out method for all inventories.

(k) Other Current Assets

Other current assets principally consist of prepaid expenses and other receivables.

(l) Vessels and Equipment

Vessels and equipment are stated at the historical acquisition or construction cost, including capitalized interest, supervision and technical and delivery cost, net of accumulated depreciation and impairment loss, if any. Expenditures for subsequent conversions and major improvements are capitalized, provided that such costs increase the earnings capacity or improve the efficiency or safety of the vessels.

Generally, the Partnership drydocks each vessel every 60 months until the vessel is 15 years old and every 30 months thereafter, as required for the renewal of certifications issued by classification societies. For vessels operating on time charters, the Partnership capitalizes the costs directly associated with the classification and regulatory requirements for inspection of the vessels, major repairs and improvements incurred during drydocking. Drydock cost is depreciated on a straight-line basis over the period until the next planned drydocking takes place. The Partnership expenses costs related to routine repairs and maintenance performed during drydocking or as otherwise incurred. For vessels that are newly built or acquired, an element of the cost of the vessel is initially allocated to a drydock component and depreciated on a straight-line basis over the period until the next planned drydocking. When significant drydocking expenditures occur prior to the expiration of this period, the Partnership expenses the remaining balance of the original drydocking cost in the month of the subsequent drydocking. For vessels operating on bareboat charters, the charterparty bears the cost of any drydocking.

Depreciation on vessels and equipment is calculated on a straight-line basis over the asset's estimated useful life, less an estimated residual value, as follows:

	<u>Useful Life</u>
Hull	25 years
Anchor-handling, loading and unloading equipment	25 years
Main/auxiliary engine	25 years
Thruster, dynamic positioning systems, cranes and other equipment	25 years
Drydock costs	2.5–5 years

A Vessel is depreciated to its estimated residual value, which is calculated based on the weight of the ship and estimated steel price. Any cost related to the disposal is deducted from the residual value.

(m) Capitalized Interest

Interest expense incurred on the Partnership's debt during the construction of the Vessels exceeding one year is capitalized during the construction period.

(n) Impairment of Long-Lived Assets

Vessels and equipment, vessels under construction and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the Partnership first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

(o) Goodwill and Intangibles

The Partnership allocates the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators are identified.

The Partnership tests goodwill for impairment using a two-step analysis, with the option of performing a qualitative assessment before performing the first step of the two-step analysis, whereby the carrying value of the reporting unit is compared to its fair value in the first step. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its fair value. The fair value is estimated using the net present value of discounted cash flows of the reporting unit. The Partnership has only one reporting unit.

Intangible assets represent contractual rights for charters obtained in connection with business acquisitions that have favorable contractual terms relative to market as of the acquisition dates. Contract liabilities represent contractual rights obtained in connection with business acquisitions that have unfavorable contractual terms relative to market as of the acquisition dates. The favorable and unfavorable contract rights have definite lives and are amortized to revenues over the period of the related contracts. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount exceeds the estimated fair value of the asset.

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The contract related intangible assets and liabilities and their amortization periods at acquisition dates are as follows:

<u>Intangible category</u>	<u>Amortization Period</u>
Above market time charter – <i>Tordis Knutsen</i>	4.8 years
Above market time charter – <i>Vigdis Knutsen</i>	4.9 years
Unfavorable contractual rights – <i>Fortaleza Knutsen</i>	12 years
Unfavorable contractual rights – <i>Recife Knutsen</i>	12 years

The intangible for the above market value of the time charter contract associated with the *Tordis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.8 years as of the acquisition date. The intangible for the above market value of the time charter contract associated with the *Vigdis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.9 years as of the acquisition date.

The unfavorable contractual rights for charters associated with *Fortaleza Knutsen* and *Recife Knutsen* were obtained in connection with a step acquisition in 2008 that had unfavorable contractual terms relative to market as of acquisition date. The *Fortaleza Knutsen* and the *Recife Knutsen* commenced on their 12 years' fixed bareboat charters in March 2011 and August 2011, respectively. The unfavorable contract rights related to *Fortaleza Knutsen* and *Recife Knutsen* are amortized to bareboat revenues on a straight line basis over the 12 years' contract period that expires in March 2023 and August 2023, respectively.

(p) Debt Issuance Costs

Debt issuance costs, including fees, commissions and legal expenses, are deferred and presented net of debt. Debt issuance costs of term loans are amortized over the term of the relevant loan. Amortization of debt issuance costs is included in interest expense. These costs are presented as a deduction from the corresponding liability, consistent with with debt discount.

(q) Derivative Instruments

The Partnership uses derivatives to reduce market risks associated with its operations. The Partnership uses interest rate swaps for the management of interest risk exposure. The interest rate swaps effectively convert a portion of the Partnership's debt from a floating to a fixed rate over the life of the transactions without an exchange of underlying principal.

The Partnership seeks to reduce its exposure to fluctuations in foreign exchange rates through the use of foreign currency forward contracts.

All derivative instruments are initially recorded at fair value as either assets or liabilities in the accompanying consolidated balance sheets and subsequently measured to fair value. The Partnership does not apply hedge accounting to its derivative instruments. Changes in the fair value of the derivative instruments are recognized in earnings. Gains and losses from the interest rate swap contracts of the Partnership related to long-term mortgage debt and foreign exchange forward contracts are recorded in realized and unrealized gain (loss) on derivative instruments in the consolidated statements of operations. Cash flows related to interest rate swap contracts are presented as cash flows provided by operating activities. Cash flows related to foreign exchange forward contracts entered into to economically hedge operating expenses in currencies other than U.S. Dollars are presented as cash flows provided by operating activities in the consolidated statements of cash flows, while cash flows related to foreign exchange forward contracts entered into to hedge contractual obligations to pay the shipyard in currencies other than functional currency of U.S. Dollars are presented as cash flows used in investing activities in the consolidated statements of cash flows.

(r) Income Taxes

Historically, part of the Partnership's activities were subject to ordinary taxation and taxes were paid on taxable income (including operating income and net financial income and expense), while part of the activities were subject to the Norwegian Tonnage Tax Regime (the "tonnage tax regime"). Under the tonnage tax regime, the tax is based on the tonnage of the vessel, and operating income is tax free. The net financial income and expense remains taxable as ordinary income tax for entities subject to the tonnage tax regime. Income taxes arising from the part of activities subject to ordinary taxation are included in income tax expense in the consolidated statements of operations. For the portion of activities subject to the tonnage tax regime, tonnage taxes are classified as vessel operating expenses while the current and deferred taxes arising on net financial income and expense are reflected as income tax expense in the consolidated statements of operations. The amounts of tonnage tax included in operating expenses for the years ended December 31, 2017, 2016 and 2015 were \$210,431, \$161,655 and \$132,000, respectively.

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The Partnership accounts for deferred income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Partnership's assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

Recognition of uncertain tax positions is dependent upon whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements based on U.S. GAAP guidance. The Partnership recognizes interest and penalties related to uncertain tax positions in income tax expense.

(s) Prepaid Charter and Deferred Revenue

Under terms of the time charters and bareboat charters, the customer pays for the month's charter the first day of each month that is recorded as prepaid charter revenues. Deferred revenues for fees received from customers for customized equipment are classified as prepaid charter and deferred revenue for the current portion and as other long-term liabilities for the non-current portion.

(t) Commitments, Contingencies and Insurance Proceeds

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. See Note 20—Commitments and Contingencies.

Insurance claims for property damage for recoveries up to the amount of loss recognized are recorded when the claims submitted to insurance carriers are probable of recovery. Claims for property damage in excess of the loss recognized and for loss of hire are considered gain contingencies, which are generally recognized when the proceeds are received.

(u) Fair Value Measurements

The Partnership utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Partnership determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- *Level 1 Inputs:* Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- *Level 2 Inputs:* Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- *Level 3 Inputs:* Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(v) Recently Adopted Accounting Standards

In July 2015, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11, Simplifying the Measurement of Inventory. The new guidance simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value and only one measure of net realizable value should be calculated. Net realizable value is the estimated selling price in the ordinary course of business, minus reasonably predicible costs of completion, disposal and transportation. The standard is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. The Partnership has adopted the standard which did not impact the Partnership's consolidated financial statements.

There are no other recent accounting pronouncements whose adoption had a material impact on the consolidated financial statements in the current year.

(w) New Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (ASC 606)*, as subsequently updated by the FASB, which provides new authoritative guidance on the methods of revenue recognition and related disclosure requirements. This new standard supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. This update creates a five-step model and requires a company to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligation in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. Under the new standard, additional qualitative and quantitative disclosures are required. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Partnership made an assessment on the various implementation aspects of ASU 2014-09 and its amendments and concluded that the effect of the implementation of this new guidance will cause no material cumulative effect to the Partnership's future or historical financial position, results of operations or cash flows. The *ASC 606* is effective for the Partnership January 1, 2018 and the Partnership will apply the modified retrospective approach. Prior periods will not be retrospectively adjusted.

In February 2016, the FASB issued ASU 2016-02, *Leases (ASC 842)*. The objective of the revised guidance for leasing is to establish the principles that lessors and lessees shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. The Partnership is the lessor for its Vessels that operate on time charters and bareboat charters. Accounting by a lessor is largely unchanged from the previous standard. The Partnership does not have any material leased assets. A lessee will be required to recognize in its balance sheet a lease liability to make lease payments and a right-of-use asset. The standard provides for optional practical expedients in implementing the standard under the modified retrospective approach. The practical expedients will, if elected, allow an entity to continue to account for leases that commence before the effective date in accordance with the previous standard, unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases. In January 2018, the FASB issued a proposed amendment to ASU 2016-02 that would allow lessors to elect, as a practical expedient, to not separate lease and non-lease components and allow these components to be accounted for as a single lease component if both (i) the timing and pattern of the revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. If the proposed practical expedient mentioned above is adopted and elected, it is expected that revenue from time charters will be presented under a single lease component presentation. However, without the proposed practical expedient, it is expected that time charter revenue will be separated into lease and non-lease components, respectively. The standard is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted. The standard requires a modified retrospective transition method for all entities. Based upon preliminary assessments performed to date, the Partnership does not expect material effects on the accounting for existing leases applied in the consolidated financial statements. The Partnership will adopt ASC 842 and implement the revised guidance as of January 1, 2019.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. The new guidance clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Partnership will implement the guidance in the interim periods after December 15, 2017 and does not expect a material impact on its consolidated statement of cash flow.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. The standard eliminates the presentation of transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals in the cash flows to the related captions in the balance sheet are required, either on the face of the cash flow or in the notes to the financial statements. Additional disclosures are required for the nature of the restricted cash and restricted cash equivalents. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Partnership will implement the guidance in the interim periods after December 15, 2017 and does not expect a material impact on its consolidated statement of cash flow.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business*. The amendments clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions of businesses. The amendments provide a screen to determine when an acquisition is not a business. The screen may apply when substantially all of the fair value related to a single, or group of similar, identifiable asset(s). If the screen is not met, it (1) requires that to be considered a business, an acquisition must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) removes the evaluation of whether a market participant could replace the missing elements. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The new standard will be applied prospectively and will be implemented by the Partnership on January 1, 2018. The impact on the consolidated financial statements will depend on facts and circumstances of any future acquisition.

3) Formation Transactions and Initial Public Offering

During April 2013, the following transactions occurred in connection with KNOT's transfer of the interests in KNOT Shuttle Tankers AS and the subsequent IPO:

Capital Contribution

- (i) KNOT contributed to the Partnership's subsidiary KNOT Offshore Partners UK LLC ("KNOT UK") its 100% interest in KNOT Shuttle Tankers AS, which directly or indirectly owned (1) Knutsen Shuttle Tankers XII KS, the owner of the *Recife Knutsen* and the *Fortaleza Knutsen*, (2) Knutsen Shuttle Tankers XII AS, the general partner of Knutsen Shuttle Tankers XII KS, and (3) the *Windsor Knutsen* and the *Bodil Knutsen* and all of their related charters, inventory and long-term debt. This was accounted for as a capital contribution by KNOT to the Partnership.

Recapitalization of the Partnership

- (ii) The Partnership issued to KNOT 8,567,500 subordinated units, representing a 49.0% limited partner interest in the Partnership, and 100% of the IDRs, which entitle KNOT to increasing percentages of the cash the Partnership distributes in excess of \$0.43125 per unit per quarter.
- (iii) The Partnership issued 349,694 general partner units to the General Partner representing a 2.0% general partner interest in the Partnership.

Initial Public Offering

- (iv) In connection with the IPO, the Partnership issued and sold to the public, through the underwriters, 8,567,500 common units (including 1,117,500 common units sold pursuant to the full exercise of the underwriters' option to purchase additional units), representing a 49.0% limited partner interest in the Partnership. The price per common unit in the IPO was \$21.00. The Partnership received gross proceeds of approximately \$179.9 million in connection with the IPO. Expenses relating to the IPO, including, among other things, incremental costs directly attributable to the IPO, were deferred and charged against the gross proceeds of the IPO, whereas other costs were expensed as incurred. The net proceeds of the IPO (approximately \$160.7 million, after deducting underwriting discounts, commissions and structuring fees and offering expenses payable by the Partnership) were used by the Partnership to make a cash distribution to KNOT of approximately \$21.95 million (which equals net proceeds from the underwriters' option exercised in full after deducting the underwriting discounts and commissions), to repay approximately \$118.9 million of outstanding debt and pre-fund approximately \$3.0 million of the Partnership's one-time entrance tax into the Norwegian tonnage tax regime. The remainder of the net proceeds was made available for general partnership purposes.

Agreements

In connection with the IPO, at or prior to the closing of the IPO, the Partnership entered into several agreements, including:

- An Administrative Services Agreement with KNOT UK, pursuant to which:
 - KNOT UK agreed to provide to the Partnership administrative services; and
 - KNOT UK is permitted to subcontract certain of the administrative services provided under the administrative services agreement to Knutsen OAS (UK) Ltd. ("KOAS UK") and Knutsen OAS Shipping AS ("KOAS"), both wholly owned subsidiaries of TS Shipping Invest AS ("TSSI");
- Amended Technical Management Agreements with KNOT Management AS ("KNOT Management"), a wholly owned subsidiary of KNOT, that govern the crew, technical and commercial management of the vessels in the fleet;

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- A Contribution and Sale Agreement with KNOT pursuant to which the Partnership acquired the entities that comprised its initial fleet;
- Amendments to certain of the Partnership's existing vessel financing agreements to permit the transactions pursuant to which the Partnership acquired its initial fleet in connection with the IPO and to include a \$20.0 million revolving credit facility; and
- An Omnibus Agreement with KNOT, the General Partner and the other parties thereto governing, among other things:
 - To what extent the Partnership and KNOT may compete with each other;
 - The Partnership's option to purchase the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen* and the *Raquel Knutsen* from KNOT;
 - Certain rights of first offer on shuttle tankers operating under charters of five or more years;
 - The provision of certain indemnities to the Partnership by KNOT; and
 - KNOT's guarantee of the payment of the hire rate under the existing *Bodil Knutsen* and *Windsor Knutsen* charters for a period of five years following the closing date of the IPO.

4) Subsidiaries

The following table lists the Partnership's subsidiaries and their purpose as of December 31, 2017.

Company Name	Jurisdiction of Formation	Purpose
KNOT Offshore Partners UK LLC	Marshall Islands	Holding Company
KNOT Shuttle Tankers AS	Norway	Holding Company
KNOT Shuttle Tankers 12 AS	Norway	Majority owner of Knutsen Shuttle Tankers XII KS
KNOT Shuttle Tankers 17 AS	Norway	Owner of the <i>Bodil Knutsen</i>
KNOT Shuttle Tankers 18 AS	Norway	Owner of the <i>Windsor Knutsen</i>
Knutsen Shuttle Tankers XII KS	Norway	Owner of the <i>Fortaleza Knutsen</i> and the <i>Recife Knutsen</i>
Knutsen Shuttle Tankers XII AS	Norway	General partner of Knutsen Shuttle Tankers XII KS
Knutsen Shuttle Tankers 13 AS	Norway	Owner of the <i>Carmen Knutsen</i>
Knutsen Shuttle Tankers 14 AS	Norway	Owner of the <i>Hilda Knutsen</i>
Knutsen Shuttle Tankers 15 AS	Norway	Owner of the <i>Torill Knutsen</i>
KNOT Shuttle Tankers 20 AS	Norway	Owner of the <i>Dan Cisne</i>
KNOT Shuttle Tankers 21 AS	Norway	Owner of the <i>Dan Sabia</i>
Knutsen NYK Shuttle Tankers 16 AS	Norway	Owner of the <i>Ingrid Knutsen</i>
Knutsen Shuttle Tankers 19 AS	Norway	Owner of the <i>Raquel Knutsen</i>
KNOT Shuttle Tankers 24 AS	Norway	Owner of the <i>Tordis Knutsen</i>
KNOT Shuttle Tankers 25 AS	Norway	Owner of the <i>Vigdis Knutsen</i>
KNOT Shuttle Tankers 26 AS	Norway	Owner of the <i>Lena Knutsen</i>
KNOT Shuttle Tankers 32 AS	Norway	Owner of the <i>Brasil Knutsen</i>

5) Significant Risks and Uncertainties Including Business and Credit Concentrations

Each of the Vessels is employed under long-term fixed rate charters, which mitigates earnings risk. The Partnership's operational results are dependent on the worldwide market for shuttle tankers and timing of entrance into long-term charters. Market conditions for shipping activities are typically volatile, and, as a consequence, the hire rates may vary from year to year. The market is mainly dependent upon two factors: the supply of vessels and the overall growth in the world economy. The general supply of vessels is impacted by the combination of newbuilds, demolition activity of older vessels and legislation that limits the use of older vessels or new standards for vessels used in specific trades.

As of December 31, 2017, all of the Partnership's Vessel crews, which are employed through KOAS were represented by collective bargaining agreements that are renegotiated annually, or bi-annually.

The Partnership did not incur any loss relating to its customers during the years ended December 31, 2017, 2016 and 2015.

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The following table presents time charter and bareboat revenues and percentage of revenues for customers that accounted for more than 10% of the Partnership's revenues during the years ended December 31, 2017, 2016 and 2015. All of these customers are subsidiaries of major international oil companies, except KNOT, which was chartering the *Windsor Knutsen* from July 2014 until the vessel was redelivered to Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell ("Shell") in October 2015.

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,					
	2017		2016		2015	
Eni Trading and Shipping S.p.A.	\$46,441	22%	\$47,001	27%	\$46,806	30%
Fronape International Company, a subsidiary of Petrobras Transporte S.A.	45,115	21%	45,236	26%	40,618	26%
Statoil ASA	23,189	11%	21,760	13%	23,203	15%
Repsol Sinopec Brasil, S.A., a subsidiary of Repsol Sinopec Brasil, B.V.	28,129	13%	20,904	12%	19,789	13%
Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell	51,259	24%	20,496	12%	4,466	3%
Standard Marine Tønsberg AS, a Norwegian subsidiary of ExxonMobil	17,634	8%	17,482	10%	3,637	2%
KNOT	—	—	—	—	16,231	11%
Galp Sinopec Brazil Services B.V.	734	1%	—	—	—	—

The Partnership has financial assets that expose it to credit risk arising from possible default by a counterparty. The Partnership considers its counterparties to be creditworthy banking and financial institutions and does not expect any significant loss to result from non-performance by such counterparties. The maximum loss due to credit risk that the Partnership would incur if counterparties failed completely to perform would be the carrying value of cash and cash equivalents, and derivative assets. The Partnership, in the normal course of business, does not demand collateral from its counterparties.

6) Operating Leases

The time charters and bareboat charters of the Vessels with third parties are accounted for as operating leases. The minimum contractual future revenues to be received from time charters and bareboat charters as of December 31, 2017, were as follows:

<i>(U.S. Dollars in thousands)</i>	
2018	\$ 244,270
2019	184,970
2020	179,444
2021	180,155
2022	135,714
2023 and thereafter	92,592
Total	<u>\$1,017,145</u>

The minimum contractual future revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum contractual future revenues are calculated based on certain assumptions such as operating days per year. In addition, minimum contractual future revenues presented in the table above have not been reduced by estimated off-hire time for periodic maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

The Partnership's fleet as of December 31, 2017 consisted of:

- the *Fortaleza Knutsen*, a shuttle tanker built in 2011 that is currently operating under a bareboat charter that expires in March 2023 with Fronape International Company, a subsidiary of Petrobras Transporte S.A. ("Transpetro");
- the *Recife Knutsen*, a shuttle tanker built in 2011 that is currently operating under a bareboat charter that expires in August 2023 with Transpetro;
- the *Bodil Knutsen*, a shuttle tanker built in 2011 that is currently operating under a time charter that expires in May 2019 with Statoil ASA ("Statoil"), with options to extend until May 2024;
- the *Windsor Knutsen*, a conventional oil tanker built in 2007 and retrofitted to a shuttle tanker in 2011. The vessel operated under a time charter with Brazil Shipping I Limited, a subsidiary of Shell, until July 2014. From July 2014 until October 2015, the vessel was employed under a time charter with KNOT. Beginning in October 2015, the vessel commenced operations under a two year time charter with Brazil Shipping I Limited, with options to extend until 2023. One one-year option has been exercised and five remaining one-year options to extend the time charter until October 2023 remain;

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- the *Carmen Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in January 2023, with Repsol Sinopec Brasil, S.A, a subsidiary of Repsol Sinopec Brasil, B.V. (“Repsol”), with options to extend until January 2026;
- the *Hilda Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in August 2018 with Eni Trading and Shipping S.p.A. (“ENI”), with options to extend until August 2023;
- the *Torill Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in November 2018 with ENI, with options to extend until November 2023;
- the *Dan Cisne*, a shuttle tanker built in 2011 that is currently operating under a bareboat charter that expires in September 2023 with Transpetro;
- the *Dan Sabia*, a shuttle tanker built in 2012 that is currently operating under a bareboat charter that expires in January 2024 with Transpetro;
- the *Ingrid Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in February 2024 with Standard Marine Tønsberg AS, a Norwegian subsidiary of ExxonMobil (“ExxonMobil”), with options to extend until February 2029;
- the *Raquel Knutsen*, a shuttle tanker built in 2015 that is currently operating under a time charter that expires in June 2025 with Repsol, with options to extend until June 2030;
- the *Tordis Knutsen*, a shuttle tanker built in 2016 that is currently operating under a time charter that expires in January 2022 with a subsidiary of Shell, with options to extend until January 2032;
- the *Vigdis Knutsen*, a shuttle tanker built in 2017 that is currently operating under a time charter that expires in the second quarter of 2022 with a subsidiary of Shell, with options to extend until the second quarter of 2032;
- the *Lena Knutsen*, a shuttle tanker built in 2017 that is currently operating under a time charter that expires in the third quarter of 2022 with a subsidiary of Shell, with options to extend until the third quarter of 2032; and
- the *Brasil Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in the third quarter of 2022 with Galp Sinopec Brazil Services B.V. (“Galp”), with options to extend until the third quarter of 2028.

7) Segment Information

The Partnership has not presented segment information as it considers its operations to occur in one reportable segment, the shuttle tanker market. At December 31, 2017, the Partnership’s fleet operated under eleven time charters and four bareboat charters. At December 31, 2016, the Partnership’s fleet operated under seven time charters and four bareboat charters and at December 31, 2015, the Partnership’s fleet operated under six time charters and four bareboat charters. See Note 5—Significant Risks and Uncertainties Including Business and Credit Concentrations for revenues from customers accounting for over 10% of the Partnership’s consolidated revenue. In both time charters and bareboat charters, the charterer, not the Partnership, controls the choice of which trading areas the Vessels will serve. Accordingly, the Partnership’s management, including the chief operating decision makers, does not evaluate performance according to geographical region.

8) Insurance Proceeds

Raquel Knutsen

In February 2017, the *Raquel Knutsen* damaged its propeller hub. As a result, the Vessel was off-hire from February 22, 2017 to May 15, 2017 for repairs. Under the Partnership’s loss of hire policies, its insurer will pay the Partnership the hire rate agreed in respect of each vessel for each day, in excess of 14 deductible days, for the time that the Vessel is out of service as a result of damage, for a maximum of 180 days. For the year ended December 31, 2017, the Partnership received payments for loss of hire insurance of \$3.4 million which was recorded as a component of total revenues since day rates are recovered under terms of the policy.

In addition, for the year ended December 31, 2017, the Partnership recorded \$3.9 million for probable recoveries up to the amount of loss under hull and machinery insurance for the repairs as a result of the propeller hub damage to the *Raquel Knutsen*. This is classified under vessel operating expense along with cost of the repairs of \$4.2 million for the period, resulting in a net expense of \$0.3 million. See Note 20—Commitments and Contingencies.

Carmen Knutsen

During the fourth quarter of 2017, the *Carmen Knutsen* undertook her 5-year special drydocking survey. During dismantling for overhaul, a technical default with her controllable pitch propeller was found. As a result, the Vessel went to a different yard to complete the repair. Repairs were completed and the Vessel was back on hire on January 1, 2018. The additional off-hire and technical costs are subject to an insurance claim. Under its loss of hire insurance policies, the Partnership's insurer is expected to pay the hire rate agreed in respect of the *Carmen Knutsen* for each day in excess of 14 deductible days while the Vessel was off-hire as a result of the repairs of the controllable pitch propeller. For the year ended, the Partnership recorded \$1.8 million for loss of hire which was recorded as a component of total revenues since day rates are recovered under terms of the policy.

For the year ended December 31, 2017, the Partnership recorded \$2.4 million to vessel operating expense as an estimate of the cost of repairs of the controllable pitch propeller. The Partnership anticipates that the estimated costs of repairs, net of deductible amounts, will be recoverable under the Partnership's insurance coverage. An insurance claim was filed with the insurance company, however, the amount that is probable of recovery is not yet known. See Note 20—Commitments and Contingencies.

9) Goodwill Impairment Charge

During the three months ended June 30, 2015, the Partnership concluded that indicators of impairment were present due to a significant reduction in the price of the Partnership's common units during the quarter. Consequently, the Partnership performed an interim vessel and goodwill impairment analysis as of June 30, 2015 on its fleet, concluding that there was no impairment to the vessels' values. However, the Partnership determined that the carrying value of the goodwill exceeded its fair value. The impairment charge relates mainly to capitalized goodwill which arose in 2008 when the Partnership's predecessor acquired the *Windsor Knutsen* and three other vessels then under construction, in a transaction that was then accounted for as a step transaction. As a result, a goodwill impairment charge of \$6.2 million was recognized for the year ended December 31, 2015. The fair value was determined using the present value of the expected future cash flows discounted at a rate equivalent to a market participant's weighted average cost of capital. The estimates and assumptions regarding expected future cash flows and appropriate discount rates are in part based upon existing contracts, future shuttle tanker rates, historical experience, financial forecasts and industry trends and conditions. This non-cash impairment charge, which does not affect the Partnership's operations, cash flows, liquidity, or any of its loan covenants, reduced the Partnership's remaining goodwill balance to zero as of June 30, 2015 and December 31, 2015, 2016 and 2017.

10) Other Finance Expenses**(a) Interest Expense**

The following table presents the components of interest cost as reported in the consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2017	2016	2015
Interest expense	\$28,977	\$19,669	\$16,302
Amortization of debt issuance cost and fair value of debt assumed	1,737	1,198	1,149
Total interest cost	<u>\$30,714</u>	<u>\$20,867</u>	<u>\$17,451</u>

(b) Other Finance Expense

The following table presents the components of other finance expense for the years ended December 31, 2017, 2016 and 2015:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2017	2016	2015
Bank charges, fees and other	\$ 516	\$ 342	\$238
Guarantee costs	621	696	156
Commitment fees	269	273	110
Total other finance expense	<u>\$1,406</u>	<u>\$1,311</u>	<u>\$504</u>

11) Derivative Instruments**Interest Rate Risk Management**

The consolidated financial statements include the results of interest rate swap contracts to manage the Partnership's exposure related to changes in interest rates on its variable rate debt instruments and the results of foreign exchange forward contracts to manage its exposure related to changes in currency exchange rates on its operating expenses, mainly crew expenses, in currency other than the U.S. Dollar and on its contract obligations. The Partnership does not apply hedge accounting for derivative instruments. The Partnership does not speculate using derivative instruments.

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By using derivative financial instruments to economically hedge exposures to changes in interest rates, the Partnership exposes itself to credit risk and market risk. Derivative instruments that economically hedge exposures are used for risk management purposes, but these instruments are not designated as hedges for accounting purposes. Credit risk is the failure of the counterparty to perform under the terms of the derivative instrument. When the fair value of a derivative instrument is positive, the counterparty owes the Partnership, which creates credit risk for the Partnership. When the fair value of a derivative instrument is negative, the Partnership owes the counterparty, and, therefore, the Partnership is not exposed to the counterparty's credit risk in those circumstances. The Partnership minimizes counterparty credit risk in derivative instruments by entering into transactions with major banking and financial institutions. The derivative instruments entered into by the Partnership do not contain credit risk-related contingent features. The Partnership has not entered into master netting agreements with the counterparties to its derivative financial instrument contracts.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates, currency exchange rates or commodity prices. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Partnership assesses interest rate risk by monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating economical hedging opportunities.

The Partnership has historically used variable interest rate mortgage debt to finance its vessels. The variable interest rate mortgage debt obligations expose the Partnership to variability in interest payments due to changes in interest rates. The Partnership believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, the Partnership entered into London Interbank Offered Rate ("LIBOR") based interest rate swap contracts to manage fluctuations in cash flows resulting from changes in the benchmark interest rate of LIBOR. These swaps change the variable rate cash flow exposure on the mortgage debt obligations to fixed cash flows. Under the terms of the interest rate swap contracts, the Partnership receives LIBOR-based variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed rate debt for the notional amount of its debt hedged.

As of December 31, 2017 and 2016, the total notional amount of the Partnership's outstanding interest rate swap contracts that were entered into in order to hedge outstanding or forecasted debt obligations were \$650.5 million and \$446.7 million, respectively. As of December 31, 2017 and 2016 the carrying amount of the interest rate swaps contracts were net assets of \$9.7 million and \$0.8 million, respectively. See Note 12—Fair Value Measurements.

Changes in the fair value of interest rate swap contracts are reported in realized and unrealized gain (loss) on derivative instruments in the same period in which the related interest affects earnings.

The Partnership and its subsidiaries utilize the U.S. Dollar as their functional and reporting currency, because all of their revenues and the majority of their expenditures, including the majority of their investments in vessels and their financing transactions, are denominated in U.S. Dollars. Payment obligations in currencies other than the U.S. Dollar, and in particular operating expenses in NOK, expose the Partnership to variability in currency exchange rates. The Partnership believes that it is prudent to limit the variability of a portion of its currency exchange exposure. To meet this objective, the Partnership entered into foreign exchange forward contracts to manage fluctuations in cash flows resulting from changes in the exchange rates towards the U.S. Dollar. The agreements change the variable exchange rate to fixed exchange rates at agreed dates.

As of December 31, 2017 and 2016, the total contract amount in foreign currency of the Partnership's outstanding foreign exchange forward contracts that were entered into to economically hedge outstanding future payments in currencies other than the U.S. Dollar were NOK 249.9 million and NOK 290.1 million, respectively. As of December 31, 2017 and 2016, the carrying amount of the Partnership's foreign exchange forward contracts was a net asset of \$0.6 million and a net liability of \$1.3 million, respectively. See Note 12—Fair Value Measurements.

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The following table presents the realized and unrealized gains and losses that are recognized in earnings as net gain (loss) on derivative instruments for the years ended December 31, 2017, 2016 and 2015:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2017	2016	2015
Realized gain (loss):			
Interest rate swap contracts	\$(2,840)	\$(3,886)	\$(4,957)
Foreign exchange forward contracts	280	66	(4,348)
Total realized gain (loss):	<u>(2,560)</u>	<u>(3,820)</u>	<u>(9,305)</u>
Unrealized gain (loss):			
Interest rate swap contracts	5,514	4,254	(1,088)
Foreign exchange forward contracts	1,877	779	698
Total unrealized gain (loss):	<u>7,391</u>	<u>5,033</u>	<u>(390)</u>
Total realized and unrealized gain (loss) on derivative instruments:	<u>\$ 4,831</u>	<u>\$ 1,213</u>	<u>\$ (9,695)</u>

12) Fair Value Measurements

(a) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Partnership's financial instruments as of December 31, 2017 and 2016. Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

<i>(U.S. Dollars in thousands)</i>	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 46,104	\$ 46,104	\$ 27,664	\$ 27,664
Current derivative assets:				
Interest rate swap contracts	950	950	—	—
Foreign exchange forward contracts	629	629	—	—
Non-current derivative assets:				
Interest rate swap contracts	9,850	9,850	3,154	3,154
Foreign exchange forward contracts	—	—	—	—
Financial liabilities:				
Current derivative liabilities:				
Interest rate swap contracts	961	961	2,039	2,039
Foreign exchange forward contracts	17	17	1,265	1,265
Non-current derivative liabilities:				
Interest rate swap contracts	164	164	285	285
Foreign exchange forward contracts	—	—	—	—
Long-term debt, current and non-current	1,033,330	1,032,484	745,649	743,898

The carrying amounts shown in the table above are included in the consolidated balance sheets under the indicated captions. Carrying amount of long-term debt, current and non-current, above excludes capitalized debt issuance cost of \$6.7 million and \$4.0 million as of December 31, 2017 and 2016, respectively. The carrying value of trade accounts receivable, trade accounts payable and receivables/payables to owners and affiliates approximate their fair value.

The fair values of the financial instruments shown in the above table as of December 31, 2017 and 2016 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Partnership's own judgment about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Partnership based on the best information available in the circumstances, including expected cash flows, appropriately risk-adjusted discount rates and available observable and unobservable inputs.

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The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- *Cash and cash equivalents and restricted cash* : The fair value of the Partnership’s cash balances approximates the carrying amounts due to the current nature of the amounts. As of December 31, 2017 and 2016 there is no restricted cash.
- *Foreign exchange forward contracts*: The fair value is calculated using mid-rates (excluding margins) as determined by counterparties based on available market rates as of the balance sheet date. The fair value is discounted from the value at expiration to the current value of the contracts.
- *Interest rate swap contracts* : The fair value of interest rate swap contracts is determined using an income approach using the following significant inputs: (1) the term of the swap contract (weighted average of 4.5 years and 3.5 years, as of December 31, 2017 and 2016, respectively), (2) the notional amount of the swap contract (ranging from \$11,389 to \$50,000), discount rates interpolated based on relevant LIBOR swap curves; and (3) the rate on the fixed leg of the swap contract (rates ranging from 1.25% to 2.49% for the contracts as of December 31, 2017 and rates ranging from 1.25% to 2.49% for the contracts as of December 31, 2016).
- *Long-term debt* : With respect to long-term debt measurements, the Partnership uses market interest rates and adjusts that rate for all necessary risks, including its own credit risk. In determining an appropriate spread to reflect its credit standing, the Partnership considered interest rates currently offered to KNOT for similar debt instruments of comparable maturities by KNOT’s and the Partnership’s bankers as well as other banks that regularly compete to provide financing to the Partnership.

(b) Fair Value Hierarchy

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value or for which fair value is required to be disclosed) as of December 31, 2017 and 2016:

	Carrying Value December 31, 2017	Fair Value Measurements at Reporting Date Using		
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(U.S. Dollars in thousands)</i>				
Financial assets:				
Cash and cash equivalents	\$ 46,104	\$ 46,104	\$ —	\$ —
<i>Current derivative assets:</i>				
Interest rate swap contracts	950	—	950	—
Foreign exchange forward contracts	629	—	629	—
<i>Non-current derivative assets:</i>				
Interest rate swap contracts	9,850	—	9,850	—
Foreign exchange forward contracts	—	—	—	—
Financial liabilities:				
<i>Current derivative liabilities:</i>				
Interest rate swap contracts	961	—	961	—
Foreign exchange forward contracts	17	—	17	—
<i>Non-current derivative liabilities:</i>				
Interest rate swap contracts	164	—	164	—
Foreign exchange forward contracts	—	—	—	—
Long-term debt, current and non-current	1,033,330	—	1,032,484	—

	Fair Value Measurements at Reporting Date Using			
	Carrying Value December 31, 2016	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(U.S. Dollars in thousands)</i>				
Financial assets:				
Cash and cash equivalents	\$ 27,664	\$ 27,664	\$ —	\$ —
<i>Current derivative assets:</i>				
Interest rate swap contracts	—	—	—	—
Foreign exchange forward contracts	—	—	—	—
<i>Non-current derivative assets:</i>				
Interest rate swap contracts	3,154	—	3,154	—
Foreign exchange forward contracts	—	—	—	—
Financial liabilities:				
<i>Current derivative liabilities:</i>				
Interest rate swap contracts	2,039	—	2,039	—
Foreign exchange forward contracts	1,265	—	1,265	—
<i>Non-current derivative liabilities:</i>				
Interest rate swap contracts	285	—	285	—
Foreign exchange forward contracts	—	—	—	—
Long-term debt, current and non-current	745,649	—	743,898	—

The Partnership's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2 or Level 3 as of December 31, 2017 and 2016.

13) Trade Accounts Receivables and Other Current Assets

(a) Trade Accounts Receivables

Trade accounts receivable are presented net of provisions for doubtful accounts. As of December 31, 2017 and 2016, there was no provision for doubtful accounts.

(b) Other Current Assets

Other current assets consist of the following:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,	
	2017	2016
Insurance claims for recoveries	\$ 1,750	\$ —
Refund of value added tax	865	653
Prepaid expenses	1,997	1,109
Other receivables	998	327
Total other current assets	<u>\$5,610</u>	<u>\$2,089</u>

14) Vessels and Equipment

<i>(U.S. Dollars in thousands)</i>	Vessels & equipment	Accumulated depreciation	Net Vessels
Vessels, December 31, 2015	<u>\$1,351,219</u>	<u>\$ (158,292)</u>	<u>\$1,192,927</u>
Additions	115,934	—	115,934
Drydock costs	4,258	—	4,258
Disposals	(2,498)	2,498	—
Depreciation for the year	—	(56,230)	(56,230)
Vessels, December 31, 2016	<u>\$1,468,913</u>	<u>\$ (212,024)</u>	<u>\$1,256,889</u>
Additions	522,369	—	522,369
Drydock costs	15,348	—	15,348
Disposals	(3,289)	3,289	—
Depreciation for the year	—	(71,583)	(71,583)
Vessels, December 31, 2017	<u>\$2,003,341</u>	<u>\$ (280,318)</u>	<u>\$1,723,023</u>

As of December 31, 2017 and 2016, Vessels with a book value of \$1,723 million and \$1,257 million, respectively, are pledged as security held as a guarantee for the Partnership's long-term debt. See Note 17—Long-Term Debt.

Drydocking activity for the years ended December 31, 2017 and 2016 is summarized as follows:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,	
	2017	2016
Balance at the beginning of the year	\$ 6,962	\$ 5,267
Costs incurred for drydocking	6,885	2,595
Costs allocated to drydocking as part of acquisition of business	8,463	1,663
Drydock amortization	(4,562)	(2,563)
Balance at the end of the year	<u>\$17,748</u>	<u>\$ 6,962</u>

15) Intangible Assets and Contract Liabilities

(a) Intangible Assets

<i>(U.S. Dollars in thousands)</i>	Above market time charter <i>Tordis Knutsen</i>	Above market time charter <i>Vigdis Knutsen</i>	Total intangibles
Intangibles, December 31, 2015	\$ —	\$ —	\$ —
Additions	—	—	—
Amortization for the year	—	—	—
Intangibles, December 31, 2016	\$ —	\$ —	\$ —
Additions	1,468	1,458	2,926
Amortization for the year	(253)	(176)	(429)
Intangibles, December 31, 2017	<u>\$ 1,215</u>	<u>\$ 1,282</u>	<u>\$ 2,497</u>

The intangible for the above market value of time charter contract associated with the *Tordis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.8 years as of the acquisition date. The intangible for the above market value of time charter contract associated with the *Vigdis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.9 years as of the acquisition date. Also see Note 22—Business Acquisitions.

The estimated future amortization of intangible assets at December 31, 2017 is as follows:

<i>(U.S. Dollars in thousands)</i>	
2018	\$ 606
2019	606
2020	606
2021	605
2022	74
Total	<u>\$2,497</u>

(b) Contract Liabilities

The unfavorable contractual rights for charters associated with *Fortaleza Knutsen* and *Recife Knutsen* were obtained in connection with a step acquisition in 2008 that had unfavorable contractual terms relative to market as of acquisition date. The *Fortaleza Knutsen* and the *Recife Knutsen* commenced on their 12 years' fixed bareboat charters in March 2011 and August 2011, respectively. The unfavorable contract rights related to *Fortaleza Knutsen* and *Recife Knutsen* are amortized to bareboat revenues on a straight line basis over the 12 years' contract period that expires in March 2023 and August 2023, respectively.

<i>(U.S. Dollars in thousands)</i>	Balance as of December 31, 2015	Amortization for the year ended December 31, 2016	Balance as of December 31, 2016	Amortization for the year ended December 31, 2017	Balance as of December 31, 2017
Contract liabilities:					
Unfavorable contract rights	\$ (11,275)	\$ 1,518	\$ (9,757)	\$ 1,518	\$ (8,239)
Total amortization income		<u>\$ 1,518</u>		<u>\$ 1,518</u>	

Accumulated amortization for contract liabilities was \$9,976 and \$8,458 as of December 31, 2017 and 2016, respectively.

The amortization of contract liabilities that is classified under time charter and bareboat revenues for the next five years is expected to be as follows:

<i>(U.S. Dollars in thousands)</i>	2018	2019	2020	2021	2022 and thereafter
Contract liabilities:					
Unfavorable contract rights	\$(1,518)	\$(1,518)	\$(1,518)	\$(1,518)	\$ (2,167)

16) Accrued Expenses

The following table presents accrued expenses as of December 31, 2017 and 2016:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,	
	2017	2016
Operating expenses	\$ 979	\$ 116
Interest expenses	3,394	2,587
Guarantee costs	54	58
Other expenses	2,077	607
Total accrued expenses	\$6,504	\$3,368

17) Long-Term Debt

Long-term debt as of December 31, 2017 and 2016, consisted of the following:

<i>(U.S. Dollars in thousands)</i>	Vessel	December 31,	December 31,
		2017	2016
\$220 million term loan facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	\$ 165,000	\$ 180,714
\$35 million revolving credit facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	—	25,000
\$140 million secured loan facility	<i>Fortaleza Knutsen & Recife Knutsen</i>	109,375	118,125
\$117 million loan facility	<i>Hilda Knutsen</i>	—	76,871
Hilda loan facility	<i>Hilda Knutsen</i>	96,923	—
Torill loan facility	<i>Torill Knutsen</i>	73,177	78,105
\$172.5 million secured loan facility	<i>Dan Cisne, Dan Sabia</i>	91,339	100,539
Ingrid loan facility	<i>Ingrid Knutsen</i>	61,085	67,652
Raquel loan facility	<i>Raquel Knutsen</i>	68,414	73,643
\$25 million Seller's Credit and Seller's Loan	<i>Raquel Knutsen</i>	—	25,000
Tordis loan facility	<i>Tordis Knutsen</i>	91,051	—
Vigdis loan facility	<i>Vigdis Knutsen</i>	92,316	—
Lena loan facility	<i>Lena Knutsen</i>	90,650	—
Brasil loan facility	<i>Brasil Knutsen</i>	69,000	—
\$25 million revolving credit facility		25,000	—
Total long-term debt		1,033,330	745,649
Less: current installments		95,176	60,314
Less: unamortized deferred loan issuance costs		2,191	1,330
Current portion of long-term debt		92,985	58,984
Amounts due after one year		938,154	685,335
Less: unamortized deferred loan issuance costs		4,524	2,673
Less: \$25 million Seller's Credit and Seller's Loan		—	25,000
Long-term debt, less current installments, Seller's Credit and Seller's Loan and unamortized deferred loan issuance costs		\$ 933,630	\$ 657,662

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The Partnership's outstanding debt of \$1,033.3 million as of December 31, 2017 is repayable as follows :

<i>(U.S. Dollars in thousands)</i>	Period repayment	Balloon repayment
2018 (2)	\$ 76,749	\$ 86,677
2019	61,158	262,678
2020	50,337	—
2021	50,937	70,811
2022	38,662	179,411
2023 and thereafter	54,009	101,901
Total	<u>\$ 331,852</u>	<u>\$ 701,478</u>

- (2) Although \$68.3 million of the \$73.2 million loan facility financing *Torill Knutsen* is due to mature in October 2018, the Partnership has classified \$68.3 million of the loan facility as long-term debt on the face of the consolidated balance sheet as a result of the January 2018 refinancing transaction discussed under Note 25—Subsequent Events.

As of December 31, 2017, the interest rates on the Partnership's loan agreements (other than tranche two of the Ingrid loan facility) were LIBOR plus a fixed margin ranging from 1.8% to 2.5%. On the export credit loan of \$42.0 million which is tranche two of the Ingrid loan facility, the annual rate is 3.85% composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The guarantee commission of 1.35% is classified as other finance expense. See Note 2(f)—Financial Income (Expense).

\$220 Million Term Loan Facility and \$35 Million Revolving Credit Facilities

In June 2014, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS entered into a senior syndicate secured loan facility in an aggregate amount of \$240 million (the "Senior Secured Loan Facility") to repay existing debt under previous credit facilities and a \$10.5 million seller's credit from KNOT. The Senior Secured Loan Facility consisted of (i) a \$220 million term loan (the "Term Loan Facility") and (ii) a \$20 million revolving credit facility (the "Revolving Credit Facility").

The Revolving Credit Facility matures in June 2019, and bears interest at LIBOR plus a fixed margin of 2.125%, and has a commitment fee equal to 40% of the margin of the Revolving Credit Facility calculated on the daily undrawn portion of the Revolving Credit Facility. The Term Loan Facility is repayable in quarterly installments over five years with a final balloon payment due at maturity at June 2019. The Term Loan Facility bears interest at LIBOR plus a margin of 2.125%.

On June 30, 2016, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS, as borrowers, entered into an amended and restated senior secured credit facility (the "Amended Senior Secured Loan Facility"), which amended the Senior Secured Loan Facility. The Amended Senior Secured Loan Facility includes a new revolving credit facility tranche of \$15 million, bringing the total revolving credit commitments under the facility to \$35 million. The new revolving credit facility matures in June 2019, bears interest at LIBOR plus a fixed margin of 2.5% and has a commitment fee equal to 40% of the margin of the revolving facility tranche calculated on the daily undrawn portion of such tranche. The other material terms of the Senior Secured Loan Facility remain unaltered.

The *Windsor Knutsen*, the *Bodil Knutsen* and the *Carmen Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Amended Senior Secured Loan Facility. The Amended Senior Secured Loan Facility is guaranteed by the Partnership and KNOT Shuttle Tankers AS, and secured by vessel mortgages on the *Windsor Knutsen*, the *Bodil Knutsen* and the *Carmen Knutsen*.

The Amended Senior Secured Loan Facility contains the following financial covenants:

- The aggregate market value of the *Windsor Knutsen*, *Bodil Knutsen* and *Carmen Knutsen* shall not be less than 110% of the outstanding balance under the Amended Senior Secured Loan Facility for the first two years, 120% for the third and fourth years, and 125% thereafter;
- Positive working capital of the borrowers and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

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The Amended Senior Secured Loan Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrowers and the guarantors were in compliance with all covenants under this facility.

\$140 Million Secured Loan Facility

In June 2014, the Partnership's subsidiary Knutsen Shuttle Tankers XII KS, as the borrower, entered into a senior syndicate secured loan facility in the amount of \$140 million (the "New Fortaleza and Recife Facility"). The New Fortaleza and Recife Facility was drawn in November 2014 and replaced a \$160 million loan facility previously secured by the *Fortaleza Knutsen* and the *Recife Knutsen*. The New Fortaleza and Recife Facility is repayable in quarterly installments over five years with a final balloon payment due at maturity in June 2019. The facility bears interest at LIBOR plus a margin of 2.125%. The *Fortaleza Knutsen* and the *Recife Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the New Fortaleza and Recife Facility. The facility is guaranteed by the Partnership and KNOT Shuttle Tankers AS and is secured by vessel mortgages on the *Fortaleza Knutsen* and the *Recife Knutsen*.

The New Fortaleza and Recife Facility contains the following financial covenants:

- The aggregate market value of the *Fortaleza Knutsen* and *Recife Knutsen* shall not be less than 110% of the outstanding balance under the New Fortaleza and Recife Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The New Fortaleza and Recife Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Hilda Loan Facility

On May 26, 2017, KNOT Shuttle Tankers 14 AS, the subsidiary owning the *Hilda Knutsen*, as the borrower, entered into a new \$100 million senior secured term loan facility with Mitsubishi UFJ Lease & Finance (Hong Kong) Limited (the "New Hilda Facility"). The New Hilda Facility replaced the \$117 million loan facility, which was due to be paid in full in August 2018. The New Hilda Facility is repayable in 28 consecutive quarterly installments with a balloon payment of \$58.5 million due at maturity. The New Hilda Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.2%. The facility matures in May 2024. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The New Hilda Facility contains the following primary financial covenants:

- Market value of the *Hilda Knutsen* shall not be less than 110% of the outstanding balance under the Hilda Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The New Hilda Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Torill Loan Facility

In November 2011, Knutsen Shuttle Tankers 15 AS, the subsidiary owning the *Torill Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$117 million (the “Old Torill Facility”). The Old Torill Facility was repayable in quarterly installments over five years with a final balloon payment due at maturity in October 2018. The Old Torill Facility bore interest at LIBOR plus a fixed margin of 2.5%. The facility was secured by a vessel mortgage on the *Torill Knutsen*. The *Torill Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Old Torill Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors.

The Old Torill Facility contained the following primary financial covenants:

- Market value of the *Torill Knutsen* shall not be less than 110% of the outstanding balance under the Torill Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Old Torill Facility also identified various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

On January 30, 2018, Knutsen Shuttle Tankers 15 AS closed a new \$100 million senior secured term loan facility which replaced the Old Torill Facility. See Note 25—Subsequent Events.

\$172.5 Million Secured Loan Facility

In April 2014, KNOT Shuttle Tankers 20 AS and KNOT Shuttle Tankers 21 AS, the subsidiaries owning the *Dan Cisne* and *Dan Sabia*, as the borrowers, entered into a \$172.5 million senior secured loan facility. In connection with the Partnership’s acquisition of the *Dan Cisne*, in December 2014, the \$172.5 million senior secured loan facility was split into a tranche related to the *Dan Cisne* (the “Dan Cisne Facility”) and a tranche related to *Dan Sabia* (the “Dan Sabia Facility”).

The Dan Cisne Facility and the Dan Sabia Facility are guaranteed by the Partnership and secured by a vessel mortgage on the *Dan Cisne* and *Dan Sabia*. The Dan Cisne Facility and the Dan Sabia Facility bear interest at LIBOR plus a margin of 2.4% and are repayable in semiannual installments with a final balloon payment due at maturity in September 2023 and January 2024, respectively.

The Dan Cisne Facility and the Dan Sabia Facility contain the following financial covenants:

- Market value of each of the *Dan Cisne* and *Dan Sabia* shall not be less than 100% of the outstanding balance under the Dan Cisne Facility and Dan Sabia Facility, respectively, for the first three years, and 125% thereafter;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and
- Minimum book equity ratio for the Partnership of 30%.

The facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrowers and the guarantor were in compliance with all covenants under this facility.

Ingrid Loan Facility

In June 2012, Knutsen NYK Shuttle Tankers 16 AS, the subsidiary owning the *Ingrid Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$90.0 million (the “Ingrid Facility”). The Ingrid Facility includes two tranches. Tranche one is a commercial bank loan of \$19.1 million, repayable in semi-annual installments with a final balloon payment due at maturity in December 2018. Tranche one bears interest at LIBOR, plus a margin of 2.25%.

Tranche two is an export credit loan of \$42.0 million, repayable in semi-annual installments and maturing in November 2025. Tranche two bears interest at an annual fixed rate of 3.85%, composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The facility is secured by a vessel mortgage on the *Ingrid Knutsen*. The *Ingrid Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Ingrid Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Ingrid Facility contains the following financial covenants:

- Market value of the *Ingrid Knutsen* shall not be less than 125% of the outstanding balance under the Ingrid Facility;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Ingrid Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Raquel Loan Facility

In December 2014, Knutsen Shuttle Tankers 19 AS, the subsidiary owning the *Raquel Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$90.0 million (the “Raquel Facility”). The Raquel Facility is repayable in quarterly installments with a final balloon payment of \$30.5 million due at maturity in March 2025. The Raquel Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.0%. The facility is secured by a vessel mortgage on the *Raquel Knutsen*. The *Raquel Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Raquel Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Raquel Facility contains the following financial covenants:

- Market value of the *Raquel Knutsen* shall not be less than 100% of the of the outstanding balance under the Raquel Facility for the first three years, and 125% thereafter;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and
- Minimum book equity ratio for the Partnership of 30%.

The Raquel Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$25 Million Seller’s Credit and Seller’s Loan

As part of financing for the purchase of the *Raquel Knutsen*, on December 1, 2016 KNOT provided a \$13.0 million seller’s credit (the “Seller’s Credit”) and a \$12.0 million seller’s loan (the “Seller’s Loan”), each of which was guaranteed by the Partnership, had a maturity date of December 2021 and bore interest at LIBOR plus a fixed margin of 4.5%. Accrued interest on the Seller’s Credit and the Seller’s Loan accumulated and was capitalized. On January 13, 2017, the Seller’s Credit and the Seller’s Loan were repaid in full.

Tordis Loan Facility

In April 2015, KNOT Shuttle Tankers 24 AS, the subsidiary owning the *Tordis Knutsen*, as the borrower, entered into a secured loan facility (the “Tordis Facility”). The Tordis Facility is repayable in quarterly installments with a final balloon payment of \$70.8 million due at maturity in November 2021. The Tordis Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Tordis Knutsen*. The *Tordis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Tordis Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Tordis Facility contains the following financial covenants:

- Aggregate market value of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

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- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Tordis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Vigdis Loan Facility

In April 2015, KNOT Shuttle Tankers 25 AS, the subsidiary owning the *Vigdis Knutsen*, as the borrower, entered into a secured loan facility (the “Vigdis Facility”). The Vigdis Facility is repayable in quarterly installments with a final balloon payment of \$70.8 million due at maturity in February 2022. The Vigdis Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Vigdis Knutsen*. The *Vigdis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Vigdis Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Vigdis Facility contains the following financial covenants:

- Aggregate market value of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Vigdis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Lena Loan Facility

In April 2015, KNOT Shuttle Tankers 26 AS, the subsidiary owning the *Lena Knutsen*, as the borrower, entered into a secured loan facility (the “Lena Facility”). The Lena Facility is repayable in quarterly installments with a final balloon payment of \$68.6 million due at maturity in June 2022. The Lena Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Lena Knutsen*. The *Lena Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Lena Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Lena Facility contains the following financial covenants:

- Aggregate market value of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

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The Lena Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Brasil Loan Facility

In June 2017, KNOT Shuttle Tankers 32 AS, the subsidiary owning the *Brasil Knutsen*, as the borrower, entered into a secured loan facility (the “Brasil Facility”). The Brasil Facility is repayable in quarterly installments with a final balloon payment of \$41.0 million due at maturity in July 2022. The Brasil Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.3%. The facility is secured by a vessel mortgage on the *Brasil Knutsen*. The *Brasil Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Brasil Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Brasil Facility contains the following financial covenants:

- Market value of the *Brasil Knutsen* shall not be less than 125% of the of the outstanding balance under the Brasil Facility for the first four years, and 135% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$22 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Brasil Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of December 31, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$25 Million Revolving Credit Facility

On August 31, 2017, KNOT Shuttle Tankers AS entered into an unsecured revolving credit facility of \$25 million with NTT Finance Corporation. The facility will mature in August 2019, bears interest at LIBOR plus a margin of 1.8% and has a commitment fee of 0.5% on the undrawn portion of the facility.

18) Income Taxes

(a) Components of Current and Deferred Tax Expense

All of the income from continuing operations before income taxes was taxable to Norway and UK for the years ended December 31, 2017, 2016 and 2015. The entities and activities taxable to Norway are subject to the Norwegian tonnage tax regime. Under the Norwegian tonnage tax regime, the tax is based on the tonnage of the vessel, and the operating income is tax free. The net financial income and expense remains taxable as ordinary income tax for entities subject to the tonnage tax regime. See Note 2(r)—Income Taxes. The activities taxable to UK relates to KNOT UK and is based on the operating income for the entity.

The significant components of current and deferred income tax expense attributable to income from continuing operations for the years ended December 31, 2017, 2016 and 2015 are as follows:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2017	2016	2015
Current tax benefit (expense)	\$ (12)	\$ (14)	\$ (11)
Deferred tax benefit (expense)	28	29	70
Income tax benefit (expense)	<u>\$ 16</u>	<u>\$ 15</u>	<u>\$ 59</u>

(b) Taxation

Income taxes attributable to income from continuing operations was an income tax benefit (expense) of \$16, \$15 and \$59 for the years ended December 31, 2017, 2016 and 2015, respectively, and differed from the amounts computed by applying the Norwegian and the UK ordinary income tax rate of 24% and 20% in 2017, respectively, by applying the Norwegian and the UK ordinary income tax rate of 25% and 20% in 2016, respectively, and by applying the Norwegian and the UK ordinary income tax rate of 27% and 20% in 2015, respectively, to pretax net income as a result of the following:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2017	2016	2015
Income tax benefit (expense) at Norwegian tonnage tax regime	\$ 28	\$ 29	\$ 70
Income tax benefit (expense) within UK	(12)	(14)	(11)
Total Income tax benefit (expense)	\$ 16	\$ 15	\$ 59
Effective tax rate	0%	0%	0%

(c) Components of Deferred Tax Assets and Liabilities

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2017 and 2016 are presented below:

<i>(U.S. Dollars in thousands)</i>	As of December 31,	
	2017	2016
Deferred tax assets:		
Interest rate swaps	\$ (12)	\$ 14
Financial loss carry forwards for tonnage tax	15,697	12,352
Total deferred tax asset	15,685	12,366
Less valuation allowance	(15,685)	(12,366)
Net deferred tax asset	—	—
Deferred tax liabilities:		
Entrance tax	624	685
Total deferred tax liabilities	624	685
Net deferred tax liabilities	\$ 624	\$ 685

The net deferred tax liability is classified in the consolidated balance sheets as follows:

<i>(U.S. Dollars in thousands)</i>	As of December 31,	
	2017	2016
Non-current deferred tax liabilities	\$624	\$685
Net deferred tax liabilities	\$624	\$685

Changes in the net deferred tax liabilities at December 31, 2017 and 2016 are presented below:

<i>(U.S. Dollars in thousands)</i>	As of December 31,	
	2017	2016
Net deferred tax liabilities at January 1,	\$ 685	\$ 877
Aquisition of KNOT Shuttle Tankers 26 AS	99	—
Change in temporary differences	(198)	(207)
Translation differences	38	15
Net deferred tax liabilities at December 31,	\$ 624	\$ 685

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The Partnership records a valuation allowance for deferred tax assets when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. The valuation allowances were \$15.7 million and \$12.4 million as of December 31, 2017 and 2016, respectively. The valuation allowances relate to the financial loss carry forwards and other deferred tax assets for tonnage tax that, in the judgment of the Partnership, are more-likely-than-not to be realized reflecting the Partnership's cumulative loss position for tonnage tax. In assessing the realizability of deferred tax assets, the Partnership considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized taking into account all the positive and negative evidence available. As of December 31, 2017, the Partnership determined that the deferred tax assets are likely to not be realized, and the booked value was, therefore, zero. There is no expiration date for losses carried forward.

After the reorganization of the Partnership's predecessor's activities into the new group structure in February 2013, all profit from continuing operations in Norway is taxable within the tonnage tax regime. The consequence of the reorganization is a one-time entrance tax into the Norwegian tonnage tax regime due to the Partnership's acquisition of the shares in the subsidiary that owns the *Fortaleza Knutsen* and the *Recife Knutsen*. The total amount of the entrance tax was estimated to be approximately \$3.0 million, which was recognized in the three months ended March 31, 2013. The entrance tax on this gain is payable over several years and is calculated by multiplying the Norwegian tax rate by the declining balance of the gain, which will decline by 20% each year. The Norwegian corporate tax rate was reduced from 25% in 2016 to 24% in 2017 and will be 23% effective as of January 1, 2018. The entrance tax had declined to approximately \$2.7 million at December 31, 2013 due to translation effects and tax rate changes and at December 31, 2014 the entrance tax had declined to approximately \$1.8 million due to paid entrance tax, change in tax rate and translation effects. At December 31, 2015 the entrance tax had declined to approximately \$1.1 million due to paid entrance tax, change in tax rate and translation effects. At December 31, 2016 the entrance tax had declined to approximately \$0.9 million due to paid entrance tax, change in tax rate and translation effects. At December 31, 2017 the entrance tax had declined to approximately \$0.7 million due to paid entrance tax, change in tax rate and translation effects. The taxes payable, mainly related to the entrance tax, are calculated based on a tax rate of 24% for 2017 and 25% for 2016, and the deferred tax liabilities, also mainly related to the entrance tax, are calculated based on a tax rate of 23% and 24% effective as from January 1, 2018 and January 1, 2017, respectively. Income tax expense within the UK of \$11,563 and \$13,630 for 2017 and 2016, respectively, was calculated by multiplying the tax basis with the UK tax rate of 20%.

As of December 31, 2017, the total income taxes payable are estimated to be \$0.2 million and consist of payable entrance tax and ordinary UK corporation tax. As of December 31, 2016, the total income taxes payable were estimated to be \$0.2 million and consist of payable entrance tax and ordinary UK corporation tax.

As of December 31, 2017, approximately \$0.2 million of the estimated entrance tax of \$0.7 million is estimated to be payable in the first and second quarter of 2018 and is presented as income taxes payable, while \$0.5 million is presented as non-current deferred taxes payable. Additionally, a tax liability of approximately \$0.1 million is recorded as deferred taxes payable and relates to the acquisition of KNOT Shuttle Tankers 26 AS. As of December 31, 2016, approximately \$0.2 million of the estimated entrance tax of \$0.9 million was estimated to be payable in the first and second quarter of 2017 and was presented as income taxes payable, while \$0.7 million was presented as non-current deferred taxes payable.

The tax loss carry forward from ordinary taxation and financial loss carry forwards for tonnage tax have no expiration dates.

The Partnership's Norwegian income tax returns are subject to examination by Norwegian tax authorities going back ten years from 2014. The Partnership had no unrecognized tax benefits as December 31, 2017 and 2016. During the years ended December 31, 2017 and 2016, the Partnership did not incur any interest or penalties on its tax return.

On December 14, 2017, the Norwegian government concluded the negotiations with the EFTA Surveillance Authority regarding the Norwegian tonnage tax regime, which has been approved for another ten years, until 2027. Pursuant to the approval, Norway has introduced restrictions that eliminates the ability of companies that own vessels under certain bareboat charters to qualify for the Norwegian tonnage tax regime. Companies that no longer qualify for the Norwegian tonnage tax regime will instead be subject to Norwegian corporate income tax. However, there are no limitations on intra-group bareboat chartering, as well as bareboat charters where crewing services are carried out by a related party. In order to constitute a related party, a minimum of 25% ownership/control is required, according to the "associated enterprise" definition in the ATAD directive (Council Directive EU 2016/1164.) Due to the fact that KNOT has an ownership interest in the Partnership that exceeds 25% as well as an ownership interest of 100% in KNOT Management and KNOT Management Denmark AS which provide services to the Vessels owned by the Partnership which operate on bareboat charters, the Vessels operating on bareboat charters are effectively seen as time charter services to the customer. The services are provided to the charterer. If this related party situation is ended, other alternatives and possibly mitigating measures must be evaluated.

19) Related Party Transactions

(a) Related Parties

Prior to the IPO, the Partnership’s predecessor operated as an integrated part of KNOT. KNOT is owned 50% by TSSI and 50% by Nippon Yusen Kaisha (“NYK”).

The *Windsor Knutsen*, the *Bodil Knutsen*, the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen* and the *Brasil Knutsen*, all of which operate under time charters, are subject to technical management agreements pursuant to which certain crew, technical and commercial management services are provided by KNOT Management. Under these technical management agreements, the Partnership’s subsidiaries pay fees to and reimburse the costs and expenses of KNOT Management. The *Fortaleza Knutsen*, the *Recife Knutsen*, the *Dan Cisne* and the *Dan Sabia* operate under bareboat charters and, as a result, the customer is responsible for providing the crew, technical and commercial management of the vessel. However, each of these vessels are subject to management and administration agreements with either KNOT Management or KNOT Management Denmark AS (“KNOT Management Denmark”), a 100% owned subsidiary of KNOT, pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.

The Partnership is a party to an administrative services agreement with KNOT UK, pursuant to which KNOT UK provides administrative services, and KNOT UK is permitted to subcontract certain of the administrative services provided under the administrative services agreement to KOAS UK and KOAS. On May 7, 2015, the Partnership entered into an amendment to the administrative services agreement, which allows KNOT UK to also subcontract administrative services to KNOT Management.

The amounts of such costs and expenses included in the consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015 are as follows:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2017	2016	2015
Statements of operations:			
<i>Time charter and bareboat revenues:</i>			
Charter revenues from KNOT (1)	\$ —	\$ —	\$16,231
<i>Other income:</i>			
Guarantee income from KNOT (2)	1,499	770	122
<i>Operating expenses:</i>			
Technical and operational management fee from KNOT Management to Vessels (3)	4,617	2,971	2,420
<i>General and administrative expenses:</i>			
Administration fee from KNOT Management (4)	1,457	1,279	1,134
Administration fee from KOAS (4)	461	382	461
Administration fee from KOAS UK (4)	122	145	151
Administration and management fee from KNOT (5)	149	203	170
<i>Finance income (expense):</i>			
Interest expense charged from KNOT (6)	(52)	(128)	(268)
Total income (expenses)	<u>\$(5,359)</u>	<u>\$(4,338)</u>	<u>\$11,749</u>

<i>(U.S. Dollars in thousands)</i>	At December 31,		
	2017	2016	2015
Balance Sheet:			
<i>Vessels:</i>			
Drydocking supervision fee from KNOT (7)	\$ 89	\$ 38	\$ —
Drydocking supervision fee from KOAS (7)	8	16	—
Total	<u>\$ 97</u>	<u>\$ 54</u>	<u>\$ —</u>

- (1) *Charter revenue from KNOT* : Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payments of the hire rate under the initial charters of each of the *Bodil Knutsen* and the *Windsor Knutsen* for a period of five years from the closing date of the IPO. Shell, the charterer of the *Windsor Knutsen*, did not exercise its option to extend the *Windsor Knutsen* time charter after the expiration of its initial term, and on July 29, 2014, KNOT and the Partnership entered into a time charter for the vessel at a rate of hire that would have been in effect during the option period under the previous Shell time charter. This charter was effective until the *Windsor Knutsen* commenced in October 2015 on new Shell time charter. See Note 19(b)—Related Party Transactions—Guarantees and Indemnifications.

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- (2) *Guarantee income from KNOT* : Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payments of the hire rate under the initial charter of the *Bodil Knutsen* and *Windsor Knutsen* for a period of five years from the closing date of the IPO. In October 2015, the *Windsor Knutsen* commenced on a new Shell time charter with a hire rate below the hire rate in the initial charter. The difference between the new hire rate and the initial rate is paid by KNOT. The *Vigdis Knutsen* suffered damages to its hull in connection with a ship-to-ship loading on May 24, 2017 and the vessel went off-hire 6 days in June 2017 due to repairs of the damage. In connection with the *Vigdis Knutsen* acquisition, KNOT agreed to pay for the repair cost and charter hire lost in connection with the incident. The reimbursement from KNOT for lost charter hire is accounted for as guarantee income. See Note 19(b)—Related Party Transactions—Guarantees and Indemnifications.
- (3) *Technical and operational management fee from KNOT to Vessels* : KNOT Management provides technical and operational management of the vessels on time charter including crewing, purchasing, maintenance and other operational service. In addition, there is also a charge for 24-hour emergency response services provided by KNOT Management for all vessels managed by KNOT Management.
- (4) *Administration fee from KNOT Management, KOAS and KOAS UK* : Administration costs include the compensation and benefits of KNOT Management’s management and administrative staff as well as other general and administration expenses. Some benefits are also provided by KOAS and KOAS UK. Net administration costs are total administration cost plus a 5% margin, reduced for the total fees for services delivered by the administration staffs and the estimated shareholder costs for KNOT that have not been allocated. As such, the level of net administration costs as a basis for the allocation can vary from year to year based on the administration and financing services offered by KNOT to all the vessels in its fleet each year. KNOT Management also charges each subsidiary a fixed annual fee for the preparation of the statutory financial statement.
- (5) *Administration fee and management fee from KNOT* : For bareboat charters, the shipowner is not responsible for providing crewing or other operational services and the customer is responsible for all vessel operating expenses and voyage expenses. However, each of the vessels under bareboat charters are subject to management and administration agreements with either KNOT Management or KNOT Management Denmark, pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.
- (6) *Interest expense charged from KNOT*: KNOT invoiced interest (expense) income for any outstanding payables to (receivable from) owners and affiliates to the vessel-owning subsidiaries.
- (7) *Drydocking supervision fee from KNOT and KOAS* : KNOT and KOAS provide supervision and hire out service personnel during drydocking of the vessels. The fee is calculated as a daily fixed fee.

(b) Guarantees and Indemnifications

Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payments of the hire rate under the existing charters of each of the *Bodil Knutsen* and the *Windsor Knutsen* for a period of five years from the closing date of the IPO.

In April 2014, the Partnership was notified that Shell would not exercise its option to extend the *Windsor Knutsen* time charter after the expiration of its initial term. The vessel was re-delivered on July 28, 2014. In order to comply with its obligations under the Omnibus Agreement, on July 29, 2014, KNOT and the Partnership entered into a time charter for the vessel at a rate of hire that would have been in effect during the option period under the previous Shell time charter. This charter was effective until the new Shell time charter commenced in October, 2015. The new Shell charter has a hire rate that is lower than the hire rate in the initial charter. The difference between the new hire rate and the initial rate is paid by KNOT.

On June 1, 2017, the Partnership acquired KNOT’s 100% interest in KNOT Shuttle Tankers 25 AS, the company that owns and operate the *Vigdis Knutsen* . Shortly before the closing of the acquisition and on May 24, 2017, the *Vigdis Knutsen* suffered damages to its hull in connection with a ship-to-ship loading and the vessel went off-hire 6 days in June 2017 due to repairs of the damage. In connections with the *Vigdis Knutsen* acquisition, KNOT agreed to pay for the repair cost and charter hire lost in connection with the incident.

Under the Omnibus Agreement, KNOT has agreed to indemnify the Partnership until April 15, 2018 (or for a period of at least three years after the purchase of the *Hilda Knutsen* , the *Torill Knutsen* , the *Ingrid Knutsen* and the *Raquel Knutsen* , as applicable), against certain environmental and toxic tort liabilities with respect to certain assets that KNOT contributed or sold to the Partnership to the extent arising prior to the time they were contributed or sold. However, claims are subject to a deductible of \$0.5 million and an aggregate cap of \$5 million.

(c) Transactions with Management and Directors

Trygve Seglem, the Chairman of the Partnership’s board of directors and the President and CEO of KNOT, controls Seglem Holding AS, which owns 100% of the equity interest in TSSI, which controls KOAS. TSSI owns 50% of the equity interest in KNOT. NYK, which owns 50% of the equity interest in KNOT, has management and administrative personnel on secondment to KNOT.

See the footnotes to Note 19(a)—Related Party Transactions—Related Parties for a discussion of the allocation principles for KNOT’s administrative costs, including management and administrative staff, included in the consolidated statements of operations.

Directors each receive a director fee of \$50,000 per year. Members of the audit and conflicts committees each receive a committee fee of \$12,000 and the Chairman of such committees receive an additional fee of \$3,000 per year.

(d) Amounts Due from and Due to Related Parties

Balances with related parties consisted of the following:

<i>(U.S. Dollars in thousands)</i>	At December 31,	
	2017	2016
Balance Sheet:		
Trading balances due from KOAS	\$ 24	\$ 108
Trading balances due from KNOT and affiliates	547	42
Amount due from related parties	<u>\$ 571</u>	<u>\$ 150</u>
Trading balances due to KOAS	\$ 898	\$ 543
Trading balances due to KNOT and affiliates	4,552	291
Amount due to related parties	<u>\$ 5,450</u>	<u>\$ 834</u>

Amounts due from and due to related parties are unsecured and intended to be settled in the ordinary course of business. The majority of these related party transactions relate to vessel management and other fees due to KNOT, KNOT Management, KOAS UK and KOAS.

(e) Trade accounts payables

Trade accounts payables to related parties are included in total trade accounts payables in the balance sheet. The balances to related parties consisted of the following:

<i>(U.S. Dollars in thousands)</i>	At December 31,	
	2017	2016
Balance Sheet:		
Trading balances due to KOAS	\$ 864	\$ 727
Trading balances due to KNOT and affiliates	548	394
Trade accounts payables to related parties	<u>\$ 1,412</u>	<u>\$ 1,121</u>

(f) Acquisitions from KNOT

On June 30, 2015, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 21 AS, the company that owns and operates the *Dan Sabia*. This acquisition was accounted for as an acquisition of a business.

On October 15, 2015, the Partnership acquired KNOT's 100% interest in Knutsen NYK Shuttle Tankers 16 AS, the company that owns and operates the *Ingrid Knutsen*. This acquisition was accounted for as an acquisition of a business.

On December 1, 2016, the Partnership acquired KNOT's 100% interest in Knutsen Shuttle Tankers 19 AS, the company that owns and operates the *Raquel Knutsen*. As part of the financing for the purchase of the *Raquel Knutsen*, KNOT provided the \$25.0 million Seller's Credit and Seller's Loan. The Seller's Credit and the Seller's Loan, including accrued interest were repaid in full in January 2017. This acquisition was accounted for as an acquisition of a business.

On March 1, 2017, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 24 AS, the company that owns and operates the *Tordis Knutsen*. This acquisition was accounted for as an acquisition of a business.

On June 1, 2017, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 25 AS, the company that owns and operates the *Vigdis Knutsen*. This acquisition was accounted for as an acquisition of a business.

On September 30, 2017, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 26 AS, the company that owns and operates the *Lena Knutsen*. This acquisition was accounted for as an acquisition of a business.

On December 15, 2017, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 32 AS, the company that owns and operates the *Brasil Knutsen*. This acquisition was accounted for as an acquisition of a business.

The board of directors of the Partnership and the Conflicts Committee of the board approved the purchase price for each transaction described above. The Conflicts Committee retained a financial advisor to assist with its evaluation of each of the transactions. See Note 22— Business Acquisitions.

20) Commitments and Contingencies

Assets Pledged

As of December 31, 2017 and 2016, Vessels with a book value of \$1,723 million and \$1,257 million, respectively, were pledged as security held as guarantee for the Partnership's long-term debt and interest rate swap obligations. See Note 11—Derivative Instruments, Note 14—Vessels and Equipment and Note 17—Long-Term Debt.

Claims and Legal Proceedings

Under the Partnership's time charters, claims to reduce the hire rate payments can be made if the Vessel does not perform to certain specifications in the agreements. An accrual of \$0.4 million for a probable claim was recorded for the year ended December 31, 2017 which is subject to revision. No accrual for possible claim was recorded for the years ended December 31, 2016 and 2015.

From time to time, the Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position, results of operations or cash flows.

Insurance

The Partnership maintains insurance on all the Vessels to insure against marine and war risks, which include damage to or total loss of the Vessels, subject to deductible amounts that average \$0.15 million per Vessel, and loss of hire.

Under the loss of hire policies, the insurer will pay a compensation for the lost hire rate agreed in respect of each Vessel for each day, in excess of 14 deductible days, for the time that the Vessel is out of service as a result of damage, for a maximum of 180 days. In addition, the Partnership maintains protection and indemnity insurance, which covers third-party legal liabilities arising in connection with the Vessels' activities, including, among other things, the injury or death of third-party persons, loss or damage to cargo, claims arising from collisions with other vessels and other damage to other third-party property, including pollution arising from oil or other substances. This insurance is unlimited, except for pollution, which is limited to \$1 billion per vessel per incident. The protection and indemnity insurance is maintained through a protection and indemnity association, and as a member of the association, the Partnership may be required to pay amounts above budgeted premiums if the member claims exceed association reserves, subject to certain reinsured amounts. If the Partnership experiences multiple claims each with individual deductibles, losses due to risks that are not insured or claims for insured risks that are not paid, it could have a material adverse effect on the Partnership's results of operations and financial condition.

Raquel Knutsen

In February 2017, the *Raquel Knutsen* damaged its propeller hub. As a result, the Vessel was off-hire from February 22, 2017 to May 15, 2017 for repairs. Under the Partnership's loss of hire policies, its insurer will pay the Partnership the hire rate agreed in respect of each vessel for each day, in excess of 14 deductible days, for the time that the Vessel is out of service as a result of damage, for a maximum of 180 days. For the year ended December 31, 2017, the Partnership received payments for loss of hire insurance of \$3.4 million which was recorded as a component of total revenues since day rates are recovered under terms of the policy.

In addition, for the year ended December 31, 2017, the Partnership recorded \$3.9 million for probable recoveries up to the amount of loss under hull and machinery insurance for the repairs as a result of the propeller hub damage to the *Raquel Knutsen*. This is classified under vessel operating expense along with cost of the repairs of \$4.2 million for the period, resulting in a net expense of \$0.3 million. See Note 8—Insurance Proceeds.

Carmen Knutsen

During the fourth quarter of 2017, the *Carmen Knutsen* undertook her 5-year special drydocking survey. During dismantling for overhaul, a technical default with her controllable pitch propeller was found. As a result, the Vessel went to a different yard to complete the repair. Repairs were completed and the Vessel was back on hire on January 1, 2018. The additional off-hire and technical costs are subject to an insurance claim. Under its loss of hire insurance policies, the Partnership's insurer is expected to pay the hire rate agreed in respect of the *Carmen Knutsen* for each day in excess of 14 deductible days while the Vessel was off-hire as a result of the repairs of the controllable pitch propeller. For the year ended, the Partnership recorded \$1.8 million for loss of hire which was recorded as a component of total revenues since day rates are recovered under terms of the policy.

For the year ended December 31, 2017, the Partnership recorded \$2.4 million to vessel operating expense as an estimate of the cost of repairs of the controllable pitch propeller. The Partnership anticipates that the estimated costs of repairs, net of deductible amounts, will be recoverable under the Partnership's insurance coverage. An insurance claim was filed with the insurance company, however, the amount that is probable of recovery is not yet known. See Note 8—Insurance Proceeds.

21) Earnings per Unit and Cash Distributions

The calculations of basic and diluted earnings per unit (1) are presented below:

<i>(U.S. Dollars in thousands, except per unit data)</i>	Year Ended December 31,		
	2017	2016	2015
Net income	\$68,064	\$61,102	\$ 40,442
Less: Series A Preferred unitholders' interest in net income	5,253	—	—
Net income attributable to the unitholders of KNOT Offshore Partners LP	62,811	61,102	40,442
Less: Distributions (2)	67,171	61,528	56,921
Under (over) distributed earnings	(4,360)	(426)	(16,479)
Under (over) distributed earnings attributable to:			
Common unitholders (3)	(4,280)	(417)	(11,060)
Subordinated unitholders (3)	—	—	(5,087)
General Partner	(80)	(9)	(332)
Weighted average units outstanding (basic) (in thousands):			
Common unitholders	30,068	23,917	16,705
Subordinated unitholders	—	3,277	8,568
General Partner	567	559	516
Weighted average units outstanding (diluted) (in thousands):			
Common unitholders	32,804	23,917	16,705
Subordinated unitholders	—	3,277	8,568
General Partner	567	559	516
Earnings per unit (basic)			
Common unitholders (4)	\$ 2.050	\$ 2.291	\$ 1.499
Subordinated unitholders (4)	\$ —	\$ 1.542	\$ 1.708
General Partner	\$ 2.046	\$ 2.248	\$ 1.487
Earnings per unit (diluted):			
Common unitholders (4)	\$ 2.037	\$ 2.291	\$ 1.499
Subordinated unitholders (4)	\$ —	\$ 1.542	\$ 1.708
General Partner	\$ 2.046	\$ 2.248	\$ 1.487
Cash distributions declared and paid in the period per unit (5)	\$ 2.080	\$ 2.080	\$ 2.030
Subsequent event: Cash distributions declared and paid per unit relating to the period (6)	\$ 0.520	\$ 0.520	\$ 0.520

- (1) Earnings per unit have been calculated in accordance with the cash distribution provisions set forth in the Partnership Agreement.
- (2) This refers to distributions made or to be made in relation to the period irrespective of the declaration and payment dates and based on the numbers of units outstanding at the record date. This includes cash distributions to the IDR holder (KNOT) for the years ended December 31, 2017, 2016 and 2015 of \$2.6 million, \$2.4 million and \$2.1 million, respectively.
- (3) On May 18, 2016, all subordinated units converted into common units on a one-for-one basis.
- (4) Until May 18, 2016, the net income attributable to the IDR holder is included in calculation of earnings per unit for subordinated unitholders, basic and diluted. The IDRs generally were not transferrable by KNOT prior to March 31, 2018. The net income attributable to IDRs for the year ended December 31, 2017, 2016 and 2015 was \$2.6 million, \$2.4 million and \$2.1 million, respectively.
- (5) Refers to cash distributions declared and paid during the period.
- (6) Refers to cash distributions declared and paid subsequent to December 31, 2017.

As of December 31, 2017, 73.5% of the Partnership's total number of common units outstanding representing limited partner interests were held by the public (in the form of 24,036,226 common units) and 26.2% of such units were held directly by KNOT (in the form of 8,567,500 common units). In addition, KNOT, through its ownership of the General Partner, held a 1.85% general partner interest (in the form of 615,117 general partner units) and a 0.3% limited partner interest (in the form of 90,368 common units).

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Earnings per unit – basic is determined by dividing net income, after deducting the amount of net income attributable to the Series A Preferred Units and the distribution paid or to be made in relation to the period by the weighted-average number of units outstanding during the applicable period.

The computation of limited partners' interest in net income per common unit – diluted assumes the issuance of common units for all potentially dilutive securities consisting of the Series A Preferred Units. Consequently, the net income attributable to limited partners' interest is exclusive of any distributions on the Series A Preferred Units. In addition, the weighted average number of common units outstanding has been increased assuming the Series A Preferred Units have been converted to common units using the if-converted method. The computation of limited partners' interest in net income per common unit – diluted does not assume the issuance of Series A Preferred Units if the effect would be anti-dilutive.

For the year ended December 31, 2017, the weighted average number of common units outstanding has been increased by 3,733,947 assuming conversion of the Series A Preferred Units into common units.

The General Partner's, common unitholders' and subordinated unitholders' interest in net income was calculated as if all net income was distributed according to the terms of the Partnership Agreement, regardless of whether those earnings would or could be distributed. The Partnership Agreement does not provide for the distribution of net income. Rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter less the amount of cash reserves established by the Partnership's board of directors (the "Board") to provide for the proper conduct of the Partnership's business, including reserves for maintenance and replacement capital expenditures, anticipated credit needs and capital requirements and any accumulated distributions on, or redemptions of, the Series A Preferred Units. In addition, KNOT, as the initial holder of all IDRs, has the right, at the time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48.0% for each of the prior four consecutive fiscal quarters), to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Unlike available cash, net income is affected by non-cash items, such as depreciation and amortization, unrealized gains and losses on derivative instruments and unrealized foreign currency gains and losses.

Distributions of available cash from operating surplus for any quarter are required to be made in the following manner:

- *first*, 98.15% to all common unitholders, pro rata, and 1.85% to the General Partner, until each outstanding common unit has received an amount equal to \$0.375 (the "MQD") for that quarter;
- *second*, 98.15% to all common unitholders, pro rata, and 1.85% to the General Partner, until each outstanding common unit has received a total of \$0.43125 (the "first target distribution") for that quarter;
- *third*, 85.15% to all common unitholders, pro rata, 1.85% to the General Partner, and 13% to the IDR holders, pro rata, until each outstanding common unit has received a total of \$0.46875 (the "second target distribution") for that quarter;
- *fourth*, 75.15% to all common unitholders, pro rata, 1.85% to the General Partner, and 23% to the IDR holders, pro rata, until each outstanding common unit has received a total of \$0.5625 (the "third target distribution") for that quarter; and
- *thereafter*, 50.15% to all common unitholders, pro rata, 1.85% to the General Partner, and 48% to the IDR holders, pro rata.

The percentage interests set forth above assumed that the General Partner continues to own a 1.85% general partner interest and that the Partnership has not issued additional classes of equity securities.

22) Business Acquisitions

During the years ended December 31, 2015 through 2017, the Partnership acquired from KNOT equity interests in certain subsidiaries which own and operate the *Dan Sabia*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen* and the *Brasil Knutsen*.

The board of directors of the Partnership and the Conflicts Committee approved the purchase price for each transaction. The Conflicts Committee retained a financial advisor to assist with its evaluation of the transactions. The fee paid to the financial advisor was divided equally between the Partnership and KNOT. Acquisition related costs of \$0.2 million, \$0.1 million and \$0.1 million as of December 31, 2017, 2016 and 2015, respectively, were expensed as incurred under general and administrative expenses. The allocation of the purchase price to acquired identifiable assets was based on their estimated fair values at the date of acquisition. The purchase price of each acquisition has been allocated to the identifiable assets acquired. The details of each transaction are as follows:

<i>(U.S. Dollars in thousands)</i>	Final Brasil Knutsen December 15, 2017	Final Lena Knutsen September 30, 2017	Final Vigdis Knutsen June 1, 2017	Final Tordis Knutsen March 1, 2017
Purchase consideration (1)	\$ 5,764	\$ 33,235	\$ 31,759	\$ 32,983
Less: Fair value of net assets acquired:				
Vessels and equipment (2)	96,000	142,457	145,772	145,754
Intangibles: Above market time charter	—	—	1,458	1,468
Cash	5,217	470	3,438	609
Inventories	146	243	190	129
Derivatives assets	—	1,729	226	1,377
Others current assets	125	193	128	1,348
Amounts due from related parties	2	23,599	18,374	20,834
Long-term debt	(59,000)	(111,068)	(114,411)	(114,411)
Long-term debt from related parties	—	(22,706)	(22,703)	(22,960)
Deferred debt issuance	618	867	928	795
Trade accounts payable	(154)	(256)	(187)	(106)
Accrued expenses	(1,185)	(224)	(1,082)	(503)
Prepaid charter and deferred revenue	—	(1,758)	—	—
Amounts due to related parties	(36,005)	(186)	(372)	(1,351)
Income tax payable	—	(125)	—	—
Subtotal	5,764	33,235	31,759	32,983
Difference between the purchase price and fair value of net assets acquired	\$ —	\$ —	\$ —	\$ —

<i>(U.S. Dollars in thousands)</i>	Final Raquel Knutsen December 1, 2016	Final Ingrid Knutsen October 15, 2015	Final Dan Sabia June 15, 2015
Purchase consideration (1)	\$ 20,252	\$ 12,863	\$ 41,186
Less: Fair value of net assets acquired:			
Vessels and equipment (2)	116,751	115,000	103,389
Cash	7,146	4,744	4,343
Inventories	307	144	—
Derivatives assets (liabilities)	207	—	(802)
Others current assets	183	188	25
Amounts due from related parties	59	1	935
Long-term debt	(79,950)	(84,275)	(64,470)
Long-term debt from related parties	(24,019)	(20,253)	—
Deferred debt issuance	1,059	—	—
Trade accounts payable	(167)	(94)	(4)
Accrued expenses	(1,179)	(1,555)	(335)
Prepaid charter and deferred revenue	—	(762)	(442)
Amounts due to related parties	(145)	(275)	(1,453)
Subtotal	20,252	12,863	41,186
Difference between the purchase price and fair value of net assets acquired	\$ —	\$ —	\$ —

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- (1) The purchase consideration comprises the following:

	Final Brasil Knutsen December 15, 2017	Final Lena Knutsen September 30, 2017	Final Vigdis Knutsen June 1, 2017	Final Tordis Knutsen March 1, 2017
<i>(U.S. Dollars in thousands)</i>				
Cash consideration paid to KNOT	\$ 2,383	\$ 33,343	\$ 28,109	\$ 31,242
Purchase price adjustments	3,381	(108)	3,650	1,741
Seller's credit	—	—	—	—
Seller's loan	—	—	—	—
Purchase price	\$ 5,764	\$ 33,235	\$ 31,759	\$ 32,983

	Final Raquel Knutsen December 1, 2016	Final Ingrid Knutsen October 15, 2015	Final Dan Sabia June 15, 2015
<i>(U.S. Dollars in thousands)</i>			
Cash consideration paid to KNOT (from KNOT)	\$ (12,019)	\$ 10,472	\$ 38,531
Purchase price adjustments	7,271	2,391	2,655
Seller's credit	12,981	—	—
Seller's loan	12,019	—	—
Purchase price	\$ 20,252	\$ 12,863	\$ 41,186

- (2) Vessel and equipment includes allocation to drydocking for the following vessels (in thousands): *Brasil Knutsen* of \$260, *Lena Knutsen* of \$2,741, *Vigdis Knutsen* of \$2,709, *Tordis Knutsen* of \$2,753, *Raquel Knutsen* of \$1,663 and *Ingrid Knutsen* of \$1,263. For the *Dan Sabia*, \$389 of the purchase price adjustments were allocated to the vessel.

Brasil Knutsen

On December 15, 2017, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 32 AS ("KNOT 32"), the company that owns and operates the *Brasil Knutsen*. The purchase price was \$96.0 million, less \$59.0 million of outstanding indebtedness, less approximately \$35.2 million for a loan owed by KNOT 32 to KNOT (the "Company Liquidity Loan"), plus approximately \$0.6 million for certain capitalized fees related to the financing of the *Brasil Knutsen*, and plus \$3.4 million of post-closing adjustments for working capital. The cash portion of the purchase price was financed with the proceeds from the Partnership's public offering of 3,000,000 common units which closed on November 9, 2017. See Note 23—Equity Offerings and Sale of Series A Preferred Units—Equity Offerings. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

The *Brasil Knutsen* business contributed revenues of \$0.7 million and net income of \$0.3 million to the Partnership for the period from December 15, 2017 to December 31, 2017.

Lena Knutsen

On September 30, 2017, KNOT Shuttle Tankers AS acquired KNOT's 100% interest in KNOT Shuttle Tankers 26 AS ("KNOT 26"), the company that owns and operates the *Lena Knutsen*. The purchase price was \$142.0 million, less approximately \$133.8 million of outstanding indebtedness, plus approximately \$24.1 million for a receivable owed by KNOT to KNOT 26, plus approximately \$1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen* and less \$0.1 million of post-closing adjustments for working capital and interest rate swaps. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

The *Lena Knutsen* business contributed revenues of \$5.2 million and net loss of \$0.1 million to the Partnership for the period from September 30, 2017 to December 31, 2017.

Vigdis Knutsen

On June 1, 2017, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 25 AS ("KNOT 25"), the company that owns and operates the *Vigdis Knutsen*. The purchase price was \$147.0 million, less approximately \$137.7 million of outstanding indebtedness, plus approximately \$17.9 million for a receivable owed by KNOT to KNOT 25, plus approximately \$0.9 million for certain capitalized fees related to the financing of the *Vigdis Knutsen* and plus \$3.7 million of post-closing adjustments for working capital and interest rate swaps. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

The *Vigdis Knutsen* business contributed revenues of \$11.8 million and net income of \$2.6 million to the Partnership for the period from June 1, 2017 to December 31, 2017

Tordis Knutsen

On March 1, 2017, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 24 AS ("KNOT 24"), the company that owns and operates the *Tordis Knutsen*. The purchase price was \$147.0 million, less approximately \$137.7 million of outstanding indebtedness, plus approximately \$21.1 million for a receivable owed by KNOT to KNOT 24, plus approximately \$0.8 million for certain capitalized fees related to the financing of the *Tordis Knutsen* and plus \$1.7 million of post-closing adjustments for working capital and interest rate swaps. The cash portion of the purchase price was financed with the proceeds from the Partnership's sale and issuance of 2,083,333 Series A Preferred Units which closed on February 2, 2017. See Note 23—Equity Offerings and Sale of Series A Preferred Units—Sale of Series A Preferred Units. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

The *Tordis Knutsen* business contributed revenues of \$17.2 million and net income of \$3.2 million to the Partnership for the period from March 1, 2017 to December 31, 2017.

Raquel Knutsen

On December 1, 2016, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in Knutsen Shuttle Tankers 19 AS, the company that owns and operates the *Raquel Knutsen*. The purchase price was \$116.5 million, less \$103.5 million of outstanding indebtedness related to the vessel and plus other purchase price adjustments of \$7.3 million. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

The Raquel Knutsen business contributed revenues of \$1.5 million and net income of \$0.2 million to the Partnership for the period from December 1, 2016 to December 31, 2016.

Ingrid Knutsen

On October 15, 2015, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in Knutsen NYK Shuttle Tankers 16 AS, the company that owns and operates the *Ingrid Knutsen*. The purchase price was \$115.0 million, less assumed bank debt of \$104.5 million and plus other purchase price adjustments of \$2.4 million. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

Since the *Ingrid Knutsen* acquisition date, the business has contributed revenues of \$3.6 million and net income of \$1.0 million to the Partnership for the period from October 15, 2015 to December 31, 2015.

Dan Sabia

On June 15, 2015, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 21 AS, the company that owns and operates the *Dan Sabia*. The purchase price was \$103.0 million, less assumed bank debt of \$64.5 million and plus other purchase price adjustments of \$2.7 million. The cash portion of the purchase price was financed with the proceeds from the Partnership's public offering of 5,000,000 common units which closed on June 2, 2015. See Note 23—Equity Offerings and Sale of Series A Preferred Units—Equity Offerings. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

Since the *Dan Sabia* acquisition date, the business has contributed revenues of \$5.5 million and net income of \$2.2 million to the Partnership for the period from June 15, 2015 to December 31, 2015.

Pro forma financial information – Brasil Knutsen

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the year ended December 31, 2017, giving effect to the Partnership's acquisition and financing of the *Brasil Knutsen* as if this acquisition had taken place on January 1, 2017. KNOT acquired the *Brasil Knutsen* from Chevron in July 2017 and the vessel was not operating on any contract at the time KNOT bought the vessel. From July 2017, the *Brasil Knutsen* operated on short term contracts until it commenced its time charter contract with Galp in November 2017. There are no pro forma figures for the years ended December 31, 2016 and 2015.

<u>(U.S. Dollars in thousands)</u>	Unaudited Year Ended December 31, 2017
Revenue	\$ 223,220
Net income	64,034

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2017. In addition, the pro forma adjustments reflect changes in guarantors.

Pro forma financial information – Lena Knutsen

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the year ended December 31, 2017, giving effect to the Partnership's acquisition and financing of the *Lena Knutsen* as if this acquisition had taken place on January 1, 2017. Since *Lena Knutsen* was delivered from the yard in June 2017 and commenced on its time charter contract in September 2017, there are no pro forma figures for the years ended December 31, 2016 and 2015.

<u>(U.S. Dollars in thousands)</u>	Unaudited Year Ended December 31, 2017
Revenue	\$ 220,904
Net income	62,999

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2017. In addition, the pro forma adjustments reflect changes in guarantors as if the acquisition had taken place from the date of delivery of the vessel.

Pro forma financial information – Vigdis Knutsen

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the year ended December 31, 2017, giving effect to the Partnership's acquisition and financing of the *Vigdis Knutsen* as if this acquisition had taken place on January 1, 2017. Since *Vigdis Knutsen* was delivered from the yard in February 2017 and commenced on its time charter contract in April 2017, there are no pro forma figures for the the years ended December 31, 2016 and 2015.

<u>(U.S. Dollars in thousands)</u>	Unaudited Year Ended December 31, 2017
Revenue	\$ 222,354
Net income	63,225

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2017. In addition, the pro forma adjustments reflect changes in guarantors and amortization of the above market time charter as if the acquisition had taken place from the date of delivery of the vessel.

Pro forma financial information – Tordis Knutsen

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the year ended December 31, 2017, giving effect to the Partnership's acquisition and financing of the *Tordis Knutsen* as if this acquisition had taken place on January 1, 2017. Since *Tordis Knutsen* was delivered from the yard in late 2016 and commenced on its time charter contract in January 2017, there are no pro forma figures for the years ended December 31, 2016 and 2015.

<u>(U.S. Dollars in thousands)</u>	Unaudited Year Ended December 31, 2017
Revenue	\$ 221,198
Net income	66,584

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2017. In addition, the pro forma adjustments reflect changes in guarantors and amortization of the above market time charter as if the acquisition had taken place from the date of delivery of the vessel.

Pro forma financial information – Raquel Knutsen

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the years ended December 31, 2016 and 2015, giving effect to the Partnership's acquisition and financing of the *Raquel Knutsen* as if this acquisition had taken place on January 1, 2015. The *Raquel Knutsen* was delivered on March 27, 2015.

<u>(U.S. Dollars in thousands)</u>	Unaudited Year Ended December 31, 2016	Unaudited Year Ended December 31, 2015
Revenue	\$ 190,229	\$ 164,477
Net income	65,101	38,401

Included in the pro forma adjustments are depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2015. In addition, the pro forma adjustments reflect new capital structure and changes in guarantors as if the acquisition had taken place from the date of delivery of the vessel.

Pro forma financial information – Ingrid Knutsen and Dan Sabia

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the year ended December 31, 2015 giving effect to the Partnership's acquisition and financing of the *Dan Sabia* and the *Ingrid Knutsen* as if these acquisitions had taken place on January 1, 2015. The *Dan Sabia* and *Ingrid Knutsen* were delivered on January 9, 2012 and December 2, 2013, respectively.

<u>(U.S. Dollars in thousands)</u>	Unaudited Year Ended December 31, 2015
Revenue	\$ 173,116
Net income	43,810

Included in the pro forma adjustments are depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisitions had taken place on January 1, 2015. In addition, the pro forma adjustments reflect new capital structure and changes in guarantors as if the acquisitions had taken place from the date of delivery of the vessels.

[Table of Contents](#)**23) Equity Offerings and Sale of Series A Preferred Units****Equity Offerings**

<i>(U.S. Dollars in thousands)</i>	January 2017 Offering	November 2017 Offering	Total 2017 Offering	2016 Offering	2015 Offering
Gross proceeds received	\$ 56,125	\$ 66,936 (1)	\$123,061	\$ —	\$121,224 (2)
Less: Underwriters' discount	925	660	1,585	—	4,300
Less: Offering expenses	300	230	530	—	293
Net proceeds received	<u>\$ 54,900</u>	<u>\$ 66,046</u>	<u>\$120,946</u>	<u>\$ —</u>	<u>\$116,631</u>

(1) Includes the General Partner's 1.85% proportional capital contribution.

(2) Includes the General Partner's 2% proportional capital contribution

On November 9, 2017, the Partnership sold 3,000,000 common units in a public offering. In connection with the offering, the General Partner contributed a total of \$1.2 million in order to maintain its 1.85% general partner interest in the Partnership. The total net proceeds from the offering and the related General Partner's contribution were \$66.0 million. The Partnership used the net proceeds from the offering to fund the cash portion of the purchase price of the *Brasil Knutsen* and to repay \$43.5 million of borrowings under the revolving credit facility.

On January 10, 2017, the Partnership sold 2,500,000 common units, representing limited partner interests, in an underwritten public offering. The Partnership's total net proceeds from the offering were \$54.9 million. The Partnership used the net proceeds from the offering to fund the cash portion of the purchase price of the *Tordis Knutsen* and to repay debt and for general partnership purposes.

On June 2, 2015, the Partnership sold 5,000,000 common units, representing limited partner interests, in an underwritten public offering. In connection with the offering, the General Partner contributed a total of \$2.4 million in order to maintain its 2% general partner interest in the Partnership. The Partnership's total net proceeds from the offering and the related General Partner's contribution were \$116.6 million. The Partnership used the net proceeds from the offering to fund the cash portion of the purchase price of the company that owns and operates the *Dan Sabia* and to repay the revolving credit facility, the \$12.0 million Seller's Credit and \$7.5 million of the Dan Sabia Facility.

Sale of Series A Preferred units

<i>(U.S. Dollars in thousands)</i>	February 2017 Series A Preferred Units	June 2017 Series A Preferred Units	Total Series A Preferred Units
Gross proceeds received	\$ 50,000	\$ 40,000	\$ 90,000
Less: Fee	1,000	1,000	2,000
Less: Expenses	386	150	536
Net proceeds received	<u>\$ 48,614</u>	<u>\$ 38,850</u>	<u>\$ 87,464</u>

On February 2, 2017, the Partnership issued and sold in a private placement 2,083,333 Series A Preferred Units at a price of \$24.00 per unit. After deducting fees and expenses, the net proceeds from the sale were \$48.6 million. The Partnership used the net proceeds from the sale to fund the cash portion of the purchase price of the *Tordis Knutsen* and to repay debt and for general partnership purposes.

On June 30, 2017, the Partnership (i) issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at a price of \$24.00 per unit and (ii) amended and restated its Partnership Agreement to make certain amendments to the terms of the Series A Preferred Units, including the 2,083,333 Series A Preferred Units issued on February 2, 2017. After deducting estimated fees and expenses, the net proceeds of the sale were \$38.9 million. The Partnership used \$30.0 million of the net proceeds to repay the revolving credit facility, which was drawn in connection with acquisition of the *Vigdis Knutsen*.

The Series A Preferred Units rank senior to the common units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up. The Series A Preferred Units have a liquidation preference of \$24.00 per unit, plus any Series A unpaid cash distributions, plus all accrued but unpaid distributions on such Series A Preferred Unit with respect to the quarter in which the liquidation occurs to the date fixed for the payment of any amount upon liquidation. The Series A Preferred Units are entitled to cumulative distributions from their initial issuance date, with distributions being calculated at an annual rate of 8.0% on the stated liquidation preference and payable quarterly in arrears within 45 days after the end of each quarter, when, as and if declared by the Board.

The Series A Preferred Units will be generally convertible, at the option of the holders of the Series A Preferred Units, into common units commencing on February 2, 2019 at the then applicable conversion rate. The conversion rate will be subject to adjustment under certain circumstances. In addition, the conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to \$24.00 (the "Issue Price") divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro-forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Issue Price divided by (ii) the book value per common unit on February 2, 2017. In addition, the Partnership may redeem the Series A Preferred Units at any time between February 2, 2019 and February 2, 2027 at the redemption price specified in the Partnership Agreement, provided, however, that upon notice from the Partnership to the holders of Series A Preferred Units of its intent to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the then applicable conversion rate. For the year ended December 31, 2017, the possible conversion of the Series A Preferred Units into common units are included in the calculation of the diluted earnings per unit. See Note 21—Earnings per Unit and Cash Distributions.

Upon a change of control of the Partnership, the holders of Series A Preferred Units will have the right to require cash redemption at 100% of the Issue Price. In addition, the holders of Series A Preferred Units will have the right to cause the Partnership to redeem the Series A Preferred Units on February 2, 2027 in, at the option of the Partnership, (i) cash at a price equal to 70% of the Issue Price or (ii) common units such that each Series A Preferred Unit receives common units

worth 80% of the Issue Price (based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of the common units as reported on the NYSE for the 30 trading day period ending on the fifth trading day immediately prior to the redemption date) plus any accrued and unpaid distributions. In addition, at any time following February 2, 2019 and subject to certain conditions, the Partnership will have the right to convert the Series A Preferred Units into common units at the then applicable conversion rate if the aggregate market value (calculated as set forth in the partnership agreement) of the common units into which the then outstanding Series A Preferred Units are convertible, based on the then applicable conversion rate, is greater than 130% of the aggregate Issue Price of the then outstanding Series A Preferred Units.

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The Series A Preferred Units have voting rights that are identical to the voting rights of the common units, except they do not have any right to nominate, appoint or elect any of the directors of the Board, except whenever distributions payable on the Series A Preferred Units have not been declared and paid for four consecutive quarters (a “Trigger Event”). Upon a Trigger Event, holders of Series A Preferred Units, together with the holders of any other series of preferred units upon which like rights have been conferred and are exercisable, may replace one of the members of the Board appointed by the General Partner with a person nominated by such holders, such nominee to serve until all accrued and unpaid distributions on the preferred units have been paid. The Series A Preferred Units are entitled to vote with the common units as a single class so that the Series A Preferred Units are entitled to one vote for each common unit into which the Series A Preferred Units are convertible at the time of voting.

For additional information about the Series A Preferred Units, please read the Partnership’s Reports on Form 6-K filed with the Securities and Exchange Commission on February 2, 2017, May 17, 2017 and June 30, 2017 and Form 8-A/A filed on June 30, 2017.

24) Unit Activity

The following table shows the movement in the number of common units, subordinated units and general partner units during the years ended December 31, 2017, 2016 and 2015:

<i>(in units)</i>	<u>Common Units</u>	<u>Subordinated Units</u>	<u>General Partner Units</u>	<u>Series A Preferred Units</u>
December 31, 2015	18,626,594	8,567,500	558,674	—
Subordinated units converted to common units	8,567,500	(8,567,500)	—	—
December 31, 2016	27,194,094	—	558,674	—
January 6, 2017: Public offering	2,500,000	—	—	—
February 2, 2017: Sale of Series A Preferred Units	—	—	—	2,083,333
June 30, 2017: Sale of Series A Preferred Units	—	—	—	1,666,667
November 9, 2017: Public offering	3,000,000	—	56,443	—
December 31, 2017	32,694,094	—	615,117	3,750,000

Originally approved on August 12, 2015, the common unit purchase program authorized the Partnership to repurchase up to 666,667 of its common units and the General Partner to purchase up to 333,333 common units of the Partnership. On August 10, 2016, the boards of directors of the Partnership and the General Partner each authorized an extension of the common unit purchase program to August 31, 2017. On August 9, 2017, the boards of directors of the Partnership and the General Partner authorized a further extension of the program to August 31, 2018. As of December 31, 2015, the Partnership and the General Partner had purchased 180,906 and 90,368 common units, respectively, pursuant to the program at an average purchase price of \$12.71 per unit. No additional common units had been purchased by the Partnership or the General Partner as of December 31, 2017. The Partnership and the General Partner may therefore purchase up to an additional 485,761 and 242,965 common units, respectively, under the extended program.

All purchases are made pursuant to a single program and are allocated approximately two-thirds to the Partnership and one-third to the General Partner. There is no obligation to purchase any specific number of common units and the program may be modified, suspended, extended or terminated at any time. Common units repurchased by the Partnership under the program have been cancelled.

The subordination period for the 8,567,500 subordinated units ended on May 18, 2016. All of the subordinated units, which were owned by KNOT, converted to common units on a one-for-one basis.

25) Subsequent Events

The Partnership has evaluated subsequent events from the balance sheet date through April 25, 2018, the date at which the audited consolidated financial statements were available to be issued, and determined that there are no other items to disclose, except as follows:

On January 30, 2018, the Partnership's subsidiary, KNOT Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, closed a new \$100 million senior secured term loan facility (the "New Torill Facility") with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent. The New Torill Facility refinanced the outstanding balance of \$73.2 million of the Old Torill Facility associated with the *Torill Knutsen* that bore interest at a rate of LIBOR plus 2.5% and was due to be paid in full in November 2018. The New Torill Facility is repayable in 24 consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The New Torill Facility bears interest at a rate per annum equal to Libor plus a margin of 2.1%. The facility matures in January 2024.

On February 15, 2018, the Partnership paid a quarterly cash distribution of \$0.52 per common unit with respect to the quarter ended December 31, 2017. The aggregate amount of the paid distribution was \$18.0 million. On February 15, 2018, the Partnership paid a quarterly cash distribution of \$0.48 per Series A Preferred Unit with respect to the quarter ended December 31, 2017. The aggregate amount of the distribution was \$1.8 million.

On March 1, 2018 the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired 100% of the shares of KNOT Shuttle Tankers 30 AS ("KNOT 30"), the company that owns the shuttle tanker *Anna Knutsen*, from KNOT for a purchase price of \$120.0 million less \$106.8 million of outstanding indebtedness related to the vessel plus approximately \$1.4 million for certain capitalized fees related to the financing of the *Anna Knutsen*. On the closing of the Acquisition, KNOT 30 repaid approximately \$32.3 million of this indebtedness, leaving an aggregate of approximately \$74.4 million of debt outstanding under the secured credit facility related to the vessel (the "Anna Facility"). The Anna Facility is repayable in quarterly installments with a final balloon payment of \$57.1 million due at maturity in March 2022. The Anna Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.0%. The purchase price was settled in cash and is subject to certain post-closing adjustments for working capital and interest rate swaps.

The *Anna Knutsen* was delivered in March 2017 and is operating in Brazil under a time charter with Galp, which will expire in the second quarter of 2022. The charterer has options to extend the charter for two three-year periods.

The Partnership has accounted for the acquisition of the *Anna Knutsen* as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The Partnership is in the process of finalizing the accounting for the acquisition and amounts shown below are provisional. The provisional allocation of the purchase price to acquired identifiable assets was based on their estimated fair values at the date of acquisition. No goodwill was identified as part of the provisional purchase price allocation. The provisional fair values allocated to each class of identifiable assets of KNOT 30 and the difference between the purchase price and net assets acquired was calculated as follows:

<i>(U.S. Dollars in thousands)</i>	<i>March 1, 2018</i>
Purchase consideration (1)	<u>\$ 14,637</u>
Less: Fair value of net assets acquired:	
Vessel and equipment	120,000
Long-term debt	(106,752)
Capitalized fee financing of the vessel	1,389
Other (2)	
Sub total	<u>14,637</u>
Difference between the purchase price and fair value of net assets acquired	<u>\$ —</u>

(1) This includes the purchase consideration for KNOT 30 less the assumed bank debt plus certain intercompany balances and capitalized fees related to the financing of the *Anna Knutsen*, but excluding the post-closing adjustments for working capital and interest rate swaps.

(2) This information (working capital adjustment) will be available upon finalization of the *Anna Knutsen* purchase price allocation.

DATED NOVEMBER 8, 2017

USD 100,000,000
FACILITY AGREEMENT

for

KNUTSEN SHUTTLE TANKERS 15 AS

as Borrower

with

KNOT OFFSHORE PARTNERS LP

as Guarantor

arranged by

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

acting as Mandated Lead Arranger

with

THE FINANCIAL INSTITUTIONS listed in Schedule 1

acting as Original Lenders

and

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

acting as Agent

in relation to the refinancing of

“TORILL KNUTSEN”

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THIS AGREEMENT is dated 8 November 2017 and is made between:

- (1) **KNUTSEN SHUTTLE TANKERS 15 AS**, Norwegian registration no. 997 006 968, with registered offices at Smedasundet 40, N-5529 Haugesund, Norway (the “**Borrower**”);
- (2) **KNOT OFFSHORE PARTNERS LP**, a limited partnership formed under the laws of the Marshall Islands whose principal executive and administrative offices are at 2 Queens Cross, Aberdeen, Aberdeenshire AB15 4YB, United Kingdom and which is listed on the New York Stock Exchange, as guarantor (the “**Guarantor**”);
- (3) **THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.**, acting through its office at Ropemaker Place, 25 Ropemaker St, London EC2Y 9AN, United Kingdom as mandated lead arranger (the “**Mandated Lead Arranger**”);
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 as lenders (the “**Original Lenders**”); and
- (5) **THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.**, acting through its office at Ropemaker Place, 25 Ropemaker St, London EC2Y 9AN, United Kingdom as facility agent and security agent for the other Finance Parties (the “**Agent**”).

IT IS AGREED as follows:

SECTION 1 INTERPRETATION

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

“**Account**” means USD account no. NO45 1250 04 73523, held in the name of Borrower with the Account Bank.

“**Account Bank**” means DNB BANK ASA, Norwegian registration no. 984 851 006, a banking institution organised under the laws of Norway acting through its office at Solheimsgaten 7C, N-5058 Bergen, Norway.

“**Account Pledge**” means an agreement dated on or about the date hereof for the pledge of the Account, entered or to be entered into between Borrower and the Agent (on behalf of the Finance Parties) in form and substance satisfactory to the Agent (on behalf of the Finance Parties).

“**Affiliate**” means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

“**Agreement**” means this facility agreement, as it may be amended, supplemented and varied in writing from time to time, including its schedules.

“**Approved Shipbroker**” means Fearnleys, Lorentzen & Stemoco, or any other shipbroker(s) the Lenders may approve.

“**Assignment Agreement**” means an agreement dated on or about the Utilisation Date for the assignment of the Earnings (including the Charterhire), the Insurances and any Requisition Compensation in respect of the Vessel, entered or to be entered into between the Borrower and the Agent (on behalf of the Finance Parties) in form and substance satisfactory to the Agent (on behalf of the Finance Parties).

“ **Authorisation** ” means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

“ **Availability Period** ” means the period from and including the date of this Agreement to and including 31 January 2018.

“ **Available Facility** ” means the aggregate for the time being of each Lender’s Commitment in relation to a Facility.

“ **Basel II Accord** ” means the “International Convergence of Capital Measurement and Capital Standards, a Revised Framework” published by the Basel Committee on Banking Supervision in June 2004 as updated prior to, and in the form existing on, the date of this Agreement, excluding any amendment thereto arising out of the Basel III Accord.

“ **Basel II Approach** ” means, in relation to any Finance Party, either the Standardised Approach or the relevant Internal Ratings Based Approach (each as defined in the Basel II Accord) adopted by that Finance Party (or any of its Affiliates) for the purposes of implementing or complying with the Basel II Accord.

“ **Basel II Regulation** ” means:

- (a) any law or regulation implementing the Basel II Accord (including the relevant provisions of directive 2013/36/EU (“ **CRD IV** ”) and regulation 575/2013 (“ **CRR** ”) of the European Union) to the extent only that such law or regulation re-enacts and/or implements the requirements of the Basel II Accord but excluding any provision of such law or regulation implementing the Basel III Accord; and
- (b) any Basel II Approach adopted by a Finance Party or any of its Affiliates.

“ **Basel III Accord** ” means, together:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in “Basel III: A global regulatory framework for more resilient banks and banking systems”, “Basel III: International framework for liquidity risk measurement, standards and monitoring” and “Guidance for national authorities operating the countercyclical capital buffer” published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systemically important banks contained in “Global systemically important banks: assessment methodology and the additional loss absorbency requirement—Rules text” published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to “Basel III”.

“ **Basel III Regulation** ” means any law or regulation implementing the Basel III Accord (including CRD IV and CRR) save to the extent that such law or regulation re-enacts a Basel II Regulation.

“ **Borrower Share Pledge** ” means an agreement for the charge/pledge of 100% of the shares in the Borrower dated on or about the date hereof in agreed form between (a) KNOT ST and (b) the Agent (on behalf of the Finance Parties) in form and substance satisfactory to the Agent (on behalf of the Finance Parties).

“ **Break Costs** ” means the amount (if any) by which:

- (a) the interest (excluding the Margin) which a Lender should have received for the period from the date of receipt of all or any part of its participation in a Loan or Unpaid Sum to the last day of the current Interest Period in respect of that Loan or Unpaid Sum, had the principal amount or Unpaid Sum received been paid on the last day of that Interest Period;

exceeds:

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the principal amount or Unpaid Sum received by it on deposit with a leading bank in the Relevant Interbank Market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.

“ **Business Day** ” means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in Oslo, Hong Kong, Tokyo, London and New York City.

“ **Change of Control** ” means:

- (a) if (i) TS Shipping Invest AS (or a 100% owned subsidiary of TS Shipping Invest AS) and (ii) NYK Logistics Holding (Europe) B.V. (or Nippon Yusen Kabushiki Kaisha or another 100% owned subsidiary of Nippon Yusen Kabushiki Kaisha) each does not own or is not able to vote for (directly or indirectly) for 50% the shares in KNOT;
- (b) if the Guarantor does not own or is not able to vote for (directly or indirectly) all of the shares in the Borrower;
- (c) if the Guarantor does not own or it not able to vote for (directly or indirectly) all of the shares in KNOT ST;
- (d) if KNOT does not own or is not able to vote for (directly or indirectly) all of the shares in the General Partner (being the general partner in the Guarantor);
- (e) the General Partner ceases to be the only general partner of the Guarantor under the Limited Partnership Agreement;
- (f) if KNOT does not own at least 25% of the common and general units in the Guarantor (capital and voting rights to be subject to the limitations on voting rights relating to election of board members, amendments and certain other matters as set out in the Limited Partnership Agreement); or
- (g) if any person or group of persons acting in concert (other than KNOT and/or any of its wholly owned Subsidiaries) acquires, legally or beneficially, and either directly or indirectly, more than thirty three point thirty three per cent. (33.33%) of the common and general units or voting rights in the Guarantor.

“ **Charterer** ” means ENI Trading & Shipping S.p.A or, as the case maybe, each other charterer of the Vessel from the Borrower from time to time.

“ **Charterhire** ” means all freight, hire and passage moneys or other moneys payable by the Charterer to the Borrower under each Charterparty.

“ **Charterparty** ” means the time charterparty dated May 31, 2011 entered into between the Borrower and the Charterer for the chartering of the Vessel or, as the case maybe, each other charterparty for the chartering of the Vessel entered into by the Borrower and any charterer from time to time.

“ **Code** ” means the US Internal Revenue Code of 1986.

“ **Commitment** ” means:

(a) in relation to an Original Lender, the amount set opposite its name under the heading “Commitment” in Schedule 1 (*The Original Lenders*) and the amount of any other Commitment transferred to it under this Agreement; and

(b) in relation to any other Lender, the amount of any Commitment transferred to it under this Agreement,

to the extent not cancelled, reduced or transferred by it under this Agreement.

“ **Companies Act** ” means the Norwegian Limited Liability Companies Act of 13 June 1997 No. 44 (in No. *aksjeloven*).

“ **Compliance Certificate** ” means a certificate substantially in the form set out in Schedule 5 (*Form of Compliance Certificate*).

“ **Default** ” means an Event of Default or any event or circumstance specified in Clause 24 (*Events of Default*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

“ **Disruption Event** ” means either or both of:

(a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Facility (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or

(b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:

(i) from performing its payment obligations under the Finance Documents; or

(ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“ **DOC** ” means in relation to the Manager of the Vessel a valid document of compliance issued to such company pursuant to paragraph 13.2 of the ISM Code.

“ **Earnings** ” means all moneys whatsoever which are now or later become, payable (actually or contingently) to the Borrower in respect of and/or arising out of the use of or operation of the Vessel, including (but not limited to):

- (a) all freight, hire and passage moneys payable to the Borrower, including (without limitation) the Charterhire and payments of any nature under any contract or any other agreement for the employment, use, possession, management and/or operation of the Vessel;
- (b) any claim under any guarantees related to hire payable to the Vessel as a consequence of the operation of the Vessel;
- (c) any compensation payable to the Borrower in the event of any requisition of the Vessel or for the use of the Vessel by any government authority or other competent authority;
- (d) remuneration for salvage, towage and other services performed by the Vessel payable to the Borrower;
- (e) demurrage and retention money receivable by the Borrower in relation to the Vessel;
- (f) all moneys which are at any time payable under the Insurances in respect of loss of earnings from the Vessel;
- (g) if and whenever the Vessel is employed on terms whereby any moneys falling within paragraph a) to f) above are pooled or shared with any other person, that proportion of the net receipts of the relevant pooling or sharing arrangement which is attributable to the Vessel; and
- (h) any other money which arise out of the use of or operation of the Vessel and moneys whatsoever due or to become due to the Borrower from third parties in relation to the Vessel.

“ **Environmental Claim** ” means any claim, proceeding, formal notice or investigation by any person or company in respect of any Environmental Law or Environmental Permits.

“ **Environmental Law** ” means any applicable law or regulation which relates to:

- (a) the pollution or protection of the environment or to the carriage of material which is capable of polluting the environment;
- (b) harm to or the protection of human health;
- (c) the conditions of the workplace; or
- (d) any emission or substance capable of causing harm to any living organism or the environment.

“ **Environmental Permits** ” means any permit, licence, consent, approval and other and other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of business conducted on or from the properties owned or used by an Obligor.

“ **Event of Default** ” means any event or circumstance specified as such in Clause 24 (*Events of Default*).

“ **Existing Indebtedness** ” means, at any particular date, the aggregate principal amount of the Borrower’s indebtedness outstanding on that date under the Existing Loan Agreement which, as at the date of this Agreement, is USD 73,177,556 .

“ **Existing Loan Agreement** ” means the loan agreement dated 3 November 2011 (as amended from time to time) made between, amongst others, the Borrower and certain banks and financial institutions as banks (for whom Nordea Bank Norge ASA acts as agent and security trustee) in relation to a senior term loan facility originally in the amount of USD117,000,000 provided to the Borrower to assist it in financing its acquisition of the Vessel.

“ **Facility** ” means the term loan facility made available under this Agreement.

“ **Facility Office** ” means:

- (a) the office or offices notified by a Lender to the Agent in writing on or before the date it becomes a Lender (or, following that date, by not less than five Business Days’ written notice) as the office or offices through which it will perform its obligations under this Agreement; or
- (b) in respect of any other Finance Party, the office in the jurisdiction in which it is resident for tax purposes.

“ **FATCA** ” means:

- (a) sections 1471 to 1474 of the Code or any associated regulations;
- (b) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of any law or regulation referred to in paragraph (a) above; or
- (c) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

“ **FATCA Application Date** ” means:

- (a) in relation to a “withholdable payment” described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
 - (b) in relation to a “withholdable payment” described in section 1473(1)(A)(ii) of the Code (which relates to “gross proceeds” from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
 - (c) in relation to a “passthru payment” described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,
- or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

“ **FATCA Deduction** ” means a deduction or withholding from a payment under a Finance Document required by FATCA.

“ **FATCA Exempt Party** ” means a Party that is entitled to receive payments free from any FATCA Deduction.

“ **Fee Letter** ” means a fee letter dated on or about the date of this Agreement from the Agent to the Borrower and the Guarantor setting out any of the fees referred to in Clause 11 (*Fees*).

“ **Final Maturity Date** ” means the numerically corresponding date of the Utilisation Date in the Month falling seventy two (72) Months after the Utilisation Date provided that:

- (a) if such date is not a Business Day, the immediately succeeding Business Day shall be the Final Maturity Date (unless such succeeding Business Day falls in the next calendar month, in which event, the Final Maturity Date shall be the immediately preceding Business Day); and
- (b) if there is no such numerically corresponding date in the relevant calendar month, the Final Maturity Date shall be the immediately succeeding Business Day (unless such succeeding Business Day falls in the next calendar month, in which event, the Final Maturity Date shall be the immediately preceding Business Day).

“ **Finance Document** ” means this Agreement, the Intercreditor Agreement, any Security Document, any Fee Letter, any Manager’s Undertaking and any other document designated as such by the Agent and the Borrower.

“ **Finance Party** ” means the Agent, the Mandated Lead Arranger or a Lender.

“ **Financial Indebtedness** ” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) of a type not referred to in any other paragraph of this definition having the commercial effect of a borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount) of any derivative transaction, only the marked to market value shall be taken into account);

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

(i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

“ **Flag State** ” means the United Kingdom or such other state or territory in which the Borrower’s ownership title of the Vessel is from time to time registered in accordance with the provisions of Clause 23.3 (*Flag*).

“ **Funding Rate** ” means any individual rate notified by a Lender to the Agent pursuant to paragraph (a)(ii) of Clause 10.4 (*Cost of funds*).

“ **GAAP** ” means:

(a) in respect of the Borrower, generally accepted accounting principles in Norway, including IFRS; or

(b) in respect of the Guarantor, generally accepted accounting principles in the United States of America.

“ **General Partner** ” means KNOT Offshore Partners GP LLC, a company formed under the laws of the Marshall Islands and having its principal office at 2 Queen’s Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom being the general partner in the Guarantor.

“ **Group** ” means KNOP and its Subsidiaries.

“ **Guarantee** ” means the guarantee liabilities of the Guarantor pursuant to Clause 18 (*Guarantee and indemnity*).

“ **Holding Company** ” means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

“ **IFRS** ” means international accounting standards within the meaning of the IAS Regulation 1606/2002 to the extent applicable to the relevant financial statements.

“ **Insurances** ” means, in relation to the Vessel, all policies and contracts of insurance (which expression includes all entries of the Vessel in a protection and indemnity or war risk association) which are from time to time during the Security Period in place or taken out or entered into by or for the benefit of the Borrower (whether in the sole name of the Borrower or in the joint names of the Borrower and any other person) in respect of the Vessel or otherwise in connection with the Vessel and all benefits thereunder (including claims of whatsoever nature and return of premiums).

“ **Intercreditor Agreement** ” means an intercreditor agreement dated on or about the Utilisation Date entered or to be entered into between the Agent and the Lenders to regulate the order of priority of payments between the Lenders of certain amounts due under this Agreement and the other Finance Documents.

“ **Interest Payment Date** ” means the last day of an Interest Period;

“ **Interest Period** ” means, in relation to the Loan, each period determined in accordance with Clause 9 (*Interest Periods*) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 8.3 (*Default interest*).

“ **Interpolated Screen Rate** ” means, in relation to LIBOR for the Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Interest Period of the Loan; and
 - (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Interest Period of the Loan,
- each as of 11.00 a.m. in London on the Quotation Day for USD.

“ **ISM Code** ” means the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention.

“ **ISPS Code** ” means the International Ship and Port Facility Security (ISPS) Code as adopted by the International Maritime Organization’s (IMO) Diplomatic Conference of December 2002.

“ **ISSC** ” means an International Ship Security Certificate issued by the Classification Society confirming that the Vessel is in compliance with the ISPS Code.

“ **KNOT** ” means Knutsen NYK Offshore Tankers AS, Norwegian registration no. 995 221 713, with registered offices at Smedasundet 40, N-5529 Haugesund, Norway.

“ **KNOT ST** ” means KNOT Shuttle Tankers AS, Norwegian registration no. 998 942 829, with registered offices at Smedasundet 40, N-5529, Haugesund, Norway.

“ **Lender** ” means:

- (a) any Original Lender; and
- (b) any bank, financial institution, trust, fund or other entity which has become a Party in accordance with Clause 25 (*Changes to the Lenders*), which in each case has not ceased to be a Party in accordance with the terms of this Agreement.

“ **LIBOR** ” means, in relation to the Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Interest Period of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for USD; or
 - (ii) no Screen Rate is available for the Interest Period of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan, the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, 11.00 a.m. London time on the Quotation Day for USD and for a period equal in length to the Interest Period of that Loan and, if that rate is less than zero (0), LIBOR shall be deemed to be zero (0).

“ **Limited Partnership Agreement** ” means the third amended and restated agreement of limited partnership of KNOP dated as of June 30, 2017 made between the Guarantor, the General Partner and such other Persons (as defined therein) who are or become Partners (as defined therein) in the Guarantor (as the same may be subsequently amended or restated).

“ **Loan** ” means the loan made or to be made under the Facility or the principal amount outstanding for the time being of that loan.

“ **Majority Lenders** ” means:

- (a) before the Loan has been drawn, a Lender or Lenders whose Commitments aggregate more than $66 \frac{2}{3} \%$ of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than $66 \frac{2}{3} \%$ of the Total Commitments immediately prior to the reduction); or
- (b) at any other time, a Lender or Lenders whose participations in the Loan then outstanding aggregate more than $66 \frac{2}{3} \%$ of all the Loan then outstanding.

“ **Management Agreement** ” means any agreement made or to be made between the Borrower and a Manager for the technical and/or commercial management of the Vessel.

“ **Manager** ” means KNOT Management AS or one of its Affiliates acceptable to the Agent.

“ **Manager’s Undertaking** ” means an undertaking to be provided by the Manager in favour of the Agent in form and substance satisfactory to the Agent (on behalf of the Finance Parties).

“ **Margin** ” means two point one per cent. (2.1%) per annum.

“ **Market Value** ” means the fair market value of the Vessel, being the average of valuations of the Vessel obtained from two Approved Shipbrokers, with or without physical inspection of the Vessel (as the Agent may require) on the basis of a sale for prompt delivery for cash at arm’s length on normal commercial terms as between a willing buyer and a willing seller, on an “as is, where is” basis, free of any existing charter or other contract of employment and/or pool arrangement.

“ **Material Adverse Effect** ” means any event or occurrence that in the reasonable opinion of the Lenders has or would have materially adversely affected or could adversely affect:

- (a) the business, condition (financial or otherwise), operations, performance, assets or prospects of an Obligor or the Group taken as a whole since the date at which its latest audited financial statements were prepared; or
- (b) the ability of an Obligor to perform its obligations under the Finance Documents; or
- (c) the validity or enforceability of, or the effectiveness or ranking of any Security granted or purporting to be granted pursuant to, any Finance Document; or
- (d) the right or remedy of a Finance Party in respect of a Finance Document.

“ **Month** ” means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:

- (a) if the numerically corresponding day is not a Business Day, that period shall end on the next Business Day in that calendar month in which that period is to end if there is one, or if there is not, on the immediately preceding Business Day;

- (b) if there is no numerically corresponding day in the calendar month in which that period is to end, that period shall end on the last Business Day in that calendar month.

The above rules will only apply to the last Month of any period.

“**Mortgage**” means the first priority United Kingdom statutory ship mortgage in account current form over the Vessel and deed of covenants collateral thereto to be executed by the Borrower in favour of the Agent (on behalf of the Finance Parties) and registered, in the case of the statutory mortgage, in the United Kingdom register of ships, in form and substance satisfactory to the Agent (on behalf of the Finance Parties).

“**Mortgaged Assets**” means:

- (a) the Vessel;
- (b) the Earnings (including the Charterhire);
- (c) the Insurances;
- (d) the Account;
- (e) any Requisition Compensation; and
- (f) the shares in the Borrower.

“**Obligors**” means the Borrower and the Guarantor, and “**Obligor**” means any of them.

“**Original Financial Statements**” means:

- (a) in relation to the Borrower, the audited financial statements for the financial year ended 31 December 2016; and
- (b) in relation to the Guarantor, its audited financial statements for its financial year ended 31 December 2016.

“**Outstanding Indebtedness**” means the aggregate of all sums of money at any time and from time to time owing to the Finance Parties under or pursuant to the Finance Documents.

“**Party**” means a party to this Agreement.

“**Payment Account**” means USD current account no. USD-CUA-014423 held in the name of Borrower with the Bank of Tokyo-Mitsubishi UFJ, Ltd. London Branch.

“**Quotation Day**” means, in relation to any period for which an interest rate is to be determined, two (2) Business Days before the first day of that period unless market practice differs in the Relevant Interbank Market in which case the Quotation Day will be determined by the Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

“**Reference Bank Quotation**” means any quotation supplied to the Agent by a Reference Bank.

“**Reference Bank Rate**” means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Agent at its request by the Reference Banks as the rate at which the relevant Reference Bank could borrow funds in the London interbank market in USD for the relevant period were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

“ **Reference Banks** ” means the Lenders or such other banks as may be appointed by the Agent in consultation with the Borrower.

“ **Relevant Interbank Market** ” means the London interbank market.

“ **Relevant Person** ” means:

- (a) each member of the Group; and
- (b) each of its directors, officers, employees, agents and representatives.

“ **Repayment Date** ” means the first Repayment Date, which is the numerically corresponding calendar day falling three (3) months after the Utilisation Date, and each day which is the numerically corresponding calendar day three (3) month thereafter, provided that:

- (a) the last Repayment Date shall be the Final Maturity Date;
- (b) if any Repayment Date is not a Business Day, the immediately succeeding Business Day shall be such Repayment Date (unless such succeeding Business Day falls in the next calendar month, in which event such Repayment Date shall be the immediately preceding Business Day); and

if there is no such corresponding date in the relevant calendar month, that Repayment Date shall be the last Business Day of such month.

“ **Repeating Representations** ” means each of the representations set out in Clause 19 (*Representations*).

“ **Representative** ” means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

“ **Requisition Compensation** ” means all sums of money or other compensation from time to time payable in respect of any requisition for title of other compulsory acquisition, requisition, expropriation or similar of the Vessel by any governmental entity.

“ **Restricted Party** ” means a person that is:

- (a) listed on any Sanctions List or targeted by Sanctions (whether designated by name or by reason of being included in a class of person); or
- (b) located in or incorporated under the laws of any country or territory that is the target of comprehensive, country- or territory-wide Sanctions; or
- (c) directly or indirectly owned or controlled by, or acting on behalf, at the direction or for the benefit of, a person referred to in (a) and/or (to the extent relevant under Sanctions) (b) above; or

in each case, only to the extent a Finance Party would be prohibited or restricted by Sanctions from transacting or dealing with (including but not limited to being a party to this Agreement), or otherwise exercising any rights in respect of, or fulfilling any duties or obligations owed to, such a person.

“ **Sanctions** ” means any applicable (to the Obligors and/or any Relevant Person and/or Finance Party as the context provides) laws, regulations or orders concerning any trade, economic or financial sanctions or embargoes.

“ **Sanctions Authority** ” means the Norwegian State, the United Kingdom, the United Nations, the European Union, the member states of the European Union, the United States of America, Australia, Japan and any authority acting on behalf of any of them in connection with Sanctions.

“ **Sanctions List** ” means (a) the lists of Sanctions designations and/or targets maintained by any Sanctions Authority and/or (b) any other Sanctions designation or target listed and/or adopted by a Sanctions Authority, in all cases, from time to time.

“ **Screen Rate** ” means the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for USD for the relevant period displayed (before any correction, recalculation or republication by the administrator) on page LIBOR01/LIBOR02 of the Thomson Reuters Screen (or any replacement Thomson Reuters page which displays that rate) or on the appropriate page of such other information service which publishes that rate from time to time in place of Thomson Reuters. If such page or service ceases to be available, the Agent may specify another page or service displaying the relevant rate after consultation with the Borrower and the Lenders.

“ **Security** ” means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

“ **Security Document** ” means each document listed in Clause 17 (Security) and any other document agreement agreed between the Parties to be a Security Document.

“ **Security Period** ” means the period commencing on the date of this Agreement and ending the date on which the Agent notifies the Borrower and the other Finance Parties that:

- (a) all amounts which have become due for payment by the Borrower under the Finance Documents have been paid;
- (b) no amount is owing or has accrued (without yet having become due for payment) under any of the Finance Documents;
- (c) none of the Obligors have any future or contingent liability under any provision of this Agreement and the other Finance Documents; and
- (d) the Agent and the Lenders do not consider that there is a significant risk that any payment or transaction under a Finance Document would be set aside, or would have to be reversed or adjusted, in any present or possible future proceeding relating to a Finance Document or any asset covered (or previously covered) by a Security created by a Finance Document.

“ **Shareholder Loans** ” means shareholder loans and/or loans from other companies within the Group and/or loans from other Affiliates.

“ **SMC** ” means a valid safety management certificate issued for the Vessel issued by the Classification Society pursuant to paragraph 13.7 of the ISM Code.

“**SMS**” means a safety management system for the Vessel developed and implemented in accordance with the ISM Code and including the functional requirements duties and obligations that follow from the ISM Code.

“**Subsidiary**” means an entity of which a person has direct or indirect control (whether through the ownership of voting capital, by contract or otherwise) or owns directly or indirectly more than 50 % of the shares and for this purpose an entity shall be treated as controlled by another if that entity is able to direct its affairs and/or to control the composition of the board of directors or equivalent body.

“**Tax**” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

“**Total Commitments**” means the aggregate of the Commitments being USD 100,000,000 at the date of this Agreement.

“**Total Loss**” means, in relation to the Vessel:

- (a) the actual, constructive, compromised, agreed, arranged or other total loss of the Vessel;
- (b) the requisition for title or compulsory acquisition of the Vessel by any government or other competent authority;
- (c) the capture, seizure, destruction, abandonment, condemnation, arrest, detention or confiscation of the Vessel by any government or by persons acting or purporting to act on behalf of any government or public authority, unless the Vessel is released and returned to the possession of the Borrower within thirty (30) days after the capture, seizure, arrest, detention or confiscation in question; or
- (d) any piracy, hijacking or theft of the Vessel, unless the Vessel is released and restored to the Borrower within thirty (30) days after the occurrence of such incident.

“**Total Loss Date**” means:

- (a) in the case of an actual total loss of the Vessel, the date on which it occurred or, if that is unknown, the date when the Vessel was last heard of;
- (b) in the case of a constructive, compromised, agreed or arranged total loss of the Vessel, the earlier of: (i) the date on which a notice of abandonment is given to the insurers (provided a claim for total loss is admitted by such insurers) or, if such insurers do not forthwith admit such a claim, at the date at which either a total loss is subsequently admitted by the insurers or a total loss is subsequently adjudged by a competent court of law or arbitration panel to have occurred or, if earlier, the date falling three (3) Months after notice of abandonment of the Vessel was given to the insurers; and (ii) the date of compromise, arrangement or agreement made by or on behalf of the Borrower with the Vessel’s insurers in which the insurers agree to treat the Vessel as a total loss; or
- (c) in the case of any other type of total loss, on the date (or the most likely date) on which it appears to the Agent that the event constituting the total loss occurred.

“ **Transaction Documents** ” means each Charterparty and each Management Agreement, together with the other documents contemplated herein or therein or otherwise designated as a Transaction Document by the Agent and the Borrower, and “ **Transaction Document** ” means any of them.

“ **Transfer Certificate** ” means a certificate substantially in the form set out in Schedule 4 (*Form of Transfer Certificate*) or any other form agreed between the Agent and the Borrower.

“ **Transfer Date** ” means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Agent executes the relevant Transfer Certificate.

“ **US** ” means the United States of America.

“ **US Tax Obligor** ” means:

- (a) the Borrower which is resident for tax purposes in the US; or
- (b) an Obligor some or all of whose payments under the Finance Documents are from sources within the US for US federal income tax purposes.

“ **Unpaid Sum** ” means any sum due and payable but unpaid by an Obligor under the Finance Documents.

“ **Utilisation** ” means the utilisation of the Facility.

“ **Utilisation Date** ” means the date of the Utilisation, being the date on which the Loan is to be made.

“ **Utilisation Request** ” means a notice substantially in the form set out in Schedule 3 (*Form of Utilisation Request*).

“ **VAT** ” means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112);
- (b) value added tax as provided for in the Norwegian Value Added Tax Act of 19 June 2009 no. 58 (in Norwegian *Merverdiavgiftsloven*); or
- (c) any other tax of a similar nature.

“ **Vessel** ” means the 123,166 dwt aframax shuttle tanker “TORILL KNUTSEN” with IMO number 9630030 registered in the ownership of the Borrower under the laws and flag of the United Kingdom with ABERDEEN as her port of choice and official number 919703.

1.2 Construction

- (a) Unless a contrary indication appears, any reference in this Agreement to:
 - (i) the “ **Agent** ”, the “ **Mandated Lead Arranger** ”, any “ **Finance Party** ”, any “ **Lender** ”, or any “ **Party** ” shall be construed so as to include its successors in title, permitted assigns and permitted transferees to, or of, its rights and/or obligations under the Finance Documents;

- (ii) “ **assets** ” includes present and future properties, revenues and rights of every description;
 - (iii) a “ **Finance Document** ”, “ **Transaction Document** ” or any other agreement or instrument is a reference to that Finance Document, Transaction Document or other agreement or instrument as amended, novated, supplemented, extended or restated;
 - (iv) a “ **group of Lenders** ” includes all the Lenders;
 - (v) “ **indebtedness** ” includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
 - (vi) a “ **person** ” includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium, partnership or other entity (whether or not having separate legal personality);
 - (vii) a “ **regulation** ” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation;
 - (viii) a provision of law is a reference to that provision as amended or re-enacted;
 - (ix) words importing the singular shall include the plural and vice versa; and
 - (x) a time of day is a reference to Bergen time unless specified otherwise.
- (b) Section, Clause and Schedule headings are for ease of reference only.
- (c) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
- (d) A Default is “ **continuing** ” if it has not been remedied or waived and an Event of Default is “ **continuing** ” if it has not been waived.

1.3 **Currency symbols and definitions**

“ **\$** ”, “ **USD** ” and “ **dollars** ” denote the lawful currency of the United States of America.

1.4 **Third party rights**

- (a) Unless expressly provided to the contrary in that Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.
- (b) The consent of any third party to whom rights have been provided under a Finance Document is not required, unless otherwise specifically required under the terms of any Finance Document, to rescind, vary, amend or terminate a Finance Document at any time.

SECTION 2
THE FACILITY

2. THE FACILITY

2.1 The Facility

Subject to the terms of this Agreement, the Lenders make available to the Borrower a senior secured USD term loan facility in an aggregate amount equal to the Total Commitments.

2.2 Finance Parties' rights and obligations

- (a) The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.
- (b) The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from an Obligor shall be a separate and independent debt.
- (c) A Finance Party may, except as otherwise stated in the Finance Documents, separately enforce its rights under the Finance Documents.
- (d) No Finance Party will be liable (including, without limitation, for negligence or any other category of liability whatsoever) for any action taken by it under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.

3. PURPOSE

3.1 Purpose of the Facility

The Borrower shall apply all amounts borrowed by it under the Facility towards (a) repaying the Existing Indebtedness and (b) general corporate purposes.

3.2 Monitoring

No Finance Party is bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4. CONDITIONS OF UTILISATION

4.1 Initial conditions precedent

- (a) The Borrower may not deliver a Utilisation unless the Agent is satisfied that it has received all of the documents and other evidence listed in Part I (*Conditions Precedent to Utilisation*) of Schedule 2 (*Conditions Precedent and Subsequent*), except those documents which specifically will only be available on the Utilisation Date or within another specified date as previously notified and agreed to by the Majority Lenders. The Agent shall notify the Borrower and the Lenders promptly upon being so satisfied.
- (b) Other than to the extent that the Majority Lenders notify the Agent in writing to the contrary before the Agent gives the notification described in paragraph (a) above, the Lenders authorise (but do not require) the Agent to give that notification. The Agent shall not be liable for any damages, costs or losses whatsoever as a result of giving any such notification.

4.2 Further conditions precedent

The Lenders will only be obliged to comply with Clause 5.4 (*Lenders' participation*) if on the date of the Utilisation Request and on the proposed Utilisation Date:

- (a) no Default is continuing or would result from the proposed Loan;
- (b) no Change of Control has occurred; and
- (c) the Repeating Representations to be made by each Obligor are true in all material respects.

4.3 Conditions subsequent

The Borrower shall undertake to deliver or cause to be delivered to the Agent the additional documents and other evidence listed in Part II (*Conditions Subsequent*) of Schedule 2 (*Conditions Precedent and Subsequent*), on or prior to the dates specified in Part II (*Conditions Subsequent*) of Schedule 2 (*Conditions Precedent and Subsequent*) in relation to such other additional documents and other evidence (or such other time period as may be agreed by the Agent).

4.4 Number of Utilisations

The Facility may be drawn in only one single amount.

4.5 Form and content

All documents and evidence delivered to the Agent pursuant to this Clause 4 (*Conditions of Utilisation*) shall:

- (a) be in form and substance satisfactory to the Agent;
- (b) if required by the Agent, be in original; and
- (c) if required by the Agent, be certified, notarised, legalised or attested in a manner acceptable to the Agent.

4.6 Waiver of conditions precedent

The conditions specified in this Clause 4 (*Conditions of Utilisation*) are solely for the benefit of the Lenders and may be waived on their behalf in whole or in part and with or without conditions by the Agent (acting on the instructions of all of the Lenders).

**SECTION 3
UTILISATION**

5. UTILISATION

5.1 Delivery of the Utilisation Request

The Borrower may utilise the Facility by delivery to the Agent of the duly completed Utilisation Request not later than 12:00 noon London time on the date falling four (4) Business Days prior to the Utilisation Date.

5.2 Completion of a Utilisation Request

The Utilisation Request is irrevocable and will not be regarded as having been duly completed unless:

- (a) the proposed Utilisation Date is a Business Day within the Availability Period; and
- (b) the currency and amount of the Utilisation comply with Clause 5.3 (*Currency and amount*).

5.3 Currency and amount

- (a) The currency specified in the Utilisation Request must be USD.
- (b) The amount of the Loan must be an amount which is not more than the Available Facility.

5.4 Lenders' participation

- (a) If the conditions set out in this Agreement have been met, each Lender shall make its participation in the Loan available by the Utilisation Date through its Facility Office.
- (b) The amount of the Lender's participation in the Loan will be equal to the proportion borne by its Commitment to the Available Facility immediately prior to making the Loan.
- (c) The Agent shall notify each Lender of the amount of the Loan and the amount of its participation in the Loan by 12:00 noon London time on the date falling three (3) Business Day prior to the relevant Utilisation Date.

5.5 Cancellation of Commitment

The Commitments which, at that time, are unutilised shall be immediately cancelled at the end of the Availability Period.

SECTION 4
REPAYMENT, PREPAYMENT AND CANCELLATION

6. REPAYMENT

- (a) Subject to the provisions of this Agreement, the Borrower shall repay the Loan in twenty four (24) instalments, each in the amount of USD1,666,666 together with a balloon instalment of USD60,000,016 payable with (and forming part of) the final instalment. If the full amount of the Loan is not advanced to the Borrower, the amount of each repayment instalment shall be reduced pro rata to the amount actually advanced.
- (b) The repayment instalments in respect of the Loan shall be paid on each of the Repayment Date.
- (c) Any Outstanding Indebtedness related to the Loan is due and payable on the Final Maturity Date.
- (d) The Borrower may not reborrow any part of the Loan which is repaid.

7. PREPAYMENT AND CANCELLATION

7.1 Voluntary prepayment of Loan

- (a) The Borrower may, if it gives the Agent not less than ten (10) Business Days' (or such shorter period as the Majority Lenders may agree) prior notice, prepay the whole or any part of the Loan (but, if in part, being an amount that reduces the amount of the Loan by a minimum amount of USD 5,000,000).
- (b) Any prepayment under this Clause 7.1 (*Voluntary prepayment of Loan*) shall be applied pro rata against each of the remaining repayment instalments (including the balloon payment) as set out in Clause 6 (*Repayment*).

7.2 Mandatory prepayment – illegality

If it becomes unlawful in any applicable jurisdiction for a Lender to perform any of its obligations as contemplated by this Agreement or to fund or maintain its participation in the Loan or it becomes contrary to Sanctions to do the same:

- (a) that Lender shall promptly notify the Agent upon becoming aware of that event;
- (b) upon the Agent notifying the Borrower, the Commitment of that Lender will be immediately cancelled; and
- (c) to the extent that the Lender's participation has not been transferred pursuant to paragraph (d) of Clause 7.6 (*Right of replacement or repayment and cancellation in relation to a single Lender*), the Borrower shall repay that Lender's participation in the Loan on the last day of the Interest Period for the Loan occurring after the Agent has notified the Borrower or, if earlier, the date specified by the Lender in the notice delivered to the Agent (being no earlier than the last day of any applicable grace period permitted by law) and that Lender's corresponding Commitment shall be cancelled in the amount of the participations repaid.

7.3 Mandatory prepayment – Total Loss or sale of the Vessel

If the Vessel is sold or shall suffer a Total Loss, the Agent shall:

- (a) in case of a sale, on or before the date on which the sale is completed by delivery of the Vessel to the buyer; or
- (b) in the case of a Total Loss, on the earlier of the date falling ninety (90) days after the Total Loss Date and the receipt by the Agent of the proceeds of Insurance relating to such Total Loss (or in the event of a requisition for title of the Vessel, immediately after the occurrence of such requisition of title)

cancel the Total Commitments and declare the outstanding Loan, together with accrued interest and all other amounts accrued in relation thereto immediately due and payable, whereupon the Total Commitments will be cancelled and all such outstanding amounts will become immediately due and payable.

7.4 **Mandatory prepayment – Market Value**

- (a) If the aggregate Market Value of the Vessel falls below:
 - (i) one hundred and ten per cent (110%) of the Loan during the period from the Utilisation Date up to (but not including) the second anniversary of the Utilisation Date,
 - (ii) one hundred and twenty per cent (120%) of the Loan during the period from (and including) the second anniversary of the Utilisation Date up to (but not including) the fourth anniversary of the Utilisation Date, or
 - (iii) one hundred and twenty-five per cent (125%) of the Loan at any time thereafter;then, the Borrower shall, unless otherwise agreed with the Agent within thirty (30) days after being notified the above in writing by the Agent, either:
 - (i) prepay such part of the Loan, together with accrued interest on the Loan and all other amounts which shall have become due on or prior to the date of such prepayment; and/or
 - (ii) provide the Lenders with such additional security, in form and substance and being of a kind and having a value satisfactory to the Lenders, required to restore the aforesaid ratio. Any additional security shall be documented and perfected in such terms as the Agent (on behalf of all Lenders) may approve or require.
- (b) Any prepayment under this Clause 7.4 (*Mandatory prepayment – Market Value*) shall be applied pro rata against each of the remaining repayment instalments (including the balloon payment) as set out in Clause 6 (*Repayment*).

7.5 **Mandatory prepayment – Change of Control**

If a Change of Control occurs:

- (a) the Borrower shall promptly notify the Agent upon becoming aware of that event; and
- (b) in the event that that Change of Control is continuing for sixty (60) days, the Total Commitments shall be cancelled and the Loan, together with accrued interest and all other amounts accrued under the Finance Documents shall be immediately due and payable on the date sixty (60) days upon the occurrence of that Change of Control.

7.6 **Right of replacement or repayment and cancellation in relation to a single Lender**

- (a) If:
 - (i) any sum payable to any Lender by an Obligor is required to be increased under paragraph (c) of Clause 12.2 (*Tax gross-up*); or
 - (ii) any Lender claims indemnification from the Borrower under Clause 12.3 (*Tax indemnity*) or Clause 13.1 (*Increased costs*),the Borrower may, whilst the circumstance giving rise to the requirement for that increase or indemnification continues, give the Agent notice of cancellation of the Commitment(s) of that Lender and its intention to procure the repayment of that Lender's participation in the Loan or give the Agent notice of its intention to replace that Lender in accordance with paragraph (d) below.
- (b) On receipt of a notice of cancellation referred to in paragraph (a) above, the Commitment(s) of that Lender shall immediately be reduced to zero.
- (c) On the last day of each Interest Period which ends after the Borrower has given notice of cancellation under paragraph (a) above (or, if earlier, the date specified by the Borrower in that notice), the Borrower shall repay that Lender's participation in that Loan.
- (d) If:
 - (i) any of the circumstances set out in paragraph (a) above apply to a Lender; or,
 - (ii) an Obligor becomes obliged to pay any amount in accordance with Clause 7.2 (*Mandatory prepayment – illegality*) to any Lender,the Borrower may, on thirty (30) Business Days' prior notice to the Agent and that Lender, replace that Lender by requiring that Lender to (and, to the extent permitted by law, that Lender shall) transfer pursuant to Clause 25 (*Changes to the Lenders*) all (and not part only) of its rights and obligations under this Agreement to a Lender or other bank, financial institution, trust, fund or other entity selected by the Borrower which confirms its willingness to assume and does assume all the obligations of the transferring Lender in accordance with Clause 25 (*Changes to the Lenders*) for a purchase price in cash payable at the time of the transfer in an amount equal to the outstanding principal amount of such Lender's participation in the outstanding Loan and all accrued interest (to the extent that the Agent has not given a notification under Clause 25.7 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.
- (e) The replacement of a Lender pursuant to paragraph (d) above shall be subject to the following conditions:
 - (i) the Borrower shall have no right to replace the Agent;
 - (ii) neither the Agent nor any Lender shall have any obligation to find a replacement Lender;

- (iii) in no event shall the Lender replaced under paragraph (d) above be required to pay or surrender any of the fees received by such Lender pursuant to the Finance Documents; and
- (iv) the Lender shall only be obliged to transfer its rights and obligations pursuant to paragraph (d) above once it is satisfied that it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations In relation to that transfer.
- (f) A Lender shall perform the checks described in paragraph (e)(iv) above as soon as reasonably practicable following delivery of a notice referred to in paragraph (d) above and shall notify the Agent and the Borrower when it is satisfied that it has complied with this checks.

7.7 Restrictions

- (a) Any notice of cancellation or prepayment given by any Party under this Clause 7 (*Prepayment and cancellation*) shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- (b) Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.
- (c) The Borrower may not reborrow any part of the Facility which is prepaid.
- (d) The Borrower shall not repay or prepay all or any part of the Loan or cancel all or any part of the Commitments except at the times and in the manner expressly provided for in this Agreement.
- (e) No amount of the Total Commitments cancelled under this Agreement may be subsequently reinstated.
- (f) If the Agent receives a notice under this Clause 7 (*Prepayment and cancellation*) it shall promptly forward a copy of that notice to either the Borrower or the affected Lender, as appropriate.
- (g) If all or part of any Lender’s participation in the Loan is repaid or prepaid an amount of that Lender’s Commitment (equal to the amount of the participation which is repaid or prepaid) will be deemed to be cancelled on the date of repayment or prepayment.

7.8 Application of prepayments

Any prepayment of the Loan pursuant to Clause 7.1 (*Voluntary prepayment of Loan*), Clause 7.3 (*Mandatory prepayment – Total Loss or sale of the Vessel*) or Clause 7.4 (*Mandatory prepayment – Market Value*) or Clause 7.5 (*Mandatory prepayment – Change of Control*) shall be applied pro rata to each Lender’s participation in that Loan.

SECTION 5
COSTS OF UTILISATION

8. INTEREST

8.1 Calculation of interest

- (a) The rate of interest on the Loan for each Interest Period is the percentage rate per annum which is the aggregate of the applicable:
 - (i) Margin; and
 - (ii) LIBOR.
- (b) Interest shall be calculated on the actual number of days elapsed on the basis of a three hundred and sixty (360) day year.
- (c) For purpose of calculation of such number of days, the first day of each Interest Period shall be included and the last day thereof shall be excluded.
- (d) If, after calculation of any amount payable under this Clause 8, there is any fraction equating to less than one hundredth of one dollar (USD0.01), such fraction shall be discarded.

8.2 Payment of interest

The Borrower shall pay accrued interest on the Loan on each of the Interest Payment Date.

8.3 Default interest

- (a) If an Obligor fails to pay any amount payable by it under a Finance Document on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate which is the higher of (i) four per cent (4%) per annum above the actual cost at which the Lenders obtain funds from any financial institution or source for the purpose of this Agreement and (ii) two per cent (2%) per annum above the interest rate applicable to the Interest Period immediately prior to such default, on the basis of a year of 360 days. In the event that a Lender suffers any loss of any kind whatsoever due to a delay in the payment of such defaulted amount, the Borrower shall pay a sum as shall be sufficient to cover such loss plus interest on such sum at the aforesaid rate from the date of such loss until such sum and interest are paid in full.
- (b) Any interest accruing under this Clause 8.3 shall be immediately payable by the Obligor on demand by the Agent.
- (c) Default interest (if unpaid) arising on an overdue amount will be compounded with the overdue amount at the end of each Interest Period applicable to that overdue amount but will remain immediately due and payable.

8.4 Notification of rates of interest

- (a) The Agent shall promptly notify the Lenders and the Borrower of the determination of a rate of interest under this Agreement.
- (b) The Agent shall promptly notify the Borrower of each Funding Rate relating to the Loan.

9. **INTEREST PERIODS**

9.1 **Duration of Interest Periods**

Each Interest Period in respect of the Loan shall be for a period of three (3) months and shall commence, in the case of the first Interest Period, on the Utilization Date or, in the case of each subsequent Interest Period, on the expiry of the immediately preceding Interest Period.

9.2 **Non- Business Day**

If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

10. **CHANGES TO THE CALCULATION OF INTEREST**

10.1 **Unavailability of Screen Rate**

(a) If no Screen Rate is available for LIBOR for the Interest Period of the Loan, the applicable LIBOR shall be the Interpolated Screen Rate for a period equal in length to that Interest Period.

(b) If no Screen Rate is available for LIBOR for:

(i) USD; or

(ii) the Interest Period of the Loan and it is not possible to calculate the Interpolated Screen Rate,

the applicable LIBOR shall be the Reference Bank Rate as of noon London time on the Quotation Day and for a period equal in length to the Interest Period of the Loan.

10.2 **Calculation of Reference Bank Rate**

(a) Subject to paragraph (b) below, if LIBOR is to be determined on the basis of a Reference Bank Rate but a Reference Bank does not supply a quotation by noon London time on the Quotation Day, the Reference Bank Rate shall be calculated on the basis of the quotations of the remaining Reference Banks.

(b) If at or about noon London time on the Quotation Day, none or only one of the Reference Banks supplies a quotation, there shall be no Reference Bank Rate for the relevant Interest Period.

(c) If paragraph (b) above applies but no Reference Bank Rate is available for USD or the relevant Interest Period there shall be no LIBOR for that Loan and Clause 10.4 (*Cost of funds*) shall apply to that Loan for that Interest Period.

10.3 **Market disruption**

If before close of business in London on the Quotation Day for the relevant Interest Period the Agent receives notifications from a Lender or Lenders (whose participations in the Loan exceed fifty per cent. (50%) of the Loan) that the cost to it of funding its participation in the Loan from whatever source it may reasonably select would be in excess of LIBOR then Clause 10.4 (*Cost of funds*) shall apply to the Loan for the relevant Interest Period.

10.4 **Cost of funds**

(a) If this Clause 10.4 (*Cost of funds*) applies, the rate of interest on each Lender's share of the Loan for the relevant Interest Period shall be the percentage rate per annum which is the sum of:

-
- (i) the Margin; and
 - (ii) the rate notified to the Agent by that Lender as soon as practicable and in any event within three (3) Business Days of the first day of that Interest Period (or, if earlier, on the date falling three (3) Business Days before the date on which interest is due to be paid in respect of that Interest Period), to be that which expresses as a percentage rate per annum the cost to the relevant Lender of funding its participation in that Loan from whatever source it may reasonably select.
- (b) If this Clause 10.4 (*Cost of Funds*) applies and the Agent or the Borrower so requires, the Agent and the Borrower shall enter into negotiations (for a period of not more than thirty (30) days) with a view to agreeing a substitute basis for determining the rate of interest.
 - (c) Any alternative basis agreed pursuant to paragraph (a) above shall, with the prior consent of all the Lenders and the Borrower, be binding on all Parties.

10.5 **Break Costs**

- (a) The Borrower shall, within three (3) Business Days of demand by a Finance Party, pay to that Finance Party its Break Costs attributable to all or any part of the Loan or Unpaid Sum being paid by the Borrower on a day other than the last day of an Interest Period for that Loan or Unpaid Sum.
- (b) Each Lender shall, as soon as reasonably practicable after a demand by the Agent, provide a certificate confirming the amount of its Break Costs for any Interest Period in which they accrue.

11. **FEES**

11.1 **Flat fee**

The Borrower shall pay to the Agent (for further distribution to the Original Lenders) a non-refundable flat fee in the amount of one million dollars (USD1,000,000), such fee to be paid within ten (10) Business Days after the date of this Agreement.

SECTION 6
ADDITIONAL PAYMENT OBLIGATIONS

12. TAX GROSS UP AND INDEMNITIES

12.1 Definitions

(a) In this Agreement:

“ **Protected Party** ” means a Finance Party which is or will be subject to any liability, or required to make any payment, for or on account of Tax in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under a Finance Document.

“ **Tax Deduction** ” means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

12.2 Tax gross-up

- (a) Each Obligor shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.
- (b) The Borrower shall promptly upon becoming aware that an Obligor must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Agent accordingly. Similarly, a Lender shall notify the Agent on becoming so aware in respect of a payment payable to that Lender. If the Agent receives such notification from a Lender it shall notify the Borrower and that Obligor.
- (c) If a Tax Deduction is required by law to be made by an Obligor, the amount of the payment due from that Obligor shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.
- (d) If an Obligor is required to make a Tax Deduction, that Obligor shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- (e) Within thirty (30) days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Obligor making that Tax Deduction shall deliver to the Agent for the Finance Party entitled to the payment evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

12.3 Tax indemnity

- (a) The Borrower shall (within three (3) Business Days of demand by the Agent) pay to a Protected Party an amount equal to the loss, liability or cost which that Protected Party determines will be or has been (directly or indirectly) suffered for or on account of Tax by that Protected Party in respect of a Finance Document.
- (b) Paragraph (a) above shall not apply:
 - (i) with respect to any Tax assessed on a Finance Party:
 - (A) under the law of the jurisdiction in which that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or

(B) under the law of the jurisdiction in which that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by that Finance Party; or

(ii) to the extent a loss, liability or cost:

(A) is compensated for by an increased payment under Clause 12.2 (*Tax gross-up*); or

(B) would have been compensated for by an increased payment under Clause 12.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in paragraph (d) of Clause 12.2 (*Tax gross-up*) applied; or

(C) relates to a FATCA Deduction required to be made by a Party.

(c) A Protected Party making, or intending to make a claim under paragraph (a) above shall promptly notify the Agent of the event which will give, or has given, rise to the claim, following which the Agent shall notify the Borrower.

(d) A Protected Party shall, on receiving a payment from an Obligor under this Clause 12.3 (*Tax indemnity*), notify the Agent.

12.4 Stamp taxes

The Borrower shall pay and, within three (3) Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document.

12.5 VAT

(a) All amounts set out or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).

(b) Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.

12.6 FATCA Information

(a) Subject to paragraph (c) below, each Party shall, within ten (10) Business Days of a reasonable request by another Party:

(i) confirm to that other Party whether it is:

(A) a FATCA Exempt Party; or

(B) not a FATCA Exempt Party;

- (ii) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA;
 - (iii) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.
- (b) If a Party confirms to another Party pursuant to paragraph (a)(i) above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- (c) Paragraph (a) above shall not oblige any Finance Party to do anything, and paragraph (a)(iii) above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (i) any law or regulation;
 - (ii) any fiduciary duty; or
 - (iii) any duty of confidentiality.
- (d) If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a)(i) or (ii) above (including, for the avoidance of doubt, where paragraph (c) above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.
- (e) If an Obligor is a US Tax Obligor or the Agent reasonably believes that its obligations under FATCA or any other applicable law or regulation require it, each Lender shall, within ten (10) Business Days of:
- (i) where that Obligor is a US Tax Obligor and the relevant Lender is an Original Lender, the date of this Agreement;
 - (ii) where that Obligor is a US Tax Obligor on a Transfer Date and the relevant Lender is a New Lender, the relevant Transfer Date; or
 - (iii) where that Obligor is not a US Tax Obligor, the date of a request from the Agent,
- supply to the Agent:
- (A) a withholding certificate on Form W-8, Form W-9 or any other relevant form; or
 - (B) any withholding statement or other document, authorisation or waiver as the Agent may require to certify or establish the status of such Lender under FATCA or that other law or regulation.

- (f) The Agent shall provide any withholding certificate, withholding statement, document, authorisation or waiver it receives from a Lender pursuant to paragraph (e) above to the relevant Obligor.
- (g) If any withholding certificate, withholding statement, document, authorisation or waiver provided to the Agent by a Lender pursuant to paragraph (e) above is or becomes materially inaccurate or incomplete, that Lender shall promptly update it and provide such updated withholding certificate, withholding statement, document, authorisation or waiver to the Agent unless it is unlawful for the Lender to do so (in which case the Lender shall promptly notify the Agent). The Agent shall provide any such updated withholding certificate, withholding statement, document, authorisation or waiver to the relevant Obligor.
- (h) The Agent may rely on any withholding certificate, withholding statement, document, authorisation or waiver it receives from a Lender pursuant to paragraph (e) or (g) above without further verification. The Agent shall not be liable for any action taken by it under or in connection with paragraphs (e), (f) or (g) above.

12.7 FATCA Deduction

- (a) Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction or otherwise compensate the recipient of the payment for that FATCA Deduction.
- (b) Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Borrower and the Agent and the Agent shall notify the other Finance Parties.

13. INCREASED COSTS

13.1 Increased costs

- (a) Subject to Clause 13.3 (*Exceptions*) the Borrower shall, within three (3) Business Days of a demand by the Agent, pay for the account of a Finance Party the amount of any Increased Costs incurred by that Finance Party or any of its Affiliates as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation, (ii) compliance with any law or regulation made after the date of this Agreement or (iii) the implementation or application of or compliance with any Basel III Regulation (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates).
- (b) In this Agreement “ **Increased Costs** ” means:
 - (i) a reduction in the rate of return from the Facility or on a Finance Party’s (or its Affiliate’s) overall capital;
 - (ii) an additional or increased cost; or
 - (iii) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates to the extent that it is attributable to that Finance Party having entered into its Commitment or funding or performing its obligations under any Finance Document.

13.2 **Increased cost claims**

- (a) A Finance Party intending to make a claim pursuant to Clause 13.1 (*Increased costs*) shall notify the Agent of the event giving rise to the claim, following which the Agent shall promptly notify the Borrower.
- (b) Each Finance Party shall, as soon as practicable after a demand by the Agent, provide a certificate confirming the amount of its Increased Costs.

13.3 **Exceptions**

- (a) Clause 13.1 (*Increased costs*) does not apply to the extent any Increased Cost is:
 - (i) attributable to a Tax Deduction required by law to be made by an Obligor;
 - (ii) attributable to a FATCA Deduction required to be made by a Party;
 - (iii) compensated for by Clause 12.3 (*Tax indemnity*) (or would have been compensated for under Clause 12.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in paragraph (b) of Clause 12.3 (*Tax indemnity*) applied); or
 - (iv) attributable to the wilful breach by the relevant Finance Party or its Affiliates of any law or regulation.
- (b) In this Clause 13.3 (*Exceptions*), a reference to a “ **Tax Deduction** ” has the same meaning given to the term in Clause 1 (*Definitions and Interpretation*).

14. **OTHER INDEMNITIES**

14.1 **Currency indemnity**

- (a) If any sum due from an Obligor under the Finance Documents (a “ **Sum** ”), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the “ **First Currency** ”) in which that Sum is payable into another currency (the “ **Second Currency** ”) for the purpose of:
 - (i) making or filing a claim or proof against that Obligor;
 - (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,that Obligor shall as an independent obligation, within three (3) Business Days of demand, indemnify each Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.
- (b) Each Obligor waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

14.2 **Other indemnities**

Each Obligor shall, within three (3) Business Days of demand, indemnify each Finance Party against any cost, loss or liability incurred by that Finance Party as a result of:

- (a) the occurrence of any Event of Default;

- (b) a failure by an Obligor to pay any amount due under a Finance Document on its due date, including without limitation, any cost, loss or liability arising as a result of Clause 29 (*Sharing among the Finance Parties*);
- (c) any claim, action, civil penalty or fine against, any settlement, and any other kind of loss or liability, and all reasonable costs and expenses (including reasonable counsel fees and disbursements) incurred by the Agent or any Lender as a result of conduct of any Obligor or any of their partners, directors, officers, employees, agents or advisors, that violates any Sanctions;
- (d) funding, or making arrangements to fund, its participation in a Loan requested by the Borrower in the Utilisation Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by that Finance Party alone); or
- (e) the Loan (or part of the Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower.

The indemnity in this Clause 14.2 (*Other indemnities*) shall cover any cost, loss or liability incurred by each Finance Party in any jurisdiction arising or asserted under or in connection with any law relating to safety at sea, the ISM Code, any Environmental Law or any Sanctions.

14.3 **Indemnity to the Agent**

The Borrower shall promptly indemnify the Agent against any cost, loss or liability incurred by the Agent (acting reasonably) as a result of:

- (a) investigating any event which it reasonably believes is a Default;
- (b) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised; or
- (c) instructing lawyers, accountants, tax advisers, surveyors or other professional advisers or experts as permitted under this Agreement.

15. **MITIGATION BY THE LENDERS**

15.1 **Mitigation**

- (a) Each Finance Party shall, in consultation with the Borrower, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of Clause 7.2 (*Mandatory prepayment – illegality*), Clause 12 (*Tax gross-up and indemnities*) or Clause 13 (*Increased costs*) including (but not limited to) transferring its rights and obligations under the Finance Documents to another Affiliate or Facility Office.
- (b) Paragraph (a) above does not in any way limit the obligations of any Obligor under the Finance Documents.

15.2 **Limitation of liability**

- (a) The Borrower shall promptly indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 15.1 (*Mitigation*).

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- (b) A Finance Party is not obliged to take any steps under Clause 15.1 (*Mitigation*) if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

16. **COSTS AND EXPENSES**

16.1 **Transaction expenses**

The Borrower shall promptly on demand pay the Agent and the Mandated Lead Arranger the amount of all costs and expenses (including legal fees) reasonably incurred by any of them in connection with the negotiation, preparation, printing, execution, syndication, perfection, amendment, enforcement and preservation of:

- (a) this Agreement and any other documents referred to in this Agreement; and
- (b) any other Finance Documents executed after the date of this Agreement.

16.2 **Amendment and enforcement costs**

The Borrower shall, within three (3) Business Days of demand, reimburse the Agent and any Finance Party for the amount of all costs and expenses (including but not limited to legal fees and administration fees, including costs of utilising the Agent's management time) incurred by the Agent and any such Finance Party in connection with:

- (a) responding to, evaluating, negotiating or complying with a request or requirement for any amendment, waiver or consent;
- (b) the granting of any release, waiver or consent under the Finance Documents;
- (c) any amendment or variation of a Finance Document; and
- (d) the enforcement of, or the preservation, protection or maintenance of, or attempt to preserve or enforce, any of the rights of the Finance Parties under the Finance Documents.

16.3 **Costs and expenses payable even if no Utilisation**

For the avoidance of doubt, costs payable by the Borrower under Clause 16.1 (*Transaction Expenses*) and this Clause 16.2 (*Amendment and enforcement costs*) remain payable whether or not the Utilisation is ever made.

**SECTION 7
SECURITY**

17. SECURITY

17.1 Security

The obligations and liabilities of the Obligors under the Finance Documents in respect of the Facility, including (without limitation) the Borrower's obligation to repay the Loan utilised hereunder together with all unpaid interest, default interest, charges, expenses and any other derived liability whatsoever of the Borrower towards the Finance Parties in connection therewith, shall at all times from the time of Utilisation until all amounts due to the Finance Parties under any Finance Document in respect of the Facility have been paid and/or repaid in full, be secured by the following security:

- (a) the Mortgage;
- (b) the Assignment Agreement;
- (c) the Account Pledge;
- (d) the Guarantee; and
- (e) the Borrower Share Pledge,

and any other document that may have been or shall from time to time hereafter be executed as Security for the Obligors' obligations under or pursuant to the Finance Documents in respect of the Facility.

The Security Documents shall rank with first priority and shall include any obligations under the Finance Documents in respect of the Facility, always subject to the provision of Clause 30.5 (*Partial Payments*).

17.2 Perfection etc.

The Obligors undertake to ensure that the Security Documents are duly executed by the parties thereto in favour of the Agent (on behalf of the Finance Parties) on or about the Utilisation Date in accordance with Clause 4 (*Conditions of Utilisation*), legally valid, enforceable by the Finance Parties and in full force and effect, and to execute or procure the execution of such further documentation as the Agent may reasonable require in order for the relevant Finance Parties to maintain the security position envisaged hereunder or to facilitate the realisation of any assets the subject of any Security.

18. GUARANTEE AND INDEMNITY

18.1 Guarantee and indemnity

The Guarantor irrevocably and unconditionally:

- (a) guarantees to each Finance Party punctual performance by the Borrower of all the Borrower's obligations under the Finance Documents;
- (b) undertakes with each Finance Party that whenever the Borrower does not pay any amount when due under or in connection with any Finance Document, the Guarantor shall immediately on demand pay that amount, and the Guarantor shall not have any right of reservation or objection to such demand for payment by the Agent and no conflict or dispute of whatsoever nature between the Agent and the Borrower shall have an impact on the Guarantor's obligation to pay under the guarantee set out in this Clause 18 (*Guarantee and indemnity*).

- (c) agrees with each Finance Party that if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal, it will, as an independent and primary obligation, indemnify that Finance Party immediately on demand against any cost, loss or liability it incurs as a result of the Borrower not paying any amount which would, but for such unenforceability, invalidity or illegality, have been payable by it under any Finance Document on the date when it would have been due. The amount payable by the Guarantor under this indemnity will not exceed the amount it would have had to pay under this Clause 18 (*Guarantee and indemnity*) if the amount claimed had been recoverable on the basis of a guarantee.

18.2 **Guarantee limitations**

Notwithstanding the obligations of the Guarantor pursuant to the guarantee set out in this Clause 18 (*Guarantee and indemnity*):

- (a) the maximum guarantee liability of the Guarantor hereunder shall always be limited to USD 100,000,000 plus (i) any interest, default interest, Break Cost or other costs, fees and expenses related to the Borrower's obligations *under the Finance Documents* and (ii) any default interest or other costs, fees and expenses related to the liability of the Guarantor hereunder;
- (b) the guarantee set out in this Clause 18 (*Guarantee and indemnity*) does not apply to any liability if and to the extent that it would result in this guarantee constituting unlawful financial assistance within the meaning of Chapter 8 of the Companies Act or any equivalent and applicable provisions under the laws of the relevant jurisdiction of the Guarantor.

18.3 **Continuing guarantee**

This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by any Obligor under the Finance Documents, regardless of any intermediate payment or discharge in whole or in part.

18.4 **Reinstatement**

If any discharge, release or arrangement (whether in respect of the obligations of any Obligor or any security for those obligations or otherwise) is made by a Finance Party in whole or in part on the basis of any payment, security or other disposition which is avoided or must be restored in insolvency, liquidation, administration or otherwise, without limitation, then the liability of the Guarantor under this Clause 18 (*Guarantee and indemnity*) will continue or be reinstated as if the discharge, release or arrangement had not occurred.

18.5 **Waiver of defences**

The obligations of the Guarantor under this Clause 18 (*Guarantee and indemnity*) will not be affected by an act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any of its obligations under this Clause 18 (*Guarantee and indemnity*) (without limitation and whether or not known to it or any Finance Party) including:

- (a) any time, waiver or consent granted to, or composition with, any Obligor or other person;
- (b) the release of any other Obligor or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;

- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, any Obligor or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of an Obligor or any other person;
- (e) any amendment, novation, supplement, extension, restatement (however fundamental and whether or not more onerous) or replacement of any Finance Document or any other document or security including without limitation any change in the purpose of, any extension of or any increase in any facility or the addition of any new facility under any Finance Document or other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any person under any Finance Document or any other document or security; or
- (g) any insolvency or similar proceedings.

18.6 Immediate recourse

the Guarantor waives any right it may have of first requiring any Finance Party (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Guarantor under this Clause 18 (*Guarantee and indemnity*). This waiver applies irrespective of any law or any provision of a Finance Document to the contrary.

18.7 Appropriations

Until all amounts which may be or become payable by the Obligors under or in connection with the Finance Documents have been irrevocably paid in full, each Finance Party (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by that Finance Party (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and the Guarantor shall not be entitled to the benefit of the same; and
- (b) hold in an interest-bearing suspense account any moneys received from the Guarantor or on account of the Guarantor's liability under this Clause 18 (*Guarantee and indemnity*).

18.8 Deferral of the Guarantor's rights

Until all amounts which may be or become payable by the Obligors under or in connection with the Finance Documents have been irrevocably paid in full and unless the Agent otherwise directs, the Guarantor will not exercise any rights which it may have by reason of performance by it of its obligations under the Finance Documents or by reason of any amount being payable, or liability arising, under this Clause 18 (*Guarantee and indemnity*):

- (a) to be indemnified by an Obligor;
- (b) to claim any contribution from any other guarantor of any Obligor's obligations under the Finance Documents;

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- (c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Finance Parties under the Finance Documents or of any other guarantee or security taken pursuant to, or in connection with, the Finance Documents by any Finance Party;
 - (d) to bring legal or other proceedings for an order requiring any Obligor to make any payment, or perform any obligation, in respect of which the Guarantor has given a guarantee, undertaking or indemnity under Clause 18 (*Guarantee and Indemnity*);
 - (e) to exercise any right of set-off against any Obligor; and/or
 - (f) to claim or prove as a creditor of any Obligor in competition with any Finance Party.

If the Guarantor receives any benefit, payment or distribution in relation to such rights it shall hold that benefit, payment or distribution to the extent necessary to enable all amounts which may be or become payable to the Finance Parties by the Obligors under or in connection with the Finance Documents to be repaid in full on trust for the Finance Parties and shall promptly pay or transfer the same to the Agent or as the Agent may direct for application in accordance with Clause 30 (*Payment mechanics*).

18.9 **Additional security**

This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by any Finance Party.

SECTION 8
REPRESENTATIONS, UNDERTAKINGS AND EVENTS OF DEFAULT

19. REPRESENTATIONS

Each Obligor makes the representations and warranties set out in this Clause 19 (*Representations*) to each Finance Party on the date of this Agreement and on the dates on which the Repeating Representations are made.

19.1 Status

- (a) The Borrower is duly incorporated and validly existing under the laws of Norway as a limited liability company and its shares are directly wholly owned by KNOT ST.
- (b) The Guarantor is a publicly traded limited partnership duly organised under the Limited Partnership Agreement and validly existing under the laws of the Republic of Marshall Islands and is a “Publicly Traded Partnership” under the Code.
- (c) The General Partner is duly incorporated and validly existing under the laws of Norway as a limited liability company and has been appointed as general partner of the Guarantor pursuant to the Limited Partnership Agreement.
- (d) KNOT ST is duly incorporated and validly existing under the laws of Norway as a limited liability company and its shares are indirectly wholly owned by the Guarantor as shown in the structure chart set out in Schedule 6 (*Structure Chart*).
- (e) Each Obligor has the power to own its assets and carry on its business as it is being conducted.

19.2 Binding obligations

- (a) The obligations expressed to be assumed by it in each Finance Document are, subject to any general principles of law limiting its obligations which are specifically referred to in any legal opinion delivered pursuant to Clause 4 (*Conditions of Utilisation*), legal, valid, binding and enforceable obligations.
- (b) Save as provided herein or therein and/or as have been or shall be completed prior to the Utilisation Date, no registration, filing, payment of tax or fees or other formalities are necessary or desired to render the Finance Documents enforceable against the Obligors, and in respect of the Vessel, for the Mortgage over the Vessel to constitute a valid and enforceable first priority mortgage over the Vessel.

19.3 Non-conflict with other obligations

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents and the Transaction Documents do not and will not conflict with:

- (a) any law, statute, rule or regulation applicable to it, or any order, judgment, decree or permit to which it is subject (including the Council Directive 2001/97/EC of the European Parliament and of the Council of 4 December 2001 amending Council Directive 91/308/EEC of the Council of the European Community implemented to combat “money laundering”);
- (b) its constitutional documents; or
- (c) any agreement or instrument binding upon it or any of its assets.

19.4 **Power and authority**

- (a) It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents and the Transaction Documents to which it is a party and the transactions contemplated by those Finance Documents and Transaction Documents.
- (b) All necessary corporate, shareholder and other action have been taken by it to approve and authorize the execution of the Finance Documents and the Transaction Documents, the compliance with the provisions thereof and the performance of its obligations thereunder.
- (c) The Borrower acts for its own account by entering into the Finance Documents and obtaining the Facility.

19.5 **Validity and admissibility in evidence**

All Authorisations required or desirable:

- (a) to enable it lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents and the Transaction Documents to which it is a party;
- (b) to make the Finance Documents and the Transaction Documents to which it is a party admissible in evidence in its jurisdiction of incorporation; and
- (c) in connection with its business and ownership of assets,

have been obtained or effected and are in full force and effect, and there are no circumstances which indicate that any of the same are likely to be revoked in whole or in part.

19.6 **Governing law and enforcement**

- (a) The choice of Norwegian and English law respectively as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.
- (b) Any judgment obtained in Norway and/or England And Wales in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

19.7 **Insolvency**

No corporate action, legal proceeding or other procedure or step described in Clause 24.6 (*Insolvency*), 24.7 (*Insolvency proceedings*) or Clause 24.8 (*Creditors' process*) is currently pending or, to its knowledge, threatened in relation to it, and none of the circumstances described in Clause 24.6 (*Insolvency*), 24.7 (*Insolvency proceedings*) or Clause 24.8 (*Creditors' process*) applies to it.

19.8 **Deduction of Tax**

It is not required to make any Tax Deduction (as defined in Clause 1 (*Definitions and Interpretation*)) from any payment it may make under any Finance Document.

19.9 **No filing or stamp taxes**

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents.

19.10 **No default**

- (a) No Event of Default is continuing or might reasonably be expected to result from the making of the Utilisation.
- (b) No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or to which its assets are subject (including, without limitation, the Transaction Documents) which might have a Material Adverse Effect.

19.11 **No misleading information**

- (a) Any factual information provided by any member of the Group was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.
- (b) The financial information provided by any member of the Group has been prepared on the basis of recent historical information and on the basis of reasonable assumptions.
- (c) Nothing has occurred or been omitted and no information has been given or withheld that results in the information provided by any member of the Group being untrue or misleading in any material respect.

19.12 **Financial statements**

- (a) Its Original Financial Statements and the financial information most recently delivered to the Agent pursuant to Clause 20 (*Information Undertakings*) were prepared in accordance with GAAP consistently applied.
- (b) Its Original Financial Statements and the financial information most recently delivered to the Agent pursuant to Clause 20 (*Information Undertakings*) fairly represent its financial condition as at the end of the relevant financial year and operations during the relevant financial year (consolidated in the case of the Guarantor).
- (c) As of the date of the Original Financial Statements and the financial information most recently delivered to the Agent pursuant to Clause 20 (*Information Undertakings*), no Obligor has had any material liabilities, direct or indirect, actual or contingent which has not been disclosed to the Agent, and there is no material, unrealised or anticipated losses from any unfavourable commitments not disclosed by or reserved against it in the Original Financial Statements, the most recent delivered financial information or in the notes thereto.
- (d) There has been no material adverse change in its business or financial condition (or the business or consolidated financial condition of the Group) since the date of delivery of its latest financial statements.

19.13 **Pari passu ranking**

Its payment obligations under the Finance Documents rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

19.14 **No proceedings pending or threatened**

No litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency which, if adversely determined, might reasonably be expected to have a Material Adverse Effect has or have (to the best of its knowledge and belief) been started or threatened against it.

- 19.15 **Title**
- The Borrower holds the legal title and/or is the beneficial party, as the case may be, to the Mortgaged Assets (other than the shares pledged pursuant to the Borrower Share Pledge, which are owned by KNOT ST.
- 19.16 **No security**
- None of the Mortgaged Assets are affected by any Security, and it is not a party to, nor is it or any of the Mortgaged Assets bound by any order, agreement or instrument under which it is, or in certain events may be, required to create, assume or permit to arise any Security over any of the Mortgaged Assets, save for the Security created under the Security Documents, for liens arising solely by operation of law and/or in the ordinary course of business or otherwise as permitted pursuant to the terms of Clause 22.2 (*Negative pledge*).
- 19.17 **No immunity**
- Neither it, nor any of its assets, are entitled to immunity from suit, execution, attachment or other legal process, and its entry into of the Finance Documents and the Transaction Documents constitutes, and the exercise of its rights and performance of and compliance with its obligations under Finance Documents and the Transaction Documents will constitute, private and commercial acts done and performed for private and commercial purposes.
- 19.18 **Ranking of Security Documents**
- The Security created by the Security Documents has or will have the ranking in priority which it is expressed to have in the Security Documents and the Security is not subject to any prior ranking.
- 19.19 **Taxation**
- (a) It is not overdue in the filing of any Tax returns.
- (b) No claims or investigations are being, or are reasonably likely to be, made or conducted against it with respect to Taxes which is reasonably likely to have a material adverse effect on its ability to perform its obligations under the Finance Documents.
- (c) It is resident for Tax purposes only in the jurisdiction of its incorporation, unless the Agent shall have been otherwise informed in writing.
- 19.20 **Environmental compliance**
- The Borrower and the Manager have performed and observed all Environmental Laws, Environmental Permits and all other covenants, conditions, restrictions or agreements directly or indirectly concerned with any contamination, pollution or waste or the release or discharge of any toxic or hazardous substance in connection with the Vessel.
- 19.21 **Environmental Claims**
- No Environmental Claim has been commenced or (to the best of its knowledge and belief, having made due and careful enquiry) is threatened against it where that claim has or is reasonably likely, if determined against it, to have a material adverse effect on its ability to perform its obligations under the Finance Documents and the Transaction Documents.
- 19.22 **Laws and regulations**
- (a) Neither of it nor any of its employees, representatives, agents, servants or contractors will pay, promise to pay or authorise the payment of any money or anything of value, directly or indirectly, whether as a bribe, pay-off, kickback, gift, commission or gratuity, to any public officials for the purpose of illegally or improperly inducing any

government or corporation in public sector to make a buying or selling decision or illegally or improperly influencing any public official of present or prospective government or public sector customers of it in obtaining or retaining business or taking any other improper action favourable to it.

- (b) It and parties acting on its behalf shall observe and abide with all applicable laws and regulations applicable to it including, amongst other things, SOLAS conventions.

19.23 **ISM Code and ISPS Code compliance**

All requirements of the ISM Code and the ISPS Code as they relate to the Borrower (or any of their Affiliates), the Manager any charterers and the Vessel have been complied with.

19.24 **The Vessel**

The Vessel will on the Utilisation Date be:

- (a) in the absolute ownership of the Borrower free and clear of all encumbrances (other than current crew wages and the Mortgage) and the Borrower will be the sole, legal and beneficial owner of the Vessel;
- (b) registered in the name of the Borrower under British flag with the United Kingdom ship registry;
- (c) operationally seaworthy in every way and fit for service; and
- (d) classed with the class with such classification society as the Lenders shall accept, free of all overdue requirements and other recommendations.

19.25 **Financial Indebtedness**

It is not in breach of or in default under any agreement or other instrument relating to Financial Indebtedness to which it is a party or by which it is bound (nor would it be with the giving of notice or lapse of time or both).

19.26 **Sanctions**

None of the Obligors, nor any of their Subsidiaries nor any of their directors and officers or to their knowledge any other Relevant Person is or has been:

- (a) a Restricted Party; or
- (b) in breach of Sanctions; or
- (c) subject to or involved in any complaint, claim, proceeding, formal notice, investigation or other action by any regulatory or enforcement authority or third party concerning any Sanctions.

19.27 **Ownership**

The structure chart set out in Schedule 6 (Structure Chart) hereto correctly reflects the Group at the date of this Agreement and the Obligors will procure that the Agent receives an updated version of Schedule 6 (Structure Chart) if any changes are made to the structure of the Group.

19.28 **Transaction Documents**

- (a) No material terms of any of the Transaction Documents have been amended or terminated, nor have any waivers of any material terms thereof been agreed, without the prior written consent of the Agent.

- (b) It has not received any notice of termination or force majeure under any of the Transaction Documents and is not aware of any event which is reasonably likely to cause termination or force majeure under any of the Transaction Documents.

19.29 **Repetition**

The Repeating Representations are deemed to be made by each Obligor by reference to the facts and circumstances then existing on the date of the Utilisation Request and the first day of each Interest Period and on the date of delivery of each Compliance Certificate (or, if no such Compliance Certificate is forwarded, on each day such certificate should have been forwarded to the Agent at the latest).

20. **INFORMATION UNDERTAKINGS**

The undertakings in this Clause 20 (*Information undertakings*) remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

20.1 **Financial statements**

The Borrower shall supply to the Agent in sufficient copies for all the Lenders:

- (a) as soon as the same become available, but in any event within one hundred and fifty (150) days after the end of each of its financial years:
- (i) its audited financial statements of the Borrower for that financial year; and
 - (ii) the audited consolidated financial statements of the Guarantor for that financial year;
- (b) as soon as the same become available, but in any event within ninety (90) days after the end of its financial quarters:
- (i) its unaudited financial statements of the Borrower for that financial quarter; and
 - (ii) the unaudited consolidated financial statements of the Guarantor for that financial quarter;
- (c) as soon as the same become available, but in any event within 31 January of each financial year, the consolidated annual budget and cash flow projections for that financial year for the Guarantor, specifying major assumptions and structure charts which correctly reflects the Group on such date.

20.2 **Compliance Certificate**

The Borrower shall supply to the Agent, with each set of financial statements delivered pursuant to paragraph (a)(i) or (b)(i) of Clause 20.1 (*Financial statements*), a Compliance Certificate signed by the chief financial officer of the Borrower and the Guarantor setting out (in reasonable detail) computations as to compliance with Clause 21 (*Financial covenants*) as at the date as at which those financial statements were drawn up.

20.3 **Requirements as to financial statements**

- (a) Each set of financial statements delivered by the Borrower pursuant to Clause 20.1 (*Financial statements*) shall be certified by a director of the relevant company as fairly representing its financial condition as at the date as at which those financial statements were drawn up.

- (b) The Borrower shall procure that each set of financial statements of an Obligor delivered pursuant to Clause 20.1 (*Financial statements*) is prepared using GAAP, accounting practices and financial reference periods consistent with those applied in the preparation of the Original Financial Statements for that Obligor unless, in relation to any set of financial statements, it notifies the Agent that there has been a change in GAAP, the accounting practices or reference periods and its auditors (or, if appropriate, the auditors of the Obligor) deliver to the Agent:
- (i) a description of any change necessary for those financial statements to reflect the GAAP, accounting practices and reference periods upon which that Obligor's Original Financial Statements were prepared; and
 - (ii) sufficient information, in form and substance as may be reasonably required by the Agent, to enable the Lenders to determine whether Clause 21 (*Financial covenants*) has been complied with and make an accurate comparison between the financial position indicated in those financial statements and that Obligor's Original Financial Statements.

Any reference in this Agreement to those financial statements shall be construed as a reference to those financial statements as adjusted to reflect the basis upon which the Original Financial Statements were prepared.

20.4 Information: miscellaneous

Each Obligor shall supply to the Agent (in sufficient copies for all the Lenders, if the Agent so requests):

- (a) all relevant documents dispatched by an Obligor to its shareholders (or any class of them) or its creditors generally at the same time as they are dispatched;
- (b) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group, and which might, if adversely determined, have a Material Adverse Effect;
- (c) promptly upon becoming aware of them, the details of any inquiry, claim, action, suit, proceeding or investigation by any Sanctions Authority against it, any of its direct or indirect owners, other member of the Group, any of their joint ventures or any of their respective directors, officers, employees, agents or representatives, as well as information on what steps are being taken with regards to answer or oppose such;
- (d) promptly upon becoming aware that it, any of its direct or indirect owners, other member of the Group, any of their joint ventures or any of their respective directors, officers, employees, agents or representatives has become or is likely to become a Restricted Party; and
- (e) promptly, such further information regarding the financial condition, business and operations of any member of the Group as any Finance Party (through the Agent) may reasonably request.

20.5 Notification of default

- (a) Each Obligor shall notify the Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence (unless that Obligor is aware that a notification has already been provided by another Obligor).

- (b) Promptly upon a request by the Agent, each Obligor shall supply to the Agent a certificate signed by two of its directors or senior officers on its behalf certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

20.6 **Notification of Environmental Claims**

Each Obligor shall inform the Agent in writing as soon as reasonably practicable upon becoming aware of the same:

- (a) if any Environmental Claim has been commenced or (to the best of its knowledge and belief) is threatened against an Obligor (or any of its Affiliates), the Manager or the Vessel; and
- (b) of any fact and circumstances which will or are reasonably likely to result in any Environmental Claim being commenced or threatened against an Obligor (or any of its Affiliates), the Manager or the Vessel,

where the claim would be reasonably likely, if determined against an Obligor (or any of its Affiliates) or the Vessel, to have a Material Adverse Effect.

20.7 **Market Value and inspection reports**

The Borrower shall:

- (a) arrange, at its own expense, or undertake to let the Agent arrange for the Market Value of the Vessel to be determined at its expense, semi-annually and otherwise at the cost of, and when requested by, the Majority Lenders, unless an Event of Default has occurred whereby any future valuation shall be at the expense of the Borrower; and
- (b) if any relevant inspection reports are made or issued in respect of the Vessel, promptly forward copies of such reports to the Agent.

21. **FINANCIAL COVENANTS**

21.1 **Definitions**

In this Agreement:

“ **Book Equity** ” means, at any time, the value of the paid-in capital and reserves determined on a consolidated basis in accordance with GAAP and as shown in the latest financial statements (and the preferred equity shall be included in the calculation of Book Equity when determining the equity ratio for the Guarantor pursuant to Clause 21.3(c) (*Minimum Equity Ratio*)).

“ **Current Assets** ” means the aggregate value of the Guarantor’s (on a consolidated basis) or the Borrower’s (as the case may be) assets, which are treated as current assets in accordance with GAAP.

“ **Current Liabilities** ” means the aggregate amount of the Guarantor’s (on a consolidated basis) or the Borrower’s (as the case may be) liabilities, which are treated as current liabilities in accordance with GAAP, but excluding instalments on long-term debt and finance leases which fall due during the next twelve months and (when calculating the Current Liabilities of the Borrower) any intercompany balances..

“ **EBITDA** ” means, in respect of any Relevant Period, the consolidated earnings, before:

- (a) deducting any provision on account of taxation;

- (b) deducting any interest, discounts or other fees incurred or payable, by any member of the Group in respect of Financial Indebtedness;
- (c) taking into account any items treated as exceptional or extraordinary items; and
- (d) any amount attributable to the amortisation of intangible assets and depreciation of tangible assets.

“ **Free Liquidity** ” means the aggregate value of:

- (a) cash in hand or on deposit with any bank or financial institution;
- (b) cash equivalents as reported in accordance with GAAP; and
- (c) 2/3 of the available facilities in respect of all revolving facilities to the Guarantor.

“ **Relevant Period** ” means each period of twelve (12) months ending on the last day of each financial quarter of each financial year, provided that for the purposes of the calculation of EBITDA, the earnings of a vessel (following its delivery) shall be annualised (by reference to annual earnings of similar ships acceptable to the Agent for this purpose) until it has operated for a period of twelve (12) months.

“ **Total Assets** ” means, at any time, the total book value of all the assets which would, in accordance with GAAP, less goodwill..

“ **Working Capital** ” means, on any date, Current Assets less Current Liabilities.

21.2 **Financial condition – Borrower**

(a) Working Capital – Borrower

The Borrower shall at all times maintain positive Working Capital.

21.3 **Financial condition – Guarantor**

(a) Working Capital

The Guarantor (on a consolidated basis) shall at all times maintain positive Working Capital.

(b) Free Liquidity

The Guarantor (on a consolidated basis) shall at all times maintain a Free Liquidity equal to or greater than USD 15,000,000 plus USD 1,500,000 for each owned (directly or indirectly) vessel (up to a total of eight (8) vessels) with employment contracts with less than twelve (12) months’ remaining tenor (excluding options) plus USD 1,000,000 for each vessel in excess of eight (8) vessels owned (directly or indirectly) with employment contracts with less than twelve (12) months’ remaining tenor (excluding options), provided always that employment contracts entered into with KNOT or any of its Subsidiaries shall not count as employment contracts for the purpose of this provision.

(c) Minimum Equity Ratio

The Guarantor (on a consolidated basis) shall at all times have a ratio of Book Equity to Total Assets greater than 30%.

(d) Interest Coverage Ratio

The Guarantor (on a consolidated basis) shall have a ratio of EBITDA to interest expense greater than 2.5x.

21.4 **Financial testing**

The financial covenants set out in Clause 21.2 (*Financial condition – Borrower*) and Clause 21.3 (*Financial condition – Guarantor*) shall be calculated on the Guarantor's consolidated figures and in accordance with GAAP and tested (i) by reference to each of its financial statements delivered pursuant to Clause 20.1 (*Financial statements*) (whether audited or un-audited) and each Compliance Certificate delivered pursuant to Clause 20.2 (*Compliance Certificate*) and (ii) at such other times as reasonably requested by the Agent by reference to such documentation as is then available or made available in accordance with paragraph (c) of Clause 20.4 (*Information: miscellaneous*), and presented to the Agent in form and substance satisfactory to the Agent.

21.5 **Financial covenants in other agreements**

If any other loans, bonds or similar debt financing instruments have any stronger financial covenants on the Guarantor, such covenants shall at all times apply for the Facility as if expressly set out in this Agreement.

22. **GENERAL UNDERTAKINGS**

The undertakings in this Clause 22 (*General undertakings*) remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

22.1 **Authorisations**

Each Obligor shall promptly:

- (a) obtain, comply with and do all that is necessary to maintain in full force and effect; and
- (b) supply certified copies to the Agent of,

any Authorisation required under any law or regulation of its jurisdiction of incorporation to enable it to perform its obligations under the Finance Documents and to ensure the legality, validity, enforceability or admissibility in evidence in its jurisdiction of incorporation of any Finance Document.

22.2 **Negative pledge**

- (a) No Obligor shall create or permit to subsist any Security over any of the Mortgaged Assets.
- (b) The Borrower shall not create or permit to subsist any Security over any of its assets nor any factoring agreement to be registered with the Norwegian Registry of Movable Property (in No. *Løsøreregisteret*).
- (c) The Guarantor shall not create or permit to exist any security over any of the shares or other ownership interests in KNOT Offshore Partners UK LLC.
- (d) The Borrower shall not:
 - (i) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by an Obligor or any other member of the Group;

- (ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (iv) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

- (e) Paragraph (a), (b) and (c) above do not apply to any Security listed below:
 - (i) any netting or set-off arrangement entered into by any member of the Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
 - (ii) any lien arising by operation of law and in the ordinary course of trading and securing obligations not more than thirty (30) days overdue;
 - (iii) any Security entered into pursuant to any Finance Document;
 - (iv) any Security securing the Existing Indebtedness (but only up to the Utilisation Date); or
 - (v) Security consented to in writing by the Agent (acting upon instructions from the Lenders).

22.3 Disposals

- (a) The Borrower shall not, enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to sell, lease, transfer or otherwise dispose of any asset.
- (b) Paragraph (a) above does not apply to any sale, lease, transfer or other disposal:
 - (i) made in the ordinary course of trading of the disposing entity; or
 - (ii) of assets in exchange for other assets comparable or superior as to type, value and quality.

22.4 Merger

- (a) No Obligor shall enter into any amalgamation, demerger, merger or corporate reconstruction other than a merger or consolidation with other members of the Group into a single surviving entity which is such Obligor and which succeeds by operation of law to all of the assets and liabilities of such Obligor immediately prior to such merger or consolidation.
- (b) The Borrower shall not enter into any joint venture, partnership or similar arrangement with any person without prior written approval of the Agent.

22.5 Change of business

- (a) Each Obligor shall procure that no substantial change is made to the general nature of its business from that carried on at the date of this Agreement.

- (b) Each Obligor shall ensure that its substantial part of business or assets shall not be destroyed, abandoned, seized, appropriated or forfeited for any reason which has or is reasonably likely to have a Material Adverse Effect.
- (c) There shall be no change in ownership of the Borrower and no material changes to the corporate structure of the Group without the prior written consent of the Lenders (not to be unreasonably withheld) except as permitted under the Finance Documents.

22.6 Transactions with Affiliates

Each Obligor shall procure that all transactions entered into between a member of the Group and an Affiliate are made on arm's length terms.

22.7 Title

The Obligors (as the case may be) shall hold legal title to and own the entire beneficial interest in the Mortgaged Assets, free of all Security and other interests and rights of every kind, except for those created by the Finance Documents and as permitted by Clause 22.2 (*Negative pledge*).

22.8 Insurances – general

Each Obligor shall maintain appropriate insurance cover with respect to its properties, assets and operations of such types, in such amounts and against such risks as are maintained by prudent companies carrying on the same or substantially similar business. All insurances must be with financially sound and reputable insurance companies, funds or underwriters.

22.9 Bank Accounts

The Borrower shall maintain the Account with the Account Bank and all its other bank accounts (including the Payment Account) with any of the Lenders and ensure that all Earnings are paid to the Account .

22.10 Derivative transactions

No Obligor shall enter into any derivative transactions with other parties than the Finance Parties unless the Finance Parties have received a reasonable opportunity, in writing, to provide competitive rates to the Borrower and the Finance Parties cannot provide such competitive rates.

22.11 Distribution restrictions

- (a) The Guarantor shall not, without the prior written consent of the Agent (on behalf of the Lenders):
 - (i) declare, make or pay any dividend or other distribution (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);
 - (ii) repay or distribute any of its share premium reserve;
 - (iii) service or repay any loan from a shareholder comparable to equity; or
 - (iv) redeem, repurchase or repay any of its shares capital (or resolve to do so),to its shareholders (or any Affiliates thereof) in respect of any financial year, unless:
 - (A) no Default has occurred and is continuing at the time the making, payment or declaration of the relevant dividend or other distribution is made, or would result from the making, payment or declaration of the relevant dividend or other distribution; and

(B) The Guarantor and the Borrower will be in compliance with the financial covenants following the making, payment or declaration of the relevant dividend or other distribution.

- (b) The Borrower shall not, without the prior written consent of the Agent (on behalf of the Lenders) declare, make or pay any dividend or other distribution (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital) to its shareholders (or any Affiliates thereof) in respect of any financial year, unless:
- (i) no Default has occurred and is continuing at the time the making, payment or declaration of the relevant dividend or other distribution is made, or would result from the making, payment or declaration of the relevant dividend or other distribution;
 - (ii) The Borrower and the Guarantor will be in compliance with the financial covenants following the making, payment or declaration of the relevant dividend or other distribution.

22.12 Transaction Documents

The Obligors shall procure that no material terms of any of the Transaction Documents are amended or terminated, or any waivers of any material terms thereof are agreed, without the prior written consent of the Agent.

22.13 Taxation

Each Obligor shall pay and discharge all Taxes imposed upon it or its assets within the time period allowed without incurring penalties unless and only to the extent that such payment is being contested in good faith or can be lawfully withheld.

22.14 No change of name etc.

No Obligor shall change:

- (a) the end of its fiscal year;
- (b) its nature of business;
- (c) its constitutional documents;
- (d) its legal name;
- (e) its type of organization; or
- (f) its jurisdiction;

without the prior written consent of the Agent.

22.15 Subordination

The Borrower shall procure that all Shareholder Loans and all amounts payable to and/or claims against it from the Manager and/or any manager are fully subordinated to the interest of the Finance Parties hereunder.

22.16 Indebtedness

The Borrower shall not, without the prior written consent of the Agent, borrow any additional funds or enter into any transaction (including derivative transactions) that may result in the incurrence of any additional Financial Indebtedness (it being understood however that

intercompany loans, deposits or equity contributions within the Group (“ **Intra-Group Indebtedness** ”) shall be allowed provided always that (x) no Default is then in existence or will occur from such disposition, (y) after giving effect to such disposition, the Obligors will be in compliance with the financial covenants in Clause 21 (*Financial covenants*), and (z) Intra-Group Indebtedness shall be fully subordinated to the Facility).

22.17 **Investments**

The Borrower shall not, without the prior written consent of the Lenders make any further investments or acquisitions , except for investments in the ordinary course of business..

22.18 **Financial support**

The Borrower shall not make or grant any loans, guarantees or any other form of financial support, except financial support in the ordinary course of operation of the Vessel, except for intercompany loans, deposits or equity contributions within the Group (“ **Intra-Group Indebtedness** ”) provided always that:

- (a) no Default has occurred and is continuing or will occur from such Intra-Group Indebtedness;
- (b) after giving effect to such Intra-Group Indebtedness, the Obligors will be in compliance with the financial covenants in Clause 21 (*Financial covenants*);and
- (c) the Intra-Group Indebtedness shall be fully subordinated to the Facility.

22.19 **Compliance with laws etc.**

The Obligors shall (and shall ensure that each other member of the Group, as well as any manager and charterer):

- (a) comply with all laws or regulations:
 - (i) applicable to its business; and
 - (ii) applicable to the Vessel, its ownership, employment, operation, management and registration, including the ISM Code, the ISPS Code, all Environmental Laws, all Sanctions and the laws of the Flag State;
- (b) obtain, comply with and do all that is necessary to maintain in full force and effect any Environment Approvals; and

without limiting paragraph (a) above, not employ the Vessel nor allow its employment, operation or management in any manner contrary to any law or regulation including but not limited to the ISM Code, the ISPS Code, all Environmental Laws, anti-bribery and corruption laws and all Sanctions.

22.20 **Sanctions**

- (a) No Obligor shall (and shall ensure that no other Relevant Person will) take any action, make any omission or use (directly or indirectly) any proceeds of a Loan, in a manner that:
 - (i) is a breach of Sanctions or is an attempt to evade any Sanctions; and/or
 - (ii) causes (or will cause) a breach of Sanctions by any Relevant Person or Finance Party.

- (b) No Obligor shall (and shall ensure that no other Relevant Person will) take any action or make any omission that results, or is reasonably likely to result, in it or any Finance Party becoming a Restricted Party or otherwise a target of sanctions (“target of sanctions” signifying an entity or person (“**Target**”) that is a target of laws, regulations or orders concerning any trade, economic or financial sanctions or embargoes by virtue of prohibitions and/or restrictions being imposed on any US person or other legal or natural person subject to the jurisdiction or authority of a US Sanctions Authority which prohibit or restrict them from them engaging in trade, business or other activities with such Target without all appropriate licences or exemptions issued by all applicable US Sanctions Authorities).

23. **VESSEL UNDERTAKINGS**

23.1 **General**

The undertakings in this Clause 23 (*Vessel undertakings*) are granted by the Borrower and remain in force from the Utilisation Date and for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

23.2 **Insurance – Vessel**

- (a) The Borrower shall maintain or ensure that the Vessel is insured against such risks, including but not limited to, hull and machinery, protection & indemnity (including cover for pollution liability to the uppermost limit available via the P&I club), hull interest, freight interest, war risk insurances, including confiscation, terrorism and piracy, and Loss of Hire, in such amounts, on such terms and placed through first class insurance brokers with such first class insurers as the Agent shall approve.
- (b) The aggregate value of the hull and machinery insurance, hull interest insurance, freight interest insurance and war risk insurance for the Vessel shall be at least equal to one hundred and twenty per cent (120%) of the Loan.
- (c) The Borrower shall procure that the Agent (on behalf of the Finance Parties) is noted as first priority mortgagee in the insurance contracts, and that confirmation is promptly given by the underwriters thereof to the Agent that the notice of assignment with regards to the Insurances and the loss payable clauses are noted in the insurance contracts and that standard letters of undertaking/cover notes/policies/certificates of entry are promptly executed by the insurers and/or the insurance broker(s).
- (d) Within reasonable time prior to the expiry date of the relevant Insurances, the Borrower shall procure the delivery to the Agent of a confirmation from the insurance broker(s) through whom the Insurances referred to in paragraph (a) above have been renewed and taken out in respect of the Vessel with insurance values as required by paragraph (b) above, and similarly from the P&I club in which the Vessel is entered that such entry is continuing, that such Insurances are or shall be in full force and effect and that the Agent (on behalf of the Finance Parties) has been noted as first priority mortgagee by the relevant insurers and that the broker and, if applicable, the P&I club shall promptly issue a letter of undertaking in respect of such renewed insurances.
- (e) The Borrower shall allow the Agent to take out (for the benefit of the Finance Parties but at the cost and expense of the Borrower), a Mortgagee’s Interest Insurance and a Mortgagee’s Interest—Additional Perils Pollution Insurance (covering one hundred and ten per cent (110%) of the Loan).

- (f) If any of the Insurances referred to in paragraph (a) above form part of a fleet cover, the Borrower shall procure, except for protection & indemnity (where the Borrower shall procure to obtain standard market undertakings in favour of the Agent with respect to protection & indemnity from the insurers or the insurance broker), that the insurers or the insurer broker shall undertake to the Agent that they shall neither set-off against any claims in respect of the Vessel any premiums due in respect of other vessels or units under such fleet cover or any premiums due for other insurances, nor cancel this Insurance for reason of non-payment of premiums for other units under such fleet cover or of premiums for such other insurances, and shall undertake to issue a separate policy in respect of the Vessel if and when so requested by the Agent.
- (g) The Borrower shall procure that the Vessel always is employed in conformity with the terms of the instruments of Insurances (including any warranties expressed or implied therein) and comply with such requirements as to extra premium or otherwise as the insurers may prescribe.
- (h) The Borrower will not make any material change to the insurances described under (a) above without the prior written consent of the Agent.
- (i) The Borrower shall pay for an insurance audit report commissioned by the Agent to be prepared by an independent insurance consultant, in form and contents acceptable to the Agent, to be tabled prior to the Utilization Date and thereafter (if requested by the Agent or Lenders) upon each (annual) renewal of the Insurances referred to in paragraph (a) above.

23.3 **Flag**

- (a) The Vessel shall be registered in the United Kingdom or another Flag State approved by the Lenders. The Borrower may not move the Vessel to any other ship register without the prior written consent of the Lenders.
- (b) The Borrower, forthwith upon the first request of the Agent so to do, and always subject to consent from the charterer of the Vessel, will procure the transfer of the Vessel to an alternative flag (including, but not limited to, the United Kingdom, Norway (NIS), Denmark (DIS), Malta, Isle of Man and Bermuda) acceptable to the Lenders in circumstances where the Lenders are of the reasonable opinion, based on the advice of the Lenders' local legal counsel, that the security constituted by the Mortgage has been weakened or jeopardised by the changes to the law of the flag under which the Vessel is registered at that time and on such transfer of flag, the Borrower shall execute and deliver, or procure that there be executed and delivered, to the Lenders such Finance Documents as the Lenders may require which are equivalent to the security held by the Lenders under the previous flag, at the cost and expense of the Borrower

23.4 **Classification and repairs**

The Borrower shall, and shall procure that the relevant Manager shall, keep or shall procure that the Vessel is kept in a good, safe and efficient condition consistent with first class ownership and management practice and in particular:

- (a) so as to maintain the highest class with such classification society as the Lenders shall approve, free of all overdue requirements and other recommendations;

- (b) so as to comply with the laws and regulations (statutory or otherwise) applicable to units registered under the flag state of the Vessel or to vessels trading to any jurisdiction to which the Vessel may trade from time to time;
- (c) not, without the prior written consent of the Majority Lenders, change the classification society of the Vessel;
- (d) not, without the prior written consent of the Agent, bring the Vessel or allow the Vessel to be brought to any yard for repairs or for the purpose of work being done upon her where the costs of such repairs or work is likely to exceed USD 1,000,000 (or the equivalent thereof in any other currency), unless such person shall first have given to the Agent and in terms reasonably satisfactory to it, a written undertaking not to exercise any lien on the Vessel or her Insurances or Earnings for the cost of such repairs or work or otherwise; provided that, unless an Event of Default has occurred, the Borrower may procure that the Vessel enter periodic dry-dockings required under applicable laws and regulations without the prior written consent of the Agent and the written undertaking set out above;
- (e) not permit any major change or structural alteration to be made to the Vessel, nor any modification of, or part removal from, the Vessel in a way which would materially diminish her value;
- (f) procure that the Vessel is kept in a good, safe and efficient condition and state of repair consistent with the industry's best ownership and management practice with dry-docking to be completed at the frequency required under the Charterparty; and
- (g) not permit the Vessel to enter the territorial waters (12 mile limit) of the US unless a valid Certificate of Financial Responsibility as required by the United States Coast Guard has been obtained for the Vessel in advance and the Vessel is in compliance with all other regulations in the US applicable to the Vessel.

23.5 **Inspections and class records**

- (a) The Borrower, whenever requested by the Lenders so to do (which requests shall be made by the Lender only at reasonable intervals), shall procure that evidence is delivered satisfactory to the Lenders on the general condition and seaworthiness of the Vessel prepared by surveyors approved by the Lenders (each such survey to be carried out at the Borrower's expense).
- (b) The Borrower shall procure that the Agent's surveyor at the Borrower's cost, is permitted to inspect the condition of the Vessel twice a year provided always that such arrangement shall not interfere with the operation of the Vessel and subject to satisfactory indemnities approved by the P&I insurers.
- (c) The Borrower shall, and shall procure that the Manager shall procure that the Agent is:
 - (i) granted permission to access class records and other information from the classification society in relation to the Vessel, through a letter sent by the Borrower to the classification society (in a form prepared or approved by the Agent), which will also specify that should there be a condition of class imposed or a class recommendation issued in respect of the Vessel, the classification society shall immediately inform the Agent by email; and

(ii) granted electronic access to class records directly by the classification society or indirectly via the account manager of the Borrower and/or the Manager (as the case may be) and designating the Agent as a user or administrator of the system under its account.

(d) The Borrower shall, and shall procure that the Manager shall, instruct the classification society to send to the Agent, following a written request from the Agent, copies of all class records held by the classification society in relation to the Vessel.

23.6 **Surveys**

The Borrower shall, and shall procure that the Manager shall, submit to or cause the Vessel to be submitted to such periodic or other surveys as may be required for classification purposes and to ensure full compliance with regulations of the flag state of the Vessel and to supply or to cause to be supplied to the Agent copies of all survey reports and confirmations of class issued in respect thereof whenever such is required by the Agent, however such requests are limited to once a year.

23.7 **Notification of certain events**

The Borrowers shall immediately notify the Agent of:

- (a) any accident to the Vessel involving repairs where the costs will or is likely to exceed USD 1,000,000 (or the equivalent in any other currency);
- (b) any requirement or recommendation made by any insurer or classification society or by any competent authority which is not, or cannot be, complied with immediately;
- (c) any exercise or purported exercise of any arrest or lien on the Vessel, its Earnings or its Insurances;
- (d) any occurrence as a result of which the Vessel has become or is, by the passing of time or otherwise, likely to become a Total Loss; and
- (e) any claim for a material breach of the ISM Code or the ISPS Code being made against the Borrower or otherwise in connection with the Vessel.

23.8 **Operation of the Vessel**

- (a) The Borrower shall procure that the Vessel is managed by the Manager pursuant to the Management Agreement and shall not, without the prior written consent of the Majority Lenders, change or allow the change of the technical or commercial management of the Vessel.
- (b) The Borrower shall, and shall procure that the Manager shall, comply, or procure the compliance in all material respects with the International Convention for the Safety of Life at Sea (SOLAS) 1974, the ISM Code and the ISPS Code, all Environmental Laws and all other laws or regulations relating to the Vessel (all as adopted, amended or replaced from time to time), its ownership, operation and management or to the business of the Borrower and the Manager and shall not employ the Vessel nor allow its employment:
 - (i) in any manner contrary to law or regulation in any relevant jurisdiction including but not limited to the ISM Code;
 - (ii) to carry any nuclear waste or nuclear material under any circumstances;

- (iii) in carrying illicit or prohibited goods;
- (iv) in a way which may make it liable to be condemned by a prize court or destroyed, seized or confiscated; and
- (v) in any part of the world where there are hostilities (whether war is declared or not) or in any zone which is declared a war zone by any government or is or becomes a listed area of enhanced risk by the war risk insurers of the Vessel unless the Borrower has (at its own expense) effected any special, additional or modified insurance cover which shall be necessary or customary for first class vessel owners within the territorial waters of such country at such time and has provided evidence of such cover to the Agent.

23.9 ISM Code compliance

The Borrower shall:

- (a) procure that the Vessel remains subject to a SMS;
- (b) procure that a valid and current SMC is maintained for the Vessel;
- (c) if not itself, procure that the Manager maintains a valid and current DOC;
- (d) immediately notify the Agent in writing of any actual or threatened withdrawal, suspension, cancellation or modification of the SMC of the Vessel or of its DOC or the DOC of the Manager; and
- (e) immediately notify the Agent in writing of any “accident” or “major nonconformity”, each as those terms is defined in the Guidelines in the application of the IMO International Safety Management Code issued by the International Chamber of Shipping and International Shipping Federation.

23.10 Environmental compliance

The Borrower shall, and shall procure that any charterers shall, comply in all respects with all Environmental Laws applicable to any of them or the Vessel, including without limitation, requirements relating to manning and establishment of financial responsibility and to obtain and comply with all Environmental Permits applicable to any of them and/or the Vessel.

23.11 Arrest

The Borrower shall pay and discharge when due:

- (a) all liabilities which give or may give rise to maritime or possessory liens on or claims enforceable against the Vessel, its Earnings or its Insurances;
- (b) all tolls, taxes, dues, fines, penalties and other amounts charged in respect of the Vessel, its Earnings or its Insurances; and
- (c) all other outgoings whatsoever in respect of the Vessel, its Earnings and its Insurances,

and forthwith (however not later than after thirty (30) Business Days) upon receiving a notice of arrest of the Vessel, or its detention in exercise or purported exercise of any lien or claim, the Borrower shall procure its release by providing bail or providing the provision of security or otherwise as the circumstances may require.

23.12 **Chartering and employment**

The Borrower shall not enter into arrangements which provide an obligation to charter (or similar arrangement) in any tonnage.

23.13 **Restrictions on sale etc.**

The Borrower shall not, without the prior written consent of the Lenders sell or otherwise dispose of the Vessel, unless the Loan is prepaid in accordance with Clause 7.3 (*Mandatory prepayment—Total Loss or sale of the Vessel*) in connection therewith.

23.14 **Charterparty**

The Borrower shall:

- (a) immediately notify the Agent of any amendment, modification or supplement of the material provisions of the Charterparty or the termination or expiration thereof; and
- (b) if the Borrower executes a new Charterparty (including any revision or renewal of the Charterparty in effect from time to time), promptly deliver a copy of the new Charterparty to the Agent subject to the Charterer's consent and take any steps so as to ensure that the Security over the Charterhire pursuant to the Assignment Agreement is legally valid, enforceable by the Finance Parties and in full force and effect (including, without limitation, execution of any supplement or amendment to the Assignment Agreement or a new assignment agreement, serving of a notice of assignment to the Charterer or (if obtainable) acquiring of the acknowledgement by the Charterer), and to execute or procure the execution of such further documentation in accordance with Clause 17.2 (*Perfection etc.*).

24. **EVENTS OF DEFAULT**

Each of the events or circumstances set out in Clause 24 (*Events of Default*) is an Event of Default (save for Clause 24.16 (*Acceleration*)).

24.1 **Non-payment**

An Obligor or KNOT ST does not pay on the due date any amount payable pursuant to a Finance Document at the place and in the currency in which it is expressed to be payable unless:

- (a) its failure to pay is caused by:
 - (i) administrative or technical error; or
 - (ii) a Disruption Event; and
- (b) payment is made within three (3) Business Days of its due date.

24.2 **Financial covenants etc.**

Any requirement of Clause 21 (*Financial covenants*), Clause 22.19 (*Compliance with laws etc.*), Clause 22.20 (*Sanctions*), Clause 23.2 (*Insurance – Vessel*), Clause 23.3 (*Flag*) and Clause 23.4 (*Classification and repairs*) is not satisfied.

24.3 **Other obligations**

- (a) An Obligor or KNOT ST does not comply with any provision of the Finance Documents (other than those referred to in Clause 24.1 (*Non-payment*) and Clause 24.2 (*Financial covenants etc.*)).

- (b) No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within ten (10) Business Days of the earlier of (A) the Agent giving notice to the Borrower and (B) the Borrower becoming aware of the failure to comply.

24.4 **Misrepresentation**

Any representation or statement made or deemed to be made by an Obligor or KNOT ST in the Finance Documents or any other document delivered by or on behalf of any Obligor or KNOT ST under or in connection with any Finance Document is or proves to have been incorrect or misleading in any material respect when made or deemed to be made.

24.5 **Cross default**

- (a) Any Financial Indebtedness of any Obligor or KNOT ST is not paid when due nor within any originally applicable grace period.
- (b) Any Financial Indebtedness of any Obligor or KNOT ST is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- (c) Any commitment for any Financial Indebtedness of any Obligor or KNOT ST is cancelled or suspended by a creditor as a result of an event of default (however described).
- (d) Any creditor of any Obligor or KNOT ST becomes entitled to declare any Financial Indebtedness due and payable prior to its specified maturity as a result of an event of default (however described).
- (e) No Event of Default will occur under this Clause 24.5 (*Cross default*) if the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (a) to (d) above is less than USD 5,000,000 (or its equivalent in any other currency or currencies).

24.6 **Insolvency**

- (a) An Obligor or KNOT ST:
- (i) is unable or admits inability to pay its debts as they fall due;
 - (ii) suspends making payments on any of its debts; or
 - (iii) by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors (excluding any Finance Party in its capacity as such) with a view to rescheduling any of its indebtedness.
- (b) The value of the assets of any Obligor or KNOT ST is less than its liabilities (taking into account contingent and prospective liabilities).
- (c) A moratorium is declared in respect of any indebtedness of any Obligor or KNOT ST.

24.7 **Insolvency proceedings**

Any corporate action, legal proceedings or other procedure or step is taken in relation to:

- (a) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of any Obligor or KNOT ST;

- (b) a composition, compromise, assignment or arrangement with any creditor of any Obligor or KNOT ST;
 - (c) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of any Obligor or KNOT ST or any of its assets; or
 - (d) enforcement of any Security over any assets of any Obligor or KNOT ST,
- or any analogous procedure or step is taken in any jurisdiction.

This Clause 24.7 (*Insolvency proceedings*) shall not apply to any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within thirty (30) days of commencement.

24.8 Creditors' process

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of an Obligor or KNOT ST having an aggregate value of USD 5,000,000 and is not discharged within thirty (30) days.

24.9 Cessation of business

An Obligor or KNOT ST suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a part of its business.

24.10 Unlawfulness

It is or becomes unlawful for an Obligor or KNOT ST to perform any of its obligations under the Finance Documents or any Security created or expressed to be created or evidenced by any Security Document ceases to be effective or does not create the ranking and priority it is expressed to have.

24.11 Material adverse change

Any event or series of events occur which, in the opinion of the Majority Lenders, has or is likely to have a Material Adverse Effect.

24.12 Repudiation, validity and cancellation/termination

- (a) An Obligor or KNOT ST repudiates a Finance Document or evidences an intention to repudiate a Finance Document or a Transaction Document.
- (b) Any Finance Document or Transaction Document ceases to be legal, valid, binding, enforceable or effective.

24.13 Insurances

Any insurance policy taken out in respect of the Vessel is cancelled, revoked or lapses, or any insurance claim(s) by the Borrower is repudiated following a Total Loss.

24.14 The Vessel

- (a) Class certification of the Vessel is withdrawn.
- (b) There is an instability affecting a country of flag and the Vessel is not transferred to another ship registry acceptable to the Lenders immediately upon request by the Agent.

24.15 Delisting

the Guarantor ceases to be listed on the New York Stock Exchange.

24.16 **Acceleration**

On and at any time after the occurrence of an Event of Default which is continuing the Agent may, and shall if so directed by the Majority Lenders, by notice to the Borrower:

- (a) require payment of default interest on the Loan in accordance with Clause 8.3 (*Default interest*);
- (b) cancel the Total Commitments whereupon they shall immediately be cancelled;
- (c) declare that all or part of the Loan, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or
- (d) declare that all or part of the Loan be payable on demand, whereupon they shall immediately become payable on demand by the Agent on the instructions of the Majority Lenders.

**SECTION 9
CHANGES TO PARTIES**

25. CHANGES TO THE LENDERS

25.1 Transfers by the Lenders

Subject to this Clause 25 (*Changes to the Lenders*), a Lender (the “ **Existing Lender** ”) may transfer by novation any of its rights and obligations, to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the “ **New Lender** ”).

25.2 Conditions of transfer

- (a) The consent of the Borrower is required for a transfer by an Existing Lender, unless the transfer is to another Lender or an Affiliate of a Lender or an Event of Default has occurred which is continuing.
- (b) The consent of the Borrower to a transfer must not be unreasonably withheld or delayed. The Borrower will be deemed to have given its consent five (5) Business Days after the Existing Lender has requested it unless consent is expressly refused by the Borrower within that time.
- (c) A transfer will only be effective if the procedure set out in Clause 25.4(*Procedure for transfer*) is complied with.
- (d) If:
 - (i) a Lender transfers any of its rights or obligations under the Finance Documents or changes its Facility Office; and
 - (ii) as a result of circumstances existing at the date the transfer or change occurs, an Obligor would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 12 (*Tax gross-up and indemnities*) or Clause 13 (*Increased Costs*), then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the transfer or change had not occurred. This paragraph (d) shall not apply in respect of a transfer made in the ordinary course of the primary syndication of the Facility.
- (e) Each New Lender, by executing the relevant Transfer Certificate, confirms, for the avoidance of doubt, that the Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the transfer becomes effective in accordance with this Agreement and that it is bound by that decision to the same extent as the Existing Lender would have been had it remained a Lender.

25.3 Limitation of responsibility of Existing Lenders

- (a) Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:

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- (i) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
 - (ii) the financial condition of any Obligor;
 - (iii) the performance and observance by any Obligor of its obligations under the Finance Documents or any other documents; or
 - (iv) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document, and any representations or warranties implied by law are excluded.
- (b) Each New Lender confirms to the Existing Lender and the other Finance Parties that it:
- (i) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of each Obligor and its related entities in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Lender in connection with any Finance Document; and
 - (ii) will continue to make its own independent appraisal of the creditworthiness of each Obligor and its related entities whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.
- (c) Nothing in any Finance Document obliges an Existing Lender to:
- (i) accept a re-transfer from a New Lender of any of the rights and obligations transferred under this Clause 25 (*Changes to the Lenders*); or
 - (ii) support any losses directly or indirectly incurred by the New Lender by reason of the non-performance by any Obligor of its obligations under the Finance Documents or otherwise.

25.4 Procedure for transfer

- (a) Subject to the conditions set out in Clause 25.2 (*Conditions of transfer*) a transfer is effected in accordance with paragraph (c) below when the Agent executes an otherwise duly completed Transfer Certificate delivered to it by the Existing Lender and the New Lender. The Agent shall, subject to paragraph (b) below, as soon as reasonably practicable after receipt by it of a duly completed Transfer Certificate appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Transfer Certificate.
- (b) The Agent shall only be obliged to execute a Transfer Certificate delivered to it by the Existing Lender and the New Lender once it is satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to the transfer to such New Lender.
- (c) Subject to Clause 25.7 (*Pro rata interest settlement*), on the Transfer Date:
 - (i) to the extent that in the Transfer Certificate the Existing Lender seeks to transfer by novation its rights and obligations under the Finance Documents each of the Obligors and the Existing Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another under the Finance Documents shall be cancelled (being the “ **Discharged Rights and Obligations** ”);

- (ii) each of the Obligors and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as that Obligor and the New Lender have assumed and/or acquired the same in place of that Obligor and the Existing Lender;
- (iii) the Agent, the Mandated Lead Arranger, the New Lender and other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had the New Lender been an Original Lender with the rights and/or obligations acquired or assumed by it as a result of the transfer and to that extent the Agent, the Mandated Lead Arranger and the Existing Lender shall each be released from further obligations to each other under the Finance Documents; and
- (iv) the New Lender shall become a Party as a “Lender”.

25.5 **Copy of Transfer Certificate to the Borrower**

The Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate, send to the Borrower a copy of that Transfer Certificate.

25.6 **Security over Lenders’ rights**

In addition to the other rights provided to Lenders under this Clause 25 (*Changes to the Lenders*), each Lender may without consulting with or obtaining consent from any Obligor, at any time charge, assign or otherwise create Security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other Security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other Security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or Security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by an Obligor other than or in excess of, or grant to any person any more extensive rights than, those required to be made or granted to the relevant Lender under the Finance Documents.

25.7 **Pro rata interest settlement**

- (a) If the Agent has notified the Lenders that it is able to distribute interest payments on a “ *pro rata* basis” to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 25.4 (*Procedure for transfer*) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of an Interest Period):

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- (i) any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date (“ **Accrued Amounts** ”) and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Interest Period (or, if the Interest Period is longer than six (6) Months, on the next of the dates which falls at six Monthly intervals after the first day of that Interest Period); and
 - (ii) the rights transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (A) when the Accrued Amounts become payable, those Accrued Amounts will be payable to the Existing Lender; and
 - (B) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 25.7 (*Pro rata interest settlement*), have been payable to it on that date, but after deduction of the Accrued Amounts.
 - (b) In this Clause 25.7 (*Pro rata interest settlement*) references to “Interest Period” shall be construed to include a reference to any other period for accrual of fees.

26. **CHANGES TO THE OBLIGORS**

No Obligor may assign any of its rights or transfer any of its rights or obligations under the Finance Documents.

SECTION 10
THE FINANCE PARTIES

27. ROLE OF THE AGENT, THE MANDATED LEAD ARRANGER AND THE REFERENCE BANKS

27.1 Appointment of the Agent

- (a) Each other Finance Party appoints the Agent to act as its agent under and in connection with the Finance Documents.
- (b) Each other Finance Party authorises the Agent to perform the duties, obligations and responsibilities and to exercise the rights, powers, authorities and discretions specifically given to the Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

27.2 Instructions

- (a) The Agent shall:
 - (i) unless a contrary indication appears in a Finance Document, exercise or refrain from exercising any right, power, authority or discretion vested in it as Agent in accordance with any instructions given to it by:
 - (A) all Lenders if the relevant Finance Document stipulates the matter is an all Lender decision; and
 - (B) in all other cases, the Majority Lenders; and
 - (ii) not be liable for any act (or omission) if it acts (or refrains from acting) in accordance with paragraph (i) above.
- (b) The Agent shall be entitled to request instructions, or clarification of any instruction, from the Majority Lenders (or, if the relevant Finance Document stipulates the matter is a decision for any other Lender or group of Lenders, from that Lender or group of Lenders) as to whether, and in what manner, it should exercise or refrain from exercising any right, power, authority or discretion. The Agent may refrain from acting unless and until it receives any such instructions or clarification that it has requested.
- (c) Save in the case of decisions stipulated to be a matter for any other Lender or group of Lenders under the relevant Finance Document and unless a contrary indication appears in a Finance Document, any instructions given to the Agent by the Majority Lenders shall override any conflicting instructions given by any other Parties and will be binding on all Finance Parties.
- (d) The Agent may refrain from acting in accordance with any instructions of any Lender or group of Lenders until it has received any indemnification and/or security that it may in its discretion require (which may be greater in extent than that contained in the Finance Documents and which may include payment in advance) for any cost, loss or liability which it may incur in complying with those instructions.
- (e) In the absence of instructions, the Agent may act (or refrain from acting) as it considers to be in the best interest of the Lenders.

- (f) The Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document.

27.3 Duties of the Agent

- (a) The Agent's duties under the Finance Documents are solely mechanical and administrative in nature.
- (b) Subject to paragraph (c) below, the Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Agent for that Party by any other Party.
- (c) Without prejudice to Clause 25.5 (*Copy of Transfer Certificate to the Borrower*), paragraph (b) above shall not apply to any Transfer Certificate.
- (d) Except where a Finance Document specifically provides otherwise, the Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- (e) If the Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the other Finance Parties.
- (f) If the Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Agent or the Mandated Lead Arranger) under this Agreement it shall promptly notify the other Finance Parties.
- (g) The Agent shall have only those duties, obligations and responsibilities expressly specified in the Finance Documents to which it is expressed to be a party (and no others shall be implied).

27.4 Role of the Mandated Lead Arranger

Except as specifically provided in the Finance Documents, the Mandated Lead Arranger has no obligations of any kind to any other Party under or in connection with any Finance Document.

27.5 No fiduciary duties

- (a) Nothing in any Finance Document constitutes the Agent or the Mandated Lead Arranger as a trustee or fiduciary of any other person.
- (b) Neither the Agent nor the Mandated Lead Arranger shall be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.

27.6 Business with the Group

The Agent and the Mandated Lead Arranger may accept deposits from, lend money to and generally engage in any kind of banking or other business with any member of the Group.

27.7 Rights and discretions

- (a) The Agent may:
- (i) rely on any representation, communication, notice or document believed by it to be genuine, correct and appropriately authorised;
 - (ii) assume that:

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- (A) any instructions received by it from the Majority Lenders, any Lender or any group of Lenders are duly given in accordance with the terms of the Finance Documents; and
 - (B) unless it has received notice of revocation, that those instructions have not been revoked; and
- (iii) rely on a certificate from any person:
- (A) as to any matter of fact or circumstance which might reasonably be expected to be within the knowledge of that person; or
 - (B) to the effect that such person approves of any particular dealing, transaction, step, action or thing,
- as sufficient evidence that that is the case and, in the case of paragraph (A) above, may assume the truth and accuracy of that certificate.
- (b) The Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Lenders) that:
- (i) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 24.1 (*Non-payment*));
 - (ii) any right, power, authority or discretion vested in any Party or any group of Lenders has not been exercised; and
 - (iii) any notice or request made by the Borrower (other than the Utilisation Request) is made on behalf of and with the consent and knowledge of all the Obligors.
- (c) The Agent may engage and pay for the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts.
- (d) Without prejudice to the generality of paragraph (c) above or paragraph (e) below, the Agent may at any time engage and pay for the services of any lawyers to act as independent counsel to the Agent (and so separate from any lawyers instructed by the Lenders) if the Agent in its reasonable opinion deems this to be necessary.
- (e) The Agent may rely on the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts (whether obtained by the Agent or by any other Party) and shall not be liable for any damages, costs or losses to any person, any diminution in value or any liability whatsoever arising as a result of its so relying.
- (f) The Agent may act in relation to the Finance Documents through its officers, employees and agents.
- (g) Unless a Finance Document expressly provides otherwise the Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.
- (h) Notwithstanding any other provision of any Finance Document to the contrary, neither the Agent nor any Mandated Lead Arranger is obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality.

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- (i) Notwithstanding any provision of any Finance Document to the contrary, the Agent is not obliged to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties, obligations or responsibilities or the exercise of any right, power, authority or discretion if it has grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it.

27.8 Responsibility for documentation

Neither the Agent nor the Mandated Lead Arranger is responsible or liable for:

- (a) the adequacy, accuracy or completeness of any information (whether oral or written) supplied by the Agent, any Mandated Lead Arranger, an Obligor or any other person given in or in connection with any Finance Document or the transactions contemplated in the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; or
- (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; or
- (c) any determination as to whether any information provided or to be provided to any Finance Party is non-public information the use of which may be regulated or prohibited by applicable law or regulation relating to insider dealing or otherwise.

27.9 No duty to monitor

The Agent shall not be bound to enquire:

- (a) whether or not any Default has occurred;
- (b) as to the performance, default or any breach by any Party of its obligations under any Finance Document; or
- (c) whether any other event specified in any Finance Document has occurred.

27.10 Exclusion of liability

- (a) Without limiting paragraph (b) below (and without prejudice to any other provision of any Finance Document excluding or limiting the liability of the Agent), the Agent will not be liable for:
 - (i) any damages, costs or losses to any person, any diminution in value, or any liability whatsoever arising as a result of taking or not taking any action under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
 - (ii) exercising, or not exercising, any right, power, authority or discretion given to it by, or in connection with, any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with, any Finance Document, other than by reason of its gross negligence or wilful misconduct; or
 - (iii) without prejudice to the generality of paragraphs (i) and (ii) above, any damages, costs or losses to any person, any diminution in value or any liability whatsoever (including, without limitation, for negligence or any other category of liability whatsoever but not including any claim based on the fraud of the Agent) arising as a result of:

(A) any act, event or circumstance not reasonably within its control; or

(B) the general risks of investment in, or the holding of assets in, any jurisdiction,

including (in each case and without limitation) such damages, costs, losses, diminution in value or liability arising as a result of: nationalisation, expropriation or other governmental actions; any regulation, currency restriction, devaluation or fluctuation; market conditions affecting the execution or settlement of transactions or the value of assets (including any Disruption Event); breakdown, failure or malfunction of any third party transport, telecommunications, computer services or systems; natural disasters or acts of God; war, terrorism, insurrection or revolution; or strikes or industrial action.

- (b) No Party (other than the Agent) may take any proceedings against any officer, employee or agent of the Agent in respect of any claim it might have against the Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Agent may rely on this Clause.
- (c) The Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Agent if the Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Agent for that purpose.
- (d) Nothing in this Agreement shall oblige the Agent or the Mandated Lead Arranger to carry out:
- (i) any “know your customer” or other checks in relation to any person; or
- (ii) any check on the extent to which any transaction contemplated by this Agreement might be unlawful for any Lender,
- on behalf of any Lender and each Lender confirms to the Agent and the Mandated Lead Arranger that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Agent or any Mandated Lead Arranger.
- (e) Without prejudice to any provision of any Finance Document excluding or limiting the Agent’s liability, any liability of the Agent arising under or in connection with any Finance Document shall be limited to the amount of actual loss which has been suffered (as determined by reference to the date of default of the Agent or, if later, the date on which the loss arises as a result of such default) but without reference to any special conditions or circumstances known to the Agent at any time which increase the amount of that loss. In no event shall the Agent be liable for any loss of profits, goodwill, reputation, business opportunity or anticipated saving, or for special, punitive, indirect or consequential damages, whether or not the Agent has been advised of the possibility of such loss or damages.

27.11 **Lenders' indemnity to the Agent**

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero (0), to its share of the Total Commitments immediately prior to their reduction to zero (0)) indemnify the Agent, within three (3) Business Days of demand, against any cost, loss or liability incurred by the Agent (otherwise than by reason of the Agent's gross negligence or wilful misconduct) in acting as Agent under the Finance Documents (unless the Agent has been reimbursed by an Obligor pursuant to a Finance Document).

27.12 **Resignation of the Agent**

- (a) The Agent may resign and appoint one of its Affiliates as successor by giving notice to the other Finance Parties and the Borrower.
- (b) Alternatively the Agent may resign by giving thirty (30) days' notice to the other Finance Parties and the Borrower, in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Agent.
- (c) If the Majority Lenders have not appointed a successor Agent in accordance with paragraph (b) above within twenty (20) days after notice of resignation was given, the retiring Agent (after consultation with the Borrower) may appoint a successor Agent.
- (d) If the Agent wishes to resign because (acting reasonably) it has concluded that it is no longer appropriate for it to remain as agent and the Agent is entitled to appoint a successor Agent under paragraph (c) above, the Agent may (if it concludes (acting reasonably) that it is necessary to do so in order to persuade the proposed successor Agent to become a party to this Agreement as Agent) agree with the proposed successor Agent amendments to this Clause 27 (*Role of the Agent, the Mandated Lead Arranger and the Reference Banks*) and any other term of this Agreement dealing with the rights or obligations of the Agent consistent with then current market practice for the appointment and protection of corporate trustees together with any reasonable amendments to the agency fee payable under this Agreement which are consistent with the successor Agent's normal fee rates and those amendments will bind the Parties.
- (e) The retiring Agent shall, at its own cost, make available to the successor Agent such documents and records and provide such assistance as the successor Agent may reasonably request for the purposes of performing its functions as Agent under the Finance Documents. The Borrower shall, within three (3) Business Days of demand, reimburse the retiring Agent for the amount of all costs and expenses (including legal fees) properly incurred by it in making available such documents and records and providing such assistance.
- (f) The Agent's resignation notice shall only take effect upon the appointment of a successor.
- (g) Upon the appointment of a successor, the retiring Agent shall be discharged from any further obligation in respect of the Finance Documents (other than its obligations under paragraph (e) above) but shall remain entitled to the benefit of Clause 14.3 (*Indemnity to the Agent*) and this Clause 27 (*Role of the Agent, the Mandated Lead Arranger and the Reference Banks*) (and any agency fees for the account of the retiring Agent shall cease to accrue from (and shall be payable on) that date). Any successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

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- (h) After consultation with the Borrower, the Majority Lenders may, by notice to the Agent, require it to resign in accordance with paragraph (b) above. In this event, the Agent shall resign in accordance with paragraph (b) above.
- (i) The Agent shall resign in accordance with paragraph (b) above (and, to the extent applicable, shall use reasonable endeavours to appoint a successor Agent pursuant to paragraph (c) above) if on or after the date which is three (3) Months before the earliest FATCA Application Date relating to any payment to the Agent under the Finance Documents, either:
- (i) the Agent fails to respond to a request under Clause 12.6(*FATCA Information*) and a Lender reasonably believes that the Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;
 - (ii) the information supplied by the Agent pursuant to Clause 12.6 (*FATCA Information*) indicates that the Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date; or
 - (iii) the Agent notifies the Borrower and the Lenders that the Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;
- and (in each case) a Lender reasonably believes that a Party will be required to make a FATCA Deduction that would not be required if the Agent were a FATCA Exempt Party, and that Lender, by notice to the Agent, requires it to resign.

27.13 **Confidentiality**

- (a) In acting as agent for the Finance Parties, the Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.
- (b) If information is received by another division or department of the Agent, it may be treated as confidential to that division or department and the Agent shall not be deemed to have notice of it.

27.14 **Relationship with the Lenders**

- (a) Subject to Clause 25.7 (*Pro rata Interest Settlement*), the Agent may treat the person shown in its records as Lender at the opening of business (in the place of the Agent's principal office as notified to the Finance Parties from time to time) as the Lender acting through its Facility Office:
 - (i) entitled to or liable for any payment due under any Finance Document on that day; and
 - (ii) entitled to receive and act upon any notice, request, document or communication or make any decision or determination under any Finance Document made or delivered on that day,

unless it has received not less than five (5) Business Days' prior notice from that Lender to the contrary in accordance with the terms of this Agreement.

- (b) Any Lender may by notice to the Agent appoint a person to receive on its behalf all notices, communications, information and documents to be made or despatched to that Lender under the Finance Documents. Such notice shall contain the address, fax number and (where communication by electronic mail or other electronic means is permitted under Clause 32.5 (*Electronic communication*)) electronic mail address and/or any other information required to enable the sending and receipt of information by that means (and, in each case, the department or officer, if any, for whose attention communication is to be made) and be treated as a notification of a substitute address, fax number, electronic mail address, department and officer by that Lender for the purposes of Clause 32.2 (*Addresses*) and paragraph (a)(iii) of Clause 32.5 (*Electronic communication*) and the Agent shall be entitled to treat such person as the person entitled to receive all such notices, communications, information and documents as though that person were that Lender.

27.15 Credit appraisal by the Lenders

Without affecting the responsibility of any Obligor for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Agent and the Mandated Lead Arranger that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- (a) the financial condition, status and nature of each member of the Group;
- (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- (c) whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- (d) the adequacy, accuracy or completeness of any information provided by the Agent, any Party or by any other person under or in connection with any Finance Document, the transactions contemplated by any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

27.16 Role of Reference Banks

- (a) No Reference Bank is under any obligation to provide a quotation or any other information to the Agent.
- (b) No Reference Bank will be liable for any action taken by it under or in connection with any Finance Document, or for any Reference Bank Quotation, unless directly caused by its gross negligence or wilful misconduct.
- (c) No Party (other than the relevant Reference Bank) may take any proceedings against any officer, employee or agent of any Reference Bank in respect of any claim it might have against that Reference Bank or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document, or to any Reference Bank Quotation, and any officer, employee or agent of each Reference Bank may rely on this Clause 27.16 (*Role of the Reference Banks*).

27.17 **Third party Reference Banks**

A Reference Bank which is not a Party may rely on Clause 27.16 (*Role of Reference Banks*), Clause 36.3 (*Other exceptions*) and Clause 40 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

27.18 **Reference Banks**

If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Agent shall (in consultation with the Borrower) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

27.19 **Deduction from amounts payable by the Agent**

If any Party owes an amount to the Agent under the Finance Documents the Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Agent would otherwise be obliged to make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

28. **CONDUCT OF BUSINESS BY THE FINANCE PARTIES**

No provision of this Agreement will:

- (a) interfere with the right of any Finance Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- (b) oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- (c) oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

29. **SHARING AMONG THE FINANCE PARTIES**

29.1 **Payments to Finance Parties**

If a Finance Party (a “ **Recovering Finance Party** ”) receives or recovers any amount from an Obligor other than in accordance with Clause 30 (*Payment mechanics*) (a “ **Recovered Amount** ”) and applies that amount to a payment due under the Finance Documents then:

- (a) the Recovering Finance Party shall, within three (3) Business Days, notify details of the receipt or recovery to the Agent;
- (b) the Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Finance Party would have been paid had the receipt or recovery been received or made by the Agent and distributed in accordance with Clause 30 (*Payment mechanics*), without taking account of any Tax which would be imposed on the Agent in relation to the receipt, recovery or distribution; and
- (c) the Recovering Finance Party shall, within three (3) Business Days of demand by the Agent, pay to the Agent an amount (the “ **Sharing Payment** ”) equal to such receipt or recovery less any amount which the Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 30.5 (*Partial payments*).

29.2 **Redistribution of payments**

The Agent shall treat the Sharing Payment as if it had been paid by the relevant Obligor and distribute it between the Finance Parties (other than the Recovering Finance Party) (the “**Sharing Finance Parties**”) in accordance with Clause 30.5 (*Partial payments*) towards the obligations of that Obligor to the Sharing Finance Parties.

29.3 **Recovering Finance Party’s rights**

On a distribution by the Agent under Clause 29.2 (*Redistribution of payments*) of a payment received by a Recovering Finance Party from an Obligor, as between the relevant Obligor and the Recovering Finance Party, an amount of the Recovered Amount equal to the Sharing Payment will be treated as not having been paid by that Obligor.

29.4 **Reversal of redistribution**

If any part of the Sharing Payment received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

- (a) each Sharing Finance Party shall, upon request of the Agent, pay to the Agent for the account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Sharing Payment which that Recovering Finance Party is required to pay) (the “**Redistributed Amount** ”); and
- (b) as between the relevant Obligor and each relevant Sharing Finance Party, an amount equal to the relevant Redistributed Amount will be treated as not having been paid by that Obligor.

29.5 **Exceptions**

- (a) This Clause 29 (*Sharing among the Finance Parties*) shall not apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the relevant Obligor.
- (b) A Recovering Finance Party is not obliged to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of taking legal or arbitration proceedings, if:
 - (i) it notified that other Finance Party of the legal or arbitration proceedings; and
 - (ii) that other Finance Party had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable having received notice and did not take separate legal or arbitration proceedings.

**SECTION 11
ADMINISTRATION**

30. PAYMENT MECHANICS

30.1 Payments to the Agent

- (a) On each date on which an Obligor or a Lender is required to make a payment under a Finance Document, that Obligor or Lender shall make the same available to the Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Agent as being customary at the time for settlement of transactions in the relevant currency in the place of payment.
- (b) Payment shall be made to such account with such bank as the Agent specifies.
- (c) Without prejudice to the foregoing, any payment payable by the Borrower under a Finance Document may be withdrawn from the Payment Account by the Agent to such account with such bank as the Agent specifies without the Borrower's consent.

30.2 Distributions by the Agent

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 30.3 (*Distributions to an Obligor*), Clause 30.4 (*Clawback and pre-funding*) and the Intercreditor Agreement, be made available by the Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement and the Intercreditor Agreement (in the case of a Lender, for the account of its Facility Office), to such account with such bank as that Party may notify to the Agent by not less than five (5) Business Days' notice.

30.3 Distributions to an Obligor

The Agent may (with the consent of the Obligor or in accordance with Clause 31 (*Set-off*)) apply any amount received by it from that Obligor in or towards payment (on the date and in the currency and funds of receipt) of any amount due from that Obligor under the Finance Documents or in or towards purchase of any amount of any currency to be so applied.

30.4 Clawback and pre-funding

- (a) Where a sum is to be paid to the Agent under the Finance Documents for another Party, the Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum.
- (b) Unless paragraph (c) below applies, if the Agent pays an amount to another Party and it proves to be the case that the Agent had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid by the Agent shall on demand refund the same to the Agent together with interest on that amount from the date of payment to the date of receipt by the Agent, calculated by the Agent to reflect its cost of funds.
- (c) If the Agent has notified the Lenders that it is willing to make available amounts for the account of the Borrower before receiving funds from the Lenders then if and to the extent that the Agent does so but it proves to be the case that it does not then receive funds from a Lender in respect of a sum which it paid to the Borrower:
 - (i) the Agent shall notify the Borrower of that Lender's identity and the Borrower shall on demand refund it to the Agent; and

- (ii) the Lender by whom those funds should have been made available or, if that Lender fails to do so, the Borrower, shall on demand pay to the Agent the amount (as certified by the Agent) which will indemnify the Agent against any funding cost incurred by it as a result of paying out that sum before receiving those funds from that Lender.

30.5 **Partial payments**

- (a) If the Agent receives a payment that is insufficient to discharge all the amounts then due and payable by an Obligor under the Finance Documents, the Agent shall apply that payment towards the obligations of that Obligor under the Finance Documents in the following order:
 - (i) **first** , in or towards payment *pro rata* of any unpaid amount owing to the Agent under the Finance Documents;
 - (ii) **secondly** , in or towards payment *pro rata* of any accrued interest, fee or commission due but unpaid under this Agreement;
 - (iii) **thirdly** , in or towards payment *pro rata* of any principal due but unpaid under this Agreement;
 - (iv) **fourthly** , in or towards payment *pro rata* of any other sum due but unpaid under the Finance Documents.
- (b) The Agent shall, if so directed by the Lenders, vary the order set out in paragraphs (a)(ii) to (iv) above.
- (c) Paragraphs (a) and (b) above will override any appropriation made by an Obligor.

30.6 **No set-off by Obligors**

All payments to be made by an Obligor under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

30.7 **Business Days**

- (a) Any payment under the Finance Documents which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- (b) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

30.8 **Currency of account**

- (a) Subject to paragraphs (b) and (c) below, USD is the currency of account and payment for any sum due from an Obligor under any Finance Document.
- (b) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.
- (c) Any amount expressed to be payable in a currency other than USD shall be paid in that other currency.

31. **SET-OFF**

A Finance Party may set off any matured obligation due from an Obligor under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation owed by that Finance Party to that Obligor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

32. **NOTICES**

32.1 **Communications in writing**

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter.

32.2 **Addresses**

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

(a) in the case of Borrower, that identified with its name below:

Knutsen Shuttle Tankers 15 AS
P. O. Box 2017
N-5504 Haugesund
Norway

Fax no.: +47 52 70 40 40
E-mail: finance@knutsenoas.com
oem@knotgroup.com
hho@knotgroup.com
kly@knutsenoas.com
jka@knotgroup.com
tya@knotgroup.com

(b) in the case of the Guarantor, that identified with its name below:

KNOT OFFSHORE PARTNERS LP
2 Queen's Cross,
Aberdeen AB15 4YB,
UK

Fax no.: +47 52 70 40 40
E-mail: finance@knutsenoas.com
oem@knotgroup.com
hho@knotgroup.com
jka@knotgroup.com
tya@knotgroup.com
jco@knotoffshorepartners.com
ali@knutsenoas.com

(c) in the case of each Lender or any other Obligor, that notified in writing to the Agent on or prior to the date on which it becomes a Party; and

- (d) in the case of the Agent, that identified with its name below:

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Ropemaker Place,
25 Ropemaker Street
London EC2Y 9AN

Fax no.: +44 20 7577 1123
E-mail: yuki.murayama@uk.mufg.jp
yoshino.cobb@uk.mufg.jp

or any substitute address or fax number or department or officer as the Party may notify to the Agent (or the Agent may notify to the other Parties, if a change is made by the Agent) by not less than five (5) Business Days' notice.

32.3 **Delivery**

- (a) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:
- (i) if by way of fax, when received in legible form;
 - (ii) if by way of electronic communication, when actually received in readable form and in the case of any electronic communication made to the Agent only if it is addressed in such a manner as the Agent shall specify for this purpose; or
 - (iii) if by way of letter, when it has been left at the relevant address or five (5) Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address;
- and, if a particular department or officer is specified as part of its address details provided under Clause 32.2 (*Addresses*), if addressed to that department or officer.
- (b) Any communication or document to be made or delivered to the Agent will be effective only when actually received by the Agent and then only if it is expressly marked for the attention of the department or officer identified with the Agent's signature below (or any substitute department or officer as the Agent shall specify for this purpose).
- (c) All notices from or to an Obligor shall be sent through the Agent.
- (d) Any communication or document made or delivered to the Borrower in accordance with this Clause will be deemed to have been made or delivered to each of the Obligors.

32.4 **Notification of address and fax number**

Promptly upon receipt of notification of an address or fax number or change of address or fax number pursuant to Clause 32.2 (*Addresses*) or changing its own address or fax number, the Agent shall notify the other Parties.

32.5 **Electronic communication**

- (a) Any communication to be made between the Agent and a Lender under or in connection with the Finance Documents may be made by electronic mail or other electronic means, if the Agent and the relevant Lender:

- (i) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;
 - (ii) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and
 - (iii) notify each other of any change to their address or any other such information supplied by them.
- (b) Any electronic communication made between the Agent and a Lender will be effective only when actually received in readable form and in the case of any electronic communication made by a Lender to the Agent only if it is addressed in such a manner as the Agent shall specify for this purpose.

32.6 **English language**

- (a) Any notice given under or in connection with any Finance Document must be in English.
- (b) All other documents provided under or in connection with any Finance Document must be:
 - (i) in English; or
 - (ii) if not in English, and if so required by the Agent, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

33. **CALCULATIONS AND CERTIFICATES**

33.1 **Accounts**

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by a Finance Party are *prima facie* evidence of the matters to which they relate.

33.2 **Certificates and Determinations**

Any certification or determination by a Finance Party of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

33.3 **Day count convention**

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of three hundred and sixty (360) days or, in any case where the practice in the Relevant Interbank Market differs, in accordance with that market practice.

33.4 **Fraction**

Any fractional amount less than one (1) cent arising as a result of any calculation of the interests or other amounts pursuant hereto shall be rounded down to zero.

34. **PARTIAL INVALIDITY**

If, at any time, any provision of a Finance Document is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

35. **REMEDIES AND WAIVERS**

No failure to exercise, nor any delay in exercising, on the part of any Finance Party, any right or remedy under a Finance Document shall operate as a waiver of any such right or remedy or constitute an election to affirm any of the Finance Documents. No election to affirm any Finance Document on the part of any Finance Party shall be effective unless it is in writing. No single or partial exercise of any right or remedy shall prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in each Finance Document are cumulative and not exclusive of any rights or remedies provided by law.

36. **AMENDMENTS AND WAIVERS**

36.1 **Required consents**

- (a) Subject to Clause 36.2 (*All Lender matters*) and Clause 36.3 (*Other exceptions*) any term of the Finance Documents may be amended or waived only with the consent of the Majority Lenders and the Obligors and any such amendment or waiver will be binding on all Parties.
- (b) The Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause.

36.2 **All Lender matters**

An amendment or waiver of any term of any Finance Document that has the effect of changing or which relates to:

- (a) the definitions of “Change of Control”, “Majority Lenders”, “Relevant Person”, “Restricted Party”, “Sanctions”, “Sanctions Authority” or “Sanctions List” in Clause 1.1 (*Definitions*);
- (b) an extension to the date of payment of any amount under the Finance Documents;
- (c) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fees or commission payable;
- (d) an increase in any Commitment, an extension of the Availability Period or any requirement that a cancellation of Commitments reduces the Commitments of the Lenders rateably under the Facility;
- (e) any provision which expressly requires the consent of all the Lenders;
- (f) Clause 2.2 (*Finance Parties’ rights and obligations*), Clause 7.8 (*Application of prepayments*), Clause 19.26 (*Sanctions*), Clause 22.19 (*Compliance with laws etc.*), Clause 22.20 (*Sanctions*), Clause 25 (*Changes to the Lenders*), Clause 26 (*Changes to the Obligors*), Clause 29 (*Sharing among the Finance Parties*), this Clause 36 (*Amendments and waivers*), Clause 42 (*Governing law*) or Clause 43.1 (*Jurisdiction of English courts*);
- (g) the nature or scope of the guarantee and indemnity granted under Clause 18 (*Guarantee and indemnity*);

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- (h) release of any Security created by the Security Documents unless permitted under the Finance Documents or undertaken by the Agent acting on instruction of the Majority Lenders following an Event of Default which is continuing;
 - (i) a change to any Obligor; or
 - (j) any material change in any of the Security Documents,
- shall not be made without the prior consent of all the Lenders.

36.3 **Other exceptions**

An amendment or waiver which relates to the rights or obligations of the Agent, the Mandated Lead Arranger or the Reference Bank (each in their capacity as such) may not be effected without the consent of the Agent, the Mandated Lead Arranger or the Reference Bank, as the case may be.

37. **COUNTERPARTS**

Each Finance Document may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

38. **CONFLICT**

In case of conflict between the Security Documents and this Agreement, the provisions of this Agreement shall prevail, provided however that this will not in any way be interpreted or applied to prejudice the legality, validity or enforceability of any Security Document.

SECTION 12
MISCELLANEOUS

39. **DISCLOSURE OF INFORMATION AND CONFIDENTIALITY**

- (a) Each Obligor irrevocably authorises any Finance Party to give, divulge and reveal from time to time information and details relating to its account, the Vessel, the Finance Documents, the Transaction Documents, the Facility, any Commitment and any agreement entered into by any Obligor or information provided by any Obligor in connection with the Finance Documents to;
- (i) any private, public or internationally recognised authorities;
 - (ii) the head offices, branches and Affiliates, auditors and professional advisors of any Finance Party;
 - (iii) any other parties to the Finance Documents;
 - (iv) a rating agency or their professional advisors;
 - (v) any person with whom they propose to enter (or contemplate entering) into contractual relations in relation to the Facility and/or Commitments; or
 - (vi) any other person(s) regarding the funding, re-financing, transfer, assignment, sale, sub-participation or operational arrangement or other transaction in relation thereto,
- including, without limitation, any enforcement, preservation, assignment, transfer, sale or sub-participation of any of the rights and obligations of any Finance Documents.
- (b) The Agent and/or the Mandated Lead Arranger shall have the right, at its own expense, to publish information about its participation in and the agency and arrangement of the Facility and for such purpose use the Obligors' logos and trademark in connection with such publication.

40. **CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS**

40.1 **Confidentiality and disclosure**

- (a) The Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by paragraphs (b), (c) and (d) below.
- (b) The Agent may disclose:
- (i) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Borrower pursuant to Clause 8.4 (*Notification of rates of interest*); and
 - (ii) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Agent and the relevant Lender or Reference Bank, as the case may be.

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- (c) The Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:
- (i) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (i) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
 - (ii) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
 - (iii) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
 - (iv) any person with the consent of the relevant Lender or Reference Bank, as the case may be.
- (d) The Agent's obligations in this Clause 40 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without prejudice to its obligations to make notifications under Clause 8.4 (*Notification of rates of interest*) **provided that** (other than pursuant to paragraph (b)(i) above) the Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

40.2 **Related obligations**

- (a) The Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Agent, any Reference Bank Quotation for any unlawful purpose.

- (b) The Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:
 - (i) of the circumstances of any disclosure made pursuant to paragraph (c)(ii) of Clause 40.1 (*Confidentiality and disclosure*) except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
 - (ii) upon becoming aware that any information has been disclosed in breach of this Clause 40 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

40.3 **No Event of Default**

No Event of Default will occur under Clause 24.3 (*Other obligations*) by reason only of an Obligor's failure to comply with this Clause 40 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

41. **"KNOW YOUR CUSTOMER" CHECKS**

- (a) If:
 - (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation (whether in public regulation or in internal regulation of any of the Finance Parties) made after the date hereof;
 - (ii) any change in the status of an Obligor or the composition of the shareholders of an Obligor after the date hereof;
 - (iii) a proposed assignment or transfer by a Finance Party of any of its rights and/or obligations under this Agreement to a party that is not a Finance Party prior to such assignment or transfer; or
 - (iv) any internal requirements or routines of any of the Finance Parties,

obliges the Agent or any Finance Party (or, in the case of paragraph (iii) above, any prospective new Finance Party) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, each Obligor shall promptly upon the request of the Agent or any Finance Party supply, or procure the supply of, such documentation and other evidence as is requested by the Agent (for itself or on behalf of any Finance Party) or any Finance Party (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Finance Party) in order for the Agent, such Finance Party or, in the case of the event described in paragraph (iii) above, any prospective new Finance Party to carry out and be satisfied with the results of all necessary "know your customer" or other checks in relation to any relevant person pursuant to the transactions contemplated in the Finance Documents.

- (b) Each Finance Party shall promptly upon the request of the Agent supply, or procure the supply of, such documentation and other evidence as is requested by the Agent (for itself) in order for the Agent to carry out and be satisfied with the results of all necessary "know your customer" or other checks on Finance Parties or prospective new Finance Parties pursuant to the transactions contemplated in the Finance Documents.

SECTION 13
GOVERNING LAW AND ENFORCEMENT

42. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

43. **ENFORCEMENT**

43.1 **Jurisdiction of English courts**

- (a) The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute relating to the existence, validity or termination of this Agreement or any non-contractual obligation arising out of or in connection with this Agreement) (a “ **Dispute** ”).
- (b) The Parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.
- (c) Notwithstanding paragraph (a) above, no Finance Party shall be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Finance Parties may take concurrent proceedings in any number of jurisdictions.

43.2 **Service of process**

- (a) Without prejudice to any other mode of service allowed under any relevant law, each Obligor:
 - (i) irrevocably appoints SH Process Agents Limited whose current registered office is at 1 Finsbury Circus, London EC2M 7SH as its agent for service of process in relation to any proceedings before the English courts in connection with any Finance Document; and;
 - (ii) agrees that failure by an agent for service of process to notify the relevant Obligor of the process will not invalidate the proceedings concerned.
- (b) If any person appointed as an agent for service of process is unable for any reason to act as agent for service of process, each Obligor must immediately (and in any event within 5 days of such event taking place) appoint another agent on terms acceptable to the Agent. Failing this, the Agent may appoint another agent for this purpose.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

Schedule 1
THE ORIGINAL LENDERS

THE FACILITY

Name of Original Lender:	Commitment
BTMU (Europe) Limited	USD 60,000,000
Mitsubishi UFJ Lease & Finance (Hong Kong) Limited	USD 20,000,000
BOT Lease Co., Ltd.	USD 20,000,000
Total	USD 100,000,000

Schedule 2

CONDITIONS PRECEDENT AND SUBSEQUENT

Part I

Conditions Precedent to Utilisation

1. Obligors

- (a) Certified copies of the constitutional documents of each Obligor (including, without limitation, the Limited Partnership Agreement).
- (b) A certified copy of a resolution of the board of directors (or similar authorities) of each Obligor:
 - (i) approving the terms of, and the transactions contemplated by, the Finance Documents and Transaction Documents to which it is a party and resolving that it shall execute the Finance Documents and Transaction Documents to which it is a party;
 - (ii) authorising a specified person or persons to execute the Finance Documents and Transaction Documents to which it is a party on its behalf; and
 - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices (including, if relevant, the Utilisation Request) to be signed and/or despatched by it under or in connection with the Finance Documents to which it is a party.
- (c) A specimen of the signature of each person authorised by the resolution referred to in paragraph (b) above.
- (d) An original Power of Attorney (notarised and legalised if requested by the Agent).
- (e) A written confirmation in original from a Director of each Obligor that each document provided by that Obligor under Part I (*Conditions Precedent to Utilisation*) of this Schedule 2 (*Conditions Precedent and Subsequent*) are true copies of the originals.

2. Know Your Customer (KYC) requirements

Any documents required by the Agent and the Lenders pursuant to any “Know your customer Checks” with respect to the Obligors and their signatories, directors and ultimate beneficial owners.

3. Authorisations

All approvals, authorisations and consents required by any government or other authorities for the Obligors to enter into and perform their obligations under this Agreement and/or any of the Finance Documents and Transaction Documents to which they are respective parties.

4. Finance Documents

- (a) This Agreement.
- (b) Any Fee Letter.

-
- (c) The Intercreditor Agreement.
 - (d) The Assignment Agreement.
 - (e) A notice of assignment of Insurances.
 - (f) A notice of assignment of Earnings (including the Charterhire).
 - (g) The Account Pledge.
 - (h) A notice of pledge of the Account
 - (i) The Borrower Share Pledge together with any letters, transfers, certificates and other documents required to be delivered thereunder.
 - (j) Evidence of perfection of the Borrower Share Pledge.
 - (k) The Mortgage.
 - (l) Evidence that the Mortgage is capable of immediate registration with first priority in the United Kingdom ship registry.
 - (m) A Manager's Undertaking from the Manager.
- (All Finance Documents to be delivered in original).

5. **Transaction Documents**

- (a) A certified copy of the Charterparty.
- (b) A certified copy of the Management Agreement.

6. **Other documents relating to the Vessel**

- (a) Copies of insurance policies/cover notes documenting that insurance cover has been taken out in respect of the Vessel in accordance with Clause 23.2 (*Insurance—Vessel*), and evidencing that the Agent's Security in the insurance policies will be noted in accordance with the relevant notices as required under the Assignment Agreement.
- (b) A copy of the current relevant DOC.
- (c) A copy of the relevant sale and purchase agreement of the Vessel or the shares in the Borrower between KNOT and the Guarantor, evidence of the purchase price thereof having been paid to KNOT.
- (d) Evidence (by way of transcript of registry) that the Vessel is registered in the name of the Borrower with the relevant authorities in the United Kingdom, that the Mortgage has been executed and will, in connection with Utilisation of the Loan be, recorded with first priority against the Vessel and that no other encumbrances, maritime liens, mortgages or debts whatsoever are registered against the Vessel (other than the Security securing the Existing Indebtedness).
- (e) A certified copy of an updated class certificate related to the Vessel from the relevant classification society, confirming that the Vessel is classed with the highest class in accordance with Clause 23.4 (*Classification and repairs*), free of extensions and overdue recommendations.

-
- (f) A copy of the current SMC.
 - (g) A copy of the current ISSC.
 - (h) Valuation certificates issued not earlier than two hundred and ten (210) days before the Utilisation Date evidencing the Market Value of the Vessel.

7. **Existing Indebtedness**

- (a) Evidence that on the Utilisation Date or immediately thereafter the whole of the Existing Indebtedness will be repaid.;
- (b) all undrawn and available commitments under the Existing Facility Agreement will be finally and irrevocably cancelled; and
- (c) all of the Security securing the Existing Indebtedness will be finally and unconditionally released and discharged.

8. **Other documents and evidence**

- (a) The Original Financial Statements of each Obligor.
- (b) Evidence that the fees, costs and expenses then due from the Borrower pursuant to Clause 11 (*Fees*) and Clause 16 (*Costs and expenses*) have been paid or will be paid by the Utilisation Date.
- (c) If relevant, assurance that any withholding tax will be paid or application to tax authorities is or will be sent.
- (d) An original Compliance Certificate confirming that the Borrower and the Guarantor are in compliance with the financial covenants as set out in Clause 21 (*Financial covenants*).
- (e) A copy of a letter accepting appointment as agent for service of process pursuant to paragraph (c) of Clause 43.1 (*Jurisdiction of English courts*).
- (f) Any other document, authorisation, opinion or assurance requested by the Agent.

9. **Legal opinions**

The following documents to be received by the Agent latest on the Utilisation Date:

- (a) A legal opinion from Schjødt , the legal advisers to the Agent in Norway, substantially in the form distributed to the Original Lenders prior to signing this Agreement;
- (b) A legal opinion from Poles, Tublin, Stratakis & Gonzalez LLP, the legal advisers to the Agent in respect of the laws of the Republic of the Marshall Islands, substantially in the form distributed to the Original Lenders prior to signing this Agreement;
- (c) A legal opinion from Holman Fenwick Willan LLP, the legal advisers to the Agent in England and Wales, substantially in the form distributed to the Original Lenders prior to signing this Agreement;

- (d) If any Mortgaged Asset is situated or registered in a jurisdiction other than Norway, the Republic of the Marshall Islands or England and Wales, or any Finance Document is subject to any other choice of law other than Norwegian law, Marshall Islands law or English law, a legal opinion from the legal advisers to the Agent in the relevant jurisdiction, substantially in the form distributed to the Original Lenders prior to signing this Agreement; and
- (e) Any such other favourable legal opinions in form and substance satisfactory to the Agent from lawyers appointed by the Agent on matters concerning all relevant jurisdictions,

or, in respect of any one or more of such legal opinions, confirmation satisfactory to the Agent that the opinion in question will be issued substantially in the form distributed to the Original Lenders prior to signing this Agreement within such period after the Utilisation Date as is acceptable to the Agent.

Part II

Conditions Subsequent

1. Finance Documents

- (a) No later than one (1) Business Day after the Utilisation Date:
- (b) the Charterer's acknowledgement to the notice of assignment of Earnings (including Charterhire) thereof;
- (c) the Account Bank's acknowledgement of the notice of pledge of the Account; and
- (d) evidence that the Mortgage has been registered with first priority in the United Kingdom ship registry;

2. Existing Indebtedness

Evidence that on the date one (1) Business Day after the Utilisation Date:

- (a) the whole of the Existing Indebtedness has been repaid
- (b) all undrawn and available commitments under the Existing Facility Agreement have been finally and irrevocably cancelled; and
- (c) all of the Security securing the Existing Indebtedness has been finally and unconditionally released and discharged.

3. Legal opinions

No later than seven (7) days after the Utilisation Date, such of the legal opinions specified in paragraph 9 (*Legal opinions*) of Part I (*Conditions precedent*) of this Schedule 2 (*Conditions precedent and conditions subsequent*) as have not already been provided to the Agent.

Schedule 3
FORM OF UTILISATION REQUEST

From: Knutsen Shuttle Tankers 15 AS

To: The Bank of Tokyo-Mitsubishi UFJ, Ltd., London Branch

Dated:

Dear Sirs

**KNUTSEN SHUTTLE TANKERS 15 AS –
USD 100,000,000 Facility Agreement dated 8 November 2017 (the “Agreement”)**

1. We refer to the Agreement. This is the Utilisation Request. Terms defined in the Agreement have the same meaning in this Utilisation Request unless given a different meaning in this Utilisation Request.
2. We wish to borrow a Loan under the Facility on the following terms:
Proposed Utilisation Date: [•] (or, if that is not a Business Day, the next Business Day)
Amount: USD[•]
3. We confirm that each condition specified in Clause 4.2 (*Further conditions precedent*) is satisfied on the date of this Utilisation Request.
4. The proceeds of this Loan should be credited to [*account*].
5. This Utilisation Request is irrevocable.

Yours faithfully

authorised signatory for
KNUTSEN SHUTTLE TANKERS 15 AS

Schedule 4

FORM OF TRANSFER CERTIFICATE

To: The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Agent

From: [*The Existing Lender*] (the “ **Existing Lender** ”) and [*The New Lender*] (the “ **New Lender** ”)

Dated:

**KNUTSEN SHUTTLE TANKERS 15 AS –
USD 100,000,000 Facility Agreement dated 8 November 2017 (the “Agreement”)**

1. We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.
2. We refer to Clause 25.4 (*Procedure for transfer*):
 - (a) The Existing Lender and the New Lender agree to the Existing Lender transferring to the New Lender by novation all or part of the Existing Lender’s Commitment, rights and obligations referred to in the Schedule in accordance with Clause 25.4 (*Procedure for transfer*).
 - (b) The proposed Transfer Date is [•].
 - (c) The Facility Office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 32.2(*Addresses*) are set out in the Schedule.
3. The New Lender expressly acknowledges the limitations on the Existing Lender’s obligations set out in paragraph (c) of Clause 25.3 (*Limitation of responsibility of Existing Lenders*).
4. This Transfer Certificate may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Transfer Certificate.
5. This Transfer Certificate is governed by Norwegian law.
6. This Transfer Certificate has been entered into on the date stated at the beginning of this Transfer Certificate.

THE SCHEDULE

Commitment/rights and obligations to be transferred

[*insert relevant details*]

[*Facility Office address, fax number and attention details for notices and account details for payments,*]

[Existing Lender]

By:

[New Lender]

By:

This Transfer Certificate is accepted by the Agent and the Transfer Date is confirmed as [].

[Agent]

By:

Schedule 5

FORM OF COMPLIANCE CERTIFICATE

From: Knutsen Shuttle Tankers 15 AS
KNOT Offshore Partners LP

To: The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Agent

Dated: [•]

Dear Sirs

**KNUTSEN SHUTTLE TANKERS 15 AS –
USD 100,000,000 Facility Agreement dated 8 November 2017 (the “Agreement”)**

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning when used in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that:
[•]
3. [We confirm that each Repeating Representation is true and correct on this date and that no Default is continuing.]*

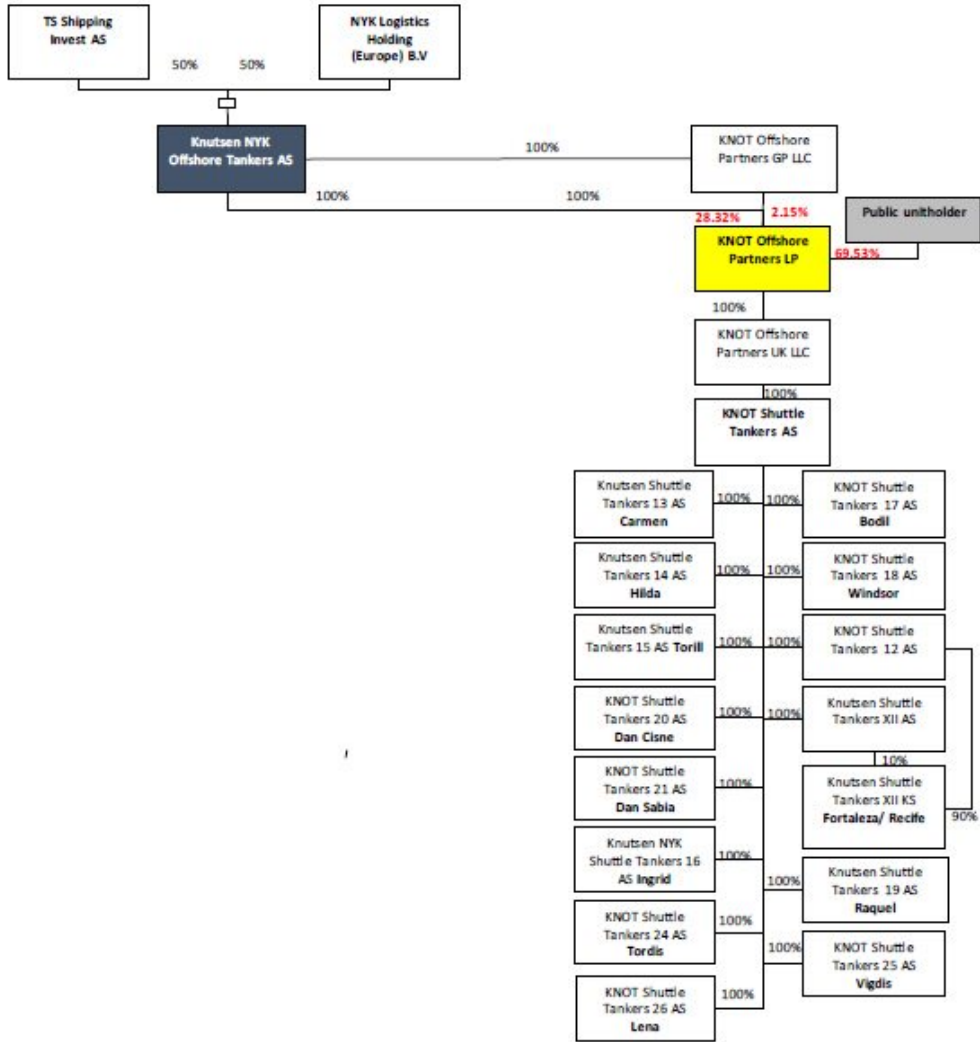
Yours faithfully

authorised signatory for
**KNUTSEN SHUTTLE TANKERS 15 AS
KNOT OFFSHORE PARTNERS LP**

* If this statement cannot be made, the certificate should identify any Default that is continuing and the steps, if any, being taken to remedy it.

Schedule 6

STRUCTURE CHART



EXECUTION PAGES

Borrower:

KNUTSEN SHUTTLE TANKERS 15 AS

By: /s/ Trygve Seglem
Name: Trygve Seglem
Title: Chairman and Director

Guarantor

KNOT OFFSHORE PARTNERS LP

By: /s/ John Costain

Name: John Costain

Title: CEO and CFO

Agent and Mandated Lead Arranger:
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

By: /s/ Takashi Okuda
Name: Mr. Takashi Okuda
Title: Managing Director, Head of Asian Corporate Banking
Group for UK

Original Lender

BTMU (EUROPE) LIMITED

By: /s/ Takashi Okuda
Name: Mr. Takashi Okuda
Title: Duly Authorised Attorney

Original Lender

BOT LEASE CO., LTD.

By: /s/ Shigeru Yamamoto

Name: Shigeru Yamamoto

Title: Attorney-In-Fact

Original Lender

MITSUBISHI UFJ LEASE & FINANCE (HONG KONG) LIMITED

By: /s/ Tsuyoshi Takano
Name: Tsuyoshi Takano
Title: Managing Director

USD 60,000,000 TERM LOAN FACILITY AGREEMENT

dated 27 June, 2017

for

KNOT SHUTTLE TANKERS 32 AS
as Borrower

KNUTSEN NYK OFFSHORE TANKERS AS
as Original Guarantor

arranged by

ABN AMRO BANK N.V., OSLO BRANCH AND DANSKE BANK A/S
as Bookrunners and Mandated Lead Arrangers

ABN AMRO BANK N.V. AND DANSKE BANK A/S
as Swap Providers

ABN AMRO BANK N.V., OSLO BRANCH AND DANSKE BANK, NORWEGIAN BRANCH
as Original Lenders

with

ABN AMRO BANK N.V.
acting as Agent and Security Agent



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THIS AGREEMENT (the “**Agreement**”) is dated 27 June, 2017 and made between:

- (1) **KNOT SHUTTLE TANKERS 32 AS**, a company incorporated in Norway with company registration number 918 447 954 and registered address at Smedasundet 40, 5529 Haugesund, Norway (the “**Borrower**”);
- (2) **KNUTSEN NYK OFFSHORE TANKERS AS**, a company incorporated in Norway with company registration number 995 221 713 and registered address at Smedasundet 40, 5529 Haugesund, Norway (hereinafter “**KNOT**” and/or, as applicable, the “**Original Guarantor**”);
- (3) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*The Original Lenders*) as lenders (the “**Original Lenders**”);
- (4) **ABN AMRO BANK N.V., OSLO BRANCH** and **DANSKE BANK A/S** as bookrunners and mandated lead arrangers (each an “**MLA**” and together the “**MLAs**”);
- (5) **ABN AMRO BANK N.V.** and **DANSKE BANK A/S** as swap providers (each a “**Swap Provider**” and jointly the “**Swap Providers**”); and
- (6) **ABN AMRO BANK N.V.** as agent of the other Finance Parties (the “**Agent**”) and as security agent of the other Finance Parties (the “**Security Agent**”).

IT IS AGREED as follows:

SECTION 1 INTERPRETATION

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

“**Acceptable Charter Agreement**” means a charter contract with a duration of minimum four (4) years and with a minimum day rate covering:

- (a) if on time charter basis, 1.2 x (OPEX + debt service of the Borrower); or
- (b) if on bareboat charter basis, 1.2 x debt service of the Borrower,

and otherwise on terms and with a reputable charterer acceptable to all Lenders.

“**Accession Letter**” means a document substantially in the form set out in Schedule 6 (*Form of Accession Letter*).

“**Account Bank**” means ABN AMRO Bank N.V. acting through its office at Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands.

“ **Account Pledge** ” means a first priority (subject only to any rights in favour of the Account Bank as referred to in Clause 24.13(b)(iii)) account pledge in favour of the Security Agent (on behalf of the Finance Parties) over the Earnings Accounts and any operating accounts of the Borrower, to be governed by the law of the country in which the accounts are held and in form and substance acceptable to the Security Agent.

“ **Affiliate** ” means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

“ **Approved Shipbrokers** ” means any of Fearnleys AS, Lorentzen & Stemoco, Clarksons Valuations Limited or such other independent and internationally reputable broker acceptable to the Agent.

“ **Approved Ship Registry** ” means the ship registry of Isle of Man, Bahamas, Bermuda, Panama, United Kingdom, Liberia the Norwegian International Ship Register (NIS) or such other ship registry as approved in writing by the Lenders.

“ **Assignment of Charterparty** ” means, to the extent permitted by the terms of the relevant charterparty, a first priority assignment in favour of the Security Agent (on behalf of the Finance Parties) of the Borrower’s monetary claims and, if permitted by the applicable law, the Borrower’s rights, titles and interests, under any charterparty for the Vessel with a term exceeding twelve (12) months, to be in form and substance acceptable to the Security Agent. The Borrower shall use its best commercial efforts to obtain acknowledgment to such assignment.

“ **Assignment of Earnings** ” means a first priority assignment in favour of the Security Agent (on behalf of the Finance Parties) of the Borrower’s rights to Earnings relating to the Vessel by way of a floating charge over trade receivables (No. *factoringpant*) to be entered into between the Borrower (as pledgor) and the Security Agent (on behalf of the Finance Parties) and to be registered on first priority in the Norwegian Register of Mortgaged Movable Property.

“ **Assignment of Hedging Claims** ” means a first priority assignment in favour of the Security Agent (on behalf of the Finance Parties) of the Borrower’s rights, titles and interests under any Hedging Agreements, to be in form and substance acceptable to the Security Agent.

“ **Assignment of Insurances** ” means a first priority assignment in favour of the Security Agent (on behalf of the Finance Parties) of the Insurances relating to the Vessel, to be in form and substance acceptable to the Security Agent.

“ **Authorisation** ” means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

“ **Availability Period** ” means the period from and including the date of this Agreement until 15 September, 2017. The Borrower may request an extension of this date, which requires all Lenders’ approval.

“ **Break Costs** ” means the amount (if any) by which:

- (a) the interest (less Margin) which a Lender should have received for the period from the date of receipt of all or any part of its participation in the Loan or Unpaid Sum to the last day of the current Interest Period in respect of the Loan or Unpaid Sum, had the principal amount or Unpaid Sum received been paid on the last day of that Interest Period;

exceeds:

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the principal amount or Unpaid Sum received by it on deposit with a leading bank in the relevant interbank market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.

“ **Business Day** ” means a day (other than a Saturday or Sunday) on which banks are open for general business in Oslo, New York, London, Copenhagen and Amsterdam.

“ **Change of Control** ” means the occurrence of any of the following events:

- (a) if occurring prior to a Drop Down Date:
 - (i) the Guarantor does not own or is not able to vote for all of the shares in the Borrower;
 - (ii) the Guarantor does not own or is not able to vote for (directly or indirectly) all shares in KNOT Offshore Partner GP LLC (being the general partner in KNOP);
 - (iii) TS Shipping Invest AS (company no. 975 883 914) (“ **TSSI** ”) (or a 100% owned subsidiary of TSSI) and NYK Logistics Holding (Europe) B.V. (or another 100% subsidiary of Nippon Yusen Kabushiki Kaisha (“ **NYK** ”)) each does not own or is not able to vote for (directly or indirectly) 50% the shares in the Guarantor; or
 - (iv) Mr. Trygve Seglem and his immediate family does not own or is not able to vote for (directly or indirectly) all of the shares in TSSI; or
- (b) if occurring after a Drop Down Date:
 - (i) TSSI (or a 100% owned subsidiary of TSSI) and NYK Logistics Holding (Europe) B.V. (or another 100 % subsidiary of NYK) each does not own or is not able to vote for (directly or indirectly) for 50% the shares in KNOT;
 - (ii) KNOP does not own or is not able to vote for (directly or indirectly) all of the shares in the Borrower;
 - (iii) KNOP does not own or is not able to vote for (directly or indirectly) all of the shares in KNST;
 - (iv) KNOT does not own or is not able to vote for (directly or indirectly) all of the shares in KNOT Offshore Partner GP LLC (being the general partner in KNOP);

-
- (v) KNOT does not own at least 25% of the common and general partners units in KNOP (capital and voting rights to be subject to the limitations on voting rights relating to election of board members, amendments and certain other matters as set out in the limited partnership agreement entered into in relation to KNOP); or
 - (vi) any person or group of persons acting in concert (other than the Guarantor and/or any of its wholly owned Subsidiaries) acquires, legally or beneficially, and either directly or indirectly, more than 33.33 per cent. of the common and general partner units or voting rights in KNOP.

“ **Commitment** ” means:

- (a) in relation to an Original Lender, the amount set opposite its name in Schedule 1 (*The Original Lenders*) and the amount of any other Commitment transferred to it under this Agreement;
- (b) in relation to any other Lender, the amount of any Commitment transferred to it under this Agreement;

to the extent not cancelled, reduced or transferred by it under this Agreement.

“ **Compliance Certificate** ” means a certificate substantially in the form set out in Schedule 5 (*Form of Compliance Certificate*).

“ **Default** ” means an Event of Default or any event or circumstance specified in Clause 26 (*Events of Default*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

“ **Disruption Event** ” means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Facility (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
 - (i) from performing its payment obligations under the Finance Documents; or
 - (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,
 - (iii) and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“ **Drawdown** ” means the disbursement of the Loan.

“ **Drawdown Date** ” means the date, being a Business Day, specified in the Drawdown Request, on which the Borrower wishes the Drawdown to be made, or (as the context requires) the date on which the Loan is actually made to the Borrower.

“ **Drawdown Request** ” means a notice substantially in the form set out in Part I of Schedule 3 (*Requests and Notices*).

“ **Drop Down** ” means the potential acquisition by KNOP (or a wholly owned Subsidiary of KNOP) of 100% of the shares in the Borrower without triggering a Change of Control and mandatory prepayment of the Loan provided the conditions set out in Clause 28.2 (*Drop Down*) have been complied with.

“ **Drop Down Date** ” means the date on which a Drop Down actually takes place, as determined in accordance with Clause 28.2 (*Drop Down*).

“ **Earnings** ” means all moneys whatsoever which are now, or later become, payable (actually or contingently) to the Borrower, and which arise out of the use of or operation of the Vessel, including (but not limited to):

- (a) all freight and hire payable, including (without limitation) payments of any nature under any charter or agreement for the employment, use, possession, management and/or operation of the Vessel;
- (b) any claim under any guarantees related to freight and hire payable as a consequence of the operation of the Vessel;
- (c) compensation payable in the event of any requisition of the Vessel or for the use of the Vessel by any government authority or other competent authority;
- (d) demurrage and retention money receivable in relation to the Vessel;
- (e) all moneys which are at any time payable under the Insurances in respect of loss of earnings; and
- (f) any other money whatsoever due or to become due from third parties or otherwise in relation to the Vessel.

“ **Earnings Account(s)** ” means account no. NL55ABNA0247652598 and/or any other account or account(s) of the Borrower held with the Account Bank, to be dedicated as such by the Borrower and the Agent, into which all Earnings are to be paid and which is to be subject to the Account Pledge.

“ **Environmental Approval** ” means any permit, license, consent, approval and other authorisations and the filing of any notification, report or assessment required under any Environmental Law for the operation of the Vessel.

“ **Environmental Claim** ” means any claim, proceeding, enforcement or investigation by any party in respect of any Environmental Law or Environmental Approval.

“ **Environmental Law** ” means any applicable law, regulation, convention or treaty in any jurisdiction in which any Obligor conducts business which relates to the pollution or protection of the environment or to the carriage of material which is capable of polluting the environment.

“ **Equity Ratio** ” shall have the meaning given to it in Clause 23.1 (*Construction and definitions*).

“ **Event of Default** ” means any event or circumstance specified as such in Clause 26 (*Events of Default*).

“ **FA Act** ” means the Norwegian Act on Financial Agreements no. 46 of 25 June, 1999.

“ **Facility** ” means the senior secured term loan facility made available under this Agreement as described in Clause 2.1 (*The Facility*).

“ **Facility Amount** ” means the lower of:

- (a) USD 60,000,000; or
 - (b) an amount (in USD) equal to 62.5% of the Fair Market Value of the Vessel at the Drawdown Date,
- or as this may be increased in accordance with Clause 2.2 (*Accordion Increase Option*).

“ **Fair Market Value** ” means the fair market value of the Vessel in USD determined by calculating the arithmetic mean of minimum two independent valuations of the Vessel, obtained by the Borrower from two Approved Shipbrokers. If the two valuations differ by a margin of more than twelve point five (12.5) per cent., then a third Approved Shipbroker shall provide a calculation and the fair market value of the Vessel shall be the arithmetic mean of the three valuations. The valuations shall be in form and substance acceptable to the Agent and not be older than thirty (30) days at the Drawdown Date and otherwise not older than ninety (90) days and shall be made on charter free basis without physical inspection of the Vessel and on the basis of a sale for prompt delivery for cash at arm’s length on normal commercial terms as between a willing buyer and seller.

“ **FATCA** ” means:

- (a) sections 1471 to 1474 of the US Internal Revenue Code of 1986 (the “ **Code** ”) or any associated regulations;
- (b) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of any law or regulation referred to in paragraph (a) above; or
- (c) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

“ **FATCA Application Date** ” means:

- (a) in relation to a “withholdable payment” described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
 - (b) in relation to a “withholdable payment” described in section 1473(1)(A)(ii) of the Code (which relates to “gross proceeds” from the disposition of property of a type that can produce interest from sources within the US), 1 January 2019; or
 - (c) in relation to a “passthru payment” described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2019,
- or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

“ **FATCA Deduction** ” means a deduction or withholding from a payment under a Finance Document required by FATCA.

“ **FATCA Exempt Party** ” means a Party that is entitled to receive payments free from any FATCA Deduction.

“ **Fee Letters** ” means any letters from the Agent to the Borrower regarding certain fees to be paid by the Borrower in respect of this Agreement.

“ **Final Maturity Date** ” means the date falling five (5) years from the Drawdown Date, or earlier in accordance with the Agreement.

“ **Finance Document** ” means:

- (a) this Agreement;
- (b) the Accession Letter;
- (c) any Compliance Certificate;
- (d) any Fee Letter;
- (e) other than in respect of Clauses 36 (*Amendments and Waivers*), 37 (*Counterparts*) and (in relation to any communications between the Borrower and the Swap Providers) Clause 32 (*Notices*), each Hedging Agreement;
- (f) a Drawdown Notice;
- (g) a Selection Notice;
- (h) the Security Documents;
- (i) any other document (whether creating Security or not) which is executed at any time by any of the Obligors or any other person as security in favour of, or to establish any form of subordination to, the Finance Parties under this Agreement or any of the other documents referred to herein or therein and any such other document designated as “ **Finance Document** ” by the Agent and the Borrower.

“ **Finance Party** ” means any or all of the Lenders, the MLAs, the Swap Providers, the Security Agent and the Agent.

“ **Financial Close** ” means the date on which all the documents and other evidence listed in Part I of Schedule 2 (*Conditions Precedent*) have been provided in form and substance satisfactory to the Agent.

“ **Financial Indebtedness** ” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with the GAAP, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount) shall be taken into account);
- (g) any counter-indemnity obligation in respect of a guarantee, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;
- (h) any amount of any liability under a deferred purchase agreement if (i) one of the primary reasons behind entering into the agreement is to finance the acquisition or construction of the asset or service in question or (ii) the agreement is in respect of the supply of assets or services and payment is due more than 60 days after the date of supply;
- (i) any amount raised under any other transaction (including any forward sale or purchase, sale and sale back or sale and leaseback agreement) having the commercial effect of a borrowing or otherwise classified as borrowings under GAAP; and
- (j) (without double-counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) – (i) above.

“ **GAAP** ” means generally accepted accounting principles in Norway or US GAAP in respect of KNOP, including, if applicable, IFRS.

“ **Group** ” means the Obligors and their Subsidiaries.

“ **Group Company** ” means a member of the Group.

“ **Guarantee** ” means the guarantee and indemnity (in Norwegian: “ *påkravsgaranti* ”) granted by the Guarantor pursuant to Clause 19 (*On-demand Guarantee and Indemnity*) .

“ **Guarantor** ” means:

- (a) prior to the Drop Down Date, the Original Guarantor; and
- (b) after the Drop Down Date, the Replacement Guarantors.

“ **Hedging Agreement** ” means any ISDA master agreement, confirmation and schedule entered into or to be entered into by the Borrower and any Swap Provider in accordance with Clause 24.10 (*Hedging arrangements*) .

“ **Holding Company** ” means any company which:

- (a) has direct or indirect control; or
 - (b) owns directly or indirectly more than fifty (50) per cent. (votes and capital),
- of another company.

“ **IFRS** ” means international accounting standards within the meaning of the IAS Regulation 1606/2002 to the extent applicable to the relevant financial statements.

“ **Insurances** ” means the insurances from time to time taken out by or on behalf of any Obligor in respect of the Vessel, including those entered into in order to comply with Clause 25.1 (*Vessel Insurances*) .

“ **Interest Payment Date** ” means the last Business Day of each Interest Period.

“ **Interest Period** ” means, in relation to the Loan, periods of three (3) or six (6) months or such other periods as the Lenders may agree, and, in relation to an Unpaid Sum, each period determined in accordance with Clause 10.3 (*Default Interest*) .

“ **Interpolated Screen Rate** ” means, in relation to LIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Interest Period of that Loan; and
 - (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Interest Period of that Loan,
- each as of 12 noon on the Quotation Day for USD.

“ **Intragroup Indebtedness** ” shall have the meaning given to it in Clause 24.14 (*Financial support*) .

“ **ISM Code** ” means the International Management Code for Safe Operations of Ships and for Pollution Prevention, as adopted by the International Maritime Organisation.

“ **ISPS Code** ” means the International Ship and Port Facility Security Code, as adopted by the International Maritime Organisation.

“ **KNOP** ” means KNOT Offshore Partners LP, a master limited partnership listed on the New York Stock Exchange office address at 2 Queen’s Cross, Aberdeen, Aberdeenshire AB15 4YB, United Kingdom.

“ **KNST** ” means KNOT Shuttle Tankers AS, a company incorporated in Norway with company registration number 998 942 829 and registered address at Smedasundet 40, 5529 Haugesund, Norway.

“ **Lender** ” means:

- (a) any Original Lender; and
- (b) any entity which has become a Party as a Lender in accordance with Clause 27 (*Changes to the Lenders*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

“ **LIBOR** ” means, in relation to any Loan:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the Interest Period of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for USD; or
 - (ii) no Screen Rate is available for the Interest Period of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan, the Reference Bank Rate,

as of 12 noon Amsterdam time on the Quotation Day for USD and for a period equal in length to the Interest Period of that Loan and, if any such rate is below zero, LIBOR will be deemed to be zero.

“ **Liquidity** ” shall have the meaning given to it in Clause 23.1 (*Construction and definitions*).

“ **Loan** ” means any loan to be made under this Agreement or the principal amount outstanding for the time being of that loan.

“ **Majority Lenders** ” means

- (a) until the Commitments have been reduced to zero, Lenders whose Commitments aggregate more than 66 2/3 per cent. of the Total Commitments or, if the Commitments have been reduced to zero and no Loan is outstanding, aggregated more than 66 2/3 per cent. immediately prior to that reduction; or
- (b) at any other time, Lenders whose participations in the Loan then outstanding aggregate more than 66 2/3 per cent of the Loan.

“ **Management Agreement(s)** ” means any commercial, technical and/or operational management agreement entered into between the Borrower and the Manager(s) regarding any of the Vessels, on terms and conditions acceptable to the Majority Lenders.

“ **Manager** ” means:

- (a) KNOT Management AS, a company incorporated in Norway with company identification number 996124916;
- (b) KNOT Management Denmark A/S;
- (c) any other management company controlled by the Original Guarantor; or
- (d) any other management company acceptable to the Majority Lenders.

“ **Margin** ” means 2.30 % p.a.

“ **Marpol** ” means the International Convention for the Prevention of Pollution from Ships.

“ **Material Adverse Effect** ” means in the reasonable opinion of the Majority Lenders a material adverse effect on:

- (a) the property, assets, operation, liabilities or condition (financial or otherwise) or prospects of any Obligor or the Group taken as a whole; or
- (b) the ability of any of the Obligors to perform any of their obligations under the Finance Documents; or
- (c) the validity or enforceability of, or the effectiveness or ranking of any security granted or purported to be granted pursuant to any of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

“ **MoA** ” means the memorandum of agreement dated 6 March, 2017 entered into between the Borrower (as buyer) and Chevron International Tankship Limited, 1 Westferry Circus, Canary Wharf, London, United Kingdom, E14 4HA (as seller) under which the Vessel is to be sold to the Borrower, on terms and conditions acceptable to the Lenders.

“ **Mortgage** ” means, in respect of the Vessel, a first priority ship mortgage and deed of covenants collateral thereto, in form and substance acceptable to the Agent and registered against the Vessel with the Approved Ship Registry.

“ **New Lender** ” has the meaning given to that term in Clause 27 (*Changes to the Lenders*).

“ **Obligors** ” means any or both of the Guarantor and/or the Borrower.

“ **Original Financial Statements** ” means the audited financial statements for the Guarantor (consolidated and unconsolidated), for the financial year ended 2016.

“ **Parallel Debt** ” has the meaning given to it in Clause 31.6 (*Parallel Debt*).

“ **Party** ” means a party to this Agreement.

“ **Quotation Day** ” means, in relation to any period for which an interest rate is to be determined two (2) Business Days before the first day of that period.

“ **Reference Banks** ” means Danske Bank A/S and ABN AMRO Bank N.V. or such other banks as may be appointed by the Agent.

“ **Reference Bank Rate** ” means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Agent at its request by the Reference Banks, as the rate at which the relevant Reference Bank could borrow funds in the applicable interbank market in the relevant currency and for the relevant period, were it to obtain interbank offers for deposits in that currency and for that period.

“ **Reference Bank Quotation** ” means any quotation supplied to the Agent by a Reference Bank.

“ **Relevant Jurisdiction** ” means in relation to any Party:

- (a) its jurisdiction of incorporation;
- (b) any jurisdiction where any asset subject to or intended to be subject to Security under a Security Document to be created by it is situated or registered, as applicable;
- (c) any jurisdiction where it conducts its business; and
- (d) the jurisdiction whose laws govern the perfection of any of the Security Documents entered into by it.

“ **Repayment Date(s)** ” shall have the meaning given to it in Clause 6.1 (*Repayment of the Loan*).

“ **Repeating Representations** ” means each of the representations set out in Clause 21.2 (*Status*) to Clause 21.5 (*Power and Authority*), Clause 21.8 (*Governing law and enforcement*) to Clause 21.12 (*No misleading information*), Clause 21.15 (*No proceedings pending or threatened*), Clause 21.17 (*Environmental compliance*), Clause 21.18 (*Environmental claims*) and Clause 21.23 (*Restricted Persons*).

“ **Replacement Guarantors** ” means both of:

- (a) KNOP; and
- (b) KNST,

and “ **Replacement Guarantor** ” means any of them.

“ **Restricted Person** ” means a person that is:

- (a) listed on, or owned or controlled by a person listed on any Sanctions List;
- (b) located in, incorporated under the laws of, or owned or controlled by, or acting on behalf of, a person located in or organised under the laws of a country or territory that is the target of country-wide Sanctions; or
- (c) otherwise a target of Sanctions.

“ **Sanctions** ” means any economic sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by:

- (a) the Kingdom of Norway;

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- (b) the United States government;
 - (c) the United Nations;
 - (d) the United Kingdom;
 - (e) the European Union or any of its Member States;
 - (f) any country to which any Obligor, or any other member of the Group or any Affiliate of any of them is bound; or
 - (g) the respective governmental institutions and agencies of any of the foregoing, including without limitation, the Office of Foreign Assets Control of the US Department of Treasury (“**OFAC**”), the United States Department of State, and Her Majesty’s Treasury (“**HMT**”) (together, the “**Sanctions Authorities**”).

“**Sanctions List**” means the “Specially Designated Nationals and Blocked Persons” list issued by OFAC, the Consolidated List of Financial Sanctions Targets and Investment Ban List issued by HMT, or any similar list issued or maintained or made public by any of the Sanctions Authorities.

“**Screen Rate**” means the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for USD for the relevant period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate, or on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Agent may specify another page or service displaying the relevant rate after consultation with the Borrower.

“**Security**” means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

“**Security Documents**” means each of the documents described in Clause 20 (*Security*), entered into or to be entered into as Security for the obligations of the Obligors under the Finance Documents.

“**Selection Notice**” means a notice substantially in the form set out in Part II of Schedule 3 (*Requests and Notices*) given in accordance with Clause 11 (*Interest Periods*) in relation to the Loan.

“**Share Pledge**” means a first priority pledge in favour of the Security Agent (on behalf of the Finance Parties) to be created over all shares in the Borrower pursuant to a share pledge agreement in form and substance acceptable to the Security Agent, to be entered into between the Security Agent and the Guarantor.

“**Shareholder Loan**” shall have the meaning given to it in Clause 23.1 (*Construction and definitions*).

“**Subsidiary**” means an entity of which a person:

- (a) has direct or indirect control; or
- (b) owns directly or indirectly more than fifty (50) per cent. (votes and capital).

“ **Tax** ” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

“ **Total Assets** ” shall have the meaning given to it in Clause 23.1 (*Construction and definitions*).

“ **Total Commitments** ” means USD 60,000,000, being the aggregate of the Commitments, subject to increase under the (uncommitted) accordion increase option in Clause 2.2 (*Accordion Increase Option*).

“ **Total Equity** ” shall have the meaning given to it in Clause 23.1 (*Construction and definitions*).

“ **Total Loss** ” means:

- (a) actual, constructive, agreed, arranged or other total loss of the Vessel;
- (b) any hijacking, theft, act of piracy, capture, or seizure, unless the Vessel is released and restored to the Borrower from such hijacking, theft, act of piracy, capture or seizure within three (3) months from the date it took place;
- (c) any confiscation, expropriation, requisition or acquisition of the Vessel, whether for full consideration, a consideration less than its proper value, a nominal consideration or without any consideration, which is effected by any government or by persons acting or purporting to act on behalf of the government, unless the Vessel is released and restored to the Borrower from such confiscation, expropriation, requisition or acquisition within three (3) months from the date it took place.

“ **Total Loss Date** ” means:

- (a) in the case of an actual total loss of the Vessel, the date on which it occurred or, if that is unknown, the date when the Vessel was last heard of;
- (b) in the case of a constructive, compromised, agreed or arranged total loss of the Vessel, the earlier of: (i) the date on which a notice of abandonment is given to the insurers; and (ii) the date of any compromise, arrangement or agreement made by or on behalf of the Borrower with the Vessel’s insurers in which the insurers agree to treat the Vessel as a total loss; and
- (c) in the case of any other type of total loss, on the date (or the most likely date) on which it appears to the Agent that the event constituting the total loss occurred.

“ **Unpaid Sum** ” means any sum due and payable but unpaid by the Borrower under the Finance Documents.

“ **US** ” means United States of America.

“ **USD** ” means United States Dollars.

“ **VAT** ” means value added tax as provided for in the Value Added Tax Act 2009 and any other tax of a similar nature.

“ **Vessel** ” means “Brasil Voyager” (tbn “Brasil Knutsen”), Samsung Heavy Industries built 153,684 DWT shuttle tanker with IMO number 9637777.

“ **Working Capital** ” shall have the meaning given to it in Clause 23.1 (*Construction and definitions*).

1.2 Construction

- (a) Unless a contrary indication appears, a reference in this Agreement to:
- (i) the “ **Agent** ”, any “ **MLA** ”, any “ **Swap Provider** ”, any “ **Lender** ”, any “ **Finance Party** ”, any “ **Party** ” or any other person shall be construed so as to include its successors in title, permitted assigns and permitted transferees;
 - (ii) a “ **Finance Document** ” or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended, novated, supplemented, extended or restated;
 - (iii) a “ **person** ” includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality);
 - (iv) a “ **regulation** ” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation; and
 - (v) a provision of law is a reference to that provision as amended or re-enacted.
- (b) Section, Clause and Schedule headings are for ease of reference only.
- (c) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
- (d) A Default (other than an Event of Default) is “ **continuing** ” if it has not been remedied or waived and an Event of Default is “ **continuing** ” if it has not been waived.
- (e) In the event the application of any of the terms of the Security Documents should be conflicting or inconsistent with the application of the terms of this Agreement, the terms of this Agreement shall have precedence, provided that such application would not have a negative effect on the validity or enforceability of the Security created or contemplated to be created under the Security Documents.

1.3 The FA Act

Each Obligor hereby agrees and accepts, to the extent permitted by law, that this Clause 1.3 (*The FA Act*) shall constitute a waiver of the provisions of the FA Act, and further agrees and accepts, to the extent permitted by law, that the provisions of the FA Act shall not apply to this Agreement or to the relationship between the Finance Parties and each Obligor.

SECTION 2
THE FACILITY

2 THE FACILITY

2.1 The Facility

Subject to the terms of this Agreement, the Lenders agree to make available to the Borrower a senior secured term loan facility up to the lower of the Total Commitments and the Facility Amount.

2.2 Accordion Increase Option

The Borrower may on one occasion at any time during the first three (3) years of the Facility, by giving no less than 60 days' prior written notice to the Agent, request the Lenders (in their sole discretion) consider to increase the Facility Amount and Total Commitments by an amount of up to the lower of USD 10,000,000 or an amount equal to 12.5% of the Fair Market Value of the Vessel, subject to the following:

- (a) the Borrower providing a copy of an Acceptable Charter Agreement, in form and substance acceptable to the Lenders;
- (b) the written approval by the Lenders (in their sole discretion and it being understood that this accordion option is completely uncommitted, subject to inter alia credit committee approvals etc.);
- (c) the Lenders subscribing for the full amount pro rata to the existing Commitments of each Lender;
- (d) no Default is continuing or would occur as a result of any increase of the Commitments; and
- (e) the Parties implementing any increased Facility Amount and Commitments and the terms for such by way of an amendment agreement to this Agreement, in form and substance acceptable to the Lenders.

2.3 Finance Parties' rights and obligations

- (a) The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.
- (b) The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from the Borrower shall be a separate and independent debt.
- (c) A Finance Party may separately enforce its rights under the Finance Documents.

2.4 Obligor's agent

- (a) The Guarantor by its execution of this Agreement irrevocably appoints the Borrower to act on its behalf as its agent in relation to the Finance Documents and irrevocably by way of security authorises:
- (i) the Borrower on its behalf to supply all information concerning itself contemplated by this Agreement to the Finance Parties and to give all notices and instructions, to make such agreements and to effect the relevant amendments, supplements and variations capable of being given, made or effected by the Borrower notwithstanding that they may affect the Guarantor, without further reference to or the consent of the Guarantor; and
 - (ii) each Finance Party to give any notice, demand or other communication to the Guarantor pursuant to the Finance Documents to the Borrower, and in each case the Guarantor shall be bound as though the Guarantor itself had been given the notices and instructions or executed or made the agreements or effected the amendments, supplements or variations, or received the relevant notice, demand or other communication.
- (b) Every act, omission, agreement, undertaking, settlement, waiver, amendment, supplement, variation, notice or other communication given or made by the Guarantor or given to the Guarantor under any Finance Document on behalf of the Borrower or in connection with any Finance Document (whether or not known to any the Guarantor) shall be binding for all purposes on the Guarantor as if it had expressly made, given or concurred with it. In the event of any conflict between any notices or other communications of the Borrower and the Guarantor, those of the Borrower shall prevail.

3 PURPOSE

3.1 Purpose

The Borrower shall apply all amounts borrowed under this Agreement towards financing the acquisition of the Vessel under the MoA.

3.2 Monitoring

No Finance Party is bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4 CONDITIONS PRECEDENT

4.1 Initial conditions precedent

- (a) The Borrower may not deliver the Drawdown Request, and no Finance Parties' obligations under this Agreement shall become effective, unless Financial Close has occurred in accordance with Clause 4.3 (*Financial Close*) and the Agent has received all of the documents and other evidence listed in Part II of Schedule 2 (*Conditions precedent*) which shall be delivered three (3) Business Days prior to the Drawdown Date at the latest, save for the documents listed under Part III of Schedule 2 (*Conditions precedent*) which shall be delivered at the Drawdown Date at the latest and save for the documents listed under Part IV of Schedule 2 (*Conditions precedent*) which shall be delivered in accordance with Clause 4.3 (*Conditions subsequent*), each in form and substance satisfactory to the Agent (acting on behalf of the Lenders). The Agent shall notify the Borrower and the Lenders promptly upon being so satisfied.
- (b) Other than to the extent that all Lenders notify the Agent in writing to the contrary before the Agent gives the notification described in paragraph (a) above, the Lenders authorise (but do not require) the Agent to give that notification. The Agent shall not be liable for any damages, costs or losses whatsoever as a result of giving any such notification.

4.2 Further conditions precedent

Subject to Clause 4.1 (*Initial conditions precedent*), the Lenders will only be obliged to comply with Clause 5.3 (*Lenders' participation*), if on the date of the Drawdown Request and on the proposed Drawdown Date:

- (a) no Default or potential Default having occurred; and
- (b) all the representations and warranties in Clause 21 (*Representations*) or the Repeating Representations, as applicable, are true.

4.3 Financial Close

If Financial Close has not occurred on or before 31 July 2017 or such later date as agreed by the Agent: (a) except for this Clause, Clauses 13 (*Fees*), 16 (*Other Indemnities*), 18 (*Costs and Expenses*), 20.3 (*Set-off*), 31.4 (*Partial payments*), 31.5 (*Set-Off by any Obligor*), 38 (*Governing Law*) and 39 (*Enforcement*), all the provisions of this Agreement shall lapse and cease to have effect but (b) neither the lapsing of those provisions nor their ceasing to have effect shall affect any accrued rights of any Finance Party or accrued liabilities of the Obligors under the Finance Documents.

4.4 Condition subsequent

It is a condition subsequent for the Loan made available under this Agreement that the Agent no later than the date falling five (5) Business Days after the Drawdown Date has received all of the documents and other evidence listed in Part IV of Schedule 2 (*Conditions precedent*), all in form and substance satisfactory to the Agent.

SECTION 3
DRAWDOWN

5 DRAWDOWN

5.1 Delivery of a Drawdown Request

The Borrower may utilise the Facility by delivery to the Agent of a duly completed Drawdown Request not later than 12 noon Amsterdam time three (3) Business Days prior to the proposed Drawdown Date, unless a shorter notice period has been agreed by the Agent (acting on behalf of the Lenders).

5.2 Completion of a Drawdown Request

The Drawdown Request is irrevocable and will not be regarded as having been duly completed unless:

- (a) the proposed Drawdown Date is a Business Day within the Availability Period;
- (b) the currency of the proposed Drawdown is USD;
- (c) only one (1) Drawdown may be requested under the Facility; and
- (d) the amount of the Drawdown is an amount not exceeding the lower of (i) the Total Commitments or (ii) the Facility Amount.

5.3 Lenders' participation

- (a) If the conditions set out in this Agreement have been met, the Lenders shall make its participation in the Loan available by the Drawdown Date.
- (b) The amount of a Lender's participation in a Loan will be equal to the proportion borne by its Commitment immediately prior to making the Loan.

SECTION 4
REPAYMENT, PREPAYMENT AND CANCELLATION

6 REPAYMENT

6.1 Repayment of the Loans

- (a) The Borrower shall repay the Loan in quarterly instalments in amounts as set out in the repayment schedule in Schedule 7 (*Repayment Schedule*), down to a balloon payment of USD 41,000,000, the first date being the date falling three months after the Drawdown Date, each such date hereinafter referred to as a "**Repayment Date**".
- (b) The Loan shall be repaid by a balloon payment of USD 41,000,000 at the Final Maturity Date, at which time any and all other amounts or obligations of the Obligors under the Finance Documents are due in full.
- (c) The Borrower may not re-borrow any part of the Facility which is repaid.

7 ILLEGALITY, VOLUNTARY PREPAYMENT AND CANCELLATION

7.1 Illegality

If it becomes unlawful under any law, regulation, treaty or any directive of any monetary authority in any applicable jurisdiction for a Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in the Loan or if it becomes contrary to Sanctions to do the same:

- (a) that Lender, shall promptly notify the Agent upon becoming aware of that event;
- (b) upon the Agent notifying the Borrower, each Available Commitment of that Lender will be immediately reduced to zero and cancelled; and
- (c) the Borrower shall repay that Lender's participation in the Loan on the last day of the Interest Period for the Loan occurring after the Agent has notified the Borrower or, if earlier, the date specified by the Lender in the notice delivered to the Facility Agent (being no earlier than the last day of any applicable grace period permitted by law (including any Sanctions)) and that Lender's corresponding Commitment(s) shall be cancelled in the amount of the participations repaid.

7.2 Voluntary prepayment

The Borrower may prepay the whole or any part of the Facility (but if in part, in a minimum amount of USD 250,000 and in integral multiples thereof, or in such other amounts as the Agent may from time to time agree) without penalty on any Interest Payment Date, if it gives the Agent not less than ten (10) Business Days confirmative and irrevocable notice.

7.3 Voluntary cancellation

The Borrower may, if it gives the Agent not less than ten (10) Business Days' (or such shorter period as the Agent may agree) prior notice, cancel the whole or any part (being a minimum amount of USD 1,000,000 and in integral multiples thereof) of the Facility. Any cancellation under this Clause 7.3 shall reduce the Commitments under the Facility of the Lenders rateably.

7.4 Right of repayment in relation to a single Lender

(a) If:

- (i) any sum payable to any Lender by the Borrower is required to be increased under paragraph (b) of Clause 14.1 (*Tax gross-up*); or
 - (ii) any Lender claims indemnification from the Borrower under Clause 14.2 (*Tax indemnity*) or Clause 15.1 (*Increased costs*),
- the Borrower may, whilst the circumstance giving rise to the requirement for that increase or indemnification continues, give the Agent notice of its intention to procure the repayment of that Lender's participation in the Loan; or
- (b) On the last day of the Interest Period which ends after the Borrower has given notice under paragraph (a) above in relation to a Lender (or, if earlier, the date specified by the Borrower in that notice), the Borrower shall repay that Lender's participation in the Loan together with all interest and other amounts accrued under the Finance Documents.

8 MANDATORY PREPAYMENT

8.1 Disposal

Upon a sale or disposal of the Vessel, all outstanding amounts under the Facility shall be prepaid by the Borrower on the earlier of:

- (a) the date on which such sale or disposal is completed; and
- (b) upon receipt by the Borrower of the disposal proceeds.

8.2 Total Loss of the Vessel

Upon the occurrence of a Total Loss of the Vessel, all outstanding amounts under the Facility shall be prepaid by the Borrower on the earlier of:

- (a) the date falling one hundred and twenty (120) days after the Total Loss Date; or
- (b) the date of receipt of the insurance proceeds relating to such Total Loss; or
- (c) immediately after the completion of an expropriation or requisition of title, in the event of a Total Loss by way of expropriation or requisition for title of the Vessel by any government or by persons acting or purporting to act on behalf of the government.

8.3 Change of Control

Within 60 days upon the occurrence of a Change of Control, the Facility shall be automatically cancelled and the Loan and other amounts outstanding under the Finance Documents shall be due and payable in full.

8.4 Termination, cancellation or repudiation of Acceptable Charter Agreement

In case the Facility Amount has been increased in accordance with Clause 2.2 (*Accordion Increase Option*) and the Acceptable Charter Agreement having supported such increase is subsequently terminated prior to its term, the Borrower shall promptly upon termination of such Acceptable Charter Agreement prepay the Loan by an amount equal to the former increase of the Facility Amount, but reduced pro rata by any instalments paid since the increase of the Facility Amount.

9 RESTRICTIONS

9.1 Notices of Prepayment

Any notice of prepayment, authorisation or other election given by any Party shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant prepayment is to be made and the amount of that prepayment.

9.2 Application of funds, interest and other amounts

- (a) Any mandatory prepayment under this Agreement and any prepayment resulting from Clause 25.11 (*Fair Market Value*) shall be applied in inverse order of maturity against the remaining amortisations under the Facility.
- (b) Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.

9.3 No reborrowing of the Facility

The Borrower may not re-borrow any part of the Facility and no part of the Facility cancelled may be reinstated.

9.4 Receipt of Notices

If the Agent receives a notice under Clause 7 (*Illegality, voluntary prepayment and cancellation*), it shall promptly forward a copy of that notice to either the Borrower or the affected Lender, as appropriate.

9.5 Prepayment elections

The Agent shall notify the Lenders as soon as possible of any proposed prepayment of the Loan under Clause 7.1 (*Voluntary prepayment*).

9.6 Cancellation of Commitment

Any unused Commitment shall be immediately cancelled at the end of the Availability Period.

**SECTION 5
COSTS OF UTILISATION**

10 INTEREST**10.1 Calculation of Interest**

The rate of interest on the Loan for each Interest Period is the percentage rate per annum which is the aggregate of:

- (a) the Margin; and
- (b) LIBOR.

10.2 Payment of interest

The Borrower shall pay accrued interest on the Loan on each Interest Payment Date (and if the Interest Period is longer than three (3) months, on the date falling at three (3) monthly intervals after the first day of the Interest Period).

10.3 Default interest

- (a) If any Obligor fails to pay any amount payable by it under a Finance Document in accordance on its due date, interest shall accrue on the overdue amount as well as the Loan from the due date up to the date of actual payment (both before and after judgment) at a rate which, subject to paragraph (b) below, is two (2) per cent. higher than the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount for successive Interest Periods, each of a duration selected by the Agent (acting reasonably). Any interest accruing under this Clause 10.3 shall be immediately payable by the Borrower on demand by the Agent.

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- (b) Default interest (if unpaid) arising on overdue interest and the Loans will be compounded with the overdue interest at the end of each Interest Period applicable to that overdue interest but will remain immediately due and payable on demand by the Agent.

11 INTEREST PERIODS

11.1 Selection of Interest Periods

- (a) The Borrower may select an Interest Period for a Loan in a Drawdown Request or (once borrowed) in a Selection Notice.
- (b) Each Selection Notice is irrevocable and must be delivered to the Agent by the Borrower not later than 10 a.m. Amsterdam time three (3) Business Days prior to the beginning of the next Interest Period.
- (c) If the Borrower fails to deliver a Selection Notice to the Agent in accordance with paragraph (b) above, the relevant Interest Period will, subject to paragraph (e) below, be three (3) months.
- (d) Subject to this Clause 11, the Borrower may select an Interest Period of three (3) or six (6) months or (subject always to availability of all Lenders) such other period as the Lenders and the Borrower may agree in writing.
- (e) The first Interest Period shall commence on the Drawdown Date, and each subsequent Interest Period shall commence on the expiry of the preceding Interest Period.

11.2 Non-Business Days

If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

11.3 No overrunning

If an Interest Period would otherwise overrun the Final Maturity Date, it shall be shortened so that it ends on the Final Maturity Date.

12 CHANGES TO THE CALCULATION OF INTEREST

12.1 Absence of quotations

Subject to Clause 12.2 (*Market disruption*), if the applicable LIBOR is to be determined by reference to the Reference Bank Quotation but a Reference Bank does not supply a quotation by 12 noon Amsterdam time on the Quotation Day, the applicable LIBOR shall be determined on the basis of the quotations of the remaining Reference Banks.

12.2 Market disruption

- (a) If a Market Disruption Event occurs in relation to the Loan for any Interest Period, then the rate of interest on each Lender's share of the Loan for the Interest Period shall be the percentage rate per annum which is the sum of:
 - (i) the Margin;

- (ii) the rate notified to the Agent by that Lender as soon as practicable and in any event by close of business on the date falling two (2) Business Days prior to the date on which interest is due to be paid in respect of that Interest Period, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its participation in the Loan from whatever source it may reasonably select; and
 - (iii) the Mandatory Cost, if any, applicable to that Lender's participation in the Loans.
- (b) In this Agreement, "Market Disruption Event" means:
- (i) at or about noon Amsterdam time on the Quotation Day for the relevant Interest Period the Screen Rate is not available and none or only one of the Reference Banks supplies a rate to the Agent to determine LIBOR for the relevant Interest Period; or
 - (ii) before close of business in Amsterdam on the Quotation Day for the relevant Interest Period, the Agent receives notifications from a Lender or Lenders that the cost to it of funding its participation in a Loan from whatever source it may reasonably select would be in excess of the applicable LIBOR.

12.3 Alternative basis of interest or funding

- (a) If a Market Disruption Event occurs and the Agent or the Borrower so requires, the Agent and the Borrower shall enter into negotiations (for a period of not more than thirty (30) days) with a view to agreeing a substitute basis for determining the rate of interest.
- (b) Any alternative basis agreed pursuant to paragraph (a) above shall, with the prior consent of all the Lenders and the Borrower, be binding on all Parties.

12.4 Break Costs

- (a) The Borrower shall, within three (3) Business Days of demand by a Finance Party, pay to that Finance Party its Break Costs attributable to all or any part of a Loan or Unpaid Sum being paid by a Borrower on a day other than the last day of an Interest Period for that Loan or Unpaid Sum.
- (b) Each Lender shall, as soon as reasonably practicable after a demand by the Agent, provide a certificate confirming the amount of its Break Costs for any Interest Period in which they accrue.

13 FEES

13.1 Arrangement fee

The Borrower shall pay to the Agent for distribution to the Lenders (pro rata according to their Commitments) a non-refundable arrangement fee in an amount of USD 600,000 (equal to 1% of the Facility Amount), payable on the date of this Agreement.

13.2 Commitment fee

- (a) The Borrower shall pay to the Agent (for the account of each Lender) a fee in USD computed at a rate per annum equal to 40% of the Margin, calculated on each Lender's available Commitment, from the date of this Agreement to the earlier of:
 - (i) the date of cancellation of any Commitment or the expiry of the Availability Period; or
 - (ii) the Drawdown Date.
- (b) The accrued commitment fee is payable on the last day of the earlier of:
 - (i) quarterly, in arrears from the date of signing this Agreement;
 - (ii) the end of the Availability Period;
 - (iii) the Drawdown Date; and
 - (iv) if cancelled, on the cancelled amount of the relevant Lender's Commitment at the time the cancellation is effective.

13.3 Agency fee

The Borrower shall pay to the Agent an annual agency fee in the amount and at the times as set out in a Fee Letter.

SECTION 6

ADDITIONAL PAYMENT OBLIGATIONS

14 TAX GROSS UP AND INDEMNITIES

14.1 Tax gross-up

- (a) Each Obligor shall make all payments to be made by it under any Finance Document free and clear of and without deduction for or on account of any Taxes, unless any Obligor is required by law to make such payment subject to the deduction or withholding of such Taxes.
- (b) If a tax deduction or withholding is required by law to be made by an Obligor, the amount of the payment due from that Obligor shall be increased to an amount which (after making any deduction or withholding) leaves an amount equal to the payment which would have been due if no such deduction or withholding had been required.

14.2 Tax indemnity

- (a) Without prejudice to Clause 14.1 (*Tax gross-up*), if any Finance Party is required to make any payment of or on account of Tax on or in relation to any sum received or receivable hereunder (including any sum received or receivable under this Clause 14) or if any liability in respect of such payment is asserted or imposed against any Finance Party, each Obligor shall, upon demand of the Agent, promptly pay to the Finance Party an amount equal to the loss, liability or cost which that Finance Party determines will be or has been (directly or indirectly) suffered for or on account of Tax in respect of a Finance Document.

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- (b) Paragraph (a) above shall not apply:
- (i) with respect to any Tax imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by that Finance Party by the jurisdiction in which such Finance Party is treated as resident for tax purposes;
 - (ii) to the extent a loss, liability or cost is compensated for by an increased payment under Clause 14.1 (*Tax gross-up*); or
 - (iii) to the extent a loss, liability or cost relates to a FATCA Deduction required to be made by a Party.

14.3 Tax Credit

- (a) If any Obligor makes a Tax Payment and the relevant Finance Party determines that:
- (i) a Tax Credit is attributable either to an increased payment of which that Tax Payment forms part or to that Tax Payment; and
 - (ii) that Finance Party has obtained, utilised and retained that Tax Credit,
- the Finance Party shall pay an amount to the Obligor which that Finance Party determines will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been required to be made by the Borrower.
- (b) For the purpose of paragraph (a) above:
- (i) “ **Tax Credit** ” means a credit against, relief or remission for, or repayment of, any Tax; and
 - (ii) “ **Tax Payment** ” means either the increase in a payment made by an Obligor to a Finance Party under Clause 14.1 (*Tax gross-up*) or a payment under Clause 14.2 (*Tax indemnity*).

14.4 Stamp taxes

Each Obligor shall pay and, within three (3) Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document.

14.5 VAT

All amounts set out or expressed in a Finance Document to be payable by an Obligor to a Finance Party shall be deemed to be exclusive of any VAT, and accordingly, if VAT is or becomes chargeable on any supply made by any Finance Party to an Obligor under a Finance Document, the Obligor shall pay to the Finance Party (in addition to and at the same time as paying any other consideration) an amount equal to the amount of such VAT.

14.6 FATCA Information

- (a) Subject to paragraph (c) below, each Party shall, within ten (10) Business Days of a reasonable request by another Party:
 - (i) confirm to that other Party whether it is:
 - (A) a FATCA Exempt Party; or
 - (B) not a FATCA Exempt Party; and
 - (ii) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA;
 - (iii) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.
- (b) If a Party confirms to another Party pursuant to Clause 14.6 (a)(i) above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- (c) Paragraph (a) above shall not oblige any Finance Party to do anything which would or might in its reasonable opinion constitute a breach of:
 - (i) any law or regulation;
 - (ii) any policy of that Finance Party;
 - (iii) any fiduciary duty; or
 - (iv) any duty of confidentiality.
- (d) If a Party fails to confirm its status or to supply forms, documentation or other information requested in accordance with paragraph (a) above (including, for the avoidance of doubt, where paragraph (c) above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.7 FATCA Deduction

- (a) Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction or otherwise compensate the recipient of the payment for that FATCA Deduction.
- (b) Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Borrower and the Agent and the Agent shall notify the other Finance Parties.

15 INCREASED COSTS

15.1 Increased costs

- (a) Subject to Clause 15.3 (*Exceptions*) each Obligor shall, within three (3) Business Days of a demand by the Agent, pay for the account of a Finance Party the amount of any Increased Costs incurred by that Finance Party or any of its Affiliates as a result of:
- (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation;
 - (ii) compliance with any law or regulation made after the date of this Agreement; or
 - (iii) implementation of or compliance with Basel III, CRD IV or CRR.

For the purpose of this Clause 15.1:

“ **Basel III** ” shall mean the agreements on capital requirements, a leverage ratio and liquidity standards contained in “Basel III: A global regulatory framework for more resilient banks and banking systems”, “Basel III: International framework for liquidity risk measurement, standards and monitoring” and “Guidance for national authorities operating the countercyclical capital buffer” published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated, and any further guidance or standards published by the Basel Committee on Banking Supervision relating to “Basel III”.

“ **CRD IV** ” means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

“ **CRR** ” means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012).

- (b) In this Agreement “ **Increased Costs** ” means:
- (i) a reduction in the rate of return from the Facility or on a Finance Party’s (or its Affiliate’s) overall capital;
 - (ii) an additional or increased cost; or
 - (iii) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates to the extent that it is attributable to that Finance Party having entered into its participation in the Loans or funding or performing its obligations under any Finance Document.

15.2 Increased cost claims

- (a) A Finance Party intending to make a claim pursuant to Clause 15.1 (*Increased Costs*) shall notify the Agent of the event giving rise to the claim, following which the Agent shall promptly notify the Borrower.

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- (b) Each Finance Party shall, as soon as practicable after a demand by the Agent, provide a certificate confirming the amount of its Increased Costs.

15.3 Exceptions

- (a) Clause 15.1 (*Increased Costs*) does not apply to the extent any Increased Cost is:
- (b) attributable to a tax deduction or withholding required by law to be made by an Obligor;
- (c) compensated for by Clause 14.1 (*Tax gross-up*) or Clause 14.2 (*Tax indemnity*);
- (d) attributable to a FATCA Deduction required to be made by a Party;
- (e) attributable to the wilful breach by the relevant Finance Party or its Affiliates of any law or regulation; or
- (f) compensated for by the payment of the Mandatory Cost.

16 OTHER INDEMNITIES

16.1 Currency indemnity

- (a) If any sum due from an Obligor under the Finance Documents (a “ **Sum** ”), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the “ **First Currency** ”) in which that Sum is payable into another currency (the “ **Second Currency** ”) for the purpose of:
 - (i) making or filing a claim or proof against an Obligor; or
 - (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,each Obligor shall as an independent obligation, within three (3) Business Days of demand, indemnify the Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.
- (b) Each Obligor waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency other than that in which it is expressed to be payable.

16.2 Other indemnities

- (a) Each Obligor shall, within three (3) Business Days of demand, indemnify each Finance Party against any cost, loss or liability incurred by it as a result of:
 - (i) the occurrence of any Event of Default;
 - (ii) a failure by an Obligor to pay any amount due under a Finance Document on its due date, including without limitation, any cost, loss or liability arising as a result of Clause 30 (*Sharing among the Finance Parties*);

- (iii) funding, or making arrangements to fund, its participation in a Loan requested in a Drawdown Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by that Finance Party alone);
 - (iv) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower; or
 - (v) any civil penalty or fine against, any settlement, and any other liability, and all reasonable costs and expenses (including reasonable counsel fees and disbursements) incurred by the Agent or any Lender as a result of the violation of any Obligor or any of their directors, officers, employees, agents or advisors, of any Sanctions.
- (b) The indemnity in (a)(v) above shall cover any liability incurred by each Finance Party in any jurisdiction arising under or in connection with any Sanctions.

16.3 Indemnity to the Agent and the Security Agent

Each Obligor shall promptly indemnify the Agent and the Security Agent against any cost, loss or liability incurred by the Agent or the Security Agent (acting reasonably) as a result of:

- (a) investigating any event which it reasonably believes is a Default;
- (b) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised;
- (c) the taking, holding, protection or enforcement of the Security created by the Security Documents;
- (d) the exercise of any of the rights, powers, discretions and remedies vested in the Agent by the Finance Documents or by law; or
- (e) any default by any Obligor in the performance of any of the obligations expressed to be assumed by it in the Finance Documents.

17 MITIGATION BY THE LENDERS

17.1 Mitigation

- (a) Each Finance Party shall, in consultation with the Borrower, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of Clause 8.1 (*Illegality*), Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased Costs*).
- (b) Paragraph (a) above does not in any way limit the obligations of the Obligors under the Finance Documents.

17.2 Limitation of liability

- (a) Each Obligor shall promptly indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 17.1 (*Mitigation*).

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- (b) A Finance Party is not obliged to take any steps under Clause 17.1 (*Mitigation*) if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

18 COSTS AND EXPENSES

18.1 Transaction expenses

Each Obligor shall promptly on demand pay the Agent the amount of all costs and expenses (including but not limited to travel expenses, legal fees, fees of tax advisor, technical advisor, independent appraiser and insurance consultant etc.) reasonably incurred by the Agent and the Security Agent in connection with the negotiation, preparation, printing, execution and perfection of:

- (a) this Agreement and any other documents referred to in this Agreement and the Security Documents; and
- (b) any other Finance Documents executed after the date of this Agreement.

18.2 Amendment costs

If any Obligor requests an amendment, waiver or consent, each Obligor shall, within three (3) Business Days of demand, reimburse the Agent for the amount of all costs and expenses (including legal fees) reasonably incurred by any Finance Party in responding to, evaluating, negotiating or complying with that request or requirement.

18.3 Enforcement and preservation costs

Each Obligor shall, within three (3) Business Days of demand, pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of or the preservation of any rights under any Finance Document and the Security Documents and any proceedings instituted by or against the Agent and/or Security Agent as a consequence of taking or holding the Security created under the Security Documents or enforcing these rights.

SECTION 7

GUARANTEE AND SECURITY

19 ON-DEMAND GUARANTEE AND INDEMNITY

19.1 On-demand Guarantee and indemnity

The Guarantor irrevocably and unconditionally:

- (a) guarantees to each Finance Party punctual performance of the Borrower's obligations under the Finance Documents;
- (b) undertakes with each Finance Party to immediately pay on first demand (No. *p å kravsgaranti*) in accordance with a written demand by the Agent (on behalf of the Finance Parties);

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- (c) agrees with each Finance Party that if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal, it will, as an independent and primary obligation, indemnify that Finance Party immediately on demand against any cost, loss or liability it incurs as a result of the Borrower not paying any amount which would, but for such unenforceability, invalidity or illegality, have been payable by it under any Finance Document on the date when it would have been due.

19.2 Continuing Guarantee

This Guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by the Borrower under the Finance Documents, regardless of any intermediate payment or discharge in whole or in part.

19.3 Reinstatement

If any discharge, release or arrangement (whether in respect of the obligations of the Borrower or any security for those obligations or otherwise) is made by a Finance Party in whole or in part on the basis of any payment, security or other disposition which is avoided or must be restored in insolvency or otherwise, then the liability of the Guarantor under this Guarantee will continue or be reinstated as if the discharge, release or arrangement had not occurred.

19.4 Waiver of defences and compliance with the FA Act

The provisions of the FA Act Section 67 shall not apply to this Guarantee and the obligations of the Guarantor under this Guarantee will not be affected by an act, omission, matter or thing which would otherwise reduce, release or prejudice any of its obligations under this Guarantee (without limitation and whether or not known to it or any Finance Party), including:

- (a) any defence, objection or similar action based on (and/or arising from) the Finance Documents or other underlying relationships, agreements and transactions whatsoever (to the extent permitted by law);
- (b) any failure to comply with Sections 62 to 74 of the FA Act;
- (c) any time, waiver or consent granted to, or composition with, the Borrower or other person;
- (d) the release of the Borrower or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;
- (e) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, the Borrower or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (f) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of the Borrower or any other person;

- (g) any amendment, novation, supplement, extension, restatement (however fundamental and whether or not more onerous) or replacement of a Finance Document or any other document or security including, without limitation, any change in the purpose of, any extension of or increase in any facility or the addition of any new facility under any Finance Document or other document or security;
- (h) any unenforceability, illegality or invalidity of any obligation of any person under any Finance Document or any other document or security; or
- (i) any insolvency or similar proceedings.

19.5 Immediate recourse

The Guarantor waives any right it may have of first requiring any Finance Party to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Guarantor under this Guarantee. This waiver applies irrespective of any law or any provision of a Finance Document to the contrary.

19.6 Appropriations

Until all amounts which may be or become payable by the Borrower under or in connection with the Finance Documents have been irrevocably paid in full, each Finance Party may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by that Finance Party in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and the Guarantor shall not be entitled to the benefit of the same; and
- (b) hold in an interest-bearing suspense account any moneys received from the Guarantor or on account of the Guarantor's liability under this Guarantee.

19.7 Deferral of Guarantor's rights

Until all amounts which may be or become payable by the Borrower under or in connection with the Finance Documents have been irrevocably paid in full and unless the Agent otherwise directs, the Guarantor will not exercise any rights which it may have by reason of performance by it of its obligations under the Finance Documents or by reason of any amount being payable, or liability arising, under this Guarantee:

- (a) to be indemnified by the Borrower;
- (b) to claim any contribution from any other guarantor of the Borrower's obligations under the Finance Documents;
- (c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Finance Parties under the Finance Documents or of any other guarantee or security taken pursuant to, or in connection with, the Finance Documents by any Finance Party;
- (d) to bring legal or other proceedings for an order requiring the Borrower to make any payment, or perform any obligation;
- (e) to assign any claim it may have against the Borrower to any person or entity;

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- (f) to exercise any right of set-off against the Borrower; and/or
 - (g) to claim or prove as a creditor of the Borrower in competition with any Finance Party, however, so that the Guarantor shall be entitled to prove in the liquidation or other dissolution of the Borrower, subject to paying to the Facility Agent (on behalf of the Lenders) any proceeds of the liquidation or other dissolution received by the Guarantor.

If the Guarantor receives any benefit, payment or distribution in relation to such rights it shall hold that benefit, payment or distribution to the extent necessary to enable all amounts which may be or become payable to the Finance Parties by the Borrower under or in connection with the Finance Documents to be repaid in full on trust for the Finance Parties and shall promptly pay or transfer the same to the Agent or as the Agent may direct for application in accordance with Clause 31 (*Payment mechanics*).

19.8 Additional security

This Guarantee is in addition to the Security to be created under the Security Documents.

The information regarding additional Security is included to meet the requirements of Section 61 of the FA Act and shall not in any way prejudice the Agent's rights to amend or waive any Security.

19.9 Guarantee Limitations

The Guarantor's liability under this Guarantee shall never exceed USD 90,000,000, plus interest thereon and fees, costs and expenses as set out in this Agreement and the other Finance Documents.

20 SECURITY

20.1 Security Documents

The obligations of the Obligor under the Finance Documents shall be secured by:

- (a) the Account Pledge;
- (b) the Assignment of Charterparty
- (c) the Assignment of Earnings;
- (d) the Assignment of Hedging Claims;
- (e) the Assignment of Insurances;
- (f) the Mortgage; and
- (g) the Share Pledge. The Share Pledge to include a provision whereby the Guarantor authorises the Security Agent to release the Borrower from any and all liabilities to the Guarantor under any debt owed to the Guarantor upon enforcement of the security created by the Share Pledge and that the Security Agent, once the Finance Parties have received settlement in full, shall thereafter distribute any surplus to the Guarantor in compensation for any actual liability of the Borrower released.

20.2 Sharing of Security

The Security created by the Security Documents shall secure the Obligors' obligations under this Agreement and the Hedging Agreements on a pro rata basis, but subject to distribution of proceeds in accordance with Clause 31.4 (*Partial payments*).

20.3 Set-off

A Finance Party may set-off any obligation due from any Obligor under a Finance Document against any obligation owed by that Finance Party to the Obligor, regardless of the place of payment, booking branch or currency of any such obligation. If the obligations are in different currencies, the Finance Party may convert the obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

20.4 Perfection and further assistance

- (a) Each Obligor shall promptly do all such acts or execute all such documents (including assignments, transfers, mortgages, charges, notices and instructions) as the Security Agent may reasonably specify (and in such form as the Security Agent may reasonably require in favour of the Security Agent or its nominee(s)):
 - (i) to perfect the Security created or intended to be created under or evidenced by the Security Documents (which may include the execution of a mortgage, charge, assignment or other Security over all or any of the assets which are, or are intended to be, the subject of the Security) or for the exercise of any rights, powers and remedies of the Security Agent or the Finance Parties provided by or pursuant to the Finance Documents or by law;
 - (ii) to confer on the Security Agent, Security over any property and assets of that Obligor located in any jurisdiction equivalent or similar to the Security intended to be conferred by or pursuant to the Security Documents; and/or
 - (iii) to facilitate the realisation of the assets which are, or are intended to be, the subject of the Security.
- (b) Each Obligor shall take all such action as is available to it (including making all filings and registrations) as may be necessary for the purpose of the creation, perfection, protection or maintenance of any Security conferred or intended to be conferred on the Security Agent or the Finance Parties by or pursuant to the Finance Documents.

SECTION 8

REPRESENTATIONS, UNDERTAKINGS AND EVENTS OF DEFAULT

21 REPRESENTATIONS

21.1 General

Each of the Obligors makes the representations and warranties set out in this Clause 21 to each Finance Party, starting from the Drawdown Date in respect of the Borrower.

21.2 Status

- (a) It is a company with limited liability (No. *aksjeselskap*) duly incorporated and validly existing under the law of Norway.
- (b) It has the power to own its assets and carry on its business as it is being conducted.

21.3 Binding obligations

- (a) The obligations expressed to be assumed by it in each Finance Document are (or, when executed, will be) legal, valid, binding and enforceable obligations.
- (b) Each Security Document will, when duly executed, delivered and perfected, create the Security which that Security Document purports to create and that Security will then be valid and effective.

21.4 Non-conflict with other obligations

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents and the granting of the Security pursuant to the Security Documents do not and will not conflict with:

- (a) any present law or regulation applicable to it (including Directive 1905/60/EC of the European Parliament and of the Council of the European Communities Union of 26 October 2005, implemented to combat money laundering);
- (b) its constitutional documents; or
- (c) any agreement or instrument binding upon it or any of its assets.

21.5 Power and authority

- (a) It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents to which it is a party and the transactions contemplated by those documents.
- (b) No limit on its powers will be exceeded as a result of the borrowing, granting of security or giving of guarantees or indemnities contemplated by the Finance Documents.

21.6 Authorisations

All authorisations, consents, licenses, approvals or exemptions of any governmental or regulatory authority, bureau or agency in the Relevant Jurisdictions required in connection with the execution, delivery, performance, validity or enforceability of this Agreement and the Finance Documents to which it is a party and any other agreements and instruments required or contemplated hereunder have been delivered to the Agent and are in full force and effect, and any condition contained therein or otherwise applicable thereto has been or will at the appropriate time be complied with and fulfilled during the life of this Agreement.

21.7 Payment of Taxes

It has complied with all taxation laws in all jurisdictions where it is subject to taxation and has paid all Taxes and other amounts due to governments and other public bodies. No claims are being asserted against it with respect to any Taxes or other payments due to public or governmental bodies save as disclosed to the Lenders pursuant to Clause 24.6 (*Taxation*).

21.8 Governing law and enforcement

- (a) The choice of governing law of the Finance Documents will be recognised and enforced in its Relevant Jurisdictions.
- (b) Any judgment obtained in relation to a Finance Document in the jurisdiction of the governing law of that Finance Document will be recognised and enforced in its Relevant Jurisdictions.

21.9 No winding up

No:

- (a) corporate action, legal proceeding or other procedure or step described in paragraph (a) of Clause 26.7 (*Insolvency proceedings*); or
- (b) creditors' process described in Clause 26.8 (*Creditors' process*),

has been taken or threatened in relation to any Obligor and none of the circumstances described in Clause 26.6 (*Insolvency*) is applicable.

21.10 No filing or stamp taxes

Under the laws of its Relevant Jurisdiction it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration, notarial or similar Taxes or fees be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents, except the registration of the Mortgages with the Approved Ship Registry, which registrations, filings, taxes and fees shall be made and paid promptly by the Obligors after the date of the relevant Finance Document.

21.11 No default

- (a) No Default is continuing or might reasonably be expected to result from the making of any Drawdown or the entry into and performance of or any transaction contemplated by any of the Finance Documents.
- (b) No other event or circumstance is outstanding which constitutes or might reasonably be expected to constitute a default or termination event (however described) under any other agreement or instrument which is binding on it or to which its assets are subject which has or is reasonably likely to have a Material Adverse Effect.

21.12 No misleading information

Any factual information provided by any Obligor and/or its advisors in connection with the Finance Documents was, to each Obligor's knowledge, after having made due and careful enquiries, true and accurate in all material respects as at the date the information is expressed to be given and all projections (if any) contained therein have been prepared in good faith on the basis of assumptions which were reasonable at the time at which they were prepared and supplied.

21.13 Original Financial Statements

- (a) The Original Financial Statements were prepared in accordance with GAAP consistently applied and fairly represent its financial condition and results of operations during the relevant financial year.
- (b) There has been no material adverse change in its business or financial condition since incorporation for the Borrower and since 31 December 2016 for the Guarantor.
- (c) All financial documents and information relating to it or otherwise relevant to the matters contemplated by this Agreement which have been supplied to the Agent or the Lenders by it are complete and correct in all material respects, and it has not omitted to disclose to the Finance Parties any information, documents or agreements known to it which, if disclosed, could in its opinion reasonably be expected to affect the decision of the Finance Parties to enter into this Agreement.

21.14 Pari Passu Ranking

Its payment obligations under the Finance Documents rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

21.15 No proceedings pending or threatened

No litigation, arbitration or administrative proceedings of, or before, any court, arbitral body or agency which might reasonably be expected to have a Material Adverse Effect have (to the best of its knowledge and belief (having made due and careful enquiry)) been started or threatened against it.

21.16 No breach of laws

It is in compliance in all material respect with all laws and regulation applicable to it.

21.17 Environmental compliance

It has performed and observed all Environmental Laws, Environmental Approvals and all other covenants, conditions, restrictions or agreements directly or indirectly concerned with any contamination, pollution or waste or the release or discharge of any toxic or hazardous substance in connection with its on-going operations.

21.18 Environmental Claims

No Environmental Claim has been commenced (or if commenced, there are none that are not fully settled) or is threatened against it.

21.19 Vessel

The Vessel is or will from the Drawdown Date be:

- (a) in the absolute ownership of the Borrower, free and clear of all encumbrances (other than current crew wages and the Mortgage) and the Borrower is the sole, legal and beneficial owner of the Vessel;
- (b) registered in the name of the Borrower with the Register of Bahamian Ships;
- (c) operationally seaworthy in every way and fit for service; and

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- (d) classed with DNV GL or such other classification society as approved by the Agent, free of all overdue requirements and other material recommendations.

21.20 ISM Code, ISPS Code and Marpol Compliance

From the Drawdown Date, all requirements of the ISM Code, the ISPS Code, Marpol and any other applicable international maritime safety regulation relevant to the operation and maintenance of the Vessel have been complied with.

21.21 Ownership

- (a) NYK Logistics Holding (Europe) B.V. and TS Shipping Invest AS each owns 50% of all the shares and ownership interests in the Guarantor.
- (b) The Guarantor owns 100% of all the shares in the Borrower.

21.22 Business of the Borrower

The Borrower will only be involved in the ownership and/or operation of the Vessel and activities related thereto.

21.23 Restricted Persons

No Obligor nor any member of the Group nor any director, officer, agent or employee of any of them or person acting on behalf of the foregoing is a Restricted Person nor acts directly or indirectly on behalf of a Restricted Person.

21.24 Times when representations made

- (a) All the representations and warranties in this Clause 21 are deemed to be made by each Obligor on the date of this Agreement.
- (b) The Repeating Representations are deemed to be made by each Obligor on the date of a Drawdown Request, on the Drawdown Date and on the first day of each Interest Period by reference to the facts and circumstances then existing.

22 INFORMATION UNDERTAKINGS

The undertakings in this Clause 22 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

22.1 Financial statements

Each Obligor shall supply to the Agent in sufficient copies for all the Lenders:

- (a) as soon as reasonably practicable after the same are available (and in any event no later than one-hundred and fifty (150) days after the end of its financial year):
- (i) the audited unconsolidated (in respect of the Borrower) financial statement for that financial year;
 - (ii) the audited consolidated (in respect of the Guarantor or, following the Drop Down Date, the Replacement Guarantors) financial statement for that financial year; and

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- (b) as soon as reasonably practicable after the same are available (and in any event no later than ninety (90) days after the end of each financial quarters:
 - (i) the unaudited and unconsolidated (in respect of the Borrower) quarterly financial statements for that financial quarter; and
 - (ii) the unaudited consolidated (in respect of the Guarantor or, following the Drop Down Date, the Replacement Guarantors) financial statement for that financial quarter.

22.2 Budget

The Guarantor shall supply to the Agent in sufficient copies for all the Lenders, as soon as reasonably practicable after the same are available (and in any event no later than 31 January each year), its consolidated budget and cash flow projections for the next financial year, in form and substance satisfactory to the Agent.

22.3 Provision and contents of Compliance Certificate

- (a) The Borrower shall supply a Compliance Certificate to the Agent with each set of annual and quarterly financial statements.
- (b) The Compliance Certificate shall, amongst other things, set out (in reasonable detail) computations as to compliance with Clause 23 (*Financial Covenants*), Clause 25.1 (*Vessel insurances*) and Clause 25.11 (*Fair Market Value*), together with any relevant supporting documentation, such as valuations of the Vessel in accordance with Clause 22.5 (*Report on Fair Market Value*), enabling the Lenders to determine and monitor the Obligors' compliance.
- (c) Each Compliance Certificate shall be signed by the CFO or another person authorised to represent the Guarantor, and following the Drop Down Date, the Replacement Guarantors.

22.4 Requirements as to financial statements

- (a) The Borrower shall procure that each set of financial statements includes a balance sheet, profit and loss account, cashflow statement and appropriate explanatory notes.
- (b) Each set of financial statements delivered pursuant to Clause 22.1 (*Financial statements*) shall be:
 - (i) prepared in accordance with GAAP, accounting practices and financial reference periods consistent with those applied in the preparation of the Original Financial Statements; and
 - (ii) signed by an authorised person of each Obligor.

22.5 Report on Fair Market Value

- (a) The Borrower shall, at its own expense, arrange for the Fair Market Value to be determined semi-annually, within 31 January and 31 July each year.

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- (b) The Lenders may obtain valuations on the Fair Market Value at any time during the tenor of the Facility at their own expense or, in case of an Event of Default, at the expense of the Borrower.

22.6 Information: miscellaneous

The Obligors shall supply to the Agent (in sufficient copies for all the Lenders, if the Agent so requests):

- (a) at the same time as they are dispatched, copies of all relevant documents dispatched by any Obligor to its creditors in general;
- (b) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current or, to its knowledge, threatened or pending against any of the Obligors, and which might be reasonably expected to have a Material Adverse Effect, and further details of any such matter previously disclosed to the Agent, if the likelihood of an adverse determination has increased, as the Agent may reasonably request; and
- (c) promptly on request, such further information as any Finance Party through the Agent may reasonably request.

22.7 Notification of default

- (a) The Borrower shall notify the Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- (b) Promptly upon a request by the Agent, the Borrower shall supply to the Agent a certificate signed by an authorised signatory of the Borrower certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

22.8 “Know your customer” checks

Each Obligor shall promptly at the request of a Finance Party (through the Agent) supply to the Agent any documentation or other evidence which is requested by that Finance Party to enable the Finance Party or any prospective new Lender to, at any time, carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

22.9 Notification of Environmental Claims

Each Obligor shall inform the Agent in writing as soon as reasonably practicable upon becoming aware of the same:

- (a) if any Environmental Claim has been commenced or (to the best of the Borrower’s knowledge and belief) is threatened against any of the Obligors or the Vessels; and
- (b) if any fact and circumstances which will or are reasonably likely to result in any Environmental Claim being commenced against any of the Obligors or the Vessels.

23 FINANCIAL COVENANTS

23.1 Construction and definitions

Except otherwise explicitly provided for in this Agreement, an accounting term used in this Clause is to be construed in accordance with GAAP.

For the purposes of this Clause 23, the following definitions shall apply:

“**EBITDA**” means earnings, before:

- (a) deducting any provision on account of taxation;
- (b) deducting any interest, discounts or other fees incurred or payable in respect of Financial Indebtedness;
- (c) taking into account any items treated as exceptional or extraordinary items; and
- (d) any amount attributable to the amortisation of intangible assets and depreciation of tangible assets.

“**Equity Ratio**” means the ratio of Total Equity to Total Assets.

“**Interest Expenses**” means any interests, commission or fees incurred or payable in respect of Financial Indebtedness.

“**Liquidity**” means, at any given time, the aggregate of freely available cash in hand or on unrestricted deposit with any bank or financial institution.

“**Relevant Period**” means any twelve (12) months period, ending on the last day of the latest financial quarter covered by the relevant financial statements.

“**Shareholder Loan**” means a loan made by a shareholder or a group company of a shareholder (however, excluding, for the avoidance of doubt any Group Company) to the Guarantor and/or any of its Subsidiaries, which is subordinated to the rights of the Finance Parties under the Finance Documents on terms approved in writing by the Lenders and which:

- (a) has a maturity date not earlier than one (1) month after the Final Maturity Date;
- (b) may not be serviced by the Guarantor (neither in respect of principal or interest or otherwise) until after the Final Maturity Date (other than as permitted by Clause 24.14 (*Distributions from the Guarantor*)); and
- (c) has no acceleration rights.

“**Total Assets**” means the aggregate book value of total assets in accordance with GAAP, less any goodwill.

“**Total Equity**” means the aggregate book value of the equity treated as equity in accordance with GAAP, including (without double counting), but only when testing the Guarantor’s Equity Ratio prior to the Drop Down Date, any Shareholder Loan.

“**Working Capital**” means current assets less current liabilities (which shall exclude instalments of long term debt due in the next year, capital lease payments and in respect of the Borrower only intercompany group balances).

23.2 Financial testing

The financial covenants set out in this Clause 23 (*Financial Covenants*) shall be calculated in accordance with GAAP consistently applied and tested quarterly, by reference to each of the financial statements delivered pursuant to paragraphs (a) and (b) of Clause 22.1 (*Financial Statements*) and/or each Compliance Certificate delivered pursuant to Clause 22.3 (*Provision and contents of Compliance Certificate*).

23.3 Financial conditions prior to Drop Down Date

- (a) The Guarantor (KNOT) shall ensure that it maintains (on a consolidated basis) at all times:
 - (i) a positive Working Capital;
 - (ii) an Equity Ratio of minimum 0.3 to 1.0; and
 - (iii) Liquidity of minimum the higher of (i) USD 25,000,000 and (ii) an amount equal to four per cent. (4%) of the Guarantor's interest bearing Financial Indebtedness on a consolidated basis.
- (b) The Borrower shall ensure that it maintains at all times from (and including) the Drawdown Date:
 - (i) a positive Working Capital; and
 - (ii) Liquidity of minimum USD 500,000.

23.4 Financial conditions after the Drop Down Date

- (a) The Replacement Guarantor (KNOP) shall ensure that it maintains (on a consolidated basis) at all times:
 - (i) a positive Working Capital;
 - (ii) an Equity Ratio of minimum 0.3 to 1.0;
 - (iii) EBITDA to Interest Expenses of minimum 2.5 to 1.0 for any Relevant Period;
 - (iv) Liquidity of minimum USD 15,000,000, plus:
 - (A) USD 1,500,000 for each owned (directly or indirectly) vessel with employment contracts with less than twelve (12) months' remaining tenor (excluding options) up to a total of eight (8) vessels, i.e. up to an additional Liquidity requirement of USD 12,000,000 in aggregate; and
 - (B) USD 1,000,000 for each owned (directly or indirectly) vessel with employment contracts with less than twelve (12) months' remaining tenor (excluding options) up to a total of twelve (12) vessels, i.e. up to a further additional Liquidity requirement of USD 12,000,000 in aggregate,resulting in a potential maximum requirement of Liquidity of minimum USD 39,000,000 in total.

For the purpose of this paragraph (iv):

“ **Liquidity** ” shall include an amount equal to 2/3 of the available commitments under the revolving credit facility under a certain USD 240m credit facility of KNOP.

“ **employment contract** ” shall not include employment contracts entered into with KNOT or any of its Subsidiaries.

(b) The Borrower shall ensure that it maintains a positive Working Capital at all times.

23.5 Reporting breach

If, prior to the delivery of a Compliance Certificate pursuant to Clause 22.3 (*Provision and contents of Compliance Certificate*), the Borrower becomes aware that the financial covenants set out in this Clause 23 (*Financial Covenants*) will not be complied with, the Borrower shall immediately notify the Agent thereof.

23.6 Most Favoured Lender

The Borrower undertakes to promptly notify the Agent if it becomes aware that the Guarantor and/or Replacement Guarantor, as the case may be, enters into any agreements and/or arrangements and/or adjustment of existing arrangements or agreements relating to Financial Indebtedness which would impose stricter financial covenants (excluding, for the avoidance of doubt, loan to vessel value covenants) applicable to the Guarantor or the Replacement Guarantor, as the case may be, than the financial covenants applicable to the Guarantor or the Replacement Guarantor, as the case may be, as set out in this Clause 23 (*Financial Covenants*) and, in such case, upon notice by the Agent to the Borrower, such new and stricter covenants and/or ratios shall apply under this Agreement.

24 GENERAL UNDERTAKINGS

The undertakings in this Clause 24 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

24.1 Authorisations

Each of the Obligors shall promptly:

- (a) obtain, comply with and do all that is necessary to maintain in full force and effect; and
- (b) upon request of the Agent, supply certified copies to the Agent of,

any Authorisation required under any law or regulation of a Relevant Jurisdiction to enable it to perform its obligations under the Finance Documents, ensure the legality, validity, enforceability or admissibility in evidence of any Finance Document.

24.2 Compliance with laws

- (a) Each Obligor shall, and shall ensure that each Group Company as well as any manager and charterer) comply in all material respects with all laws and regulations to which it and the Vessel may be subject.

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- (b) Without limiting paragraph (a) above, each Obligor shall not (and shall ensure that no Group Company, nor any manager or charterer) employ the Vessel nor allow its employment, operation or management in any manner contrary to any law or regulation.
 - (c) Each Obligor shall, and shall procure that each other member of the Group and each Affiliate of any of them shall, comply in all respect with all Sanctions.

24.3 Sanctions

- (a) Each Obligor undertakes that it, and any other member of the Group or any Affiliate of any of them, or any director, officer, agent, employee or person acting on behalf of the foregoing, is not a Restricted Person and does not act directly or indirectly on behalf of a Restricted Person.
- (b) Each Obligor shall, and shall procure that each other member of the Group and each Affiliate of any of them shall, not use any revenue or benefit derived from any activity or dealing with a Restricted Person in discharging any obligation due or owing to the Finance Parties.
- (c) Each Obligor shall procure that no proceeds from any activity or dealing with a Restricted Person are credited to any bank account held with any Finance Party in its name or in the name of any other member of the Group or any Affiliate of any of them.
- (d) Each Obligor undertakes that it, and each other member of the Group and each Affiliate of any of them, has taken reasonable measures to ensure compliance with Sanctions.
- (e) Each Obligor shall, and shall procure that each other member of the Group shall, to the extent permitted by law promptly upon becoming aware of them supply to the Agent details of any claim, action, suit, proceedings or investigation against it with respect to Sanctions by any Sanctions Authority.
- (f) Each Obligor shall not accept, obtain or receive any goods or services from any Restricted Person, except (without limiting Clause 24.2 (*Compliance with laws*)), to the extent relating to any warranties and/or guarantees given and/or liabilities incurred in respect of an activity or dealing with a Restricted Person by an Obligor in accordance with this Agreement.
- (g) Each Party acknowledges and agrees that the Obligors do not undertake under paragraphs (a) to (f) (inclusive) above in favour of any Lender incorporated or having its registered office in the Federal Republic of Germany and no such Lender shall have any right thereunder and shall be deemed not to be a party to the provisions of this Clause 24.3.

24.4 Use of Proceeds

- (a) The Obligors shall not, and shall procure that each other member of the Group and any Affiliate of any of them shall not, permit or authorise any other person to, directly or indirectly, use, lend, make payments of, contribute or otherwise make available, all or any part of the proceeds of the Facility or other transactions contemplated by this Agreement to fund or facilitate trade, business or other activities:
 - (i) involving or for the benefit of any Restricted Person; or
 - (ii) in any other manner that could result in any Obligor or a Finance Party being in breach of any Sanctions or becoming a Restricted Person.
- (b) Each Party acknowledges and agrees that the Obligors do not undertake under paragraph (a) above in favour of any Lender incorporated or having its registered office in the Federal Republic of Germany and no such Lender shall have any right thereunder and shall be deemed not to be a party to the provisions of this Clause 24.4.

24.5 Title

Each Obligor will hold legal title to and own the entire beneficial interest in its assets that are subject to Security in favour of the Finance Parties, including its Earnings Accounts, its Earnings, Insurances and the Vessel.

24.6 Taxation

- (a) Each Obligor shall (and shall procure that each member of the Group) pay and discharge all Taxes imposed upon it or its assets within the time period allowed without incurring penalties unless and only to the extent that:
 - (i) such payment is being contested in good faith;
 - (ii) adequate reserves are being maintained for those Taxes and the costs required to contest them which have been disclosed in its latest financial statements delivered under Clause 22.1 (*Financial statements*); and
 - (iii) such payment can be lawfully withheld and failure to pay those Taxes does not or is not reasonably likely to have a Material Adverse Effect.
- (b) None of the Obligors may and, to the extent it has or reasonably could be expected to have a Material Adverse Effect, no other Group Company may, change its residence for Tax purposes without the prior written consent from the Majority Lenders (not to be unreasonably withheld).

24.7 Pari passu ranking

Each Obligor shall ensure that at all times any unsecured and unsubordinated claims of a Finance Party (including a Swap Provider) against it under the Finance Documents rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors except those creditors whose claims are mandatorily preferred by laws of general application to companies.

24.8 Merger

No Obligor shall, without the prior written consent of the Majority Lenders, enter into any amalgamation, demerger, merger, consolidation or corporate reconstruction.

24.9 Change of business

Except with the prior written consent of the Lenders (not to be unreasonably withheld or delayed), the Obligors will not cease to carry on or make any change in all or any part of its business and activities thereto as presently conducted, or carry on any other business, except for a similarly related business, or change the place of its jurisdiction or its organisation as presently conducted.

24.10 Hedging arrangements

- (a) The Swap Providers shall have a first right of refusal in relation to interest and/or currency hedging and/or other derivative transactions relating to the Vessel or the Facility on competitive terms, relative to its pro rata share of the Facility.
- (b) The Borrower shall not carry out derivative transactions for speculative purposes.

24.11 Preservation of assets

Each Obligor shall maintain and preserve all of its assets that are necessary or desirable, in the opinion of the Agent, for the conduct of its business, as intended to be conducted at the date of this Agreement, in good working order and condition, ordinary wear and tear excepted.

24.12 Financial indebtedness restrictions

- (a) The Borrower shall not incur, create or permit to subsist any Financial Indebtedness.
- (b) Paragraph (a) above does not apply to Financial Indebtedness:
 - (i) incurred under the Finance Documents;
 - (ii) incurred under any Shareholder Loan or Intragroup Indebtedness; or
 - (iii) consented to in writing by the Lenders.

24.13 Negative pledge

- (a) The Borrower shall not create or permit to subsist any Security over:
 - (i) any of the assets that are subject to Security under the Security Documents; and/or
 - (ii) any Earnings and/or bank accounts that are not subject to Security under the Security Documents,
- (b) Paragraph (a) above does not apply to:
 - (i) the Security under the Security Documents;

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- (ii) any right of pledge and/or set off over the Earnings Accounts and any operating accounts of the Borrower, in favour of the Account Bank arising under the general terms and conditions (*Algemene Bank Voorwaarden*) of any member of the Dutch Bankers' Association (*Nederlandse Vereniging van Banken*) or any similar term applied by a financial institution in the Netherlands pursuant to its general terms and conditions, provided that the Account Bank contractually undertakes only to exercise its rights in respect of:
 - (A) the daily operation of the accounts;
 - (B) recovery of fees, any costs, claims (including, but not limited to, taxes and duties), charges, expenses (including, but not limited to, legal fees) and/or liabilities in connection with or resulting from the maintenance or administration, the execution of payment orders and/or the performance of other instructions with respect to the accounts; and/or
 - (C) the operation of any form of cash management (including but not limited to any netting and/or cash pooling arrangement;
 - (iii) in respect of the Vessel:
 - (A) any liens for current crews' wages and salvage;
 - (B) any ship repairer's or outfitter's possessory lien arising by operation of law and not exceeding USD 2,000,000; and
 - (C) any other liens incurred in the ordinary course of operating the Vessel not exceeding USD 2,000,000; and
 - (iv) any Security consented to in writing by the Lenders.

24.14 Financialsupport

The Borrower shall not make or grant any loans, guarantees or any other form of financial support, except financial support in the ordinary course of operation of the Vessel (it being understood however that intercompany loans, deposits or equity contributions within the Group (“ **Intragroup Indebtedness** ”) shall be allowed, provided always that:

- (a) no Event of Default is in existence or will occur from such disposition;
- (b) after giving effect to such disposition, the Obligors will be in compliance with Clause 23 (*Financial Covenants*); and
- (c) the Intragroup Indebtedness obligations, shall rank behind and be fully subordinated to any obligations under the Finance Documents.

24.15 Distributions from the Guarantor

- (a) Subject to the limitations listed in paragraph (b) below, the Guarantor may:
- (i) declare, make or pay any dividend, charge, fee or other distribution (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);
 - (ii) pay any interest or repay any principal amount (or capitalised interest) on any debt to any of its shareholders;
 - (iii) redeem, repurchase or repay any of its share capital or resolve to do so; or
 - (iv) enter into any transaction or arrangement having a similar effect as described in paragraphs (i) to (iii).
- (b) The distributions described in paragraph (a) above can only be carried out and effectuated if:
- (i) no Default is existing on the time when the distribution is to be made or would result from the making, payment or declaration of the distribution; and
 - (ii) prior to the Drop Down Date:
 - (A) KNOT's consolidated net profit after taxes calculated from the audited consolidated financial statements delivered for the previous financial year is positive; and
 - (B) after effectuating any such distribution, KNOT will have Liquidity (as defined in Clause 23.1 (Construction and definition)) of minimum the higher of (x) USD 35,000,000 and (y) an amount equal to four per cent. (4%) of the KNOT's interest bearing Financial Indebtedness and otherwise be in compliance with all financial covenants as set out in Clause 23 (*Financial covenants*); or
 - (iii) after the Drop Down Date: KNOP and the Borrower are in compliance with the financial covenants applicable to them as set out in Clause 23 (*Financial covenants*) following the making, payment or declaration of any distribution.

24.16 Distributions from the Borrower

The Borrower may (directly or indirectly) declare, make or pay any dividend, charge, fee or other distribution (whether in cash or in kind) to the Guarantor, provided that;

- (a) no Default is existing on the time when the distribution is to be made; and
- (b) after effectuating any such distribution, the Borrower will be in compliance with all financial covenants as set out in Clause 23 (*Financial covenants*).

24.17 Disposals

No Obligor shall enter into a single transaction or series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer, or otherwise dispose of the Vessel or other asset being the subject of Security pursuant to the Security Documents, save for a sale of the Vessel in accordance with Clause 8.1 (*Disposal*).

24.18 Financialyear

Except with the prior written consent of the Majority Lenders, the Obligors will not, and shall procure that no other Group Company will, alter its financial year end from 31 December.

24.19 Bankaccounts

The Borrower shall open and maintain all its Earnings Accounts and operating bank accounts with the Account Bank and ensure that all Earnings are paid to the Earnings Accounts and may freely operate and make withdrawals from the Earnings Accounts and operating bank accounts until the occurrence of a Default which is continuing.

24.20 Arm's length basis

No Obligor shall enter into any transaction with an Affiliate except on arm's length terms and for full market value.

24.21 EUBail-in

In the event that any Finance Document will be governed by the laws of a non-EEA Member Country, then to the extent the Agent determines it is necessary such Finance Document shall either prior to its entry, or if already in force be amended to, contain the current form of EU bail-in provisions recommended by the Loan Market Association.

25 VESSEL UNDERTAKINGS

Each Obligor gives the undertakings in this Clause 25 to each Finance Party and such undertakings shall apply in respect of the Vessel and remain in force for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

25.1 Vessel insurances

- (a) The Borrower shall keep the Vessel fully insured against such risks, including but not limited to, Hull and Machinery, Hull Interest and/or Freight Interest, War Risks (including acts of terrorism, war risks P&I and piracy) and Protection & Indemnity (including maximum cover for pollution liability as normally adopted by the industry for similar vessels), in such amounts and currencies, on such terms and with such reputable insurers, brokers or P&I clubs as the Agent from time to time may approve. Norwegian Law to apply to all insurances and Hull and Machinery covers to include the terms of the Nordic Marine Insurance Plan of 2013, latest version (as amended from time to time).
- (b) The aggregate insured value for the Vessel (Hull and Machinery combined with Hull Interest and/or Freight Interest) shall be at least equal to or greater than the higher of:
 - (i) the Fair Market Value of the Vessel at any time; or
 - (ii) 120% of the Loan.
- (c) The insured value for Hull and Machinery for the Vessel shall cover at least 80% of the Fair Market Value of the Vessel and the remaining cover may be taken out by way of Hull Interest and Freight Interest.

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- (d) The Agent will if instructed by any Lender, for the cost of the Borrower, take out Mortgagee's Interest Insurance (MII) and Mortgagee Interest Additional Perils (pollution) Insurance (MAPI) in an amount of up to 120% of the principal outstanding amount of the Loan.
 - (e) The Borrower shall procure that the Security Agent (on behalf of the Finance Parties) is noted as a first priority mortgagee in the insurance contracts, together with the confirmation from the underwriters to the Security Agent thereof that the notice of assignment with regard to the Insurances and the loss payable clauses are noted in the insurance contract and that standard letters of undertaking are executed by the insurers and/or broker(s), as applicable.
 - (f) Within reasonable time (and no later than 14 days) prior to the expiry of the relevant Insurances, the Borrower shall procure the delivery to the Agent of a certificate from the insurance broker(s) through whom the Insurances referred to in paragraph (a) have been renewed and taken out in respect of the Vessel with insurance values as required by paragraphs (b), that such Insurances are in full force and effect and that the interests of the Security Agent (on behalf of the Finance Parties) have been noted by the relevant insurers.
 - (g) If any of the Insurances referred to in paragraph (a) form part of a fleet cover, the Borrower shall procure that the insurers shall undertake to the Security Agent that they shall neither set-off against any claims in respect of the Vessel any premiums due in respect of other units under such fleet cover or any premiums due for other insurances, nor cancel such Insurance for reason of non-payment of premiums for other units under such fleet cover or of premiums for such other Insurances, and shall undertake to issue a separate policy in respect of the Vessel if and when so requested by the Agent.
 - (h) The Borrower shall ensure that the Vessel is always employed in conformity with the terms of the relevant insurances and comply with such requirements as to extra premium or otherwise as the insurers may prescribe.
 - (i) The Borrower will not make any change to the Insurances without the prior written consent of the Agent (on behalf of the Lenders).
 - (j) Each of the Insurances shall be reviewed, at the cost of the Borrower, by the Lenders' insurance advisor on an annual basis on each date on which the Insurances are due for renewal if so required by the Agent. An insurance advisor will be appointed by the Agent, at the Borrower's cost, prior to the Drawdown Date, for the purpose of, inter alia, preparing an insurance report.

25.2 Notification

The Borrower shall immediately notify the Agent of:

- (a) any accident or casualty to the Vessel involving repairs the cost of which is likely to exceed USD 2,000,000 or the equivalent thereof in any other currency;
- (b) any occurrence in consequence whereof the Vessel has become or is likely to become a Total Loss;

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- (c) any arrest or detention of the Vessel or the exercise or purported exercise of any lien on the Vessel;
 - (d) any requirement or recommendation made in relation to the Vessel by any insurer or classification society or by any competent authority which is not, or cannot be, immediately complied with;
 - (e) any claim for a material breach of the ISM Code, the ISPS Code or Marpol being made against the Borrower, any charterer or the Manager or otherwise in connection with the Vessel; or
 - (f) any other matter, event or incident, actual or threatened, the effect of which will or could lead to the ISM Code, the ISPS Code or Marpol not being complied with,

and the Borrower will keep the Agent advised on a regular basis and in such detail as the Agent shall require on the relevant party's response to any of the above mentioned events or matters.

25.3 Class

- (a) The Borrower shall have the Vessel classified and maintained in the highest appropriate class notation available for vessels of the same age and type with DNV GL or such other IACS classification society acceptable to the Lenders, and at all times comply with the rules and regulations of the relevant classification society without any overdue recommendations and notations and shall immediately provide the Agent with copies of any survey reports being issued.
- (b) The Borrower may not change (or permit the change of) the classification society of the Vessel without the prior written consent of the Agent.

25.4 Flag

The Borrower shall maintain the registration of the Vessel in its name with an Approved Ship Registry, and shall not change the name, flag or registration of the Vessel or parallel register the Vessel in another Approved Ship Registry without the prior written consent of the Lenders, such consent not to be unreasonably withheld, always subject to the Borrower providing the Agent with security over the Vessel, in form and substance acceptable to the Agent.

25.5 Inspection and class records

- (a) The Borrower shall permit, and shall procure that any charterers permit, any person appointed by the Agent to inspect the Vessel at any time for the account of the Borrower upon the Agent giving prior written notice, always provided that such inspection shall not interfere with the normal operation and trading of the Vessel, provided however that following an Event of Default, the Agent is entitled to do an inspection whether or not it interferes with the trading and operation of the Vessel.
- (b) The Borrower shall instruct the classification society to send to the Agent, following a written request from the Agent, copies of all class records held by the classification society in relation to the Vessel.

25.6 Repairs and alterations

The Borrower shall not make or permit any change or structural alteration to be made to the Vessel with a total cost exceeding or likely to exceed USD 2,000,000 and will not remove any material part from the Vessel without replacing such parts with parts of equal value, unless otherwise agreed with the charterer and subject to the consent of the Agent, such consent not to be unreasonably withheld.

25.7 Compliance with international regulations and laws

The Borrower shall (and shall to its best abilities procure that any charterer and/or the Manager of the Vessel) at all times:

- (a) comply in all material respects with all international conventions and regulations relating to the Vessel, including:
 - (i) the ISM Code;
 - (ii) the ISPS Code; and
 - (iii) Marpol;
- (b) comply in all material respects with any applicable national or international law, regulation, convention or treaty in a jurisdiction which an Obligor conducts business or the Vessel will be operating, including such law, regulation, convention or treaty which relates to the pollution or damage of the environment or the conditions at the workplace;
- (c) comply in all material respects with any applicable law, regulation or requirement in the jurisdiction of the Approved Ship Registry where the Vessel is registered;
- (d) comply in all respects with all Environmental Laws applicable to any of them or the Vessel, including without limitation, requirements relating to manning and establishment of financial responsibility and to obtain and comply with all Environmental Approvals applicable to any of them and/or any the Vessel;
- (e) in the event of hostilities in any part of the world (whether war is declared or not), not employ the Vessel in any zone which is declared a war zone by any government or by the war risk insurers of the Vessel, unless the Borrower has (at its own expense) effected any special, additional or modified insurance cover which shall be necessary or customary for first class shipowners, and has provided evidence of such cover to the Agent; and
- (f) obtain, maintain and ensure compliance with all requisite licenses, certificates, approvals and permits required under any such laws, rules and regulations at all times valid and enforceable in all respects, including:
 - (i) the Document of Compliance and Safety Management Certificate issued pursuant to the ISM Code in relation to the Vessel; and
 - (ii) a valid and current International Ship Security Certificate issued under the ISPS Code.

25.8 Maintenance

The Borrower shall procure that the Vessel is kept in good and safe condition and state of repair consistent with first class ownership and management practice.

25.9 Dismantling

- (a) The Obligors shall procure a safe sustainable and socially and environmentally responsible dismantling of any of their vessels that is taken out of service.
- (b) The Borrower shall ensure that a copy of the Inventory of Hazardous Materials (IHM) relevant to the Vessel is available during the lifespan of the Vessel.

25.10 Arrest

The Borrower shall pay and discharge when due:

- (a) all liabilities which give rise or may give rise to maritime or possessory liens on or claims enforceable against the Vessel, its Earnings or Insurances;
- (b) all tolls, taxes, dues, fines, penalties and other amounts charged in respect of the Vessel, its Earnings or Insurances; and
- (c) all other outgoings whatsoever in respect of the Vessel, its Earnings and Insurances,
- (d) and upon receiving notice of arrest of the Vessel, or its detention or purported exercise of any lien or claim, the Borrower shall procure its release by providing bail or Security or otherwise as the circumstances may require.

25.11 FairMarket Value

- (a) The Borrower shall ensure that the Fair Market Value of the Vessel is:
 - (i) from the Drawdown Date and at all times until the fourth anniversary thereof, in excess of 125%; and
 - (ii) from the fourth anniversary of the Drawdown Date and thereafter; in excess of 135%,
of the outstanding Loan.
- (b) The Borrower shall, if the Fair Market Value of the Vessel at any time falls below the values described in paragraph (a) above, within thirty (30) days from the date the Borrower became aware of such breach, either:
 - (i) prepay such portion of the Loans in accordance with Clause 7.1 (*Voluntary prepayment*); or
 - (ii) post additional Security to the satisfaction of the Agent,
that enables the Borrower to satisfy the minimum value requirement.

25.12 Management

The Vessel shall be managed by the Manager pursuant to the terms of the Management Agreement(s) or such other reputable manager(s) as agreed in writing by the Lenders, and the Borrower shall not make any material changes to the management of the Vessel without the prior written consent of the Agent (not to be unreasonably withheld).

25.13 Restrictions on chartering etc.

The Borrower shall not let a Vessel on bareboat charter for any period without the prior written consent of the Agent (on behalf of the Finance Parties), unless such bareboat charter is to a Group Company and at a rate no less than an amount sufficient for the Borrower to meet its payments obligations under the Finance Documents as they fall due.

26 EVENTS OF DEFAULT

Each of the events or circumstances set out in this Clause 26 is an Event of Default (save for Clause 26.16 (*Acceleration*)).

26.1 Non-payment

Any Obligor does not pay on the due date any amount payable pursuant to a Finance Document at the place and in the currency in which it is expressed to be payable unless:

- (a) its failure to pay is caused by:
 - (i) an administrative or technical error; or
 - (ii) a Disruption Event; and
- (b) payment is made within three (3) Business Days of its due date.

26.2 Financial covenants, Sanctions, Use of Proceeds, Vessel Insurances and Fair Market Value

Any requirement of Clause 23 (*Financial covenants*), Clause 24.3 (*Sanctions*), Clause 24.4 (*Use of Proceeds*), Clause 25.1 (*Vessel Insurances*) or Clause 25.11 (*Fair Market Value*) is not satisfied.

26.3 Other obligations

- (a) Any Obligor does not comply with any provision of the Finance Documents (other than those referred to in Clause 26.2 (*Financial covenants, Sanctions, Use of Proceeds, Vessel Insurances and Fair Market Value*)).
- (b) No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within ten (10) Business Days of the earlier of (i) the Agent giving notice to the Borrower and (ii) the Borrower became or should have become aware of the failure to comply.

26.4 Misrepresentation

Any representation or statement made or deemed to be made by any Obligor in the Finance Documents or any other document delivered by or on behalf of the Obligors or in connection with any Finance Document is or proves to have been materially incorrect or misleading when made or deemed to be made.

26.5 Cross default

- (a) Any Financial Indebtedness of any Obligor is not paid when due nor within any originally applicable grace period.
- (b) Any Financial Indebtedness of any Obligor is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

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- (c) Any commitment for any Financial Indebtedness of any Obligor is cancelled or suspended by a creditor of any Obligor as a result of an event of default (however described).
 - (d) Any creditor of any Obligor becomes entitled to declare any Financial Indebtedness of any Obligor due and payable prior to its specified maturity as a result of an event of default (however described).
 - (e) No Event of Default will occur under this Clause 26.5 if the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (a) to (d) above is less than USD 6,500,000 (or its equivalent in any other currency or currencies).

26.6 Insolvency

- (a) Any of the Obligors is, or for the purpose of applicable law is deemed to be, unable to pay its debts as they fall due or becomes insolvent or admits inability or intention not to pay its debts as they fall due.
- (b) Any of the Obligors suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness.
- (c) A moratorium is declared in respect of any indebtedness of any Obligor.

26.7 Insolvency proceedings

Any corporate action, legal proceedings or other procedure or step is taken in relation to:

- (a) the preliminary suspension of payments, suspension of payments, bankruptcy, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of any of the Obligors;
- (b) a composition, compromise, assignment or arrangement with any creditor of any of the Obligors;
- (c) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of any of the Obligors or any of its assets; or
- (d) enforcement of any Security over any assets of any of the Obligors.

26.8 Creditors' process

Any maritime lien or other lien (not being permitted under Clause 24.13 (*Negative pledge*)), expropriation, attachment, sequestration, distress or execution or any analogous process in any jurisdiction affects any asset or assets of any Obligor unless, within 30 days after the Obligor became aware of the same, (i) the same is discharged or (ii) the Finance Parties have been provided with additional security in such form and for such amounts as the Finance Parties may require.

26.9 Unlawfulness and invalidity

It is or becomes unlawful for any Obligor and/or any of the parties to a Security Document to perform any of their obligations under the Finance Documents or any Finance Document ceases to be in full force and effect or any Security under the Security Documents ceases to be legal, valid, binding, enforceable or effective or is alleged by a party to it (other than a Finance Party) to be ineffective.

26.10 Cessation of business

Any Obligor ceases (or threatens to cease to carry on) all its business.

26.11 Audit qualification

The auditors of any Obligor materially qualify the audited annual financial statements of any Obligor.

26.12 Permits

Any license, consent, permission or approval required in order to enforce, complete or perform any of the Finance Documents is revoked, terminated or modified having a Material Adverse Effect.

26.13 Failure to comply with final judgement

Any Obligor fails to, within five (5) Business Days after becoming obliged to do so, comply with or pay any sum due from it under any final judgement or final order, unless such award is for an amount less than USD 4,000,000 or the sum due is covered by insurance and the insurers have confirmed cover and liability to pay under the relevant insurance.

26.14 Litigation

There is current, pending or, threatened in writing any claims, litigation, arbitration or administrative proceedings against an Obligor which might have a Material Adverse Effect.

26.15 Material adverse change

Any event or circumstance occurs which, in the opinion of the Majority Lenders has had or could reasonably be expected to have a Material Adverse Effect.

26.16 Acceleration

On and at any time after the occurrence of an Event of Default which is continuing the Agent may, and shall if so directed by the Majority Lenders, by notice to the Borrower:

- (a) cancel the Commitments at which time they shall immediately be cancelled;
- (b) declare that all or part of the Loan, together with accrued interest, and all other amounts accrued or outstanding under the Agreement, be immediately due and payable, at which time they shall become immediately due and payable;
- (c) enforce any or all Security under the Security Documents; and/or
- (d) exercise any or all of the rights, remedies, powers or discretions granted to the Agent or the Finance Parties under the Finance Documents or by any applicable law or regulation or otherwise as a consequence of such Event of Default.

SECTION 9
CHANGES TO PARTIES

27 CHANGES TO THE LENDERS

27.1 Assignments and transfers by the Lenders

Subject to this Clause 27, a Lender (the “**Existing Lender**”) may:

- (a) assign any of its rights; or
- (b) transfer by novation any of its rights and obligations,

under any Finance Document to another bank or financial institution, a trust, fund or other entity that is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the “**New Lender**”).

27.2 Conditions of assignment or transfer

- (a) An Existing Lender may not transfer any of its rights or obligations to a New Lender without the Borrower’s consent, such consent not to be unreasonably withheld or delayed and not to be required if the transfer is:
 - (i) to another Lender or an Affiliate of a Lender;
 - (ii) to a trust, fund or other entity that is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets, which is advised by, or the assets of which are managed by or serviced by a Lender; or
 - (iii) made at a time when an Event of Default has occurred and is continuing.
- (b) The Borrower shall be deemed to have given its consent if the Borrower has not expressly rejected any proposal within five (5) Business Days from the request of an Existing Lender.
- (c) An assignment will only be effective on the performance by the Agent of all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to such assignment to a New Lender, the completion of which the Agent shall promptly notify to the Existing Lender and the New Lender.
- (d) A transfer will only be effective if the procedure set out in Clause 27.5 (*Procedure for transfer*) is complied with.
- (e) Shareholders or Affiliates of any Obligor or Group Member may not become a Lender.

27.3 Assignment or transfer fee

Unless the Agent otherwise agrees and excluding an assignment or transfer to an Affiliate of a Lender, the New Lender shall, on the date upon which an assignment or transfer takes effect, pay to the Agent (for its own account) a fee of USD 5000.

27.4 Limitation of responsibility of Existing Lenders

- (a) Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:
 - (i) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents and the Security under the Security Documents or any other documents;
 - (ii) the financial condition of any Obligor;
 - (iii) the performance and observance by any Obligor or any other Group Company of its obligations under the Finance Documents or any other documents; or
 - (iv) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document, and any representations or warranties implied by law are excluded.
- (b) Each New Lender confirms to the Existing Lender and the other Finance Parties that it:
 - (i) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of any Obligor and its related entities in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Lender or any other Finance Party in connection with any Finance Document; and
 - (ii) will continue to make its own independent appraisal of the creditworthiness of any Obligor and its related entities whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.
- (c) Nothing in any Finance Document obliges an Existing Lender to:
 - (i) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause 27; or
 - (ii) support any losses directly or indirectly incurred by the New Lender by reason of the non-performance by an Obligor of its obligations under the Finance Documents or otherwise.

27.5 Procedure for transfer

- (a) Subject to the conditions set out in Clause 27.2 (*Conditions of assignment or transfer*) a transfer is effected in accordance with paragraph (c) below when the Agent executes a duly completed Transfer Certificate delivered to it by the Existing Lender and the New Lender. The Agent shall, subject to paragraph (b) below, as soon as reasonably practicable after receipt by it of a duly completed Transfer Certificate appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Transfer Certificate.

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- (b) The Agent shall only be obliged to execute a Transfer Certificate delivered to it by the Existing Lender and the New Lender once it is satisfied it has complied with all necessary “know your customer” or similar checks under all applicable laws and regulations in relation to the transfer to such New Lender.
- (c) On the Transfer Date:
- (i) to the extent that in the Transfer Certificate the Existing Lender seeks to transfer by novation its rights and obligations under the Finance Documents, each Obligor and the Existing Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another under the Finance Documents shall be cancelled (being the “ **Discharged Rights and Obligations** ”);
 - (ii) each Obligor and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as the Obligors and the New Lender have assumed and/or acquired the same in place of the Obligors and the Existing Lender;
 - (iii) the Agent, the MLAs, the New Lender and the other Lenders shall acquire the same rights and assume the same obligations between themselves and in respect of the Finance Documents as they would have acquired and assumed had the New Lender been an Original Lender with the rights, and/or obligations acquired or assumed by it as a result of the transfer and to that extent the Agent, the MLAs and the Existing Lender shall each be released from further obligations to each other under the Finance Documents; and
 - (iv) the New Lender shall become a Party as a “Lender”.

27.6 Copy of Transfer Certificate

The Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate, send to the Borrower a copy of that Transfer Certificate.

27.7 Security over Lender’s rights

Notwithstanding Clause 27.1 (*Assignments and transfers by the Lenders*), a Lender may at any time sell, transfer, assign, novate, pledge, have assumed all or part of its rights and/or otherwise use as collateral any of its rights under the Finance Documents to or for the benefit of a member of the European System of Central Banks.

28 CHANGES TO THE OBLIGORS

28.1 Assignments and transfers by the Obligors

No Obligor may assign any of its rights or transfer any of its rights or obligations under the Finance Documents.

28.2 Drop Down

- (a) KNOT shall have the option to sell its shares in the Borrower to KNOP or a wholly owned Subsidiary of KNOP, subject to the terms and conditions set out in this Clause 28.2 (*Drop Down*).
- (b) A Drop Down may only take place once the Agent (on behalf of the Lenders) in its sole discretion is satisfied that:
 - (i) no Default is continuing or would result from the proposed Drop Down;
 - (ii) no Material Adverse Effect would result from the proposed Drop Down;
 - (iii) the Repeating Representations to be made by each Obligor (including the Replacement Guarantors) are true in all material respects;
 - (iv) the Borrower have delivered to the Agent a duly completed and executed Accession Letter; and
 - (v) the Agent has received all of the documents and other evidence listed in Part V (*Conditions precedent to Drop Down*) of Schedule 2 (*Conditions precedent and subsequent*) in form and substance satisfactory to it.
- (c) On a Drop Down Date:
 - (i) the Replacement Guarantors shall accede to this Agreement as Guarantors and become liable for the obligations of the Borrower;
 - (ii) KNOT shall be released from its obligations under each Finance Document and each Hedging Agreement as a Guarantor for the obligations of the Borrower, and following the Drop Down Date, KNOT shall cease to be a Party to this Agreement;
 - (iii) all references to the terms “Guarantors”, “Guarantor”, “Obligors” or “Obligor” shall include the Replacement Guarantors;
 - (iv) the financial and other covenants that according to their terms give effect to the occurrence of a Drop Down Date shall be given such effect.
- (d) The Agent shall notify the other Parties, substantially in the form set out in Schedule 8 (*Form of Drop Down Confirmation Letter*) confirming the occurrence of a Drop Down Date, promptly upon being satisfied that:
 - (i) it has received (in form and substance satisfactory to it) all the documents and other evidence listed in paragraph (b) above; and
 - (ii) the Replacement Guarantors have acceded to this Agreement as Guarantors.

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- (e) Irrespective of anything to the contrary set out in this Agreement or any other Finance Document, no representations, covenants or other obligations of a Guarantor or provisions referring to a Guarantor (whether in its capacity as Guarantor or otherwise) under this Agreement shall apply to the Replacement Guarantors prior to the date the Replacement Guarantors have acceded as Guarantors under this Agreement or to KNOT after such date as KNOT has been released from its obligations as a Guarantor under this Agreement.

SECTION 10 THE FINANCE PARTIES

29 ROLE OF THE AGENT, SECURITY AGENT, THE MLAS AND OTHERS

29.1 Appointment of the Agent and Security Agent

- (a) Each Finance Party appoints the Agent to act as its agent and the Security Agent to act as security agent under and in connection with the Finance Documents.
- (b) Each Finance Party authorises each of the Agent and the Security Agent to exercise the rights, powers, authorities and discretions specifically given to the Agent and the Security Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

29.2 Duties of the Agent and Security Agent

- (a) Subject to paragraph (b) below, each of the Agent and the Security Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Agent or the Security Agent for that Party by any other Party.
- (b) Without prejudice to Clause 27.6 (*Copy of Transfer Certificate*), paragraph (a) above shall not apply to any Transfer Certificate.
- (c) Except where a Finance Document specifically provides otherwise, neither the Agent nor the Security Agent is obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- (d) If the Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the other Finance Parties.
- (e) If the Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Agent or the MLAs) under this Agreement it shall promptly notify the other Finance Parties.
- (f) The Agent shall provide to the Borrower at its request, a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments and contact details.
- (g) The Agent's and the Security Agent's duties under the Finance Documents are solely mechanical and administrative in nature.

29.3 Role of the MLAs

Except as specifically provided in the Finance Documents, the MLAs have no obligations of any kind to any other Party under or in connection with any Finance Document.

29.4 Limited fiduciary duties

- (a) Save as provided in paragraphs (b) and (c) below, nothing in this Agreement constitutes the Agent, the Security Agent, and/or the MLAs as a trustee or fiduciary of any other person.
- (b) None of the Agent, the Security Agent or the MLAs shall be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.
- (c) The Security Agent will act solely as trustee for the Finance Parties in carrying out its functions under the Security Documents and this Agreement and will exercise the same care as it would in dealing with a credit for its own account.

29.5 Business with the Group

Each Finance Party may accept deposits from, lend money to and generally engage in any kind of banking or other business with any Group Company.

29.6 Rights and discretions

- (a) The Agent and the Security Agent may rely on:
 - (i) any representation, notice or document believed by it to be genuine, correct and appropriately authorised; and
 - (ii) any statement made by a director, authorised signatory or employee of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify.
- (b) The Agent and the Security Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Lenders) that:
 - (i) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 26.1 (*Non-payment*));
 - (ii) any right, power, authority or discretion vested in any Party or the Majority Lenders has not been exercised.
- (c) The Agent and the Security Agent may engage, pay for and rely on the advice or services of any lawyers, accountants, surveyors or other experts.
- (d) The Agent and the Security Agent may act in relation to the Finance Documents through its personnel and agents.
- (e) The Agent and the Security Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.

- (f) Notwithstanding any other provision of any Finance Document to the contrary, none of the Agent, the Security Agent or the MLAs is obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality.
- (g) The Agent may not disclose to any Finance Party any details of the rate notified to the Agent by any Lender or the identity of any such Lender for the purpose of paragraph (a)(ii) of Clause 12.2 (*Market disruption*).

29.7 Majority Lenders' instructions

- (a) Unless a contrary indication appears in a Finance Document, the Agent and the Security Agent shall (i) exercise any right, power, authority or discretion vested in it as Agent in accordance with any instructions given to it by the Majority Lenders (or, if so instructed by the Majority Lenders, refrain from exercising any right, power, authority or discretion vested in it as Agent or the Security Agent) and (ii) not be liable for any act (or omission) if it acts (or refrains from taking any action) in accordance with an instruction of the Majority Lenders.
- (b) Unless a contrary indication appears in a Finance Document, any instructions given by the Majority Lenders will be binding on all the Finance Parties.
- (c) The Agent and the Security Agent may refrain from acting in accordance with the instructions of the Majority Lenders (or, if appropriate, the Lenders) until it has received such security as it may require for any cost, loss or liability (together with any associated VAT) which it may incur in complying with the instructions.
- (d) In the absence of instructions from the Majority Lenders, (or, if appropriate, the Lenders) the Agent and the Security Agent may act (or refrain from taking action) as it considers to be in the best interest of the Lenders.
- (e) The Agent and the Security Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document. This paragraph (e) shall not apply to any legal or arbitration proceeding relating to the perfection, preservation or protection of rights under the Security Documents or enforcement of the Security or Security Documents.

29.8 Responsibility for documentation

None of the Agent, Security Agent or the MLAs:

- (a) is responsible for the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by the Agent, the Security Agent, the MLAs, the Borrower or any other person given in or in connection with any Finance Document or the transactions contemplated in the Finance Documents;
- (b) is responsible for the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or the Security under any Security Document or any other agreement, arrangement or document entered into, made or executed in anticipation of or in connection with any Finance Document or the Security under any Security Document.

29.9 Exclusion of liability

- (a) Without limiting paragraph (b) below, the Agent or the Security Agent will not be liable for any action taken by it under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- (b) No Party (other than the Agent or the Security Agent, as applicable) may take any proceedings against any director or any other person who is authorised to represent the Agent, employee or agent of the Agent or the Security Agent, as applicable, in respect of any claim it might have against the Agent or the Security Agent, as applicable, or in respect of any act or omission of any kind by that director or person who is authorised to represent the Agent, the Security Agent, employee or agent in relation to any Finance Document.

29.10 Lenders' indemnity to the Agent and Security Agent

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Agent and the Security Agent, within three (3) Business Days of demand, against any cost, loss or liability incurred by the Agent or the Security Agent (otherwise than by reason of the Agent's or the Security Agent's gross negligence or wilful misconduct) in acting as Agent or Security Agent under the Finance Documents (unless the Agent or the Security Agent has been reimbursed by the Borrower pursuant to a Finance Document).

29.11 Resignation of the Agent or Security Agent

- (a) The Agent or the Security Agent may resign and appoint one of its Affiliates as successor by giving notice to the Lenders and the Borrower.
- (b) Alternatively, the Agent or the Security Agent may resign by giving 30 days' notice to the Lenders and the Borrower, in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Agent or Security Agent.
- (c) If the Majority Lenders have not appointed a successor Agent or Security Agent in accordance with paragraph (b) above within 20 days after notice of resignation was given, the retiring Agent or Security Agent (after consultation with the Borrower) may appoint a successor Agent or Security Agent.

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- (d) If the Agent or Security Agent wishes to resign because (acting reasonably) it has concluded that it is no longer appropriate for it to remain as agent or security agent and the Agent or the Security Agent is entitled to appoint a successor Agent or Security Agent under paragraph (c) above, the Agent or Security Agent, as the case may be, may (if it concludes (acting reasonably) that it is necessary to do so in order to persuade the proposed successor Agent or Security Agent, as the case may be, to become a party to this Agreement as Agent or Security Agent, as the case may be) agree with the proposed successor Agent or Security Agent, as the case may be, amendments to this Clause 29 and any other term of this Agreement dealing with the rights or obligations of the Agent or Security Agent, as the case may be, consistent with then current market practice for the appointment and protection of corporate trustees together with any reasonable amendments to the agency fee payable under this Agreement which are consistent with the successor Agent's or Security Agent's, as the case may, be normal fee rates and those amendments will bind the Parties.
- (e) The retiring Agent or Security Agent shall, at its own cost, make available to the successor Agent or Security Agent such documents and records and provide such assistance as the successor Agent or Security Agent may reasonably request for the purposes of performing its functions as Agent or Security Agent under the Finance Documents.
- (f) The Agent's or Security Agent's resignation notice shall only take effect upon the appointment of a successor.
- (g) Upon the appointment of a successor, the retiring Agent or Security Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 29. Any successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- (h) The Agent or Security Agent shall resign in accordance with paragraph (b) above (and, to the extent applicable, shall use reasonable endeavours to appoint a successor Agent or Security pursuant to paragraph (c) above) if on or after the date which is three months before the earliest FATCA Application Date relating to any payment to the Agent or Security Agent under the Finance Documents, either:
- (i) the Agent or Security Agent fails to respond to a request under Clause 14.6 (*FATCA Information*) and a Lender reasonably believes that the Agent or Security Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;
 - (ii) the information supplied by the Agent or Security Agent pursuant to Clause 14.6 (*FATCA Information*) indicates that the Agent or Security Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date; or
 - (iii) the Agent or Security Agent notifies the Borrower and the Lenders that the Agent or Security Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;

and (in each case) a Lender believes that a Party may be required to make a FATCA Deduction that would not be required if the Agent or Security Agent were a FATCA Exempt Party, and that Lender, by notice to the Agent or Security Agent, requires it to resign.

29.12 Replacement of the Agent or Security Agent

- (a) After consultation with the Borrower, the Majority Lenders may, by giving 30 days' notice to the Agent or Security Agent replace the Agent or Security Agent by appointing a successor Agent or Security Agent.
- (b) The retiring Agent or Security Agent shall make available to the successor Agent or Security Agent such documents and records and provide such assistance as the successor Agent or Security Agent may reasonably request for the purposes of performing its functions as Agent or Security Agent under the Finance Documents.
- (c) The appointment of the successor Agent or Security Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Agent or Security Agent. As from this date, the retiring Agent or Security Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 29 (and any agency fees for the account of the retiring Agent or Security Agent shall cease to accrue from (and shall be payable on) that date).
- (d) Any successor Agent or Security Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

29.13 Relationship with the Lenders

- (a) The Agent and Security Agent may treat each Lender as a Lender, inter alia entitled to or liable for any payment due under any Finance Document, unless it has received not less than five (5) Business Days' prior notice from that Lender to the contrary in accordance with the terms of this Agreement.
- (b) Each Lender shall supply the Agent or Security Agent with any information that the Agent or Security Agent may reasonably specify as being necessary or desirable to enable the Agent or Security Agent to perform its functions as Agent or Security Agent.
- (c) Any Lender may by notice to the Agent appoint a person to receive on its behalf all notices, communications, information and documents to be made or despatched to that Lender under the Finance Documents. Such notice shall contain the relevant contact details required to enable the sending and receipt of information.
- (d) Each Lender shall supply the Agent with any information required by the Agent in order to calculate the Mandatory Cost.

29.14 Confidentiality

- (a) In acting as agent for the Finance Parties, the Agent and the Security Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.

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- (b) If information is received by another division or department of the Agent or the Security Agent, it may be treated as confidential to that division or department and the Agent or Security Agent shall not be deemed to have notice of it.
 - (c) Notwithstanding any other provision of any Finance Document to the contrary, neither the Agent, the Security Agent nor any MLA is obliged to disclose to any other person (i) any confidential information or (ii) any other information if the disclosure would or might in its reasonable opinion constitute a breach of any law or a breach of a fiduciary duty.
 - (d) Notwithstanding any other provision of any Finance Document to the contrary, any Finance Party may disclose to any Finance Party and /or its Affiliates and potential assignees, any information it has received from any Obligor or concerning any Obligor (including information of confidential nature or described as confidential by an Obligor) which:
 - (i) the Finance Party becomes aware of in its capacity as, or for the purpose of becoming, a Finance Party under the Finance Documents;
 - (ii) is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents; or
 - (iii) provided that the Finance Party reasonably believes such information is of relevance to the other Finance Parties in their capacity as Finance Parties under the Finance Documents.

29.15 Credit appraisal by the Lenders

Without affecting the responsibility of the Borrower for information supplied by it or on its behalf, each Lender confirms to the Agent, the Security Agent and the MLAs that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document.

29.16 Reference Banks

If a Reference Bank ceases to be a Lender, the Agent shall (in consultation with the Borrower) appoint another Lender to replace that Reference Bank.

29.17 Role of Reference Banks

- (a) No Reference Bank is under any obligation to provide a quotation or any other information to the Agent.
- (b) No Reference Bank will be liable for any action taken by it under or in connection with any Finance Document, or for any Reference Bank Quotation, unless directly caused by its gross negligence or wilful misconduct.
- (c) No Party (other than the relevant Reference Bank) may take any proceedings against any officer, employee or agent of any Reference Bank in respect of any claim it might have against that Reference Bank or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document, or to any Reference Bank Quotation, and any officer, employee or agent of each Reference Bank may rely on this Clause 29.17.

29.18 Confidentiality of Reference Bank Quotations

- (a) The Agent agrees to keep each Reference Bank Quotation confidential and not to disclose it to anyone, save to the extent permitted by paragraphs (b) and (c) below.
- (b) The Agent may disclose any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a confidentiality agreement as agreed between the Agent and the relevant Reference Bank.
- (c) The Agent may disclose any Reference Bank Quotation to:
 - (i) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors, partners and representatives if any person to whom that Reference Bank Quotation is to be given pursuant to this paragraph (i) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
 - (ii) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Agent, it is not practicable to do so in the circumstances;
 - (iii) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Agent, it is not practicable to do so in the circumstances; and
 - (iv) any person with the consent of the relevant Reference Bank.
- (d) The Agent acknowledge that each Reference Bank Quotation is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Agent undertake not to use any Reference Bank Quotation for any unlawful purpose.

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- (e) The Agent agrees (to the extent permitted by law and regulation) to inform the relevant Reference Bank:
 - (i) of the circumstances of any disclosure made pursuant to paragraph (c) (ii) above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
 - (ii) upon becoming aware that any information has been disclosed in breach of this Clause 29.18.

29.19 Swap Providers

- (a) Each Swap Provider agrees that it is a party to this Agreement solely for the purpose of the Borrower's obligations under the Hedging Agreements being included under the Security created by the Security Documents.
- (b) Any Hedging Agreement shall only enjoy the benefit of protection of the Security Documents if and to the extent such Hedging Agreement (and any transactions thereunder) is entered into in accordance with Clause 24.10 (*Hedging arrangements*).
- (c) Clause (c) (*Finance Parties' rights and obligations*) shall not apply to any Finance Party (in its capacity as Swap Provider) in respect of the Security Documents and no Swap Provider may separately enforce any rights under the Security Documents.
- (d) Each Swap Provider shall promptly notify the Agent upon the occurrence of an early termination event or a default by the Borrower of its obligations under a Hedging Agreement.

29.20 Agent's and Security Agent's Management Time

Any amount payable to the Agent and the Security Agent under Clause 16.3 (*Indemnity to the Agent and the Security Agent*), Clause 18 (*Costs and expenses*) and Clause 29.10 (*Lenders' indemnity to the Agent and the Security Agent*) shall include the cost of utilising the Agent's and the Security Agent's management time or other resources to the extent that this relates to extraordinary matters, such as requests for waivers or amendments and/or a potential Default or Event of Default, and will be calculated on the basis of such reasonable daily or hourly rates as the Agent and the Security Agent may notify to the Borrower and the Lenders, and is in addition to any fee paid or payable to the Agent and the Security Agent under Clause 13 (*Fees*).

29.21 Deduction from amounts payable by the Agent or Security Agent

If any Party owes an amount to the Agent under the Finance Documents the Agent and the Security Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Agent and the Security Agent would otherwise be obliged to make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

30 SHARING AMONG THE FINANCE PARTIES

30.1 Payments to Finance Parties

If a Finance Party (a “**Recovering Finance Party**”) receives or recovers any amount from any Obligor other than in accordance with Clause 31 (*Payment mechanics*) (a “**Recovered Amount**”) and applies that amount to a payment due under the Finance Documents then:

- (a) the Recovering Finance Party shall, within three (3) Business Days, notify details of the receipt or recovery, to the Agent;
- (b) the Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Finance Party would have been paid had the receipt or recovery been received or made by the Agent and distributed in accordance with Clause 31 (*Payment mechanics*), without taking account of any Tax which would be imposed on the Agent in relation to the receipt, recovery or distribution; and
- (c) the Recovering Finance Party shall, within three (3) Business Days of demand by the Agent, pay to the Agent an amount (the “**Sharing Payment**”) equal to such receipt or recovery less any amount which the Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 31.4 (*Partial payments*).

30.2 Redistribution of payments

The Agent shall treat the Sharing Payment as if it had been paid by any of the Obligors and distribute it between the Finance Parties (other than the Recovering Finance Party) (the “Sharing Finance Parties”) in accordance with Clause 31.4 (Partial payments).

30.3 Recovering Finance Party’s rights

On a distribution by the Agent under Clause 30.2 (Redistribution of payments) of a payment received by a Recovering Finance Party from an Obligor, as between that Obligor and the Recovering Finance Party, an amount of the Recovered Amount equal to the Sharing Payment will be treated as not having been paid by that Obligor.

30.4 Reversal of redistribution

If any part of the Sharing Payment received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

- (a) each Sharing Finance Party shall, upon request of the Agent, pay to the Agent for the account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Sharing Payment which that Recovering Finance Party is required to pay) (the “**Redistributed Amount**”); and
- (b) as between an Obligor and each relevant Sharing Finance Party, an amount equal to the relevant Redistributed Amount will be treated as not having been paid by that Obligor.

30.5 Exceptions

- (a) This Clause 30 shall not apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the Obligors.

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- (b) A Recovering Finance Party is not obliged to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of taking legal or arbitration proceedings, if:
 - (i) it notified the other Finance Party of the legal or arbitration proceedings; and
 - (ii) the other Finance Party had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable having received notice and did not take separate legal or arbitration proceedings.

SECTION 11

ADMINISTRATION

31 PAYMENT MECHANICS

31.1 Payments to the Agent

- (a) On each date on which an Obligor or a Lender is required to make a payment under a Finance Document, the Obligors or that Lender shall make the same available to the Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Agent as being customary at the time for settlement of transactions in the relevant currency in the place of payment.
- (b) Payment shall be made to such account with such bank as the Agent specifies.

31.2 Distributions by the Agent

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 31.3 (Clawback) be made available by the Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement, to such account as that Party may notify to the Agent by not less than five (5) Business Days' notice.

31.3 Clawback

- (a) Where a sum is to be paid to the Agent under the Finance Documents for another Party, the Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum.
- (b) If the Agent pays an amount to another Party and it proves to be the case that the Agent had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid by the Agent shall on demand refund the same to the Agent together with interest on that amount from the date of payment to the date of receipt by the Agent, calculated by the Agent to reflect its cost of funds.

31.4 Partial payments

- (a) If the Agent receives a payment for application against amounts due in respect of any Finance Documents that is insufficient to discharge all the amounts then due and payable by the Borrower under those Finance Documents, the Agent shall apply that payment towards the obligations of the Borrower under those Finance Documents in the following order:
- (i) **firstly**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Agent and Security Agent under the Finance Documents;
 - (ii) **secondly**, in or towards payment pro rata of any accrued interest (including default interest), fees or commissions due but unpaid under the Finance Documents (excluding any Hedging Agreement);
 - (iii) **thirdly**, in or towards payment pro rata of any principal due but unpaid and indemnification due but unpaid under the Finance Documents (excluding any Hedging Agreement);
 - (iv) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents (excluding any Hedging Agreement); and
 - (v) **fifthly**, in or towards payment pro rata of any other sum due but unpaid under any Hedging Agreement.
- (a) The Agent shall, if so directed by the Lenders, vary the order set out in paragraphs (a)(ii) to (v) above.
- (b) Paragraphs (a) and (b) above will override any appropriation made by the Borrower.

31.5 Set-off by any Obligor

All payments to be made by any Obligor under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

31.6 Parallel debt

- (a) Notwithstanding any other provision of this Agreement, each Obligor hereby irrevocably and unconditionally undertakes to pay to the Security Agent as creditor in its own right and not as representative of the other Finance Parties, sums equal to and in the currency of each amount payable by the Obligors to each of the Finance Parties under each of the Finance Documents as and when that amount falls due for payment under the relevant Finance Document (the “**Parallel Debt**”). Any security granted to secure such Parallel Debt shall not be held on trust by the Security Agent.
- (b) The Security Agent shall have its own independent right to demand payment of the amounts payable by each Obligor (including, without limitation, through any suit, execution, enforcement of security, recovery of guarantees and applications for and voting in any kind of insolvency proceeding) under this Clause 31.6 (*Parallel debt*).

- (c) Any amount due and payable by each Obligor to the Security Agent under this Clause 31.6 (*Parallel debt*) shall be decreased to the extent that the other Finance Parties have received payment in full or in part (which payment has not been rescinded or otherwise restored or returned) of the corresponding amount under the other provisions of the Finance Documents, and any amount due and payable by each Obligor to the other Finance Parties under those provisions shall be decreased to the extent that the Security Agent has received payment in full or in part (which payment has not been rescinded or otherwise restored or returned) of the corresponding amount under this Clause 31.6 (*Parallel debt*).

31.7 Business Days

- (a) Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- (b) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

31.8 Currency of account

- (a) Subject to paragraphs (b) to (d) below, USD is the currency of account and payment for any sum due from any Obligor under any Finance Document.
- (b) A repayment of a Loan or Unpaid Sum or a part of a Loan or Unpaid Sum shall be made in the currency in which that Loan or Unpaid Sum is denominated on its due date.
- (c) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.
- (d) Any amount expressed to be payable in a currency other than USD shall be paid in that other currency.

32 NOTICES

32.1 Communications in writing

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax, e-mail or letter.

32.2 Addresses

The address and e-mail address (and the department or officer or any equivalent in any Relevant Jurisdiction, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

- (a) in the case of any of the Obligors (if by letter, a copy of the letter shall also be sent by email) to:

KnutsenNYK Offshore Tankers AS
Attn.: CFO
Smedasundet40, 5529 Haugesund

E-mail: finance@knutsenoas.com
omk@knotgroup.com
jka@knotgroup.com

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- (b) in the case of each Lender, that notified in writing to the Agent on or prior to the date on which it becomes a Party; and
 - (c) in the case of the Agent, to:

Address: Agency Syndicated Loans
Daalsesingel 71
3511 SW Utrecht
The Netherlands
PAC EA8550

E-mail: abn.amro.agency.team.1@nl.abnamro.com
Att: Agency Syndicated Loans

or any substitute address, e-mail address or department or officer (or any equivalent in any Relevant Jurisdiction) as the Party may notify to the Agent (or the Agent may notify to the other Parties, if a change is made by the Agent) by not less than five (5) Business Days' notice.

32.3 Delivery

- (a) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:
 - (i) if by way of e-mail, when received in legible form; or
 - (ii) if by way of letter, when it has been left at the relevant address or five (5) Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address,and, if a particular department or officer (or any equivalent in any Relevant Jurisdiction) is specified as part of its address details provided under Clause 32.2 (*Addresses*), if addressed to that department or officer (or any equivalent in any Relevant Jurisdiction).
- (b) Any communication or document which becomes effective, in accordance with paragraph (a) above, after 5:00 p.m. in the place of receipt shall be deemed only to become effective on the following day.
- (c) All notices from or to the Obligors shall be sent through the Agent.

32.4 Notification of address and fax number

Promptly upon receipt of notification of an address or fax number or change of address or fax number pursuant to Clause 32.2 (*Addresses*) or changing its own address or fax number, the Agent shall notify the other Parties.

32.5 English language

- (a) Any notice given under or in connection with any Finance Document must be in English.
- (b) All other documents provided under or in connection with any Finance Document must be:
 - (i) in English; or
 - (ii) if not in English, and if so required by the Agent, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

33 CALCULATIONS AND CERTIFICATES**33.1 Accounts**

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by a Finance Party are prima facie evidence of the matters to which they relate.

33.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

33.3 Day count convention

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days.

34 PARTIAL INVALIDITY

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

35 REMEDIES AND WAIVERS

No failure to exercise, nor any delay in exercising, on the part of any Finance Party, any right or remedy under the Finance Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

36 AMENDMENTS AND WAIVERS

36.1 Required consents

- (a) Subject to Clause 36.2 (*Exceptions*) any term of the Finance Documents may be amended or waived only with the consent of the Majority Lenders and the Borrower and any such amendment or waiver will be binding on all Parties.
- (b) The Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause 36.

36.2 Exceptions

- (a) An amendment or waiver that has the effect of changing or which relates to:
 - (i) the definition of “Majority Lenders” in Clause 1.1 (Definitions);
 - (ii) the Guarantee;
 - (iii) an extension to the date of payment of any amount under the Finance Documents;
 - (iv) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fees or commission payable;
 - (v) a change in currency of payment of any amount under the Finance Documents;
 - (vi) an increase in or an extension of any Commitment or the Total Commitments;
 - (vii) any provision which expressly requires the consent of all the Lenders;
 - (viii) Clause 2.2 (*Finance Parties’ rights and obligations*), Clause 8 (*Mandatory prepayment*), Clause 27 (*Changes to the Lenders*), Clause 28 (*Changes to the Obligors*), this Clause 36, Clause 38 (*Governing Law*) and Clause 39 (*Enforcement*);
 - (ix) any provision relating to Sanctions;
 - (x) the release of any Security under any Security Document unless permitted under this Agreement or any other Finance Document, shall not be made without the prior consent of all the Lenders.
- (a) An amendment or waiver which relates to the rights or obligations of the Agent, the Security Agent, the MLAs or the Swap Provider (each in their capacity as such) may not be effected without the consent of the Agent, the Security Agent, the MLAs or, as the case may be, the Swap Provider.

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- (b) If any Lender fails to respond to a request for a consent, waiver, amendment of or in relation to any of the terms of any Finance Document or other vote of Lenders under the terms of this Agreement within five (5) Business Days (unless the Borrower and the Agent agree to a longer time period in relation to any request) of that request being made, its Commitment and/or participation shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

37 COUNTERPARTS

Each Finance Document may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

SECTION 12

GOVERNING LAW AND ENFORCEMENT

38 GOVERNING LAW

This Agreement is governed by Norwegian law.

39 ENFORCEMENT

39.1 Jurisdiction of Norwegian courts

- (a) The courts of Norway, the venue to be Oslo District Court, have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement.
- (b) This Clause 39.1 is for the benefit of the Finance Parties only. As a result, no Finance Party shall be prevented from taking proceedings relating to a dispute in any other courts with jurisdiction. To the extent allowed by law, the Finance Parties may take concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

SIGNATURES

THE BORROWER

KNOT SHUTTLE TANKERS 32 AS

By: /s/ Jan J. Greve
Name: Jan J. Greve
Attorney-in-fact

THE GUARANTOR

KNUTSEN NYK OFFSHORE TANKERS AS

By: /s/ Jan J. Greve
Name: Jan J. Greve
Attorney-in-fact

AS MLAs

ABN AMRO BANK N.V., OSLO BRANCH

By: /s/ Atle Gabrielsen
Name: Atle Gabrielsen
Attorney-in-fact

DANSKE BANK A/S

By: /s/ Atle Gabrielsen
Name: Atle Gabrielsen
Attorney-in-fact

AS ORIGINAL LENDERS

ABN AMRO BANK N.V., OSLO BRANCH

By: /s/ Atle Gabrielsen
Name: Atle Gabrielsen
Attorney-in-fact

DANSKE BANK, NORWEGIAN BRANCH

By: /s/ Atle Gabrielsen
Name: Atle Gabrielsen
Attorney-in-fact

AS AGENT AND SECURITY AGENT

ABN AMRO BANK N.V.

By: /s/ Atle Gabrielsen
Name: Atle Gabrielsen
Attorney-in-fact

AS SWAP PROVIDERS

ABN AMRO BANK N.V.

By: /s/ Atle Gabrielsen
Name: Atle Gabrielsen
Attorney-in-fact

DANSKE BANK A/S

By: /s/ Atle Gabrielsen
Name: Atle Gabrielsen
Attorney-in-fact

**SCHEDULE 1
THE ORIGINAL LENDERS**

Name of Original Lender	Commitment under the Facility
ABN AMRO Bank N.V. Oslo Branch	USD 30,000,000
Danske Bank, Norwegian Branch	USD 30,000,000
Total Commitments	USD 60,000,000

SCHEDULE 2
CONDITIONS PRECEDENT

Part I: Conditions Precedent to Financial Close

1. Obligors

- (a) A copy of the constitutional documents of each Obligor.
- (b) A copy of a resolution of the board directors of each Obligor:
 - (i) approving the terms of, and the transactions contemplated by, the Finance Documents to which it is a party and resolving that it execute, deliver and perform the Finance Documents to which it is a party;
 - (ii) authorising a specified person or persons to execute the Finance Documents to which it is a party on its behalf; and
 - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in connection with the Finance Documents to which it is a party.
- (c) A specimen of the signature (which can be by way of copy of passport) of each person signing the Finance Documents on behalf of each Obligor.
- (d) Copies of passports of all board members of each Obligor.
- (e) A certificate of an authorised signatory of each Obligor certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect and has not been amended or superseded as at a date no earlier than the date of this Agreement and confirming that borrowing or guaranteeing or securing, as appropriate, the Total Commitments would not cause any borrowing, guarantee, security or similar binding limit to be exceeded.
- (f) Such other documentation and evidence required to complete the “know your customer” checks as described in Clause 22.8 (“*Know your customer*” checks).

The documents covered by this Section 1, to be submitted in originals or certified copies.

2. Finance Documents

- (a) This Agreement executed by the parties thereto.
- (b) A letter from the Agent regarding effective rate of interest, duly countersigned by the Borrower.
- (c) Any Fee Letter(s), duly signed by the parties thereto.
- (d) The Share Pledge, duly signed by all parties and evidence that the Security to be created thereunder have been duly created and perfected, including notices and acknowledgments and transcripts of shareholders’ register showing the registration of the Share Pledge against the shares on first priority.

-
- (e) The Assignment of Earnings duly signed by all parties.
 - (f) Evidence by way of transcript showing that the Assignment of Earnings have been registered against the Borrower on first priority with the Norwegian Register of Mortgaged Movable Property.
 - (g) Evidence that the fees, costs and expenses due from the Borrower pursuant to Clause 13 (*Fees*) and Clause 18 (*Costs and expenses*) have been paid.

3. Other Documents

- (a) A copy of the Original Financial Statements and most up-to-date financial statements of the Obligors.
- (b) A copy of the MoA.
- (c) A copy of the Management Agreements, on terms acceptable to the Finance Parties.

4. Legal opinions

The following legal opinions if requested by the Lenders, each addressed to the Agent and the Original Lenders:

- (a) a legal opinion from Arntzen de Besche Advokatfirma AS, the legal advisers to the Agent as to Norwegian law;
- (b) such other legal opinion(s) as the Agent may reasonably request in respect of any Finance Document governed by foreign law or any entity incorporated in a foreign jurisdiction,

each in form and substance acceptable to the Facility Agent.

1. Finance Documents

- (a) The Account Pledge, duly signed by all parties.
- (b) Any Hedging Agreements entered into.
- (c) The Assignment of Hedging Claims, duly signed by all parties.
- (d) Duly executed and dated notices and acknowledgements in accordance with the Assignment of Hedging Claims, duly signed by all parties.
- (e) The Assignment of Insurances, duly signed by all parties.
- (f) The Mortgage, in agreed form.
- (g) The Drawdown Request, duly executed.
- (h) A Compliance Certificate, duly executed.

2. Other documents and evidence

- (a) A copy of any other Authorisation or other document, opinion or assurance which the Agent considers to be necessary (if it has notified the Borrower accordingly) in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document.
- (b) Evidence that the fees, costs and expenses due from the Borrower pursuant to Clause 13 (*Fees*) and Clause 18 (*Costs and expenses*) have been paid or will be paid by the Drawdown Date or, if earlier, on its due date.
- (c) A copy of any Shareholder Loan or loan agreement relating to Intragroup Indebtedness to the Borrower, if applicable, including any subordination statement acceptable to the Agent.
- (d) A subordination statement by the Manager of the Vessel, in form and substance acceptable to the Agent, whereupon the Manager fully subordinates its claims under any Management Agreement(s) in respect of the Vessel to the claims of the Finance Parties under the Finance Documents.
- (e) Evidence that all Insurances in respect of the Vessel in accordance with Clause 25.1 (*Vessel insurances*) are in place and will come in full force and effect upon the delivery of the Vessel and (at the Borrower's cost) an insurance report from BankServe, Marsh or AON or any other international reputable insurance consultants acceptable to the Agent confirming the compliance with Clause 25.1.
- (f) Confirmation from the Approved Ship Registry that all documents necessary to register the Vessel in the name of the Borrower and to register the Mortgage against the Vessel is pre-positioned and ready to be registered upon discharge of any existing mortgage and completion of transfer under the MoA.

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- (g) Closing memoranda or procedure to be agreed between the Agent, the Borrower, the seller and any exiting mortgagee.
 - (h) Up to date valuation reports evidencing that the Fair Market Value of the Vessel complies with the requirements in Clause 25.11 (*Fair Market Value*).

1. Finance Documents

- (a) Duly executed and dated notices in respect of the Assignment of Insurances, in respect of the Vessel.
- (b) The Mortgage, duly signed and registered on first priority in the Approved Ship Registry against the Vessel.
- (c) Transcript of or other confirmation satisfactory to the Agent from Registry showing that the Borrower is registered as the owner of the Vessel and that the Mortgage is registered on first priority and that no other encumbrances, maritime liens, mortgages or debts whatsoever are registered against the Vessel.

2. Vessel documents

- (a) Copy of the duly notarised and legalised Bill of Sale, issued by the seller under the MoA.
- (b) Copies of the interim class certificate and other relevant certificates, in respect of the Vessel, including:
 - (i) a copy of the Minimum Safe Manning Certificate;
 - (ii) to the extent available at the Drawdown Date, a copy of the interim Vessel's safety management certificate issued pursuant to the ISM Code;
 - (iii) to the extent available at the Drawdown Date, a copy of the interim certificate issued pursuant to the ISPS Code; and
 - (iv) a copy of the Document of Compliance for the manager.
- (c) Copy of the protocol of delivery and acceptance under the relevant MoA, duly signed by the Borrower and the seller.

3. Legal opinions

The following legal opinions, each addressed to the Agent and the Original Lenders to be in agreed form or issued:

- (a) a legal opinion from Arntzen de Besche Advokatfirma AS, the legal advisers to the Agent as to Norwegian law;
- (b) a legal opinion from Clifford Chance LLP, the legal advisers to the Agent as to Dutch law matters;
- (c) a legal opinion from Lennox Paton, the legal advisers to the Agent as to Bahamas law matters and
- (d) such other legal opinion(s) as the Agent may reasonably request in respect of any Finance Document governed by foreign law or any entity incorporated in a foreign jurisdiction,

each in form and substance acceptable to the Agent.

1. Finance Documents

- (a) Any Hedging Agreements entered into with the Borrower.
- (b) Duly executed and dated notices and acknowledgements in accordance with the Assignment of Charterparty (if applicable).
- (c) Duly executed and dated notices and acknowledgements in accordance with the Assignment of Hedging Claims.
- (d) Duly executed and dated notices and Letters of undertaking and acknowledgments, as applicable, in respect of the Assignment of Insurances together with copies of the relevant policies or cover notes or entry certificates duly endorsed with the interest of the Finance Parties.

2. Other documents

A copy of the Inventory of Hazardous Materials (IHM) available to the Vessel.

3. Legal opinions

The following legal opinions from lawyers appointed by the Agent, each addressed to the Agent and the Original Lenders:

- (a) a legal opinion from Arntzen de Besche Advokatfirma AS, the legal advisers to the Agent as to Norwegian law;
- (b) a legal opinion from Lennox Paton, the legal advisers to the Agent as to Bahamas law matters; and
- (c) such other legal opinion(s) as the Agent may reasonably request in respect of any Finance Document governed by foreign law, each in form and substance acceptable to the Agent and as agreed under Part III.

1. The Replacement Guarantors

- (a) A copy of the constitutional documents of each Replacement Guarantor.
- (b) A copy of a resolution of the board directors of each Replacement Guarantor:
 - (i) approving the terms of, and the transactions contemplated by, the Finance Documents to which it is a party and resolving that it execute, deliver and perform the Finance Documents to which it is a party;
 - (ii) authorising a specified person or persons to execute the Finance Documents to which it is a party on its behalf; and
 - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in connection with the Finance Documents to which it is a party.
- (c) A specimen of the signature (which can be by way of copy of passport) of each person signing the Finance Documents on behalf of each Replacement Guarantor.
- (d) Copies of passports of all board members of each Replacement Guarantor.
- (e) A certificate of an authorised signatory of each Replacement Guarantor certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect and has not been amended or superseded as at a date no earlier than the date of this Agreement and confirming that borrowing or guaranteeing or securing, as appropriate, the Total Commitments would not cause any borrowing, guarantee, security or similar binding limit to be exceeded.
- (f) Such other documentation and evidence required to complete the “know your customer” checks as described in Clause 22.8 (“*Know your customer*” checks).

The documents covered by this Section 1, to be submitted in originals or certified copies.

2. Finance Documents

- (a) The Accession Letter executed by the parties thereto, including the Replacement Guarantors.
- (b) The Share Pledge, duly signed by all parties, including KNOP or its Subsidiary, as the case may be, and evidence that the Security to be created thereunder have been duly created and perfected, including notices and acknowledgments and transcripts of shareholders’ register showing the registration of the Share Pledge against the shares on first priority.

3. Other documents

- (a) Evidence (by way of a share purchase agreement or similar and an updated register of shareholders issued by the Borrower) that all shares in the Borrower has been, or will in connection with the Drop Down, be transferred from KNOT to KNOP (or a Subsidiary of KNOP).

-
- (b) Evidence that all process agent appointments required by the Finance Documents have been duly accepted.
 - (c) Budgets and cash flow projections as described in Clause 22.2 in respect of the Replacement Guarantors.

4. Legal opinions

The following legal opinions from lawyers appointed by the Agent, each addressed to the Agent and the Original Lenders:

- (a) a legal opinion from Arntzen de Besche Advokatfirma AS, the legal advisers to the Agent as to Norwegian law;
- (b) such legal opinion(s) as the Agent may reasonably request in respect of the Replacement Guarantors; and
- (c) such other legal opinion(s) as the Agent may reasonably request in respect of any Finance Document governed by foreign law, each in form and substance acceptable to the Agent.

**SCHEDULE 3
REQUESTS AND NOTICES**

Part I: Drawdown Request

From: KNOT Shuttle Tankers 32 AS

To: ABN AMRO Bank N.V. as Agent

Dated:

Dear Sirs

USD 60,000,000 Term Loan Facility Agreement dated 27 June, 2017 (the “Facility Agreement”)

1. We refer to the Facility Agreement. This is a Drawdown Request. Terms defined in the Facility Agreement have the same meaning in this Drawdown Request unless given a different meaning in this Drawdown Request.
2. We wish to borrow the Loan on the following terms:
 - (a) Proposed Drawdown Date: [•] (or, if that is not a Business Day, the next Business Day)
 - (b) Amount: USD [•]
 - (c) Interest period: [•]
 - (d) The proceeds of the Drawdown shall be credited to: [•]
3. We confirm that each condition specified in Clause 4.2 (*Further conditions precedent*) is satisfied on the date of this Drawdown Request, including that no Default is continuing or would result from the proposed Drawdown.
4. This Drawdown Request is irrevocable.

Yours faithfully

authorised signatory for

KNOT SHUTTLE TANKERS 32 AS

From: KNOT Shuttle Tankers 32 AS
To: ABN AMRO Bank N.V. as Agent
Dated:

Dear Sirs

USD 60,000,000 Term Loan Facility Agreement dated 27 June, 2017 (the “Facility Agreement”)

1. We refer to the Facility Agreement. This is a Selection Notice. Terms defined in the Facility Agreement have the same meaning in this Selection Notice unless given a different meaning in this Selection Notice.
2. We refer to the Loan in the amount of [•], with an Interest Period ending on [•].
3. We request that the next Interest Period for the Loan is [•].
4. This Selection Notice is irrevocable.

Yours faithfully

authorised signatory for

KNOT SHUTTLE TANKERS 32 AS

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: [•] as Agent

From: [*The Existing Lender*] (the “Existing Lender”) and [*The New Lender*] (the “New Lender”)

Dated:

USD 60,000,000 Term Loan Facility Agreement dated 27 June, 2017 (the “Facility Agreement”)

1. We refer to the Facility Agreement. This agreement (the “Agreement”) shall take effect as a Transfer Certificate for the purpose of the Facility Agreement. Terms defined in the Facility Agreement have the same meaning in this Agreement unless given a different meaning in this Agreement.
2. We refer to Clause 27.5 (*Procedure for transfer*) of the Facility Agreement:
 - (a) The Existing Lender and the New Lender agree to the Existing Lender transferring to the New Lender by novation all or part of the Existing Lender’s Commitment, rights and obligations referred to in the Schedule in accordance with Clause 27.5 (*Procedure for transfer*).
 - (b) The proposed Transfer Date is [•].
 - (c) The facility office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 32.2 (*Addresses*) are set out in the Schedule.
3. The New Lender expressly acknowledges the limitations on the Existing Lender’s obligations set out in paragraph (c) of Clause 27.4 (*Limitation of responsibility of Existing Lenders*).
4. This Agreement may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.
5. This Agreement is governed by Norwegian law.
6. This Agreement has been entered into on the date stated at the beginning of this Agreement.

THE SCHEDULE

Commitment/rights and obligations to be transferred

[insert relevant details]

[Facility Office address, fax number and attention details for notices and account details for payments.]

[Existing Lender]

By:

[New Lender]

By:

This Agreement is accepted as a Transfer Certificate for the purposes of the Facility Agreement by the Agent and the Transfer Date is confirmed as [•].

[Agent]

By:

**SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE**

From: KNOT Shuttle Tankers 32 AS
 To: ABN AMRO Bank N.V. as Agent
 Dated:
 Dear Sirs

USD 60,000,000 Term Loan Facility Agreement dated 27 June, 2017 (the “Facility Agreement”)

1. We refer to the Facility Agreement. This is a Compliance Certificate. Terms defined in the Facility Agreement have the same meaning when used in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that:

<u>Clause</u>	<u>Test</u>	<u>Figures/calculations</u>	<u>Compliance</u>
23.3 (a) (i)	Working Capital—Guarantor (KNOT) (consolidated) A: current assets B: current liabilities Requirement: A to exceed B		[yes/no]
23.3 (a) (ii)	Minimum Equity—Guarantor (KNOT) (consolidated) A: Total Equity including Shareholder Loan B: Total Assets Requirement: ratio of A to B to be minimum 0.3 to 1.0		[yes/no]
23.3 (a) (iii)	Minimum Liquidity—Guarantor (KNOT) (consolidated) A: Liquidity B: Interest bearing Financial Indebtedness Requirement: A to be minimum the higher of (i) USD 25,000,000 or (ii) 4% of B		[yes/no]

23.3 (b) (i)	<p>Working Capital – Borrower (unconsolidated)</p> <p>A: current assets B: current liabilities [excluding intercompany group balances]</p> <p>Requirement: A to exceed B</p>	[yes/no]
23.3 (b) (ii)	<p>Minimum Liquidity – Borrower (unconsolidated)</p> <p>A: Liquidity</p> <p>Requirement: A to be minimum USD 500,000</p>	[yes/no]
23.4 (a) (i)	<p>Working Capital – Replacement Guarantor (KNOP) (consolidated)</p> <p>A: current assets B: current liabilities</p> <p>Requirement: A to exceed B</p>	[yes/no]
23.4 (a) (ii)	<p>Minimum Equity – Replacement Guarantor (KNOP) (consolidated)</p> <p>A: Total Equity B: Total Assets</p> <p>Requirement: ratio of A to B to be minimum 0.3 to 1.0</p>	[yes/no]
23.4 (a) (iii)	<p>Interest Cover – Replacement Guarantor (KNOP) (consolidated)</p> <p>A: EBITDA B: Interest Expenses</p> <p>Requirement: ratio of A to B to be minimum 2.5 to 1.0</p>	[yes/no]
23.4 (a) (iv)	<p>Minimum Liquidity—Replacement Guarantor (KNOP) (consolidated)</p>	

A: Liquidity
B: available commitments under KNOP USD
240m credit facility
C: Vessels owned (directly or indirectly) with
employment contracts with less than 12
months remaining term (excl. contracts with
KNOT or subsidiaries)

Requirement: A + (2/3 of B) to be minimum:
USD 15,000,000
+ USD 1,500,000 X C (≤ 8) (i.e. max USD
12,000,000)
+ USD 1,000,000 X C (≤ 12) (i.e. max USD
12,000,000
= max. potential requirement of USD
39,000,000

[yes/no]

23.4 (b)

Working Capital – Borrower
(unconsolidated)

A: current assets
B: current liabilities [excluding intercompany
group balances]

Requirement: A to exceed B

[yes/no]

3. We confirm that the Vessel is insured against such risks and in such amounts as set out in Appendix 1 hereto.
4. [Attached as Appendix 2 hereto are two independent valuations for the determination of the Fair Market Value of the Vessel.]*
5. [We confirm that no Default is continuing.]**

Signed

[Chief Financial Officer] [Director]
KNOT Shuttle Tankers 32 AS

Signed

[Chief Financial Officer] [Director]
[Knutsen NYK Offshore Tankers AS]***

NOTES:

Clause 23.3 applies prior to Drop Down Date and Clause 23.4 applies after Drop Down Date. There will not be any need to report compliance under both clauses at the same time. This template certificate includes both, but assumes that the Borrower when completing the certificate will delete as appropriate.

* When applicable (only semi-annually).

** If this statement cannot be made, the certificate should identify any Default that is continuing and the steps, if any, being taken to remedy it.

*** KNOP following Drop Down Date.

Appendix 1 – Insurances

<u>Hull & Machinery</u>	<u>Freight Interest</u>	<u>Hull Interest</u>	<u>P&I</u>	<u>War risk</u>	<u>Insured Amount</u>
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**SCHEDULE 6
FORM OF ACCESSION LETTER**

To: ABN AMRO Bank N.V. as Agent for itself and each of the other parties to the Facility Agreement referred to below

From: KNOT Shuttle Tankers 32 AS (as Borrower)
Knutsen NYK Offshore Tankers AS (as Guarantor)
KNOT Offshore Partners LP
KNOT Shuttle Tankers AS

Dated:

Dear Sirs,

USD 60,000,000 Term Loan Facility Agreement dated 27 June, 2017 (the “Facility Agreement”)

1. We refer to the Facility Agreement. This accession letter (the “**Accession Letter**”) shall take effect as an Accession Letter for the purposes of the Facility Agreement. Terms defined in the Facility Agreement have the same meaning in this Accession Letter unless given a different meaning in this Accession Letter.
2. KNOT Offshore Partners LP (“**KNOP**”) and KNOT Shuttle Tankers AS (“**KNOT ST**”) and together with KNOP; the “**Replacement Guarantors**”) agree to become Replacement Guarantors with respect to all amounts outstanding the Agreement and to be bound by the terms of the Agreement as Guarantors and Obligors pursuant to Clause 28.2 (*Drop Down*) of the Agreement.
3. KNOP’s and KNOT ST’s administrative details are as follows:
Address:
Email:
Attention:
4. We confirm that the Repeating Representations are made by each of the Borrower, the Guarantor and the Replacement Guarantors on the date of this Accession Letter and that all Repeating Representations are true in all material respects on that date.
5. This Accession Letter is governed by Norwegian law and KNOP has appointed [.] as its process agents in respect of this Accession Letter and the other Finance Documents.

THIS ACCESSION LETTER has been signed on behalf of the Guarantor, the Borrower and the Replacement Guarantors and is delivered on the date stated above.

Signed _____
[Chief Financial Officer] [Director]
KNOT Shuttle Tankers 32 AS

Signed _____
[Chief Financial Officer] [Director]
Knutsen NYK Offshore Tankers AS

Signed _____
[Chief Financial Officer] [Director]
KNOT Offshore Partners LP

Signed _____
[Chief Financial Officer] [Director]
KNOT Shuttle Tankers AS

**SCHEDULE 7
REPAYMENT SCHEDULE**

# Quarter	Instalment	Outstanding BOQ	Outstanding EOQ
1	USD 1,000,000	USD 60,000,000	USD 59,000,000
2	USD 1,000,000	USD 59,000,000	USD 58,000,000
3	USD 1,000,000	USD 58,000,000	USD 57,000,000
4	USD 1,000,000	USD 57,000,000	USD 56,000,000
5	USD 1,000,000	USD 56,000,000	USD 55,000,000
6	USD 1,000,000	USD 55,000,000	USD 54,000,000
7	USD 1,000,000	USD 54,000,000	USD 53,000,000
8	USD 1,000,000	USD 53,000,000	USD 52,000,000
9	USD 1,000,000	USD 52,000,000	USD 51,000,000
10	USD 1,000,000	USD 51,000,000	USD 50,000,000
11	USD 1,000,000	USD 50,000,000	USD 49,000,000
12	USD 1,000,000	USD 49,000,000	USD 48,000,000
13	USD 1,000,000	USD 48,000,000	USD 47,000,000
14	USD 1,000,000	USD 47,000,000	USD 46,000,000
15	USD 1,000,000	USD 46,000,000	USD 45,000,000
16	USD 1,000,000	USD 45,000,000	USD 44,000,000
17	USD 1,000,000	USD 44,000,000	USD 43,000,000
18	USD 1,000,000	USD 43,000,000	USD 42,000,000
19	USD 1,000,000	USD 42,000,000	USD 41,000,000
20	USD 41,000,000	USD 41,000,000	—

Beginning of quarter (BOQ) 1 is the Drawdown Date

**SCHEDULE 8
FORM OF DROP DOWN CONFIRMATION LETTER**

To: KNOT Shuttle Tankers 32 AS (as Borrower)
Knutsen NYK Offshore Tankers AS (as Guarantor)
KNOT Offshore Partners LP
KNOT Shuttle Tankers AS
The Finance Parties

From: ABN AMRO Bank N.V. as Agent for itself and each of the other parties to the Facility Agreement referred to below

Dated:

Dear Sirs,

USD 60,000,000 Term Loan Facility Agreement dated 27 June, 2017 (the “Facility Agreement”)

1. We refer to the Agreement. The purpose of this letter is to give notice that a Drop Down has become effective and the Drop Down Date has occurred.
2. Terms defined in the Agreement have the same meaning in this letter unless given a different meaning herein.
3. We hereby confirm that we have received all the documents and other evidence listed in paragraph (b) of Clause 28.2 (*Drop Down*) of the Facility Agreement (in form and substance satisfactory to us).
4. We consequently confirm that:
 - (a) the Drop Down;
 - (b) the accession of the Replacement Guarantors as Guarantors; and
 - (c) the secession of KNOT as Guarantor,shall become effective as of [*time*] on [*date*] and that this shall represent the “Drop Down Date” which occurred at such time in accordance with Clause 28.2 (*Drop Down*) of the Facility Agreement.
5. This letter is governed by Norwegian law.

Yours Sincerely
For and on behalf of
ABN AMRO BANK N.V.
(acting in our capacity as Agent only)

By:

Name:

AMENDMENT AGREEMENT NO. 1

dated 15 December 2017

between

KNOT SHUTTLE TANKERS 32 AS

as Borrower

KNUTSEN NYK OFFSHORE TANKERS AS

as Original Guarantor

KNOT SHUTTLE TANKERS AS and KNOT OFFSHORE PARTNERS LP

as Replacement Guarantors

arranged by

ABN AMRO BANK N.V., OSLO BRANCH AND DANSKE BANK A/S

as Bookrunners and Mandated Lead Arrangers

ABN AMRO BANK N.V. AND DANSKE BANK A/S

as Swap Providers

ABN AMRO BANK N.V., OSLO BRANCH AND DANSKE BANK, NORWEGIAN BRANCH

as Original Lenders

with

ABN AMRO BANK N.V.

acting as Agent and Security Agent

relating to a

USD 60,000,000

TERM LOAN FACILITY AGREEMENT

originally dated 27 June 2017



THIS AMENDMENT AGREEMENT NO. 1 (the “**Amendment Agreement**”) is dated 15 December 2017 and made between and amongst:

- (1) **KNOT SHUTTLE TANKERS 32 AS**, a company incorporated in Norway with company registration number 918 447 954 and registered address at Smedasundet 40, 5529 Haugesund, Norway (the “**Borrower**”);
- (2) **KNUTSEN NYK OFFSHORE TANKERS AS**, a company incorporated in Norway with company registration number 995 221 713 and registered address at Smedasundet 40, 5529 Haugesund, Norway (the “**Original Guarantor**”);
- (3) **KNOT SHUTTLE TANKERS AS**, a company incorporated in Norway with company registration number 998 942 829 and registered address at Smedasundet 40, 5529 Haugesund, Norway (hereinafter “**KNST**” and/or, as applicable, the “**Replacement Guarantor**”);
- (4) **KNOT OFFSHORE PARTNERS LP**, a limited partnership organised and existing under the laws of the Republic of the Marshall Islands with company registration number 95 00 57 and registered address at 2 Queen’s Cross, Aberdeen AB15 4YB, United Kingdom (hereinafter “**KNOP**” and/or, as applicable, the “**Replacement Guarantor**”) (KNST and KNOP are hereinafter together referred to as the “**Replacement Guarantors**”);
- (5) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (The Original Lenders) of the Facility Agreement as lenders (the “**Original Lenders**”);
- (6) **ABN AMRO BANK N.V., OSLO BRANCH and DANSKE BANK A/S** as bookrunners and mandated lead arrangers (each an “**MLA**” and together the “**MLAs**”);
- (7) **ABN AMRO BANK N.V. and DANSKE BANK A/S** as swap providers (each a “**Swap Provider**” and jointly the “**Swap Providers**”); and
- (8) **ABN AMRO BANK N.V.** as agent of the other Finance Parties (the “**Agent**”) and as security agent of the other Finance Parties (the “**Security Agent**”).

BACKGROUND:

- A. Pursuant to a term loan facility agreement originally dated 27 June 2017 (the “**Facility Agreement**”), the Original Lenders have made available to the Borrower a USD 60,000,000 term loan facility for the purposes described therein.
- B. An accession letter dated on or about the date of this Amendment Agreement and entered into between the Borrower, KNOP and KNST as replacement guarantors, Knutsen NYK Offshore Tankers AS as original guarantor (the “**Original Guarantor**”) and the Agent, pursuant to which KNOP and KNST have acceded as Replacement Guarantors (as defined in the Facility Agreement) in accordance with Clause 28.2 (*Drop Down*) of the Facility Agreement.

- C. Due to the Borrower being awarded a charter contract with Galp Sinopec Brazil services B.V., the Original Guarantor has in a letter dated 31 October, 2017 requested to increase the Facility Amount and the Total Commitments by USD 10,000,000 as set out in Clause 2.2 of the Facility Agreement. The Finance Parties have accepted such request on the terms set out in this Amendment Agreement.

1 INTERPRETATION

Terms and definitions used in this Amendment Agreement shall have the same meaning as set out in the Facility Agreement, unless otherwise set out herein. This Amendment Agreement is a Finance Document.

2 AMENDMENTS TO THE FACILITY AGREEMENT

2.1 Amendments to Clause 1.1 (*Definitions*)

In order to reflect the increase in accordance with Clause 2.2 (*Accordion Increase Option*), the definition of “Facility Amount” and “Total Commitments” in Clause 1.1 (*Definitions*) of the Facility Agreement shall be amended to read:

“ **Facility Amount** ” means USD 70,000,000.

“ **Total Commitments** ” means the aggregate of the Commitments, not to exceed USD 70,000,000.

2.2 Amendment to Schedule 7 (*Repayment Schedule*)

Schedule 7 (*Repayment Schedule*) of the Facility Agreement shall be deleted and replaced by Schedule 1 of this Amendment Agreement, reflecting the increase of the Facility Amount.

2.3 Notwithstanding Clause 3.1 (*Purpose*) of the Facility Agreement, the Borrower may apply any amounts borrowed under the increased Commitments for general corporate purposes, including distribution to the Guarantor, to the extent permitted under Clause 24.16 of the Facility Agreement and Section 8-10 of the Companies Act.

2.4 Amendments to Clause 23.1 (Construction and definitions)

The definition of “Total Equity” in Clause 23.1 of the Facility Agreement shall with effect from the Drop Down Date be deleted and replaced by the following:

“ **Total Equity** ” means book equity, i.e. at any time, the value of the paid-in capital and reserves determined on a consolidated basis in accordance with GAAP and as shown in the latest financial statements. The preferred equity shall (without double counting) be included in the calculation of Total Equity when determining the ratio of Total Equity to Total Assets for the Parent Guarantor.

3 COSTS AND FEES

- (a) The Borrower shall promptly on demand reimburse the Agent for the amount of all costs and expenses (including legal fees) incurred by the Finance Parties in connection with the negotiation, preparation and execution of this Amendment Agreement.
- (b) The Borrower shall, on the date of this Amendment Agreement, pay to the Agent (for further pro rata distribution to the Lenders) an up-front amendment and commitment increase fee of USD 100,000.
- (c) The Borrower shall furthermore for the period commencing on the date of this Amendment Agreement and ending on the Drawdown Date or, as the case may be, the date of cancellation of the increased Commitments, pay a fee computed at 92 bps on the amount of increased Commitments (USD 10,000,000). Such fee to be due and payable quarterly in arrears from the date of signing this Amendment Agreement and until the applicable Drawdown Date or the date of cancellation of such Commitments.

4 MISCELLANEOUS

The parties hereto agree that the provisions of the Facility Agreement as amended by this Amendment Agreement shall be identical to those in existence prior to the execution of this Amendment Agreement save insofar as the same have been amended hereby, and that all references in the Facility Agreement as amended by this Amendment Agreement to “this Agreement” shall be deemed to be references to the Facility Agreement as confirmed and amended hereby and references to “the Agreement”, “hereof”, “hereunder”, “herein” and similar expressions shall be construed accordingly.

5 EFFECTIVENESS AND DRAWDOWN

5.1 The terms and provisions set out in this Amendment Agreement shall be effective from the date which the Agent (acting on the instructions of the Lenders) confirms to the Borrower and the Finance Parties that the following conditions precedent have been fulfilled or waived:

- (a) this Amendment Agreement, duly executed by all parties hereto;
- (b) evidence that the person(s) signing on behalf of each of the Obligors is duly authorised to do so, including copies of relevant board resolutions;
- (c) evidence of payment of costs and fees as set out in Clause 3 (*Costs and Fees*) above;
- (d) a copy of the Acceptable Charter Agreement with Galp Sinopec Brazil services B.V., in form and substance acceptable to the Lenders;

- (e) a copy of notice of assignment of the Borrower's monetary claims against Galp Sinopec Brazil services B.V. under the charterparty in accordance with Clause 3.1 (c) of the Assignment of Charterparty;
- (f) a copy of acknowledgement from Galp Sinopec Brazil services B.V. to the notice of assignment or evidence that notice has been provided and the Borrower has used its best efforts to obtain such acknowledgement;
- (g) if requested by a Finance Party, a legal opinion or confirmation (i) from Arntzen de Besche Advokatfirma AS, confirming *inter alia* that each Obligor has duly entered into this Amendment Agreement, (ii) from Lennox Paton, the legal advisors to the Agent as to Bahamas law matters, confirming *inter alia* that the entrance into this Amendment Agreement will not affect the Mortgage nor the Deed of Covenants and (iii) from Clifford Chance LLP, the legal advisors to the Agent as to the Dutch law matter, confirming *inter alia* that the entrance into this Amendment Agreement will not affect the Account Pledge.

5.2 If the conditions precedent mentioned under Clause 5.1 above have not been confirmed as fulfilled or waived by the Agent within 31 January 2018 the terms and conditions of this Amendment Agreement shall be considered null and void.

5.3 Upon this Amendment Agreement becoming effective, the Borrower may request Drawdown of the increased Commitments by serving a Drawdown Request in accordance with Clause 4.1 and subject to compliance with Clause 4.2 of the Facility Agreement.

6 CONTINUING OBLIGATIONS

Each of the Obligors acknowledges that the provisions of the Facility Agreement (including, for the avoidance of doubt, the guarantee set out in Clause 19 (*On-Demand Guarantee and Indemnity*)) and the other Finance Documents (including the Security Documents) shall, save as amended by this Amendment Agreement or contemplated hereby, continue in full force and effect and shall extend to its liabilities and obligations under the Finance Documents, as amended by this Amendment Agreement.

7 LAW AND JURISDICTION

7.1 This Amendment Agreement shall be governed by Norwegian law.

7.2 The courts of Norway, the venue to be Oslo District Court, have exclusive jurisdiction to settle any dispute arising out of or in connection with this Amendment Agreement and the provision in Clause 39 (*Enforcement*) of the Facility Agreement shall apply *mutatis mutandis* to this Amendment Agreement.

THIS AMENDMENT AGREEMENT has been entered into on the date stated on the first page hereof.

SIGNATURES

THE BORROWER

KNOT SHUTTLE TANKERS 32 AS

By: Karl Gerhard Bråstein Dahl

/s/ Karl Gerhard Bråstein Dahl

THE ORIGINAL GUARANTOR

KNUTSEN NYK OFFSHORE TANKERS AS

By: Karl Gerhard Bråstein Dahl

/s/ Karl Gerhard Bråstein Dahl

THE REPLACEMENT GUARANTORS

KNOT SHUTTLE TANKERS AS

By: Karl Gerhard Bråstein Dahl

/s/ Karl Gerhard Bråstein Dahl

KNOT OFFSHORE PARTNERS LP

By: J.A. Costain

/s/ J.A. Costain

AS MLAS

ABN AMRO BANK N.V., OSLO BRANCH

By: /s/ Julianne Heltne

Name: Julianne Heltne (Attorney – in – fact)

DANSKE BANK A/S

By: /s/ Julianne Heltne

Name: Julianne Heltne (Attorney – in – fact)

AS ORIGINAL LENDERS

ABN AMRO BANK N.V., OSLO BRANCH

By: /s/ Julianne Heltne

Name: Julianne Heltne (Attorney – in – fact)

DANSKE BANK, NORWEGIAN BRANCH

By: /s/ Julianne Heltne

Name: Julianne Heltne (Attorney – in – fact)

AS AGENT AND SECURITY AGENT

ABN AMRO BANK N.V.

By: /s/ Julianne Heltne

Name: Julianne Heltne (Attorney – in – fact)

AS SWAP PROVIDERS

ABN AMRO BANK N.V.

By: /s/ Julianne Heltne

Name: Julianne Heltne (Attorney – in – fact)

DANSKE BANK A/S

By: /s/ Julianne Heltne

Name: Julianne Heltne (Attorney – in – fact)

Repayment Schedule 1
(to replace Schedule 7 to the Facility Agreement)

value date	Original Loan		Up-size Loan (LINEAR)		New Loan	
	repayment amount	new amount	repayment amount	new amount	repayment amount	new amount
5.07.17		60 000 000,00			0	60000000
5.10.17	1000000,00	59000000,00			1000000	59000000
5.01.18	1000000,00	58000 000,00		10000000	1000000	68000000
5.04.18	1000000,00	57000000,00	515332	9484668	1515332	66484668
5.07.18	1000000,00	56000000,00	515332	8969336	1515332	64969336
5.10.18	1000000,00	55 000 000,00	515332	8454003	1515332	63454003
5.01.19	1000000,00	54000000,00	515332	7938671	1515332	61938671
5.04.19	1000000,00	53 000 000,00	515332	7423339	1515332	60 423 339
5.07.19	1000000,00	52 000 000,00	571 026	6852313	1571 026	58852313
5.10.19	1000000,00	51000000,00	571 026	6281287	1571 026	57281287
5.01.20	1000000,00	50000000,00	571 026	5710261	1571 026	55710261
5.04.20	1000000,00	49000000,00	571 026	5139235	1571 026	54139235
5.07.20	1000000,00	48000000,00	571 026	4568209	1571 026	52568209
5.10.20	1000000,00	47000000,00	571 026	3997183	1571 026	50997183
5.01.21	1000000,00	46000000,00	571 026	3426156	1571 026	49426156
5.04.21	1000000,00	45 000 000,00	571 026	2855130	1571 026	47855130
5.07.21	1000000,00	44000000,00	571 026	2284104	1571 026	46284104
5.10.21	1000000,00	43 000 000,00	571 026	1713078	1571 026	44713078
5.01.22	1000000,00	42 000 000,00	571 026	1142052	1571 026	43142052
5.04.22	1000000,00	41000000,00	571 026	571 026	1571 026	41571 026
5.07.22	41000000,00	0,00	571 026		41571 026	0

To: ABN AMRO Bank N.V. as Agent for itself and each of the other parties to the Facility Agreement referred to below

From: KNOT Shuttle Tankers 32 AS (as Borrower) Knutsen
NYK Offshore Tankers AS (as Guarantor) KNOT
Offshore Partners LP
KNOT Shuttle Tankers AS

Dated:

Dear Sirs,

USD 60,000,000 Term Loan Facility Agreement dated 27 June, 2017 as amended by an amendment agreement dated 15 December, 2017 (the “Facility Agreement”)

1. We refer to the Facility Agreement. This accession letter (the ‘ **Accession Letter** ’) shall take effect as an Accession Letter for the purposes of the Facility Agreement. Terms defined in the Facility Agreement have the same meaning in this Accession Letter unless given a different meaning in this Accession Letter.
2. KNOT Offshore Partners LP (‘ **KNOP** ’) and KNOT Shuttle Tankers AS (‘ **KNOT ST** ’ and together with KNOP; the ‘ **Replacement Guarantors** ’) agree to become Replacement Guarantors with respect to all amounts outstanding under the Agreement and to be bound by the terms of the Agreement as Guarantors and Obligors pursuant to Clause 28.2 (Drop Down) of the Agreement.
3. KNOP’s and KNOT ST’s administrative details are as follows:
Address: 2 Queens Road, Aberdeen, Aberdeenshire AB15 4YB, United Kingdom/ Smedasundet 40, 5529 Haugesund, Norway
Fax: 44(0) 1224 624891 Attention: CEO/CFO
4. We confirm that the Repeating Representations are made by each of the Borrower, the Guarantor and the Replacement Guarantors on the date of this Accession Letter and that all Repeating Representations are true in all material respects on that date.
5. This Accession Letter is governed by Norwegian law and KNOP has appointed KNOT ST as its process agents in respect of this Accession Letter and the other Finance Documents.

THIS ACCESSION LETTER has been signed on behalf of the Guarantor, the Borrower and the Replacement Guarantors and is delivered on the date stated above.

Signed /s/ Karl Gerhard Bråstein Dahl
Name: Karl Gerhard Bråstein Dahl
Position: Director
KNOT Shuttle Tankers 32 AS

Signed /s/ Karl Gerhard Bråstein Dahl
Name: Karl Gerhard Bråstein Dahl
Position: Senior Vice President
Knutsen NYK Offshore Tankers AS

Signed /s/ John A. Costain
Name: John A. Costain
Position: Chief Executive Officer
KNOT Offshore Partners LP

Signed /s/ Karl Gerhard Bråstein Dahl
Name: Karl Gerhard Bråstein Dahl
Position: Director
KNOT Shuttle Tankers AS

DATED 30 SEPTEMBER 2016

USD 90,000,000

FACILITY AGREEMENT

for

KNOT SHUTTLE TANKERS 30 AS
as Borrower

with

KNUTSEN NYK OFFSHORE TANKERS AS
as Guarantor

arranged by

DBJ EUROPE LIMITED
MIZUHO BANK, LTD.
NORDEA BANK NORGE ASA
acting as Mandated Lead Arrangers

with

NORDEA BANK NORGE ASA
acting as Bookrunner

and

DBJ EUROPE LIMITED
MIZUHO BANK, LTD.
NORDEA BANK NORGE ASA
acting as Original Lenders

and

MIZUHO BANK, LTD.
NORDEA BANK FINLAND PLC.
acting as Hedging Banks

and

NORDEA BANK NORGE ASA
acting as Agent

SCHJØDT

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THIS AGREEMENT is dated 30 September 2016 and made between:

- (1) **KNOT SHUTTLE TANKERS 30 AS** , Norwegian registration no. 914 716 527, with registered offices at Smedasundet 40, N-5529 Haugesund, Norway (the “ **Borrower** ”);
- (2) **KNUTSEN NYK OFFSHORE TANKERS AS** , Norwegian registration no. 995 221 713, with registered offices at Smedasundet 40, N-5529 Haugesund, Norway as Guarantor (“ **KNOT** ”);
- (3) **DBJ EUROPE LIMITED** , acting through its office at Level 20, 125 Old Broad Street, London EC2N 1AR, UK;
MIZUHO BANK, LTD. , acting through its office at Mizuho House, 30 Old Bailey, London, EC4M 7AU, UK; and
NORDEA BANK NORGE ASA , Norwegian registration no. 911 044 110, a banking institution organised under the laws of Norway acting through its office at Essendrops gate 7, N-0368 Oslo, Norway,
as mandated lead arrangers (in that capacity, the “ **Mandated Lead Arrangers** ”);
- (4) **NORDEA BANK NORGE ASA** , Norwegian registration no. 911 044 110, a banking institution organised under the laws of Norway acting through its office at Essendrops gate 7, N-0368 Oslo, Norway as bookrunner (in that capacity, the “ **Bookrunner** ”);
- (5) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 as lenders (the “ **Original Lenders** ”);
- (6) **MIZUHO BANK, LTD.** , acting through its office at Mizuho House, 30 Old Bailey, London, EC4M 7AU, UK; and
NORDEA BANK FINLAND PLC. , acting through its offices at Aleksanterinkatu 36, 00200 Helsinki, Finland or any of its Affiliates,
as hedging banks (the “ **Hedging Banks** ”); and
- (7) **NORDEA BANK NORGE ASA** , Norwegian registration no. 911 044 110, a banking institution organised under the laws of Norway acting through its office at Essendrops gate 7, N-0368 Oslo, Norway as facility agent and security trustee for the other Finance Parties and the Hedging Banks (the “ **Agent** ”).

IT IS AGREED as follows:

SECTION 1 INTERPRETATION

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

“ **Accession Letter** ” means an accession letter signed and presented to the Agent by the Borrower, KNOT, KNOP and KNOT ST in respect of the Drop Down and the replacement of KNOT by KNOP and KNOT ST as Guarantors substantially in the form set out in Schedule 6 (*Form of Accession Letter*).

“ **Account Bank** ” means Nordea Bank Norge ASA, Norwegian registration no. 911 044 110, a banking institution organised under the laws of Norway acting through its office at Essendrops gate 7, N-0368 Oslo, Norway.

“ **Account Pledge** ” means an agreement dated on or about the date hereof for the pledge of the Account, entered or to be entered into between the Borrower and the Agent (on behalf of the Finance Parties and the Hedging Banks) in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Hedging Banks).

“ **Account** ” means USD account no. 6032.04.44651, held in the name of the Borrower with the Account Bank;

“ **Affiliate** ” means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

“ **Agreement** ” means this facility agreement, as it may be amended, supplemented and varied in writing from time to time, including its schedules.

“ **Anti-Social Conduct** ” means:

- (a) a demand and conduct with force and arms;
- (b) an unreasonable demand and conduct having no legal cause;
- (c) threatening or committing violent behaviour relating to its business transactions;
- (d) an action to defame the reputation or interfere with the business of any Agent or any Lender by spreading rumour, using fraudulent means or resorting to force; or
- (e) other actions similar or analogous to any of the foregoing in any jurisdiction.

“ **Anti-Social Force** ” means:

- (a) an Organised Crime Group;
- (b) an Organised Crime Group Member;
- (c) a person or a group who has been an Organised Crime Group Member within the past five (5) years;
- (d) an Organised Crime Group Sub-Member;
- (e) an Organised Crime Group Affiliate Company;
- (f) a Corporate Extortionist, etc.;
- (g) a Malicious Political Extortionist;
- (h) a Special Intellectual Organised Crime Group, Etc.;
- (i) any person or group similar to the above sub-paragraphs (a) through to (f);
- (j) a group whose management is controlled by any Organised Crime Group Member, etc.;
- (k) a group of which any Organised Crime Group Member, Etc. is substantially involved in the management;

-
- (l) a person or a group which unduly inappropriately uses any Organised Crime Group Member, Etc. for the purpose of unfair benefit for itself, its own company or any third party or for the purpose of inflicting damage to any third party;
 - (m) a person or a group that is involved in any Organised Crime Group Member, Etc. in such way as to provide funds to or extend facilities for such Organised Crime Group Member, etc.;
 - (n) a group of which any officer or any member substantially involved in its management has any socially repugnant relationship with any Organised Crime Group Member, etc.;
 - (o) a person or group whose name or designation is found on the Assets Freeze Target List of the Ministry of Foreign Affairs of Japan; or
 - (p) any person or group similar to that referred to in sub-paragraphs (j) through to (o).

“ **Approved Brokers** ” means Fearnleys AS, Clarksons Platou ASA and Lorentzen & Stemoco.

“ **Approved Ship Registry** ” means the Norwegian Ordinary Ship Registry (NOR), the Norwegian International Ship Registry (NIS), the Danish International Ship Registry (DIS), the ship registries of the United Kingdom or the Isle of Man or any ship registry as approved in writing by the Agent (on behalf of all Lenders).

“ **Assignment Agreement** ” means an agreement dated on or about the Delivery Date of the Vessel for the assignment of the Earnings, the Insurances, any Requisition Compensation in respect of the Vessel and any claims under any Hedging Agreement, entered or to be entered into between the Borrower and the Agent (on behalf of the Finance Parties and the Hedging Banks) in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Hedging Banks).

“ **Assignment of Charterparty** ” means an agreement dated on or about the Delivery Date of the Vessel for the assignment of a Charterparty, entered or to be entered into between the Borrower and the Agent (on behalf of the Finance Parties and the Hedging Banks) in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Hedging Banks).

“ **Authorisation** ” means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

“ **Availability Period** ” means the period from and including the date of this Agreement to and including 31 March 2017.

“ **Basel II Accord** ” means the “International Convergence of Capital Measurement and Capital Standards, a Revised Framework” published by the Basel Committee on Banking Supervision in June 2004 as updated prior to, and in the form existing on, the date of this Agreement, excluding any amendment thereto arising out of the Basel III Accord.

“ **Basel II Approach** ” means, in relation to any Finance Party, either the Standardised Approach or the relevant Internal Ratings Based Approach (each as defined in the Basel II Accord) adopted by that Finance Party (or any of its Affiliates) for the purposes of implementing or complying with the Basel II Accord.

“ **Basel II Regulation** ” means:

- (a) any law or regulation implementing the Basel II Accord (including the relevant provisions of directive 2013/36/EU (“ **CRD IV** ”) and regulation 575/2013 (“ **CRR** ”) of the European Union) to the extent only that such law or regulation re-enacts and/or implements the requirements of the Basel II Accord but excluding any provision of such law or regulation implementing the Basel III Accord; and

(b) any Basel II Approach adopted by a Finance Party or any of its Affiliates.

“ **Basel III Accord** ” means, together:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in “Basel III: A global regulatory framework for more resilient banks and banking systems”, “Basel III: International framework for liquidity risk measurement, standards and monitoring” and “Guidance for national authorities operating the countercyclical capital buffer” published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systemically important banks contained in “Global systemically important banks: assessment methodology and the additional loss absorbency requirement—Rules text” published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to “Basel III”.

“ **Basel III Regulation** ” means any law or regulation implementing the Basel III Accord (including CRD IV and CRR) save to the extent that such law or regulation re-enacts a Basel II Regulation.

“ **BG Facility Agreement** ” means a loan facility agreement dated 27 April 2015 (as amended, novated, supplemented, extended or restated from time to time), entered into between (i) KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS and KNOT Shuttle Tankers 26 AS as joint and several borrowers, (ii) the Guarantor as guarantor, (iii) certain banks and financial institutions listed therein as lenders, (iv) ABN AMRO Bank N.V., Oslo Branch, Bank of Tokyo-Mitsubishi UFJ, Commbank Europe Limited, DNB Bank ASA, Mizuho Bank Ltd. and Nordea Bank Norge ASA as mandated lead arrangers and bookrunners, (v) ABN AMRO Bank N.V., Bank of Tokyo-Mitsubishi UFJ, Commonwealth Bank of Australia, DNB Bank ASA and Nordea Bank Finland Plc. as hedging banks and (vi) DNB Bank ASA as agent.

“ **Borrowing Date** ” means the Utilisation Date, however in no event later than 31 March 2017.

“ **Break Costs** ” means the amount (if any) by which:

- (a) the interest (excluding the Margin) which a Lender should have received for the period from the date of receipt of all or any part of its participation in a Loan or Unpaid Sum to the last day of the current Interest Period in respect of that Loan or Unpaid Sum, had the principal amount or Unpaid Sum received been paid on the last day of that Interest Period;

exceeds:

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the principal amount or Unpaid Sum received by it on deposit with a leading bank in the Relevant Interbank Market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.

“ **Business Day** ” means a day (other than a Saturday or Sunday) on which banks are open for general business in London, New York City and Oslo.

“ **Change of Control** ” means:

- (a) if the Borrower is owned by KNOT:
 - (i) if KNOT does not own or is not able to vote for (directly or indirectly) all of the shares in the Borrower;
 - (ii) if KNOT does not own or is not able to vote for (directly or indirectly) all of the shares in Knutsen Offshore Tankers AS;
 - (iii) if KNOT does not own or is not able to vote for (directly or indirectly) all of the shares in Knutsen Offshore Tankers 2 AS;
 - (iv) if KNOT does not own or is not able to vote for (directly or indirectly) all of the shares in the General Partner (being the general partner in KNOP);
 - (v) if TS Shipping Invest AS (or a 100% owned subsidiary of TS Shipping Invest AS) and NYK Logistics Holding (Europe) B.V. (or another 100% subsidiary of Nippon Yusen Kabushiki Kaisha) each does not own or is not able to vote for (directly or indirectly) for 50% the shares in KNOT; or
 - (vi) if Mr. Trygve Seglem and his immediate family do not own or is not able to vote for (directly or indirectly) all of the shares in TS Shipping Invest AS, and/or
- (b) if the Borrower is owned by KNOP:
 - (i) if TS Shipping Invest AS (or a 100% owned subsidiary of TS Shipping Invest AS) and NYK Logistics Holding (Europe) B.V. (or another 100 % subsidiary of Nippon Yusen Kabushiki Kaisha) each does not own or is not able to vote for (directly or indirectly) for 50% the shares in KNOT;
 - (ii) if KNOP does not own or is not able to vote for (directly or indirectly) all of the shares in the Borrower;
 - (iii) if KNOP does not own or is not able to vote for (directly or indirectly) all of the shares in KNOT Shuttle Tankers AS;
 - (iv) if KNOT does not own or is not able to vote for (directly or indirectly) all of the shares in the General Partner (being the general partner in KNOP);
 - (v) if the General Partner ceases to be the general partner of KNOP;
 - (vi) if KNOT does not own at least 25% of all the units in KNOP (capital and voting rights to be subject to the limitations on voting rights relating to election of board members, amendments and certain other matters as set out in the limited partnership agreement entered into in relation to KNOP); or
 - (vii) if any person or group of persons acting in concert (other than KNOT and/or any of its wholly owned Subsidiaries) acquires, legally or beneficially, and either directly or indirectly, more than thirty three point thirty three per cent. (33.33%) of the capital or voting rights in KNOP.

“ **Charterer** ” means Galp Sinopec Brazil Services BV, a wholly owned subsidiary of Petrogal, SA.

“ **Charterparty** ” means a time charterparty dated 17 December 2014 and entered into between the Borrower and the Charterer for the chartering of the Vessel for a minimum of (i) five (5) years from the Delivery Date of the Vessel at a net rate (after broker commission) of minimum USD 51,712.50/day or (ii) eight (8) years from the Delivery Date of the Vessel at net rate (after broker commission) of minimum USD 50,727.50/day.

“ **Corporate Extortionist, etc.** ” means a person or a group who might perform violent illegal activities to get illegal profit from a company and poses a threat to the security of public life, including a corporate extortionist and a corporate racketeer.

“ **Closing Date** ” means the date this Agreement is entered into, however, no later than 30 September 2016.

“ **Code** ” means the US Internal Revenue Code of 1986.

“ **Commitment** ” means:

- (a) in relation to an Original Lender, the amount set opposite its name under the heading “Commitment” in Schedule 1 (*The Original Lenders*) and the amount of any other Commitment transferred to it under this Agreement; and
 - (b) in relation to any other Lender, the amount of any Commitment transferred to it under this Agreement,
- to the extent not cancelled, reduced or transferred by it under this Agreement.

“ **Companies Act** ” means the Norwegian Limited Liability Companies Act of 13 June 1997 No. 44 (in No. *aksjeloven*).

“ **Compliance Certificate** ” means a certificate substantially in the form set out in Schedule 5 (*Form of Compliance Certificate*).

“ **Default** ” means an Event of Default or any event or circumstance specified in Clause 23.14 (*Events of Default*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

“ **Defaulting Lender** ” means any Lender:

- (a) which has failed to make its participation in a Loan available (or has notified the Agent or the Borrower (which has notified the Agent) that it will not make its participation in a Loan available) by the Utilisation Date of that Loan in accordance with Clause 5.4 (*Lenders’ participation*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or

(B) a Disruption Event; and

payment is made within three (3) Business Days of its due date; or

(ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

“**Delivered Cost Amount**” means approx. USD 112,000,000, consisting of:

(a) approx. USD 99,500,000, being the sum of the contract amount payable to the Shipyard pursuant to the Shipbuilding Contract, plus:

(b) costs related to the supervision, commissioning (including positioning), legal costs, construction related R&D costs, owner’s delivery items and financing costs.

“**Delivery Date**” means the date of delivery of the Vessel from the Shipyard to the Borrower pursuant to the Shipbuilding Contract, estimated to be in Q1 2017.

“**Disruption Event**” means either or both of:

(a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Facility (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or

(c) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:

(i) from performing its payment obligations under the Finance Documents; or

(ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“**DOC**” means in relation to the Manager of the Vessel a valid document of compliance issued to such company pursuant to paragraph 13.2 of the ISM Code.

“**Drop Down**” means the potential acquisition by KNOP (or a Subsidiary of KNOP) of 100% of the shares in the Borrower.

“**Drop Down Date**” means the date on which a Drop Down actually takes place, as determined in accordance with Clause 26.2 (*KNOP and KNOT ST as replacement Guarantors*).

“**Earnings**” means all moneys whatsoever which are now or later become, payable (actually or contingently) to the Borrower in respect of and/or arising out of the use of or operation of the Vessel, including (but not limited to):

(a) all freight, hire and passage moneys payable to the Borrower, including (without limitation) payments of any nature under any contract or any other agreement for the employment, use, possession, management and/or operation of the Vessel;

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- (b) any claim under any guarantees related to hire payable to the Vessel as a consequence of the operation of the Vessel;
 - (c) any compensation payable to the Borrower in the event of any requisition of the Vessel or for the use of the Vessel by any government authority or other competent authority;
 - (d) remuneration for salvage, towage and other services performed by the Vessel payable to the Borrower;
 - (e) demurrage and retention money receivable by the Borrower in relation to the Vessel;
 - (f) all moneys which are at any time payable under the Insurances in respect of loss of earnings from the Vessel;
 - (g) if and whenever the Vessel is employed on terms whereby any moneys falling within paragraph a) to f) above are pooled or shared with any other person, that proportion of the net receipts of the relevant pooling or sharing arrangement which is attributable to the Vessel; and
 - (h) any other money which arise out of the use of or operation of the Vessel and moneys whatsoever due or to become due to the Borrower from third parties in relation to the Vessel.

“ **Environmental Claim** ” means any claim, proceeding, formal notice or investigation by any person or company in respect of any Environmental Law or Environmental Permits.

“ **Environmental Law** ” means any applicable law or regulation which relates to:

- (a) the pollution or protection of the environment or to the carriage of material which is capable of polluting the environment;
- (b) harm to or the protection of human health;
- (c) the conditions of the workplace; or
- (d) any emission or substance capable of causing harm to any living organism or the environment.

“ **Environmental Permits** ” means any permit, licence, consent, approval and other and other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of business conducted on or from the properties owned or used by an Obligor.

“ **Equity Contribution** ” means the Delivered Cost Amount less the Facility, in form of either cash and/or a fully subordinated intergroup loan (it being understood that the Equity Contribution from the Borrower shall be used for the instalments to the Shipyard pursuant to the Shipbuilding Contract and shall be sufficient together with the Facility to allow the Borrower to take delivery of the Vessel).

“ **Event of Default** ” means any event or circumstance specified as such in Clause 23.14 (*Events of Default*).

“ **Existing Hedging Transactions** ” means a USD 50,000,000 interest rate swap initially made by KNOT with trade date 30 November 2015 and termination date 1 December 2025 and with an estimated mark-to-market value as of 7 March 2016 being negative with approx. USD 1,600,000, to be transferred by novation to the Borrower and to be documented under an ISDA Master Agreement entered or to be entered into between the relevant Borrower and Nordea Bank Finland Plc..

“ **FA Act** ” means the Norwegian Financial Agreements Act of 25 June 1999 No. 46 (in No. *finansavtaleloven*).

“ **Facility** ” means the term loan facility made available under this Agreement as described in Clause 2 (*The Facility*), consisting of the Tranches.

“ **Facility Office** ” means:

- (a) the office or offices notified by a Lender to the Agent in writing on or before the date it becomes a Lender (or, following that date, by not less than five Business Days’ written notice) as the office or offices through which it will perform its obligations under this Agreement; or
- (b) in respect of any other Finance Party, the office in the jurisdiction in which it is resident for tax purposes.

“ **Factoring Agreement** ” means a Norwegian law factoring agreement in the amount of USD 108,000,000 dated on or about the date hereof between the Borrower and the Agent (on behalf of the Finance Parties and the Hedging Banks) in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Hedging Banks), to be registered against the Borrower with the Norwegian Registry of Movable Property (in No. *Løsøreregisteret*).

“ **FATCA** ” means:

- (a) sections 1471 to 1474 of the Code or any associated regulations;
- (b) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of any law or regulation referred to in paragraph (a) above; or
- (c) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

“ **FATCA Application Date** ” means:

- (a) in relation to a “withholdable payment” described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
 - (b) in relation to a “withholdable payment” described in section 1473(1)(A)(ii) of the Code (which relates to “gross proceeds” from the disposition of property of a type that can produce interest from sources within the US), 1 January 2019; or
 - (c) in relation to a “passthru payment” described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2019,
- or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

“ **FATCA Deduction** ” means a deduction or withholding from a payment under a Finance Document required by FATCA.

“ **FATCA Exempt Party** ” means a Party that is entitled to receive payments free from any FATCA Deduction.

“ **Fee Letter** ” means one or more fee letters dated on or around the date of this Agreement from the Agent to KNOT, accepted by the Borrower, setting out any of the fees referred to in Clause 11 (*Fees*).

“ **Final Maturity Date** ” means the date falling five (5) years from the Delivery Date, however no later than 31 March 2022.

“ **Finance Document** ” means this Agreement, any Security Document, any Fee Letter, any Manager’s Undertaking, any Accession Letter, any other document designated as such by the Agent and the Borrower and, as long as there is an Event of Default which is continuing and for the purposes of Clause 29 (*Sharing among the Finance Parties*), Clause 30 (*Payment mechanics*) and Clause 31 (*Set-off*) only, “Finance Document” shall also include any Hedging Agreement.

“ **Finance Party** ” means the Agent, a Mandated Lead Arranger, the Bookrunner, a Lender or, as long as there is an Event of Default which is continuing and for the purposes of Clause 29 (*Sharing among the Finance Parties*), Clause 30 (*Payment mechanics*) and Clause 31 (*Set-off*) only, “Finance Party” shall also include the Hedging Banks.

“ **Financial Indebtedness** ” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) of a type not referred to in any other paragraph of this definition having the commercial effect of a borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount) of any derivative transaction, only the marked to market value shall be taken into account), including any Hedging Agreement;
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

(i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

“ **Funding Rate** ” means any individual rate notified by a Lender to the Agent pursuant to paragraph (a)(ii) of Clause 10.4 (*Cost of funds*).

“ **GAAP** ” means generally accepted accounting principles in Norway, including IFRS.

“ **General Partner** ” means KNOT Offshore Partners GP LLC, a company incorporated under the laws of the Marshall Islands and having its registered office at 2 Queen’s Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom being the general partner in KNOP.

“ **Group** ” means:

- (a) prior to any Drop Down Date, the KNOT Group; and
- (b) from the Drop Down Date, the KNOP Group.

“ **Guarantees** ” means the guarantee liabilities of each Guarantor pursuant to Clause 18 (*Guarantee and indemnity*), and “ **Guarantee** ” means any of them.

“ **Guarantor** ” means:

- (a) prior to any Drop Down Date, KNOT; and
- (b) from the Drop Down Date, KNOP and KNOT ST jointly and severally.

“ **Hedging Agreement** ” means any ISDA Master Agreement or other master agreement, including any schedule or confirmation (as amended at any time, a “ **Master Agreement** ”) and/or any transaction or hedging arrangement, including Existing Hedging Transactions, pursuant to such Master Agreement (the “ **Hedging Transaction(s)** ”) entered or to be entered into between the Borrower and a Hedging Bank, for the purpose of hedging interest rate in relation to the Loan and for the Borrower’s currency needs.

“ **Holding Company** ” means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

“ **IFRS** ” means international accounting standards within the meaning of the IAS Regulation 1606/2002 to the extent applicable to the relevant financial statements.

“ **Insolvency Event** ” in relation to an entity means that the entity:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (c) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (d) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (e) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation by it or such regulator, supervisor or similar official;

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- (f) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
 - (b) has exercised in respect of it one or more of the stabilisation powers pursuant to Part 1 of the Banking Act 2009 and/or has instituted against it a bank insolvency proceeding pursuant to Part 2 of the Banking Act 2009 or a bank administration proceeding pursuant to Part 3 of the Banking Act 2009;
 - (c) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
 - (d) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets (other than, for so long as it is required by law or regulation not to be publicly disclosed, any such appointment which is to be made, or is made, by a person or entity described in paragraph (d) above);
 - (e) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
 - (f) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (i) above; or
 - (g) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“**Insurances**” means, in relation to the Vessel, all policies and contracts of insurance (which expression includes all entries of the Vessel in a protection and indemnity or war risk association) which are from time to time during the Security Period in place or taken out or entered into by or for the benefit of the Borrower (whether in the sole name of the Borrower or in the joint names of the Borrower and any other person) in respect of the Vessel or otherwise in connection with the Vessel and all benefits thereunder (including claims of whatsoever nature and return of premiums).

“**Intercreditor Agreement**” means an intercreditor agreement dated on or about the date hereof, entered into between (a) the Agent, the Lenders and the Hedging Banks, (b) the Borrower and the Guarantor and (c) the Second Lender for the purpose of regulating the rights and obligations of the Finance Parties and the Hedging Banks under and pursuant to the Finance Documents and the Hedging Agreements on the one side and of the Second Lender under the Second Loan Agreement and the Second Security Documents on the other,

“ **Interest Period** ” means, in relation to a Loan, each period determined in accordance with Clause 9 (*Interest Periods*) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 8.3 (*Default interest*).

“ **Interpolated Screen Rate** ” means, in relation to LIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Interest Period of that Loan; and
 - (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Interest Period of that Loan,
- each as of 11. a.m. in London on the Quotation Day for USD.

“ **ISM Code** ” means the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention.

“ **ISPS Code** ” means the International Ship and Port Facility Security (ISPS) Code as adopted by the International Maritime Organization’s (IMO) Diplomatic Conference of December 2002.

“ **ISSC** ” means an International Ship Security Certificate issued by the Classification Society confirming that the Vessel is in compliance with the ISPS Code.

“ **KNOP** ” means KNOT Offshore Partners L.P., a master limited partnership listed on the New York Stock Exchange, with registered offices at 2 Queen’s Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom.

“ **KNOP Group** ” means KNOP and its Subsidiaries.

“ **KNOT** ” means Knutsen NYK Offshore Tankers AS, Norwegian registration no. 995 221 713, with registered offices at Smedasundet 40, N-5529 Haugesund, Norway.

“ **KNOT Group** ” means KNOT and its Subsidiaries.

“ **KNOT ST** ” means KNOT Shuttle Tankers AS, Norwegian registration no. 998 942 829, with registered offices at Smedasundet 40, N-5529 Haugesund, Norway.

“ **Lender** ” means:

- (a) any Original Lender; and
- (b) any bank, financial institution, trust, fund or other entity which has become a Party in accordance with Clause 25 (*Changes to the Lenders*), which in each case has not ceased to be a Party in accordance with the terms of this Agreement.

“ **LIBOR** ” means, in relation to any Loan:

- (a) the applicable Screen Rate;

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- (b) (if no Screen Rate is available for the Interest Period of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
- (iii) no Screen Rate is available for USD; or
 - (iv) no Screen Rate is available for the Interest Period of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan, the Reference Bank Rate,

as of, in the case of paragraph (a) above, 11.00 a.m. London time and in the case of paragraph (c) above, 12:00 noon London time on the Quotation Day for USD and for a period equal in length to the Interest Period of that Loan and, if that rate is less than zero (0), LIBOR shall be deemed to be zero (0).

“**Loan**” means a loan made or to be made under a Facility or the principal amount outstanding for the time being of that loan.

“**Majority Lenders**” means:

- (a) if there are no Loans then outstanding, a Lender or Lenders whose Commitments aggregate more than $66 \frac{2}{3} \%$ of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than $66 \frac{2}{3} \%$ of the Total Commitments immediately prior to the reduction); or
- (b) at any other time, a Lender or Lenders whose participations in the Loans then outstanding aggregate more than $66 \frac{2}{3} \%$ of all the Loans then outstanding.

“**Malicious Political Extortionist**” means a person or a group who pretends or proclaims to do social activities or political activities and might perform violent illegal activities to get profit from a company and poses a threat to the security of public life.

“**Management Agreement**” means any agreement made or to be made between the Borrower and a Manager for the technical and/or commercial management of the Vessel.

“**Manager**” means KNOT Management Denmark A/S or one of its Affiliates acceptable to the Agent.

“**Manager’s Undertaking**” means an undertaking to be provided by each Manager in form to be determined by Agent.

“**Margin**” means two hundred basis points (200 bps) per annum.

“**Market Value**” means the fair market value of the Vessel, being the average of valuations of the Vessel obtained from two (2) Approved Brokers, with or without physical inspection of the Vessel (as the Agent may require) on the basis of a sale for prompt delivery for cash at arm’s length on normal commercial terms as between a willing buyer and a willing seller, on an “as is, where is” basis, free of any existing charter or other contract of employment and/or pool arrangement. If the two (2) valuations differ by a margin of more than 10% then a third Approved Broker, appointed by the Agent and approved by the Majority Lenders shall provide a valuation and the value of the Vessel shall be deemed to be the average of the three (3) valuations.

“ **Material Adverse Effect** ” means any event or occurrence that in the reasonable opinion of the Lenders has or would have materially adversely affected or could adversely affect:

- (a) the business, condition (financial or otherwise), operations, performance, assets or prospects of an Obligor or the Group taken as a whole since the date at which its latest audited financial statements were prepared; or
- (b) the ability of an Obligor to perform its obligations under the Finance Documents or the Hedging Agreements; or
- (c) the validity or enforceability of, or the effectiveness or ranking of any Security granted or purporting to be granted pursuant to, any Finance Document or Hedging Agreement; or
- (d) the right or remedy of a Finance Party or a Hedging Bank in respect of a Finance Document or a Hedging Agreement.

“ **Month** ” means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:

- (a) if the numerically corresponding day is not a Business Day, that period shall end on the next Business Day in that calendar month in which that period is to end if there is one, or if there is not, on the immediately preceding Business Day;
- (b) if there is no numerically corresponding day in the calendar month in which that period is to end, that period shall end on the last Business Day in that calendar month.

The above rules will only apply to the last Month of any period.

“ **Mortgage** ” means the first priority mortgage in the amount of USD 108,000,000 (and deed of covenants or declaration of pledge collateral thereto (if applicable)), to be executed and recorded by the Borrower against the Vessel in favour of the Agent (on behalf of the Finance Parties and the Hedging Banks) in the relevant Approved Ship Registry, in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Hedging Banks).

“ **Mortgaged Assets** ” means:

- (a) the Vessel;
- (b) the Earnings;
- (c) the Insurances;
- (d) the Account;
- (e) any Requisition Compensation;
- (f) the Charterparty; and
- (g) the shares in the Borrower.

“ **Obligors** ” means the Borrower, KNOT (as long as it is a Guarantor), KNOP (as long as it is a Guarantor) and KNOT ST (as long as it is a Guarantor), and “ **Obligor** ” means any of them.

“ **Organised Crime Group** ” means a group whose member (including a member of an affiliated group which belongs to the group) might encourage violent illegal activities collectively or habitually.

“ **Organised Crime Group Affiliate Company** ” means (i) a company of which any Organised Crime Group Member is substantially involved in the management or (ii) a company which is an Organised Crime Group Sub-Member or is managed by any former Organised Crime Group Member and which supports positively the maintenance or operation of an Organised Crime Group by providing funds for the group or (iii) a company which is taking advantage of the Organised Crime Group to carry out its business and supports positively the maintenance or operation of an Organised Crime Group.

“ **Organised Crime Group Member** ” means a member of an Organised Crime Group.

“ **Organised Crime Group Sub-Member** ” means (i) a person or a group who is not an Organised Crime Group Member but related to an Organised Crime Group and who might perform violent illegal activities taking advantage of the power of an Organised Crime Group, or (ii) a person or a group who supports or is involved in the maintenance or operation of the Organised Crime Group by providing funds or weapons for the Organised Crime Group.

“ **Organised Crime Group Member, etc.** ” means, collectively, those listed in sub-paragraphs (a) through to (h) of the definition of “Anti-Social Forces”.

“ **Original Financial Statements** ” means:

- (a) in relation to the Borrower, the financial statements for the financial year ended 31 December 2015; and
- (b) in relation to KNOT, its audited financial statements for its financial year ended 31 December 2015.

“ **Outstanding Indebtedness** ” means the aggregate of all sums of money at any time and from time to time owing to the Finance Parties under or pursuant to the Finance Documents.

“ **Party** ” means a party to this Agreement.

“ **Quotation Day** ” means, in relation to any period for which an interest rate is to be determined, two (2) Business Days before the first day of that period unless market practice differs in the Relevant Interbank Market in which case the Quotation Day will be determined by the Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

“ **Reference Bank Quotation** ” means any quotation supplied to the Agent by a Reference Bank.

“ **Reference Bank Rate** ” means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Agent at its request by the Reference Banks as the rate at which the relevant Reference Bank could borrow funds in the London interbank market in USD for the relevant period were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

“ **Reference Banks** ” means each Lender or such other banks as may be appointed by the Agent in consultation with the Borrower.

“ **Relevant Interbank Market** ” means the London interbank market.

“ **Relevant Person** ” means:

- (a) each member of the Group; and
- (b) each of its directors, officers, employees, agents and representatives.

“ **Repeating Representations** ” means each of the representations set out in Clause 19 (*Representations*).

“ **Representative** ” means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

“ **Requisition Compensation** ” means all sums of money or other compensation from time to time payable in respect of any requisition for title of other compulsory acquisition, requisition, expropriation or similar of the Vessel by any governmental entity.

“ **Restricted Party** ” means a person:

- (a) that is listed on any Sanctions List or targeted by Sanctions (whether designated by name or by reason of being included in a class of person); or
- (b) that is located in or incorporated under the laws of any country or territory that is the target of comprehensive, country- or territory-wide Sanctions; or
- (c) that is directly or indirectly owned or controlled by, or acting on behalf, at the direction or for the benefit of, a person referred to in (a) and/or (to the extent relevant under Sanctions) (b) above; or
- (d) with which any Lender is prohibited from dealing or otherwise engaging in a transaction with by any Sanctions.

“ **Sanctions** ” means any economic or financial sanctions laws and/or regulations, trade embargoes, prohibitions, restrictive measures, decisions, executive orders or notices from regulators implemented, adapted, imposed, administered, enacted and/or enforced by any Sanctions Authority.

“ **Sanctions Authority** ” means the Norwegian State, the United Nations, the European Union, the member states of the European Union, the United States of America, Australia and any authority acting on behalf of any of them in connection with Sanctions.

“ **Sanctions List** ” means (a) the lists of Sanctions designations and/or targets maintained by any Sanctions Authority and/or (b) any other Sanctions designation or target listed and/or adopted by a Sanctions Authority, in all cases, from time to time.

“ **Screen Rate** ” means the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for USD for the relevant period displayed (before any correction, recalculation or republication by the administrator) on page LIBOR01/LIBOR02 of the Thomson Reuters Screen (or any replacement Thomson Reuters page which displays that rate) or on the appropriate page of such other information service which publishes that rate from time to time in place of Thomson Reuters. If such page or service ceases to be available, the Agent may specify another page or service displaying the relevant rate after consultation with the Borrower and the Lenders.

“ **Second Lender** ” means Nippon Yusen Kabushiki Kaisha, a company incorporated and existing under the laws of Japan, having its principal office at Yusen Building, 3-2 Marunouchi, 2-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

“ **Second Security Documents** ” means:

- (a) an agreement for the pledge of 100% of the shares in the Borrower dated 26 March 2015 between the Guarantor and the Second Lender;
- (b) an agreement for the assignment of the Shipbuilding Contract and Refund Guarantees (both as defined therein) dated 26 March 2015 between the Borrower and the Second Lender; and
- (c) an irrevocable and unconditional on demand guarantee from the Guarantor to the Second Lender.

“ **Second Loan Agreement** ” means a secured shareholder loan facility agreement dated 26 March 2015, entered into between (i) the Borrower as borrower, (ii) the Guarantor as guarantor and (iii) the Second Lender as lender pursuant to which the Second Lender has agreed to make available to the Borrower a term loan facility in the amount of up to USD 25,000,000 for the purposes set out therein.

“ **Security** ” means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

“ **Security Document** ” means each document listed in Clause 17 (*Security*) and any other document agreement agreed between the Parties to be a Security Document.

“ **Security Period** ” means the period commencing on the date of this Agreement and ending the date on which the Agent notifies the Borrower, the other Finance Parties and the Hedging Banks that:

- (a) all amounts which have become due for payment by the Borrower under the Finance Documents and the Hedging Agreements have been paid;
- (b) no amount is owing or has accrued (without yet having become due for payment) under any of the Finance Documents and the Hedging Agreements;
- (c) none of the Obligors have any future or contingent liability under any provision of this Agreement, the other Finance Documents and the Hedging Agreements; and
- (d) the Agent, the Lenders and the Hedging Banks do not consider that there is a significant risk that any payment or transaction under a Finance Document or a Hedging Agreement would be set aside, or would have to be reversed or adjusted, in any present or possible future proceeding relating to a Finance Document a Hedging Agreement or any asset covered (or previously covered) by a Security created by a Finance Document a Hedging Agreement.

“ **Selection Notice** ” means a notice substantially in the form set out in Part II of Schedule 3 (*Requests*) given in accordance with Clause 9 (*Interest Periods*).

“ **Share Pledge** ” means an agreement for the charge/pledge of 100% of the shares in the Borrower dated on or about the date hereof or on or about a Drop Down Date (as the case may be) in agreed form between (a) KNOT or KNOP (or a Subsidiary of KNOP) (as the case may be, prior to and as from the relevant Drop Down Date respectively) and (b) the Agent (on behalf of the Finance Parties and the Hedging Banks).

“**Shareholder Loans**” means shareholder loans and/or loans from other companies within the Group and/or loans from other Affiliates, including but not limited to the loan granted pursuant to the Second Loan Agreement.

“**Shipbuilding Contract**” means a shipbuilding contract dated 17 December 2014 entered into between the Borrower and the Shipyard for the construction of the Vessel.

“**Shipyard**” means (Cosco Zhoushan) Shipyard Co., Ltd.

“**SMC**” means a valid safety management certificate issued for the Vessel issued by the Classification Society pursuant to paragraph 13.7 of the ISM Code.

“**SMS**” means a safety management system for the Vessel developed and implemented in accordance with the ISM Code and including the functional requirements duties and obligations that follow from the ISM Code.

“**Special Intellectual Organised Crime Group, etc.**” means a white-collar crime group or member of another similar special intellectual violence group or such groups or members other than those listed in sub-paragraphs (a) through to (f) of the definition of “Anti-Social Forces” who exercise the power of an Organised Crime Group based on the relationship with the Organised Crime Group or becomes the centre of structural injustice based on a financial relationship with the Organised Crime Group.

“**Subsidiary**” means an entity of which a person has direct or indirect control (whether through the ownership of voting capital, by contract or otherwise) or owns directly or indirectly more than 50% of the shares and for this purpose an entity shall be treated as controlled by another if that entity is able to direct its affairs and/or to control the composition of the board of directors or equivalent body.

“**Tax**” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

“**Total Commitments**” means the aggregate of the Commitments being the lesser of USD 90,000,000 and eighty point four per cent. (80.4%) of the Delivered Cost Amount.

“**Total Loss**” means, in relation to the Vessel:

- (a) the actual, constructive, compromised, agreed, arranged or other total loss of the Vessel;
- (b) the requisition for title or compulsory acquisition of the Vessel by any government or other competent authority;
- (c) the capture, seizure, destruction, abandonment, condemnation, arrest, detention or confiscation of the Vessel by any government or by persons acting or purporting to act on behalf of any government or public authority, unless the Vessel is released and returned to the possession of the Borrower within thirty (30) days after the capture, seizure, arrest, detention or confiscation in question; or
- (d) any piracy, hijacking or theft of the Vessel, unless the Vessel is released and restored to the Borrower within thirty (30) days after the occurrence of such incident.

“ **Total Loss Date** ” means:

- (a) in the case of an actual total loss of the Vessel, the date on which it occurred or, if that is unknown, the date when the Vessel was last heard of;
- (b) in the case of a constructive, compromised, agreed or arranged total loss of the Vessel, the earlier of: (i) the date on which a notice of abandonment is given to the insurers (provided a claim for total loss is admitted by such insurers) or, if such insurers do not forthwith admit such a claim, at the date at which either a total loss is subsequently admitted by the insurers or a total loss is subsequently adjudged by a competent court of law or arbitration panel to have occurred or, if earlier, the date falling three (3) Months after notice of abandonment of the Vessel was given to the insurers; and (ii) the date of compromise, arrangement or agreement made by or on behalf of the Borrower with the Vessel’s insurers in which the insurers agree to treat the Vessel as a total loss; or
- (c) in the case of any other type of Total Loss, on the date (or the most likely date) on which it appears to the Agent that the event constituting the total loss occurred.

“ **Tranche A** ” means the lesser of (a) USD 78,400,000, and (b) seventy per cent (70%) of the Delivered Cost Amount.

“ **Tranche B** ” means the lesser of (a) USD 11,600,000, and (b) ten point forty per cent (10.40%) of the Delivered Cost Amount.

“ **Tranches** ” means together Tranche A and Tranche B, and “ **Tranche** ” means either of them.

“ **Transaction Documents** ” means the Charterparty, each Management Agreement, the Second Loan Agreement and the Second Security Documents, together with the other documents contemplated herein or therein or otherwise designated as a Transaction Document by the Agent and the Borrower, and

“ **Transaction Document** ” means any of them.

“ **Transfer Certificate** ” means a certificate substantially in the form set out in Schedule 4 (*Form of Transfer Certificate*) or any other form agreed between the Agent and the Borrower.

“ **Transfer Date** ” means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Agent executes the relevant Transfer Certificate.

“ **US** ” means the United States of America.

“ **US Tax Obligor** ” means:

- (a) an Obligor which is resident for tax purposes in the US; or
- (b) an Obligor some or all of whose payments under the Finance Documents are from sources within the US for US federal income tax purposes.

“ **Unpaid Sum** ” means any sum due and payable but unpaid by an Obligor under the Finance Documents.

“ **Utilisation** ” means a utilisation of the Facility.

“ **Utilisation Date** ” means the date of a Utilisation, being the date on which the relevant Loan is to be made.

“ **Utilisation Request** ” means a notice substantially in the form set out in Part I of Schedule 3 (Requests).

“ **VAT** ” means value added tax as provided for in the Norwegian Value Added Tax Act of 19 June 2009 no. 58 (in No. *Merverdiavgiftsloven*) and any other tax of a similar nature.

“ **Vessel** ” means a newbuilding shuttle tanker with the Shipyard’s hull no. 686, with a contract price of USD 99,500,000 and estimated delivery 1Q 2017, to be registered in the name of the Borrower with an Approved Ship Registry upon delivery.

1.2

Construction

(a) Unless a contrary indication appears, any reference in this Agreement to:

- (i) the “ **Agent** ”, a “ **Mandated Lead Arranger** ”, a “ **Bookrunner** ”, any “ **Finance Party** ”, any “ **Lender** ”, or any “ **Party** ” shall be construed so as to include its successors in title, permitted assigns and permitted transferees to, or of, its rights and/or obligations under the Finance Documents;
- (ii) a “ **Hedging Bank** ”, shall be construed so as to include its successors in title, permitted assigns and permitted transferees to, or of, its rights and/or obligations under any Hedging Agreement;
- (iii) “ **assets** ” includes present and future properties, revenues and rights of every description;
- (iv) a “ **Finance Document** ”, “ **Transaction Document** ” or any other agreement or instrument is a reference to that Finance Document, Transaction Document or other agreement or instrument as amended, novated, supplemented, extended or restated;
- (v) a “ **group of Lenders** ” includes all the Lenders;
- (vi) “ **indebtedness** ” includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
- (vii) a “ **person** ” includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium, partnership or other entity (whether or not having separate legal personality);
- (viii) a “ **regulation** ” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation;
- (ix) a provision of law is a reference to that provision as amended or re-enacted;
- (x) words importing the singular shall include the plural and vice versa;
- (xi) a time of day is a reference to Oslo time unless specified otherwise; and

(xii) any reference to Nordea Bank Norge ASA (either directly or indirectly in its capacity as Lender, Agent, Bookrunner and/or Mandated Lead Arranger or any other capacity) in the Finance Documents shall be automatically construed as a reference to Nordea Bank AB in the event of any corporate reconstruction, merger, amalgamation, consolidation between Nordea Bank Norge ASA and Nordea Bank AB where Nordea Bank AB is the surviving entity and acquires all the rights of and assumes all the obligations of Nordea Bank Norge ASA and nothing in the Finance Documents shall be construed so as to restrict, limit or impose any notification or other requirement or condition on either Nordea Bank Norge ASA or Nordea Bank AB in respect of the acquisition of rights to or assumption of obligations by Nordea Bank AB hereunder or under any other Finance Documents pursuant to such corporate reconstruction, merger, amalgamation or consolidation.

- (b) Section, Clause and Schedule headings are for ease of reference only.
- (c) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
- (d) Each Hedging Agreement shall operate subject to the terms of this Agreement and, accordingly, in the event of any inconsistency between the terms of a Hedging Agreement and this Agreement, the terms of this Agreement will prevail.
- (e) A Default is “ **continuing** ” if it has not been remedied or waived and an Event of Default is “ **continuing** ” if it has not been waived.

1.3 **Currency symbols and definitions**

“ **\$** ”, “ **USD** ” and “ **dollars** ” denote the lawful currency of the United States of America and “ **kr** ”, “ **NOK** ” and “ **norske kroner** ” denote the lawful currency of Norway.

SECTION 2 THE FACILITY

2. **THE FACILITY**

2.1 **The Facility**

Subject to the terms of this Agreement, the Lenders make available to the Borrower a senior secured USD term loan facility in an aggregate amount equal to the Total Commitments.

2.2 **Finance Parties’ and Hedging Banks’ rights and obligations**

- (a) The obligations of each Finance Party and each Hedging Bank under the Finance Documents are several. Failure by a Finance Party or a Hedging Bank to perform its obligations under the Finance Documents or the Hedging Agreements does not affect the obligations of any other Party under the Finance Documents or the Hedging Agreements. No Finance Party or Hedging Bank is responsible for the obligations of any other Finance Party or Hedging Bank under the Finance Documents and the Hedging Agreements.
- (b) The rights of each Finance Party and each Hedging Bank under or in connection with the Finance Documents and the Hedging Agreements are separate and independent rights and any debt arising under the Finance Documents to a Finance Party or under the Hedging Agreements to a Hedging Bank from an Obligor shall be a separate and independent debt.

- (c) A Finance Party and a Hedging Bank may, except as otherwise stated in the Finance Documents and the Hedging Agreements, separately enforce its rights under the Finance Documents and the Hedging Agreements.
- (d) No Finance Party or Hedging Bank will be liable (including, without limitation, for negligence or any other category of liability whatsoever) for any action taken by it under or in connection with any Finance Document or Hedging Agreement, unless directly caused by its gross negligence or wilful misconduct.

3. **PURPOSE**

3.1 **Purpose**

The Borrower shall apply all amounts borrowed under the Facility towards financing the acquisition of the Vessel.

3.2 **Monitoring**

No Finance Party is bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4. **CONDITIONS OF UTILISATION**

4.1 **Initial conditions precedent**

- (a) The Borrower may not deliver a Utilisation Request unless the Agent has received all of the documents and other evidence listed in Part I (*General Conditions Precedent*) of Schedule 2 (*Conditions precedent and subsequent*), except those documents which specifically will only be available on the Utilisation Date or within another specified date as previously notified and agreed to by the Majority Lenders. The Agent shall notify the Borrower and the Lenders promptly upon being so satisfied.
- (b) Other than to the extent that the Majority Lenders notify the Agent in writing to the contrary before the Agent gives the notification described in paragraph (a) above, the Lender authorise (but do not require) the Agent to give that notification. The Agent shall not be liable for any damages, costs or losses whatsoever as a result of giving any such notification.

4.2 **Further conditions precedent**

The Lenders will only be obliged to comply with Clause 5.4 (*Lenders' participation*) if on the date of the Utilisation Request and on the proposed Utilisation Date:

- (a) no Default is continuing or would result from the proposed Loan; and
- (b) the Repeating Representations to be made by each Obligor are true in all material respects.

4.3 **Conditions subsequent**

The Borrower undertakes to deliver or cause to be delivered to the Agent the additional documents and other evidence listed in Part III of Schedule 2 (*Conditions precedent and subsequent*), within the time periods specified, in form and substance satisfactory to the Agent.

4.4 **Maximum number of Loans**

Each of Tranche A and Tranche B may be drawn in one (1) Loan, simultaneously on or after the Delivery Date, provided however that for the purpose of pre-positioning the final instalment payable to the Shipyard under the Shipbuilding Contract the Loan maybe drawn and remitted in the name of the Agent to a suspense account (or similar) with a will-reputed bank designated by the Shipyard which shall be acceptable to the Lenders (and provided always that the Loan shall remain under the Agent's full control until specifically released to the Shipyard and shall be returned to the Agent without delay if delivery has not taken place within ten (10) Business Days of remittance by the Agent) up to five (5) days prior to the Delivery Date.

4.5 **Form and content**

All documents and evidence delivered to the Agent pursuant to this Clause 4 (*Conditions of Utilisation*) shall:

- (a) be in form and substance satisfactory to the Agent;
- (b) if required by the Agent, be in original; and
- (c) if required by the Agent, be certified, notarized, legalized or attested in a manner acceptable to the Agent.

4.6 **Waiver of conditions precedent**

The conditions specified in this Clause 4 (*Conditions of Utilisation*) are solely for the benefit of the Lenders and may be waived on their behalf in whole or in part and with or without conditions by the Agent (acting on the instructions of all of the Lenders).

**SECTION 3
UTILISATION**

5. **UTILISATION**

5.1 **Delivery of a Utilisation Request**

The Borrower may utilise a Facility by delivery to the Agent of a duly completed Utilisation Request not later than 12:00 noon Oslo time on the date falling five (5) Business Days prior to the relevant Utilisation Date.

5.2 **Completion of a Utilisation Request**

Each Utilisation Request is irrevocable and will not be regarded as having been duly completed unless:

- (a) the proposed Utilisation Date is a Business Day within the Availability Period;
- (b) the currency and amount of the Utilisation comply with Clause 5.3 (*Currency and amount*); and
- (c) the proposed Interest Period complies with Clause 9 (*Interest Periods*).

5.3 **Currency and amount**

- (a) The currency specified in a Utilisation Request must be USD.
- (b) The amount of the proposed Loan must be an amount which is not more than the Facility, provided that:
 - (i) the Loan utilised under Tranche A must be an amount which is not more than the lesser of (a) USD 78,400,000 and (b) seventy per cent (70%) of the Delivered Cost Amount of the Vessel; and
 - (ii) the Loan utilised under Tranche B must be an amount which is not more than the lesser of (a) USD 11,600,000 and (b) ten point forty per cent (10.4%) of the Delivered Cost Amount of the Vessel.

- 5.4 **Lenders' participation**
- (a) If the conditions set out in this Agreement have been met, each Lender shall make its participation in each Loan available by the Utilisation Date through its Facility Office.
 - (b) The amount of each Lender's participation in each Loan will be equal to the proportion borne by its Commitment to the Facility immediately prior to making that Loan.
 - (c) The Agent shall notify each Lender of the amount of each Loan and the amount of its participation in that Loan by 12:00 noon Oslo time on the date falling four (4) Business Day prior to the relevant Utilisation Date.

5.5 **Cancellation of Commitment**

- (a) The Commitments which, at that time, are unutilised shall be immediately cancelled at the end of the Availability Period.
- (b) If there is a delay in delivery of the Vessel of not more than two hundred (200) days, the Availability Period may be extended subject to the consent of all the Lenders, always provided that the delayed delivery does not constitute a termination event (howsoever described) under the Charterparty or give the Charterer a right to change any material terms or conditions of the Charterparty.

**SECTION 4
REPAYMENT, PREPAYMENT AND CANCELLATION**

6. **REPAYMENT**

6.1 **Repayment of Tranche A**

- (a) Tranche A shall be repaid by twenty (20) consecutive quarterly repayment instalments over a nineteen (19) year profile as set out in Schedule 8 (Drawings and repayment schedule), the first of which is due and payable on the date falling three (3) months after the Borrowing Date.
- (b) Any Outstanding Indebtedness related to Tranche A is due and payable on the Final Maturity Date.
- (c) The Borrower may not reborrow any part of Tranche A which is repaid.

6.2 **Repayment of Tranche B**

- (a) Tranche B shall be repaid by twenty (20) consecutive quarterly repayment instalments over a five (5) year profile as set out in Schedule 8 (Drawings and repayment schedule), the first of which is due and payable on the date falling three (3) months after the Borrowing Date.
- (b) Any Outstanding Indebtedness related to Tranche B is due and payable on the Final Maturity Date.
- (c) The Borrower may not reborrow any part of Tranche B which is repaid.

6.3 **Final Maturity Date**

All Outstanding Indebtedness is due and payable on the Final Maturity Date.

7. **PREPAYMENT AND CANCELLATION**

7.1 **Voluntary cancellation**

The Borrower may, if it gives the Agent not less than three (3) Business Days' (or such shorter period as the Majority Lenders may agree) prior notice, cancel the whole or any part (being a minimum amount of USD 5,000,000) of the Facility. Any cancellation under this Clause 7.1 (*Voluntary cancellation*) shall reduce the Commitments of the Lenders rateably, *pro rata* in respect of each Tranche.

7.2 **Voluntary prepayment of Loans**

- (a) The Borrower may, if it gives the Agent not less than three (3) Business Days' (or such shorter period as the Majority Lenders may agree) prior notice, prepay the whole or any part of the Loans (but, if in part, being an amount that reduces the amount of the Loan by a minimum amount of USD 5,000,000).
- (b) Any prepayment under this Clause 7.2 (*Voluntary prepayment of Loans*) shall rateably satisfy the obligations under Clause 6.1 (*Repayment of Tranche A*) and Clause 6.2 (*Repayment of Tranche B*), in inverse order of maturity including any balloon payment.

7.3 **Mandatory prepayment—Drop Down**

If a Drop Down occurs, the Agent shall on the relevant Drop Down Date cancel the Total Commitments relating to Tranche B and declare Tranche B, together with accrued interest, and all other amounts accrued in relation thereto immediately due and payable, whereupon the Total Commitments relating to Tranche B will be cancelled and all such outstanding amounts will become due and payable with three (3) Business Days after the Drop Down Date.

7.4 **Mandatory prepayment – illegality**

If it becomes unlawful in any applicable jurisdiction for a Lender to perform any of its obligations as contemplated by this Agreement or to fund or maintain its participation in any Loan or it becomes contrary to Sanctions to do the same:

- (a) that Lender shall promptly notify the Agent upon becoming aware of that event;
- (b) upon the Agent notifying the Borrower, the Commitment of that Lender will be immediately cancelled; and
- (c) to the extent that the Lender's participation has not been transferred pursuant to paragraph (d) of Clause 7.8 (*Right of replacement or repayment and cancellation in relation to a single Lender*), the Borrower shall repay that Lender's participation in the Loans on the last day of the Interest Period for each Loan occurring after the Agent has notified the Borrower or, if earlier, the date specified by the Lender in the notice delivered to the Agent (being no earlier than the last day of any applicable grace period permitted by law) and that Lender's corresponding Commitment shall be cancelled in the amount of the participations repaid.

7.5 **Mandatory prepayment – Total Loss or sale of the Vessel**

If the Vessel is sold or shall suffer a Total Loss, the Agent shall:

- (a) in case of a sale, on or before the date on which the sale is completed by delivery of the Vessel to the buyer; or
- (b) in the case of a Total Loss, on the earlier of the date falling ninety (90) days after the Total Loss Date and the receipt by the Agent of the proceeds of Insurance relating to such Total Loss (or in the event of a requisition for title of the Vessel, immediately after the occurrence of such requisition of title);

cancel the Total Commitments and declare the relevant outstanding Loans, together with accrued interest, and all other amounts accrued in relation thereto immediately due and payable, whereupon the Total Commitments will be cancelled and all such outstanding amounts will become immediately due and payable.

7.6 **Mandatory prepayment – Market Value**

- (a) If the aggregate Market Value of the Vessel falls below:
- (i) one hundred and fifteen per cent (115%) of the Loans at any time until the second anniversary of the Borrower Date,
 - (ii) one hundred and twenty per cent (120%) of the Loans at any time thereafter and until the third anniversary of the Borrowing Date,
 - (iii) one hundred and twenty five per cent (125%) of the Loans at any time thereafter; or
 - (iv) one hundred and thirty per cent (130%) of the Loans at any time following a Drop Down,
- the Borrower shall, unless otherwise agreed with the Agent within thirty (30) Business Days, either:
- (v) prepay the Loans or a part of the Loans (as the case may be); or
 - (vi) provide the Lenders with such additional security, in form and substance and being of a kind and having a value satisfactory to the Lenders, required to restore the aforesaid ratio. Any additional security shall be documented and perfected in such terms as the Agent (on behalf of all Lenders) may approve or require.
- (b) Any prepayment under this Clause 7.6 (*Mandatory prepayment – Market Value*) shall rateably satisfy the Borrower’s obligations under Clause 6.1 (*Repayment of Tranche A*) and Clause 6.2 (*Repayment of Tranche B*), in inverse order of maturity including any balloon payment.

7.7 **Mandatory prepayment – Change of control**

If a Change of Control occurs:

- (a) the Borrower shall promptly notify the Agent upon becoming aware of that event;
- (b) a Lender shall not be obliged to fund a Utilisation;
- (c) the Agent (acting on the instructions of the Majority Lenders) may, by not less than sixty (60) days’ notice to the Borrower, cancel the Total Commitments and declare all outstanding Loans, together with accrued interest, and all other amounts accrued under the Finance Documents immediately due and payable, whereupon the Total Commitments will be cancelled and all such outstanding Loans and amounts will become immediately due and payable.

7.8 **Right of replacement or repayment and cancellation in relation to a single Lender**

- (a) If:
- (i) any sum payable to any Lender by an Obligor is required to be increased under paragraph (c) of Clause 12.2 (*Tax gross-up*); or
 - (ii) any Lender claims indemnification from the Borrower under Clause 12.3 (*Tax indemnity*) or Clause 13.1 (*Increased costs*),

the Borrower may, whilst the circumstance giving rise to the requirement for that increase or indemnification continues, give the Agent notice of cancellation of the Commitment(s) of that Lender and its intention to procure the repayment of that Lender's participation in the Loans or give the Agent notice of its intention to replace that Lender in accordance with paragraph (d) below.

- (b) On receipt of a notice of cancellation referred to in paragraph (a) above, the Commitment(s) of that Lender shall immediately be reduced to zero.
- (c) On the last day of each Interest Period which ends after the Borrower has given notice of cancellation under paragraph (a) above (or, if earlier, the date specified by the Borrower in that notice), the Borrower shall repay that Lender's participation in that Loan.
- (d) If:
 - (i) any of the circumstances set out in paragraph (a) above apply to a Lender; or,
 - (ii) an Obligor becomes obliged to pay any amount in accordance with Clause 7.4 (*Mandatory prepayment – illegality*) to any Lender,the Borrower may, on thirty (30) Business Days' prior notice to the Agent and that Lender, replace that Lender by requiring that Lender to (and, to the extent permitted by law, that Lender shall) transfer pursuant to Clause 25 (*Changes to the Lenders*) all (and not part only) of its rights and obligations under this Agreement to a Lender or other bank, financial institution, trust, fund or other entity selected by the Borrower which confirms its willingness to assume and does assume all the obligations of the transferring Lender in accordance with Clause 25 (*Changes to the Lenders*) for a purchase price in cash payable at the time of the transfer in an amount equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Agent has not given a notification under Clause 25.8 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.
- (e) The replacement of a Lender pursuant to paragraph (d) above shall be subject to the following conditions:
 - (i) the Borrower shall have no right to replace the Agent;
 - (ii) neither the Agent nor any Lender shall have any obligation to find a replacement Lender;
 - (iii) in no event shall the Lender replaced under paragraph (d) above be required to pay or surrender any of the fees received by such Lender pursuant to the Finance Documents; and
 - (iv) the Lender shall only be obliged to transfer its rights and obligations pursuant to paragraph (d) above once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations In relation to that transfer.
- (f) A Lender shall perform the checks described in paragraph (e)(iv) above as soon as reasonably practicable following delivery of a notice referred to in paragraph (d) above and shall notify the Agent and the Borrower when it is satisfied that it has complied with this checks.

7.9 **Right of cancellation in relation to a Defaulting Lender**

- (a) If any Lender becomes a Defaulting Lender, the Parent may, at any time whilst the Lender continues to be a Defaulting Lender, give the Agent ten (10) Business Days' notice of cancellation of each Commitment of that Lender.
- (b) On the notice referred to in paragraph (a) above becoming effective, each Commitment of the Defaulting Lender shall immediately be reduced to zero.
- (c) The Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

7.10 **Restrictions**

- (a) Any notice of cancellation or prepayment given by any Party under this Clause 6.3 (*Prepayment and cancellation*) shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- (b) Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.
- (c) The Borrower may not reborrow any part of the Facility which is prepaid.
- (d) The Borrower shall not repay or prepay all or any part of the Loans or cancel all or any part of the Commitments except at the times and in the manner expressly provided for in this Agreement.
- (e) No amount of the Total Commitments cancelled under this Agreement may be subsequently reinstated.
- (f) If the Agent receives a notice under this Clause 7 (*Prepayment and cancellation*) it shall promptly forward a copy of that notice to either the Borrower or the affected Lender, as appropriate.
- (g) If all or part of any Lender's participation in a Loan is repaid or prepaid an amount of that Lender's Commitment (equal to the amount of the participation which is repaid or prepaid) will be deemed to be cancelled on the date of repayment or prepayment.

7.11 **Application of prepayments**

Any prepayment of a Loan pursuant to Clause 7.2 (*Voluntary prepayment of Loans*), Clause 7.3 (*Mandatory prepayment – Drop Down*), Clause 7.5 (*Mandatory prepayment – Total Loss or sale of the Vessel*), Clause 7.6 (*Mandatory prepayment – Market Value*) or Clause 7.7 (*Mandatory prepayment – Change of control*) shall be applied *pro rata* to each Lender's participation in that Loan.

**SECTION 5
COSTS OF UTILISATION**

8. **INTEREST**

8.1 **Calculation of interest**

- (a) The rate of interest on each Loan for each Interest Period is the percentage rate per annum which is the aggregate of the applicable:
 - (i) Margin; and

(ii) LIBOR.

- (b) It is not possible to calculate the effective interest rate on a Loan in advance. The Lenders are nevertheless, according to the FA Act obliged to give a representative example. LIBOR for three (3) months was at 5 April 2016 0.63% p.a. and provided unaltered LIBOR and Margin for the duration of the Loans, full payment of fees agreed hereunder and full Utilisation of the Total Commitments, the effective interest rate will be 3.03% p.a.
- (c) Interest shall be calculated on the actual number of days elapsed on the basis of a three hundred and sixty (360) day year.
- (d) For purpose of calculation of such number of days, the first day of each Interest Period shall be included and the last day thereof shall be excluded.

8.2 **Payment of interest**

The Borrower shall pay accrued interest on each Loan on the last day of each Interest Period (and, if the Interest Period is longer than three (3) Months, on the dates falling at three (3) monthly intervals after the first day of the Interest Period).

8.3 **Default interest**

- (a) If (i) an Obligor fails to pay any amount payable by it under a Finance Document on its due date or (ii) an Event of Default has occurred and is continuing, interest shall accrue on the Loans from the due date or the date when the notice of the requirement to pay default interest in accordance with Clause 24.16 (*Acceleration*) has been given by the Agent to the Borrower (save in case of breach of Clause 20.5 (*Notification of default*) (in which case default interest shall be payable from the date when the Event of Default occurred) and up to the date of actual payment (both before and after judgment) or until the Event of Default is remedied at a rate which, subject to paragraph (b) below, is two hundred basis points (200 bps) per annum higher than the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount for successive Interest Periods, each of a duration selected by the Agent (acting reasonably). Any interest accruing under this Clause 8.3 (*Default interest*) shall be immediately payable by the Obligor on demand by the Agent.
- (b) If any overdue amount consists of all or part of a Loan which became due on a day which was not the last day of an Interest Period relating to that Loan:
 - (i) the first Interest Period for that overdue amount shall have a duration equal to the unexpired portion of the current Interest Period relating to that Loan; and
 - (ii) the rate of interest applying to the overdue amount during that first Interest Period shall be two hundred basis points (200 bps) per annum higher than the rate which would have applied if the overdue amount had not become due.
- (c) Default interest (if unpaid) arising on an overdue amount will be compounded with the overdue amount at the end of each Interest Period applicable to that overdue amount but will remain immediately due and payable.

8.4 **Notification of rates of interest**

- (a) The Agent shall promptly notify the Lenders and the Borrower of the determination of a rate of interest under this Agreement.

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- (b) The Agent shall promptly notify the relevant Borrower of each Funding Rate relating to a Loan.

9. INTEREST PERIODS

9.1 Selection of Interest Periods

- (a) The Borrower may select an Interest Period for a Loan in the Utilisation Request for that Loan or (if the Loan has already been borrowed) in a Selection Notice.
- (b) Each Selection Notice for a Loan is irrevocable and must be delivered to the Agent by the Borrower not later than the 12:00 noon Oslo time on the date falling three (3) Business Days prior to the last day of the current Interest Period.
- (c) If the Borrower fails to deliver a Selection Notice to the Agent in accordance with paragraph (b) above, the relevant Interest Period will be three (3) Months.
- (d) Subject to this Clause 9 (*Interest Periods*), the Borrower may select an Interest Period of three (3) or six (6) Months or any other period agreed between the Borrower and the Agent (acting on the instructions of all the Lenders).
- (e) An Interest Period for a Loan shall not extend beyond the Final Maturity Date.
- (f) Each Interest Period for a Loan shall start on the Utilisation Date or (if already made) on the last day of its preceding Interest Period.

9.2 Non-Business Days

If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

10. CHANGES TO THE CALCULATION OF INTEREST

10.1 Unavailability of Screen Rate

- (a) *Interpolated Screen Rate* : If no Screen Rate is available for LIBOR for the Interest Period of a Loan, the applicable LIBOR shall be the Interpolated Screen Rate for a period equal in length to the Interest Period of that Loan.
- (b) *Reference Bank Rate* : If no Screen Rate is available for LIBOR for:
- (i) USD; or
 - (ii) the Interest Period of a Loan and it is not possible to calculate the Interpolated Screen Rate,
- the applicable LIBOR shall be the Reference Bank Rate as of noon London time on the Quotation Day and for a period equal in length to the Interest Period of that Loan.

10.2 Calculation of Reference Bank Rate

- (a) Subject to paragraph (b) below, if LIBOR is to be determined on the basis of a Reference Bank Rate but a Reference Bank does not supply a quotation by noon London time on the Quotation Day, the Reference Bank Rate shall be calculated on the basis of the quotations of the remaining Reference Banks.

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- (b) If at or about noon London time on the Quotation Day, none or only one of the Reference Banks supplies a quotation, there shall be no Reference Bank Rate for the relevant Interest Period.
 - (c) *Cost of funds* : If paragraph (b) above applies but no Reference Bank Rate is available for USD or the relevant Interest Period there shall be no LIBOR for that Loan and Clause 10.4 (*Cost of funds*) shall apply to that Loan for that Interest Period.

10.3 **Market disruption**

If before close of business in London on the Quotation Day for the relevant Interest Period the Agent receives notifications from a Lender or Lenders (whose participations in a Loan exceed fifty per cent. (50%) of that Loan) that the cost to it of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR then Clause 10.4 (*Cost of funds*) shall apply to that Loan for the relevant Interest Period.

10.4 **Cost of funds**

- (a) If this Clause 10.4 (*Cost of funds*) applies, the rate of interest on each Lender's share of the relevant Loan for the relevant Interest Period shall be the percentage rate per annum which is the sum of:
 - (i) the Margin; and
 - (ii) the rate notified to the Agent by that Lender as soon as practicable and in any event within three (3) Business Days of the first day of that Interest Period (or, if earlier, on the date falling three (3) Business Days before the date on which interest is due to be paid in respect of that Interest Period), to be that which expresses as a percentage rate per annum the cost to the relevant Lender of funding its participation in that Loan from whatever source it may reasonably select.
- (b) If this Clause 10.4 (*Cost of Funds*) applies and the Agent or the Borrower so requires, the Agent and the Borrower shall enter into negotiations (for a period of not more than thirty (30) days) with a view to agreeing a substitute basis for determining the rate of interest.
- (c) Any alternative basis agreed pursuant to paragraph (a) above shall, with the prior consent of all the Lenders and the Borrower, be binding on all Parties.

10.5 **Break Costs**

- (a) The Borrower shall, within three (3) Business Days of demand by a Finance Party, pay to that Finance Party its Break Costs attributable to all or any part of a Loan or Unpaid Sum being paid by the Borrower on a day other than the last day of an Interest Period for that Loan or Unpaid Sum.
- (b) Each Lender shall, as soon as reasonably practicable after a demand by the Agent, provide a certificate confirming the amount of its Break Costs for any Interest Period in which they accrue.

11. **FEES**

11.1 **Commitment fee**

The Borrower shall pay to the Agent (for the account of each Lender) a commitment fee computed at the rate of thirty five per cent. (35%) of the Margin per annum on that Lender's Commitment for the period commencing on 31 May 2016 and throughout the Availability Period.

- (a) The accrued commitment fee is payable on the last day of each successive period of three (3) Months which ends during the Availability Period, on the last day of the Availability Period and, if cancelled in full, on the cancelled amount of the relevant Lender's Commitment at the time the cancellation is effective.

11.2 **Other fees**

The Borrower shall pay to the Agent such fees as set out in the Fee Letters.

**SECTION 6
ADDITIONAL PAYMENT OBLIGATIONS**

12. **TAX GROSS UP AND INDEMNITIES**

12.1 **Definitions**

- (a) In this Agreement:

“**Protected Party**” means a Finance Party which is or will be subject to any liability, or required to make any payment, for or on account of Tax in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under a Finance Document.

“**Tax Deduction**” means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

12.2 **Tax gross-up**

- (a) Each Obligor shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.
- (b) The Borrower shall promptly upon becoming aware that an Obligor must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Agent accordingly. Similarly, a Lender shall notify the Agent on becoming so aware in respect of a payment payable to that Lender. If the Agent receives such notification from a Lender it shall notify the Borrower and that Obligor.
- (c) If a Tax Deduction is required by law to be made by an Obligor, the amount of the payment due from that Obligor shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.
- (d) If an Obligor is required to make a Tax Deduction, that Obligor shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- (e) Within thirty (30) days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Obligor making that Tax Deduction shall deliver to the Agent for the Finance Party entitled to the payment evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

12.3 Tax indemnity

- (a) The Borrower shall (within three (3) Business Days of demand by the Agent) pay to a Protected Party an amount equal to the loss, liability or cost which that Protected Party determines will be or has been (directly or indirectly) suffered for or on account of Tax by that Protected Party in respect of a Finance Document.
- (b) Paragraph (a) above shall not apply:
 - (i) with respect to any Tax assessed on a Finance Party:
 - (A) under the law of the jurisdiction in which that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
 - (B) under the law of the jurisdiction in which that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,
if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by that Finance Party; or
 - (ii) to the extent a loss, liability or cost:
 - (A) is compensated for by an increased payment under Clause 12.2 (*Tax gross-up*); or
 - (B) relates to a FATCA Deduction required to be made by a Party.
- (c) A Protected Party making, or intending to make a claim under paragraph (a) above shall promptly notify the Agent of the event which will give, or has given, rise to the claim, following which the Agent shall notify the Borrower.
- (d) A Protected Party shall, on receiving a payment from an Obligor under this Clause 12.3 (*Tax indemnity*), notify the Agent.

12.4 Stamp taxes

The Borrower shall pay and, within three (3) Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document.

12.5 VAT

- (a) All amounts set out or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).

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- (b) Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.

12.6 **FATCA Information**

- (a) Subject to paragraph (c) below, each Party shall, within ten (10) Business Days of a reasonable request by another Party:
- (i) confirm to that other Party whether it is:
 - (A) a FATCA Exempt Party; or
 - (B) not a FATCA Exempt Party;
 - (ii) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA;
 - (iii) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.
- (b) If a Party confirms to another Party pursuant to paragraph (a)(i) above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- (c) Paragraph (a) above shall not oblige any Finance Party to do anything, and paragraph (a)(iii) above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (i) any law or regulation;
 - (ii) any fiduciary duty; or
 - (iii) any duty of confidentiality.
- (d) If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a)(i) or (ii) above (including, for the avoidance of doubt, where paragraph (c) above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.
- (e) If an Obligor is a US Tax Obligor or the Agent reasonably believes that its obligations under FATCA or any other applicable law or regulation require it, each Lender shall, within ten (10) Business Days of:
- (i) where that Obligor is a US Tax Obligor and the relevant Lender is an Original Lender, the date of this Agreement;
 - (ii) where that Obligor is a US Tax Obligor on a Transfer Date and the relevant Lender is a New Lender, the relevant Transfer Date; or

(iii) where that Obligor is not a US Tax Obligor, the date of a request from the Agent, supply to the Agent:

- (A) a withholding certificate on Form W-8, Form W-9 or any other relevant form; or
- (B) any withholding statement or other document, authorisation or waiver as the Agent may require to certify or establish the status of such Lender under FATCA or that other law or regulation.

- (f) The Agent shall provide any withholding certificate, withholding statement, document, authorisation or waiver it receives from a Lender pursuant to paragraph (e) above to the relevant Obligor.
- (g) If any withholding certificate, withholding statement, document, authorisation or waiver provided to the Agent by a Lender pursuant to paragraph (e) above is or becomes materially inaccurate or incomplete, that Lender shall promptly update it and provide such updated withholding certificate, withholding statement, document, authorisation or waiver to the Agent unless it is unlawful for the Lender to do so (in which case the Lender shall promptly notify the Agent). The Agent shall provide any such updated withholding certificate, withholding statement, document, authorisation or waiver to the relevant Obligor.
- (h) The Agent may rely on any withholding certificate, withholding statement, document, authorisation or waiver it receives from a Lender pursuant to paragraph (e) or (g) above without further verification. The Agent shall not be liable for any action taken by it under or in connection with paragraphs (e), (f) or (g) above.

12.7 **FATCA Deduction**

- (a) Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction or otherwise compensate the recipient of the payment for that FATCA Deduction.
- (b) Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Borrower and the Agent and the Agent shall notify the other Finance Parties.

13. **INCREASED COSTS**

13.1 **Increased costs**

- (a) Subject to Clause 13.3 (*Exceptions*) the Borrower shall, within three (3) Business Days of a demand by the Agent, pay for the account of a Finance Party the amount of any Increased Costs incurred by that Finance Party or any of its Affiliates as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation, (ii) compliance with any law or regulation made after the date of this Agreement or (iii) the implementation or application of or compliance with any Basel III Regulation (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates).

(b) In this Agreement “ **Increased Costs** ” means:

- (i) a reduction in the rate of return from the Facility or on a Finance Party’s (or its Affiliate’s) overall capital;
- (ii) an additional or increased cost; or
- (iii) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates to the extent that it is attributable to that Finance Party having entered into its Commitment or funding or performing its obligations under any Finance Document.

13.2 **Increased cost claims**

- (a) A Finance Party intending to make a claim pursuant to Clause 13.1 (*Increased costs*) shall notify the Agent of the event giving rise to the claim, following which the Agent shall promptly notify the Borrower.
- (b) Each Finance Party shall, as soon as practicable after a demand by the Agent, provide a certificate confirming the amount of its Increased Costs.

13.3 **Exceptions**

- (a) Clause 13.1 (*Increased costs*) does not apply to the extent any Increased Cost is:
 - (i) attributable to a Tax Deduction required by law to be made by an Obligor;
 - (ii) attributable to a FATCA Deduction required to be made by a Party;
 - (iii) compensated for by Clause 12.3 (*Tax indemnity*) (or would have been compensated for under Clause 12.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in paragraph (b) of Clause 12.3 (*Tax indemnity*) applied); or
 - (iv) attributable to the wilful breach by the relevant Finance Party or its Affiliates of any law or regulation.
- (b) In this Clause 13.3 (*Exceptions*), a reference to a “ **Tax Deduction** ” has the same meaning given to the term in Clause 12.1 (*Definitions*).

14. **OTHER INDEMNITIES**

14.1 **Currency indemnity**

- (a) If any sum due from an Obligor under the Finance Documents (a “ **Sum** ”), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the “ **First Currency** ”) in which that Sum is payable into another currency (the “ **Second Currency** ”) for the purpose of:
 - (i) making or filing a claim or proof against that Obligor;
 - (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,

that Obligor shall as an independent obligation, within three Business Days of demand, indemnify each Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.

- (b) Each Obligor waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

14.2 **Other indemnities**

Each Obligor shall, within three (3) Business Days of demand, indemnify each Finance Party against any cost, loss or liability incurred by that Finance Party as a result of:

- (a) the occurrence of any Event of Default;
- (b) a failure by an Obligor to pay any amount due under a Finance Document on its due date, including without limitation, any cost, loss or liability arising as a result of Clause 29 (*Sharing among the Finance Parties*);
- (c) any claim, action, civil penalty or fine against, any settlement, and any other kind of loss or liability, and all reasonable costs and expenses (including reasonable counsel fees and disbursements) incurred by the Agent or any Lender as a result of conduct of any Obligor or any of their partners, directors, officers, employees, agents or advisors, that violates any Sanctions;
- (d) funding, or making arrangements to fund, its participation in a Loan requested by the Borrower in a Utilisation Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by that Finance Party alone); or
- (e) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower.

The indemnity in this Clause 14.2 (*Other indemnities*) shall cover any cost, loss or liability incurred by each Finance Party in any jurisdiction arising or asserted under or in connection with any law relating to safety at sea, the ISM Code, any Environmental Law or any Sanctions.

14.3 **Indemnity to the Agent**

The Borrower shall promptly indemnify the Agent against any cost, loss or liability incurred by the Agent (acting reasonably) as a result of:

- (a) investigating any event which it reasonably believes is a Default;
- (b) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised; or
- (c) instructing lawyers, accountants, tax advisers, surveyors or other professional advisers or experts as permitted under this Agreement.

15. **MITIGATION BY THE LENDERS**

15.1 **Mitigation**

- (a) Each Finance Party shall, in consultation with the Borrower, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of Clause 7.4 (*Mandatory prepayment – illegality*), Clause 12 (*Tax gross-up and indemnities*) or Clause 13 (*Increased costs*) including (but not limited to) transferring its rights and obligations under the Finance Documents to another Affiliate or Facility Office.

(b) Paragraph (a) above does not in any way limit the obligations of any Obligor under the Finance Documents.

15.2 **Limitation of liability**

- (a) The Borrower shall promptly indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 15.1 (*Mitigation*).
- (b) A Finance Party is not obliged to take any steps under Clause 15.1 (*Mitigation*) if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

16. **COSTS AND EXPENSES**

16.1 **Transaction expenses**

The Borrower shall promptly on demand pay the Agent, the Hedging Banks and the Mandated Lead Arrangers the amount of all costs and expenses (including legal fees) reasonably incurred by any of them in connection with the negotiation, preparation, printing, execution, syndication, perfection, amendment, enforcement and preservation of:

- (a) this Agreement and any other documents referred to in this Agreement; and
- (b) any other Finance Documents executed after the date of this Agreement.

16.2 **Amendment and enforcement costs**

The Borrower shall, within three (3) Business Days of demand, reimburse the Agent, any Finance Party and any Hedging Bank for the amount of all costs and expenses (including but not limited to legal fees and administration fees, including costs of utilising the Agent's management time) incurred by the Agent, any such Finance Party and any such Hedging Bank in connection with:

- (a) responding to, evaluating, negotiating or complying with a request or requirement for any amendment, waiver or consent;
- (b) the granting of any release, waiver or consent under the Finance Documents and/or the Hedging Agreements;
- (c) any amendment or variation of a Finance Document or a Hedging Agreement; and
- (d) the enforcement of, or the preservation, protection or maintenance of, or attempt to preserve or enforce, any of the rights of the Finance Parties under the Finance Documents and of the Hedging Banks under the Hedging Agreements.

For the avoidance of doubt, costs payable by the Borrower under Clause 16.1 (*Transaction Expenses*) and this Clause 16.2 (*Amendment and enforcement costs*) remain payable whether or not any Utilisation is ever made.

SECTION 7
SECURITY

17. SECURITY

17.1 Security

The obligations and liabilities of the Obligors under the Finance Documents and under the Hedging Agreements, including (without limitation) the Borrower's obligation to repay the Loans together with all unpaid interest, default interest, commissions, charges, expenses and any other derived liability whatsoever of the Borrower towards the Finance Parties and the Hedging Banks in connection therewith, shall at any time until all amounts due to the Finance Parties under any Finance Document and to the Hedging Banks under any Hedging Agreement have been paid and/or repaid in full, be secured by the following security:

- (a) the Mortgage;
- (b) the Assignment Agreement;
- (c) the Assignment of Charterparty;
- (d) the Factoring Agreement;
- (e) the Account Pledge;
- (f) the Guarantee; and
- (g) the Share Pledge,

and any other document that may have been or shall from time to time hereafter be executed as Security for the Obligors' obligations under or pursuant to the Finance Documents in respect of the Facility and under the Hedging Agreements.

The Security Documents shall rank with first priority and shall include any obligations under the Finance Documents in respect of the Facility and under the Hedging Agreements, always subject to the provision of Clause 30.5 (*Partial Payments*).

17.2 Perfection etc.

The Obligors undertake to ensure that the Security Documents are duly executed by the parties thereto in favour of the Agent (on behalf of the Finance Parties and the Hedging Banks) on or about the initial Utilisation Date or the Delivery Date (as the case may be) in accordance with Clause 4 (*Conditions of Utilisation*), legally valid, enforceable by the Finance Parties and the Hedging Banks and in full force and effect, and to execute or procure the execution of such further documentation as the Agent may reasonable require in order for the relevant Finance Parties and Hedging Banks, to maintain the security position envisaged hereunder or to facilitate the realisation of any assets the subject of any Security.

17.3 Security - Hedging Agreements

The Borrower's obligations and liabilities under any Hedging Agreement, together with all unpaid interest, default interest, commissions, charges, expenses and any other derived liability whatsoever of the Borrower towards a Hedging Bank in connection with the Hedging Agreement, shall at any time until all amounts due to a Hedging Bank under a Hedging Agreement have been paid and/or repaid in full, be secured by the Security Documents and the guarantee liabilities of the Guarantors pursuant to Clause 18 (*Guarantee and Indemnity*), however on subordinated basis to the rights of the other Finance Parties.

18. **GUARANTEE AND INDEMNITY**

18.1 **Guarantee and indemnity**

Each Guarantor irrevocably and unconditionally:

- (a) guarantees to each Finance Party and each Hedging Bank, on a subordinated basis, as for its own debt and not merely as surety (No: *selvskyldnerkausjonist*), the punctual performance by the Borrower of all the Borrower's obligations under the Finance Documents and the Hedging Agreements;
- (b) undertakes with each Finance Party and each Hedging Bank that whenever the Borrower does not pay any amount when due under or in connection with any Finance Document or a Hedging Agreement it shall immediately on demand pay that amount as if it was the Borrower; and
- (c) agrees with each Finance Party and each Hedging Bank that if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal, it will, as an independent and primary obligation, indemnify that Finance Party and/or that Hedging Bank immediately on demand against any cost, loss or liability it incurs as a result of the Borrower not paying any amount which would, but for such unenforceability, invalidity or illegality, have been payable by it under any Finance Document or any Hedging Agreement on the date when it would have been due. The amount payable by each Guarantor under this indemnity will not exceed the amount it would have had to pay under this Clause 18 (*Guarantee and indemnity*) if the amount claimed had been recoverable on the basis of a guarantee;

subject, however, to Clause 18.2 (*Guarantee limitations*) below.

18.2 **Guarantee limitations**

Notwithstanding the obligations of a Guarantor pursuant to the guarantee set out in this Clause 18 (*Guarantee and indemnity*):

- (a) the maximum guarantee liability of that Guarantor hereunder shall always be limited to USD 108,000,000 plus (i) any interest, default interest, Break Cost or other costs, fees and expenses related to the Borrower's obligations under the Finance Documents and the Hedging Agreements and (ii) any default interest or other costs, fees and expenses related to the liability of that Guarantor hereunder;
- (b) the guarantee set out in this Clause 18 (*Guarantee and indemnity*) does not apply to any liability if and to the extent that it would result in this guarantee constituting unlawful financial assistance within the meaning of Chapter 8 of the Companies Act or any equivalent and applicable provisions under the laws of the relevant jurisdiction of that Guarantor.

18.3 **Continuing guarantee**

This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by any Obligor under the Finance Documents and the Hedging Agreements, regardless of any intermediate payment or discharge in whole or in part.

18.4 **Reinstatement**

If any discharge, release or arrangement (whether in respect of the obligations of any Obligor or any security for those obligations or otherwise) is made by a Finance Party or a Hedging Bank in whole or in part on the basis of any payment, security or other disposition which is avoided or must be restored in insolvency, liquidation, administration or otherwise, without limitation, then the liability of the Guarantor under this Clause 18 (*Guarantee and indemnity*) will continue or be reinstated as if the discharge, release or arrangement had not occurred.

18.5 **Waiver of defences**

The obligations of the Guarantor under this Clause 18 (*Guarantee and indemnity*) will not be affected by an act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any of its obligations under this Clause 18 (*Guarantee and indemnity*) (without limitation and whether or not known to it or any Finance Party or any Hedging Bank) including:

- (a) any time, waiver or consent granted to, or composition with, any Obligor or other person;
- (b) the release of any other Obligor or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;
- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, any Obligor or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of an Obligor or any other person;
- (e) any amendment, novation, supplement, extension, restatement (however fundamental and whether or not more onerous) or replacement of any Finance Document, any Hedging Agreement or any other document or security including without limitation any change in the purpose of, any extension of or any increase in any facility or the addition of any new facility under any Finance Document, any Hedging Agreement or other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any person under any Finance Document or any other document or security; or
- (g) any insolvency or similar proceedings.

18.6 **Immediate recourse**

Each Guarantor waives any right it may have of first requiring any Finance Party or any Hedging Bank (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Guarantor under this Clause 18 (*Guarantee and indemnity*). This waiver applies irrespective of any law or any provision of a Finance Document or a Hedging Agreement to the contrary.

18.7 **Appropriations**

Until all amounts which may be or become payable by the Obligors under or in connection with the Finance Documents and the Hedging Agreements have been irrevocably paid in full, each Finance Party and each Hedging Bank (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by that Finance Party or that Hedging Bank (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and no Guarantor shall be entitled to the benefit of the same; and

- (b) hold in an interest-bearing suspense account any moneys received from a Guarantor or on account of a Guarantor's liability under this Clause 18 (*Guarantee and indemnity*).

18.8 **Deferral of Guarantors' rights**

Until all amounts which may be or become payable by the Obligors under or in connection with the Finance Documents and the Hedging Agreements have been irrevocably paid in full and unless the Agent otherwise directs, no Guarantor will exercise any rights which it may have by reason of performance by it of its obligations under the Finance Documents and the Hedging Agreements or by reason of any amount being payable, or liability arising, under this Clause 18 (*Guarantee and indemnity*):

- (a) to be indemnified by an Obligor;
- (b) to claim any contribution from any other guarantor of any Obligor's obligations under the Finance Documents and the Hedging Agreements;
- (c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Finance Parties under the Finance Documents or of any other guarantee or security taken pursuant to, or in connection with, the Finance Documents by any Finance Party or any rights of the Hedging Banks under the Hedging Agreements or of any other guarantee or security taken pursuant to, or in connection with, the Hedging Agreements by any Hedging Bank;
- (d) to bring legal or other proceedings for an order requiring any Obligor to make any payment, or perform any obligation, in respect of which that Guarantor has given a guarantee, undertaking or indemnity under Clause 18.1 (*Guarantee and Indemnity*);
- (e) to exercise any right of set-off against any Obligor; and/or
- (f) to claim or prove as a creditor of any Obligor in competition with any Finance Party or any Hedging Bank.

If a Guarantor receives any benefit, payment or distribution in relation to such rights it shall hold that benefit, payment or distribution to the extent necessary to enable all amounts which may be or become payable to the Finance Parties by the Obligors under or in connection with the Finance Documents and to the Hedging Banks under or in connection with the Hedging Agreements to be repaid in full on trust for the Finance Parties and the Hedging Banks and shall promptly pay or transfer the same to the Agent or as the Agent may direct for application in accordance with Clause 30 (*Payment mechanics*).

18.9 **Additional security**

This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by any Finance Party or any Hedging Bank.

18.10 **Norwegian Financial Agreements Act**

Each Guarantor, to the extent it is deemed to be a guarantor pursuant to the FA Act, specifically waives all rights under the provisions of the FA Act not being mandatory provisions, including (but not limited to) the following provisions (the main contents of the relevant provisions being as indicated in the brackets):

- (a) § 29 (as the Agent shall be entitled to exercise all its rights under this Agreement and applicable law in order to secure payment. Such rights shall include the right to set-off any credit balance in any currency, on any bank account that Guarantor might have with each of the Finance Parties and the Hedging Banks individually against the amount due);

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- (b) § 63 (1) – (2) (to be notified of an Event of Default hereunder or under a Hedging Agreement and to be kept informed thereof);
 - (c) § 63 (3) (to be notified of any extension granted to the Borrower in payment of principal and/or interest);
 - (d) § 63 (4) (to be notified of the Borrower’s bankruptcy proceedings or debt reorganisation proceedings and/or any application for the latter);
 - (e) § 65 (3) (that its consent is required for it to be bound by amendments to the Finance Documents and the Hedging Agreements that may be detrimental to its interest);
 - (f) § 66 (that its consent is required for the release of other Security);
 - (g) § 67 (2) (about any reduction of its liabilities hereunder, since no such reduction shall apply as long as any amount is outstanding under the Finance Documents and the Hedging Agreements);
 - (h) § 67 (4) (that its liabilities hereunder shall lapse after ten (10) years, as it shall remain liable hereunder as long as any amount is outstanding under any of the Finance Documents and the Hedging Agreements);
 - (i) § 70 (as it shall not have any right of subrogation into the rights of the Finance Parties under the Finance Documents and/or the Hedging Banks under the Hedging Agreements until and unless the Finance Parties and the Hedging Banks shall have received all amounts due or to become due to them under the Finance Documents and the Hedging Agreements);
 - (j) § 71 (as the Finance Parties and the Hedging Banks shall have no liability first to make demand upon or seek to enforce remedies against any other Obligor or any other Security Interest provided in respect of any other Obligor’s liabilities under the Finance Documents and the Hedging Agreements before demanding payment under or seeking to enforce its guarantee obligations hereunder);
 - (k) § 72 (as all interest and default interest due under any of the Finance Documents and the Hedging Agreements shall be secured by its guarantee obligations hereunder);
 - (l) § 73 (1) – (2) (as all costs and expenses related to a termination event or an Event of Default under this Agreement and under the Hedging Agreements shall be secured by its guarantee obligations hereunder); and
 - (m) § 74 (1) – (2) (as it shall not make any claim against any other Obligor for payment by reason of performance by it of its obligations under the Finance Documents and the Hedging Agreements until and unless the Finance Parties and the Hedging Banks first shall have received all amounts due or to become due to them under the Finance Documents and the Hedging Agreements).

SECTION 8
REPRESENTATIONS, UNDERTAKINGS AND EVENTS OF DEFAULT

19. REPRESENTATIONS

Each Obligor makes the representations and warranties set out in this Clause 19 (*Representations*) to each Finance Party and each Hedging Bank on the date of this Agreement and on the dates on which the Repeating Representations are made.

19.1 Status

- (a) It is a corporation, duly incorporated and validly existing under the law of its jurisdiction of incorporation.
- (b) It has the power to own its assets and carry on its business as it is being conducted.

19.2 Binding obligations

- (a) The obligations expressed to be assumed by it in each Finance Document are, subject to any general principles of law limiting its obligations which are specifically referred to in any legal opinion delivered pursuant to Clause 4 (*Conditions of Utilisation*), legal, valid, binding and enforceable obligations.
- (b) Save as provided herein or therein and/or as have been or shall be completed prior to the Utilisation Date, no registration, filing, payment of tax or fees or other formalities are necessary or desired to render the Finance Documents enforceable against the Obligors, and in respect of the Vessel, for the Mortgage to constitute valid and enforceable first priority mortgage over the Vessel.

19.3 Non-conflict with other obligations

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents and the Transaction Documents do not and will not conflict with:

- (a) any law, statute, rule or regulation applicable to it, or any order, judgment, decree or permit to which it is subject (including the Council Directive 2001/97/EC of the European Parliament and of the Council of 4 December 2001 amending Council Directive 91/308/EEC of the Council of the European Community implemented to combat “money laundering”);
- (b) its constitutional documents; or
- (c) any agreement or instrument binding upon it or any of its assets.

19.4 Power and authority

- (a) It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents and the Transaction Documents to which it is a party and the transactions contemplated by those Finance Documents and Transaction Documents.
- (b) All necessary corporate, shareholder and other action have been taken by it to approve and authorize the execution of the Finance Documents and the Transaction Documents, the compliance with the provisions thereof and the performance of its obligations thereunder.
- (c) The Borrower acts for its own account by entering into the Finance Documents and obtaining the Facility.

19.5 **Validity and admissibility in evidence**

All Authorisations required or desirable:

- (a) to enable it lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents and the Transaction Documents to which it is a party;
- (b) to make the Finance Documents and the Transaction Documents to which it is a party admissible in evidence in its jurisdiction of incorporation; and
- (c) in connection with its business and ownership of assets,

have been obtained or effected and are in full force and effect, and there are no circumstances which indicate that any of the same are likely to be revoked in whole or in part.

19.6 **Governing law and enforcement**

- (a) The choice of Norwegian and English law respectively as the governing law of the Finance Documents and the Hedging Agreements will be recognised and enforced in its jurisdiction of incorporation.
- (b) Any judgment obtained in Norway and/or England in relation to a Finance Document or a Hedging Agreement will be recognised and enforced in its jurisdiction of incorporation.

19.7 **Insolvency**

No corporate action, legal proceeding or other procedure or step described in Clause 24.6 (*Insolvency*), Clause 24.7 (*Insolvency proceedings*) or Clause 24.8 (*Creditors' process*) is currently pending or, to its knowledge, threatened in relation to it, and none of the circumstances described in Clause 24.6 (*Insolvency*), Clause 24.7 (*Insolvency proceedings*) or Clause 24.8 (*Creditors' process*) applies to it.

19.8 **Deduction of Tax**

It is not required to make any Tax Deduction (as defined in Clause 12.1 (*Definitions*)) from any payment it may make under any Finance Document.

19.9 **No filing or stamp taxes**

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents.

19.10 **No default**

- (a) No Event of Default is continuing or might reasonably be expected to result from the making of any Utilisation.
- (b) No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or to which its assets are subject which might have a Material Adverse Effect.

19.11 **No misleading information**

- (a) Any factual information provided by any member of the Group was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.

- (b) The financial information provided by any member of the Group has been prepared on the basis of recent historical information and on the basis of reasonable assumptions.
- (c) Nothing has occurred or been omitted and no information has been given or withheld that results in the information provided by any member of the Group being untrue or misleading in any material respect.

19.12 **Financial statements**

- (a) Its Original Financial Statements and the financial information most recently delivered to the Agent pursuant to Clause 20 (*Information Undertakings*) were prepared in accordance with GAAP consistently applied.
- (b) Its Original Financial Statements and the financial information most recently delivered to the Agent pursuant to Clause 20 (*Information Undertakings*) fairly represent its financial condition as at the end of the relevant financial year and operations during the relevant financial year (consolidated in the case of KNOT and KNOP).
- (c) As of the date of the Original Financial Statements and the financial information most recently delivered to the Agent pursuant to Clause 20 (*Information Undertakings*), no Obligor has had any material liabilities, direct or indirect, actual or contingent which has not been disclosed to the Agent, and there is no material, unrealised or anticipated losses from any unfavourable commitments not disclosed by or reserved against it in the Original Financial Statements, the most recent delivered financial information or in the notes thereto.
- (d) There has been no material adverse change in its business or financial condition (or the business or consolidated financial condition of the Group) since the date of delivery of its latest financial statements.

19.13 **Pari passu ranking**

Its payment obligations under the Finance Documents and the Hedging Agreements rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

19.14 **No proceedings pending or threatened**

No litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency which, if adversely determined, might reasonably be expected to have a Material Adverse Effect has or have (to the best of its knowledge and belief) been started or threatened against it.

19.15 **Title**

The Borrower will hold the legal title and/or will be the beneficial party, as the case may be, to the Mortgaged Assets (other than the shares pledged pursuant to the Share Pledges, which shall owned by (a) KNOT or (b) KNOP or a Subsidiary of KNOP (as the case may be)).

19.16 **No security**

None of the Mortgaged Assets are affected by any Security, and it is not a party to, nor is it or any of the Mortgaged Assets bound by any order, agreement or instrument under which it is, or in certain events may be, required to create, assume or permit to arise any Security over any of the Mortgaged Assets, save for the Security created under the Security Documents, for liens arising solely by operation of law and/or in the ordinary course of business or otherwise as permitted pursuant to the terms of Clause 22.2 (*Negative pledge*).

19.17 **No immunity**

Neither it, nor any of its assets, are entitled to immunity from suit, execution, attachment or other legal process, and its entry into of the Finance Documents, the Hedging Agreements and the Transaction Documents constitutes, and the exercise of its rights and performance of and compliance with its obligations under Finance Documents, the Hedging Agreements and the Transaction Documents will constitute, private and commercial acts done and performed for private and commercial purposes.

19.18 **Ranking of Security Documents**

The Security created by the Security Documents has or will have the ranking in priority which it is expressed to have in the Security Documents and the Security is not subject to any prior ranking.

19.19 **Taxation**

- (a) It is not overdue in the filing of any Tax returns.
- (b) No claims or investigations are being, or are reasonably likely to be, made or conducted against it with respect to Taxes which is reasonably likely to have a material adverse effect on its ability to perform its obligations under the Finance Documents.
- (c) It is resident for Tax purposes only in the jurisdiction of its incorporation, unless the Agent shall have been otherwise informed in writing.

19.20 **Environmental compliance**

The Borrower and the Manager have performed and observed all Environmental Laws, Environmental Permits and all other covenants, conditions, restrictions or agreements directly or indirectly concerned with any contamination, pollution or waste or the release or discharge of any toxic or hazardous substance in connection with the Vessel.

19.21 **Environmental Claims**

No Environmental Claim has been commenced or (to the best of its knowledge and belief, having made due and careful enquiry) is threatened against it where that claim has or is reasonably likely, if determined against it, to have a material adverse effect on its ability to perform its obligations under the Finance Documents, the Hedging Agreements and the Transaction Documents.

19.22 **Laws and regulations**

It and parties acting on its behalf shall observe and abide with all applicable laws and regulations applicable to it, inter alia to bribery and corrupt practices and to SOLAS conventions.

19.23 **ISM Code and ISPS Code compliance**

All requirements of the ISM Code and the ISPS Code as they relate to the Borrower (or any of its Affiliates), the Manager any charterers and the Vessel have been complied with.

19.24 **The Vessel**

The Vessel will on the Utilisation Date:

- (a) in the absolute ownership of the Borrower free and clear of all encumbrances (other than current crew wages and the Mortgage) and the Borrower will be the sole, legal and beneficial owner of the Vessel;
- (b) registered in the name of the Borrower with the relevant Approved Ship Registry under the laws and flag applicable for the relevant Approved Ship Registry;
- (c) operationally seaworthy in every way and fit for service; and

(d) classed with DNV GL or such other classification society as approved by the Agent, free of all overdue requirements and other recommendations.

19.25 Financial Indebtedness

It is not in breach of or in default under any agreement or other instrument relating to Financial Indebtedness to which it is a party or by which it is bound (nor would it be with the giving of notice or lapse of time or both).

19.26 Sanctions

None of the Obligors, nor any of their Subsidiaries nor any of their directors and officers or to their knowledge any other Relevant Person is or has been:

- (a) a Restricted Party; or
- (b) in breach of Sanctions; or
- (c) subject to or involved in any complaint, claim, proceeding, formal notice, investigation or other action by any regulatory or enforcement authority or third party concerning any Sanctions.

19.27 Ownership

The structure chart set out in Schedule 7 (Structure Chart) hereto correctly reflects the KNOT Group and the KNOP Group at the date of this Agreement and the Obligors will procure that the Agent receives an updated version of Schedule 7 (Structure Chart) if any changes are made to the structure of the KNOT Group or the KNOP Group.

19.28 Transaction Documents

- (a) No material terms of any of the Transaction Documents have been amended or terminated, nor have any waivers of any material terms thereof been agreed, without the prior written consent of the Agent.
- (b) It has not received any notice of termination or force majeure under any of the Transaction Documents.
- (c) There is no default (howsoever described) under any of the Transaction Documents.

19.29 No Anti-Social Forces

Neither it nor any Guarantor belongs to, is an affiliate of, or has any business alliance relationship or other continuous transactional relationship with any Anti-Social Force, whether directly or indirectly through a third party.

19.30 Repetition

The Repeating Representations are deemed to be made by each Obligor by reference to the facts and circumstances then existing on the date of the Utilisation Request, on the Drop Down Date and the first day of each Interest Period and on the date of delivery of each Compliance Certificate (or, if no such Compliance Certificate is forwarded, on each day such certificate should have been forwarded to the Agent at the latest).

20. INFORMATION UNDERTAKINGS

The undertakings in this Clause 20 (*Information undertakings*) remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents and the Hedging Agreements or any Commitment is in force.

20.1 **Financial statements**

The Borrower shall supply to the Agent in sufficient copies for all the Lenders:

- (a) as soon as the same become available, but in any event within one hundred and fifty (150) days after the end of each of its financial years:
 - (i) its audited consolidated financial statements for that financial year;
 - (ii) the audited consolidated financial statements of the Guarantors (except KNOT ST) for that financial year; and
 - (iii) the audited financial statements of KNOT ST (consolidated if consolidated financial statements are prepared by KNOT ST) for that financial year,
- (b) as soon as the same become available, but in any event within ninety (90) days after the end of its financial quarters:
 - (i) its unaudited consolidated financial statements for that financial quarter; and
 - (ii) the unaudited consolidated financial statements of the Guarantors (except KNOT ST) for that financial quarter; and
 - (iii) the unaudited financial statements of KNOT ST (consolidated if consolidated financial statements are prepared by KNOT ST) for that financial quarter,
- (c) as soon as the same become available, but in any event within 31 January of each financial year, the annual budget and cash flow projections for that financial year and for the next five years for the Guarantors, specifying major assumptions and structure charts which correctly reflects the KNOT Group and/or the KNOP Group on such date.

20.2 **Compliance Certificate**

The Borrower shall supply to the Agent, with each set of financial statements delivered pursuant to paragraph (a)(i) or (b)(i) of Clause 20.1 (*Financial statements*), a Compliance Certificate signed by the chief financial officer of KNOT or KNOP (as the case may be) *covenants*) and the relevant Market Value requirement set out in Clause 7.6 (*Mandatory prepayment – Market Value*) as at the date as at which those financial statements were drawn up.

20.3 **Requirements as to financial statements**

- (a) Each set of financial statements delivered by the Borrower pursuant to Clause 20.1 (*Financial statements*) shall be certified by a director of the relevant company as fairly representing its financial condition as at the date as at which those financial statements were drawn up.
- (b) The Borrower shall procure that each set of financial statements of an Obligor delivered pursuant to Clause 20.1 (*Financial statements*) is prepared using GAAP, accounting practices and financial reference periods consistent with those applied in the preparation of the Original Financial Statements for that Obligor unless, in relation to any set of financial statements, it notifies the Agent that there has been a change in GAAP, the accounting practices or reference periods and its auditors (or, if appropriate, the auditors of the Obligor) deliver to the Agent:

- (i) a description of any change necessary for those financial statements to reflect the GAAP, accounting practices and reference periods upon which that Obligor's Original Financial Statements were prepared; and
- (ii) sufficient information, in form and substance as may be reasonably required by the Agent, to enable the Lenders to determine whether Clause 21 (*Financial covenants*) has been complied with and make an accurate comparison between the financial position indicated in those financial statements and that Obligor's Original Financial Statements.

Any reference in this Agreement to those financial statements shall be construed as a reference to those financial statements as adjusted to reflect the basis upon which the Original Financial Statements were prepared.

20.4 **Information: miscellaneous**

Each Obligor shall supply to the Agent (in sufficient copies for all the Lenders, if the Agent so requests):

- (a) all relevant documents dispatched by an Obligor to its shareholders (or any class of them) or its creditors generally at the same time as they are dispatched;
- (b) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group, and which might, if adversely determined, have a Material Adverse Effect;
- (c) promptly upon becoming aware of them, the details of any inquiry, claim, action, suit, proceeding or investigation by any Sanctions Authority against it, any of its direct or indirect owners, other member of the Group, any of their joint ventures or any of their respective directors, officers, employees, agents or representatives, as well as information on what steps are being taken with regards to answer or oppose such;
- (d) promptly upon becoming aware that it, any of its direct or indirect owners, other member of the Group, any of their joint ventures or any of their respective directors, officers, employees, agents or representatives has become or is likely to become a Restricted Party; and
- (e) promptly, such further information regarding the financial condition, business and operations of any member of the Group as any Finance Party (through the Agent) may reasonably request.

20.5 **Notification of default**

- (a) Each Obligor shall notify the Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence (unless that Obligor is aware that a notification has already been provided by another Obligor).
- (b) Promptly upon a request by the Agent, each Obligor shall supply to the Agent a certificate signed by two of its directors or senior officers on its behalf certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

20.6 **Notification of Environmental Claims**

Each Obligor shall inform the Agent in writing as soon as reasonably practicable upon becoming aware of the same:

- (a) if any Environmental Claim has been commenced or (to the best of its knowledge and belief) is threatened against an Obligor (or any of its Affiliates), the Manager or the Vessel; and
- (b) of any fact and circumstances which will or are reasonably likely to result in any Environmental Claim being commenced or threatened against an Obligor (or any of its Affiliates), the Manager or the Vessel,

where the claim would be reasonably likely, if determined against an Obligor (or any of its Affiliates) or the Vessel, to have a Material Adverse Effect.

20.7 **Market Value and inspection reports**

The Borrower shall:

- (a) arrange, at their own expense, or undertake to let the Agent arrange for the Market Value of the Vessel to be determined at their expense, semi-annually and otherwise at the cost of, and when requested by, the Majority Lenders, unless an Event of Default has occurred whereby any future valuation shall be at the expense of the Borrower; and
- (b) if any relevant inspection reports are made or issued in respect of the Vessel, promptly forward copies of such reports to the Agent.

21. **FINANCIAL COVENANTS**

21.1 **Definitions**

In this Agreement:

“ **Book Equity** ” means, at any time, the value of the paid-in capital and reserves determined on a consolidated basis in accordance with GAAP and as shown in the latest financial statements. Subordinated Shareholder Loans shall be included in the calculation of Book Equity when determining the Equity Ratio for KNOT.

“ **Current Assets** ” means on a consolidated basis any aggregate amount of cash, bank deposits, fully marketable securities, inventories and trade receivables and short term receivables, always provided that short term shall be interpreted in accordance with GAAP.

“ **Current Liabilities** ” means the aggregate (on a consolidated basis) of all liabilities (including trade creditors, accruals and provisions) expected to be settled within twelve months from the date of computation but **excluding** amounts in respect of liabilities for instalments on long-term debt and capital lease payments falling due within twelve (12) months after the relevant calculation date, as determined in accordance with GAAP.

“ **EBITDA** ” means, in respect of any Relevant Period, the consolidated earnings, before:

- (a) deducting any provision on account of taxation;
- (b) deducting any interest, discounts or other fees incurred or payable, by any member of the relevant Group in respect of Financial Indebtedness;
- (c) taking into account any items treated as exceptional or extraordinary items; and
- (d) any amount attributable to the amortisation of intangible assets and depreciation of tangible assets.

“ **Free Liquidity** ” means the aggregate value of:

- (a) cash in hand or on deposit with any bank or financial institution;
- (b) cash equivalents as reported in accordance with GAAP; and
- (c) (when determining the Free Liquidity of KNOP) 2/3 of the available facility in respect of the revolving facility under a certain USD 240,000,000 credit facility to KNOP.

“ **Interest Bearing Debt** ” means, at any time, the aggregate amount of all obligations for or in respect of Financial Indebtedness, but excluding any such obligations to any other member of the relevant Group (to the extent included in the Financial Indebtedness).

“ **Relevant Period** ” means each period of twelve (12) months ending on the last day of each financial quarter of each financial year, provided that for the purposes of the calculation of EBITDA, the earnings of a vessel (following its delivery) shall be annualised (by reference to annual earnings of similar ships acceptable to the Agent for this purpose) until it has operated for a period of twelve (12) months.

“ **Subordinated Shareholder Loan** ” means a loan made by a shareholder to KNOT or any of its Subsidiaries which is fully subordinated to the rights of the Finance Parties under the Finance Documents on terms approved in writing by the Lenders and which:

- (a) has a maturity date not earlier than 31 March 2022;
- (b) may not be serviced (neither in respect of principal or interest or otherwise) until after the Final Maturity Date (other than as permitted by Clause 22.11 (*Distribution restrictions*)); and
- (c) has no acceleration rights.

“ **Total Assets** ” means, at any time, the total book value of all the assets which would, in accordance with GAAP, be classified as assets.

“ **Working Capital** ” means, on any date, Current Assets less Current Liabilities.

21.2 **Financial condition – the Borrower**

(a) Working Capital – the Borrower

The Borrower shall at all times maintain positive Working Capital.

(b) Free Liquidity – the Borrower

The Borrower shall at all times as long as it is owned by KNOT under this Agreement maintain a Free Liquidity equal to or greater than USD 500,000.

21.3 **Financial condition – KNOT**

(a) Working Capital

KNOT (on a consolidated basis) shall at all times as long as it is a Guarantor under this Agreement maintain positive Working Capital.

(b) Free Liquidity

- (i) KNOT (on a consolidated basis) shall at all times as long as it is a Guarantor under this Agreement maintain a Free Liquidity equal to or greater than USD 25,000,000.
- (ii) KNOT (on a consolidated basis) shall at all times as long as it is the Guarantor under this Agreement maintain a consolidated Free Liquidity equal to or greater than four per cent. (4%) of its Interest Bearing Debt.

(c) Minimum Equity Ratio

KNOT (on a consolidated basis) shall at all times as long as it is a Guarantor under this Agreement have a ratio of Book Equity to Total Assets greater than 30%.

21.4 **Financial condition – KNOP**

(a) Working Capital

KNOP (on a consolidated basis) shall at all times as long as it is a Guarantor under this Agreement maintain positive Working Capital.

(b) Free Liquidity

KNOP (on a consolidated basis) shall at all times from (and including) the time when it has acceded to this Agreement as a Guarantor in accordance with Clause 26.2 (*KNOP and KNOT ST as replacement Guarantors*) maintain a Free Liquidity equal to or greater than USD 15,000,000 plus USD 1,500,000 for each owned (directly or indirectly) vessel (up to a total of eight (8) vessels) with employment contracts with less than twelve (12) months' remaining tenor (excluding options) plus USD 1,000,000 for each vessel in excess of eight (8) vessels owned (directly or indirectly) with employment contracts with less than twelve (12) months' remaining tenor (excluding options), provided always that employment contracts entered into with KNOT or any of its Subsidiaries shall not count as employment contracts for the purpose of this provision.

(c) Minimum Equity Ratio

KNOP (on a consolidated basis) shall at all times from (and including) the time when it has acceded to this Agreement as a Guarantor in accordance with Clause 26.2 (*KNOP and KNOT ST as replacement Guarantors*) have a ratio of Book Equity to Total Assets greater than 30%.

(d) Interest Coverage Ratio

KNOP (on a consolidated basis) shall at all times from (and including) the time when it has acceded to this Agreement as a Guarantor in accordance with Clause 26.2 (*KNOP and KNOT ST as replacement Guarantors*) have a ratio of EBITDA to interest expense greater than 2.5x.

21.5 **Financial testing**

The financial covenants set out in Clause 21.2 (*Financial condition – the Borrower*) and Clause 21.4 (*Financial condition – KNOP*) shall be calculated on KNOT's or KNOP's (as the case may be) consolidated figures and in accordance with GAAP and tested (i) by reference to each of its financial statements delivered pursuant to Clause 20.1 (*Financial statements*) (whether audited or un-audited) and each Compliance Certificate delivered pursuant to Clause 20.2 (*Compliance Certificate*) and (ii)

at such other times as reasonably requested by the Agent by reference to such documentation as is then available or made available in accordance with paragraph (c) of Clause 20.4 (*Information: miscellaneous*), and presented to the Agent in form and substance satisfactory to the Agent.

21.6 **Financial covenants in other agreements**

If any other loans, bonds or similar capital instruments have any stronger covenants on KNOP, such covenants shall at all times from (and including) the time when it has acceded to this Agreement as a Guarantor in accordance with Clause 26.2 (*KNOP and KNOT ST as replacement Guarantors*) apply for the Facility as if expressly set out in this Agreement.

22. **GENERAL UNDERTAKINGS**

The undertakings in this Clause 22 (*General undertakings*) remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents and the Hedging Agreements or any Commitment is in force.

22.1 **Authorisations**

Each Obligor shall promptly:

- (a) obtain, comply with and do all that is necessary to maintain in full force and effect; and
- (b) supply certified copies to the Agent of,

any Authorisation required under any law or regulation of its jurisdiction of incorporation to enable it to perform its obligations under the Finance Documents and to ensure the legality, validity, enforceability or admissibility in evidence in its jurisdiction of incorporation of any Finance Document.

22.2 **Negative pledge**

- (a) No Obligor shall create or permit to subsist any Security over any of the Mortgaged Assets.
- (b) The Borrower shall not create or permit to subsist any Security over any of its assets nor any factoring agreement to be registered with the Norwegian Registry of Movable Property (in No. *Løsøreregisteret*).
- (c) Following a Drop Down, KNOP shall not create or permit to exist any security over any of the shares or other ownership interests in KNOT Offshore Partners UK LLC and KNOT ST.
- (d) The Borrower shall not:
 - (i) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by an Obligor or any other member of the Group;
 - (ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
 - (iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
 - (iv) enter into any other preferential arrangement having a similar effect,in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.
- (e) Paragraph (a), (b) and (c) above do not apply to any Security listed below:

- (i) any netting or set-off arrangement entered into by any member of the relevant Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
- (ii) any lien arising by operation of law and in the ordinary course of trading and securing obligations not more than thirty (30) days overdue;
- (iii) any Security entered into pursuant to any Finance Document or Hedging Agreement; or
- (iv) Security consented to in writing by the Agent (acting upon instructions from all the Lenders).

22.3 Disposals

- (a) The Borrower shall not enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to sell, lease, transfer or otherwise dispose of any asset.
- (b) Paragraph (a) above does not apply to any sale, lease, transfer or other disposal:
 - (i) made in the ordinary course of trading of the disposing entity; or
 - (ii) of assets in exchange for other assets comparable or superior as to type, value and quality.

22.4 Merger

No Obligor shall enter into any amalgamation, demerger, merger or corporate reconstruction.

22.5 Change of business

- (a) Each Obligor shall procure that no substantial change is made to the general nature of its business from that carried on at the date of this Agreement.
- (b) Except for the Drop Down, there shall be no change in ownership of the Borrower or of KNOT and no material changes to the corporate structure of the KNOT Group or the KNOP Group without the prior written consent of all the Lenders (not to be unreasonably withheld).

22.6 Transactions with Affiliates

Each Obligor shall procure that all transactions entered into between a member of the Group and an Affiliate are made on arm's length terms.

22.7 Title

The Obligors (as the case may be) shall hold legal title to and own the entire beneficial interest in the Mortgaged Assets, free of all Security and other interests and rights of every kind, except for those created by the Finance Documents and as permitted by Clause 22.2 (*Negative pledge*).

22.8 Insurances – general

Each Obligor shall maintain appropriate insurance cover with respect to its properties, assets and operations of such types, in such amounts and against such risks as are maintained by prudent companies carrying on the same or substantially similar business. All insurances must be with financially sound and reputable insurance companies, funds or underwriters.

22.9 **Bank Accounts**

The Borrower shall maintain the Accounts with the Account Bank and all its other bank accounts with any of the Lenders and ensure that all Earnings and all proceeds from an sale as well as any Insurances or Requisition Compensation are paid to the Account.

22.10 **Derivative transactions**

- (a) The Borrower shall not enter into any derivative transactions with other parties than the Hedging Banks unless the Hedging Banks have received a reasonable opportunity, in writing, to provide competitive rates to the Borrower and the Hedging Banks cannot provide such competitive rates.
- (b) The Borrower shall procure that no material terms (any terms relating to security and/or termination) of any of the Hedging Agreements are amended without the prior written consent of all Hedging Banks.

22.11 **Distribution restrictions**

- (a) KNOT shall not, without the prior written consent of the Agent (on behalf of the Lenders), make any reduction of its share capital.
- (b) KNOT shall not, without the prior written consent of the Agent (on behalf of the Lenders):
 - (i) declare, make or pay any dividend or other distribution (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);
 - (ii) repay or distribute any of its share premium reserve;
 - (iii) service or repay any loan from a shareholder comparable to equity; or
 - (iv) redeem, repurchase or repay any of its shares capital (or resolve to do so),to its shareholders (or any Affiliates thereof) in respect of any financial year, unless:
 - (A) no Default has occurred and is continuing at the time the making, payment or declaration of the relevant dividend or other distribution is made, or would result from the making, payment or declaration of the relevant dividend or other distribution;
 - (B) KNOT has consolidated net profit after taxes based on the audited annual accounts for the previous financial year;
 - (C) KNOT will following the making, payment or declaration of the relevant dividend or other distribution have a Free Liquidity equal to or exceeding USD 35,000,000; and
 - (D) KNOT and the Borrower will be in compliance with the financial covenants following the making, payment or declaration of the relevant dividend or other distribution.
- (c) Neither KNOP nor KNOT ST shall, without the prior written consent of the Agent (on behalf of the Lenders):
 - (i) declare, make or pay any dividend or other distribution (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);

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- (ii) repay or distribute any of its share premium reserve;
 - (iii) service or repay any loan from a shareholder comparable to equity; or
 - (iv) redeem, repurchase or repay any of its shares capital (or resolve to do so),
- to its shareholders (or any Affiliates thereof) in respect of any financial year, unless:
- (A) no Default has occurred and is continuing at the time the making, payment or declaration of the relevant dividend or other distribution is made, or would result from the making, payment or declaration of the relevant dividend or other distribution; and
 - (B) KNOP and the Borrower will be in compliance with the financial covenants following the making, payment or declaration of the relevant dividend or other distribution.
- (d) The Borrower shall as long as it is owned by KNOT not, without the prior written consent of the Agent (on behalf of the Lenders) declare, make or pay any dividend or other distribution (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital) to its shareholders (or any Affiliates thereof) in respect of any financial year, unless:
- (i) no Default has occurred and is continuing at the time the making, payment or declaration of the relevant dividend or other distribution is made, or would result from the making, payment or declaration of the relevant dividend or other distribution;
 - (ii) the Borrower will following the making, payment or declaration of the relevant dividend or other distribution have a Free Liquidity equal to or exceeding USD 500,000; and
 - (iii) the Borrower and the relevant Guarantor(s) will be in compliance with the financial covenants following the making, payment or declaration of the relevant dividend or other distribution.
- (e) The Borrower shall as long as it is owned by KNOP not, without the prior written consent of the Agent (on behalf of the Lenders) declare, make or pay any dividend or other distribution (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital) to its shareholders (or any Affiliates thereof) in respect of any financial year, unless:
- (i) no Default has occurred and is continuing at the time the making, payment or declaration of the relevant dividend or other distribution is made, or would result from the making, payment or declaration of the relevant dividend or other distribution; and
 - (ii) the Borrower and the relevant Guarantor(s) will be in compliance with the financial covenants following the making, payment or declaration of the relevant dividend or other distribution.

Distribution of dividends is further restricted in the BG Facility Agreement by the following limitation: “ *the Borrower will following the making, payment or declaration of the relevant dividend or other distribution have a Free Liquidity equal to or exceeding USD 500,000* ”. If these restrictions are not lifted from the BG Facility Agreement latest on the Utilisation Date, this limitation shall be incorporated herein and shall apply for the Borrower with effect from such date.

22.12 **Transaction Documents**

The Obligors shall procure that no material terms of any of the Transaction Documents are amended or terminated, or any waivers of any material terms thereof are agreed, without the prior written consent of the Agent.

22.13 **Taxation**

Each Obligor shall pay and discharge all Taxes imposed upon it or its assets within the time period allowed without incurring penalties unless and only to the extent that such payment is being contested in good faith or can be lawfully withheld.

22.14 **No change of name etc.**

No Obligor shall change:

- (a) the end of its fiscal year;
- (b) its nature of business;
- (c) its constitutional documents;
- (d) its legal name;
- (e) its type of organization; or
- (f) its jurisdiction;

without the prior written consent of the Agent.

22.15 **Subordination**

The Borrower shall procure that all Shareholder Loans and all amounts payable to and/or claims against it from the Manager and/or any manager are fully subordinated to the interest of the Finance Parties hereunder and the Hedging Banks under the Hedging Agreements.

22.16 **Indebtedness**

The Borrower shall not, without the prior written consent of the Agent, borrow any additional funds or enter into any transaction (including derivative transactions other than any Hedging Transactions) that may result in the incurrence of any additional Financial Indebtedness (it being understood however that intercompany loans, deposits or equity contributions within the Group (“ **Intra-Group Indebtedness** ”) shall be allowed provided always that (x) no Default is then in existence or will occur from such disposition, (y) after giving effect to such disposition, the Obligors will be in compliance with the financial covenants in Clause 21 (*Financial covenants*), and (z) Intra-Group Indebtedness shall be fully subordinated to the Facility and any obligations under the Hedging Agreements).

22.17 **Investments**

The Borrower shall not, without the prior written consent of the Lenders make any further investments or acquisitions.

22.18 **Financial support**

The Borrower shall not make or grant any loans, guarantees or any other form of financial support, except financial support in the ordinary course of operation of the Vessel (it being understood however that intercompany loans, deposits or equity contributions within the Group (“**Intra-Group Indebtedness**”) shall be allowed provided always that (x) no Default is then in existence or will occur from such disposition, (y) after giving effect to such disposition, the Obligors will be in compliance with the financial covenants in Clause 21 (*Financial covenants*), and (z) Intra-Group Indebtedness shall be fully subordinated to the Facility and any obligations under the Hedging Agreements).

22.19 **Compliance with laws etc.**

The Obligors shall (and shall ensure that each other member of the Group, as well as any manager and charterer):

- (a) comply with all laws or regulations:
 - (i) applicable to its business; and
 - (ii) applicable to the Vessel, its ownership, employment, operation, management and registration, including the ISM Code, the ISPS Code, all Environmental Laws, all Sanctions and the laws of the jurisdiction of each relevant Approved Ship Registry;
- (b) obtain, comply with and do all that is necessary to maintain in full force and effect any Environment Permits; and without limiting paragraph (a) above, not employ the Vessel nor allow its employment, operation or management in any manner contrary to any law or regulation including but not limited to the ISM Code, the ISPS Code, all Environmental Laws, anti-bribery and corruption laws and all Sanctions.

22.20 **Sanctions**

- (a) Each Obligor shall not (and shall ensure that no other Relevant Person will) take any action, make any omission or use (directly or indirectly) any proceeds of a Loan, in a manner that:
 - (i) is a breach of Sanctions or is an attempt to evade any Sanctions; and/or
 - (ii) causes (or will cause) a breach of Sanctions by any Relevant Person or Finance Party.
- (b) Each Obligor shall not (and shall ensure that no other Relevant Person will) take any action or make any omission that results, or is reasonably likely to result, in it or any Finance Party becoming a Restricted Party or otherwise a target of sanctions.

22.21 **No Anti-Social Conduct**

- (a) Each Obligor shall ensure that they shall not be classified as an Anti-Social Force or engage in any Anti-Social Conduct, whether directly or indirectly through a third party.
- (b) Each Obligor shall immediately provide to the Agent, as the Agent or any Finance Party may reasonably require, such documents or information pertaining to each Obligor (including, without limitation, registered or principal office, residential address, formal name, birth date) for the purposes of screening to identify Anti-Social Conduct and other matters by the Agent.

23. **VESSEL UNDERTAKINGS**

23.1 **General**

The undertakings in this Clause 22.21 (*Vessel undertakings*) are granted by the Borrower in respect of the Vessel owned by it and remain in force from the Delivery Date of the Vessel and for so long as any amount is outstanding under the Finance Documents and the Hedging Agreements or any Commitment is in force.

23.2 **Insurance – Vessel**

- (a) The Borrower shall maintain or ensure that the Vessel is insured against such risks, including but not limited to, hull and machinery, protection & indemnity (including cover for pollution liability to the uppermost limit available via the P&I club), hull interest, freight interest, war risk insurances, including confiscation, terrorism and piracy, and Loss of Hire, in such amounts, on such terms and placed through first class insurance brokers with such first class insurers as the Agent shall approve.
- (b) The aggregate value of the hull and machinery insurance, hull interest insurance and/or freight interest insurance for the Vessel shall be at least equal to the higher of the Market Value of the Vessel and one hundred and twenty per cent (120%) of the Loans, whereof the hull and machinery insurance for the Vessel shall at all times cover at least eighty per cent (80%) of the Market Value of the Vessel.
- (c) The Borrower shall procure that the Agent (on behalf of the Finance Parties and the Hedging Banks) is noted as first priority mortgagee in the insurance contracts, and that confirmation is promptly given by the underwriters thereof to the Agent that the notice of assignment with regards to the Insurances and the loss payable clauses are noted in the insurance contracts and that standard letters of undertaking/cover notes/policies/certificates of entry are promptly executed by the insurers and/or the insurance broker(s).
- (d) Within reasonable time prior to the expiry date of the relevant Insurances, the Borrower shall procure the delivery to the Agent of a confirmation from the insurance broker(s) through whom the Insurances referred to in paragraph (a) above have been renewed and taken out in respect of the Vessel with insurance values as required by paragraph (b) above, and similarly from the P&I club in which the Vessel is entered that such entry is continuing, that such Insurances are or shall be in full force and effect and that the Agent (on behalf of the Finance Parties and the Hedging Banks) has been noted as first priority mortgagee by the relevant insurers and that the broker and, if applicable, the P&I club shall promptly issue a letter of undertaking in respect of such renewed insurances.
- (e) The Borrower shall allow the Agent to take out (for the benefit of the Finance Parties and the Hedging Banks but at the cost and expense of the Borrower), a Mortgagee's Interest Insurance and a Mortgagee's Interest—Additional Perils Pollution Insurance (covering one hundred and twenty per cent (120%) of the Loans).
- (f) If any of the Insurances referred to in paragraph (a) above form part of a fleet cover, the Borrower shall procure, except for protection & indemnity (where the Borrower shall procure to obtain standard market undertakings in favour of the Agent with respect to protection & indemnity from the insurers or the insurance broker), that the insurers or the insurer broker shall undertake to the Agent that they shall neither set-off against any claims in respect of the Vessel any premiums due in respect of other vessels or units under such fleet cover or any premiums due for other insurances, nor cancel this Insurance for reason of non-payment of premiums for other units under such fleet cover or of premiums for such other insurances, and shall undertake to issue a separate policy in respect of the Vessel if and when so requested by the Agent.

- (g) The Borrower shall procure that the Vessel always is employed in conformity with the terms of the instruments of Insurances (including any warranties expressed or implied therein) and comply with such requirements as to extra premium or otherwise as the insurers may prescribe.
- (h) The Borrower will not make any material change to the insurances described under (a) above without the prior written consent of the Agent.
- (i) The Borrower shall pay for an insurance audit report commissioned by the Agent to be prepared by an independent insurance consultant, in form and contents acceptable to the Agent, to be tabled prior to the Delivery Date and thereafter (if requested by the Agent or Lenders) upon each (annual) renewal of the Insurances referred to in paragraph (a) above.

23.3 Flag, name and registry

The Vessel shall be registered in an Approved Ship Registry. The Borrower may not move the Vessel to any other ship register without the prior written consent of the Lenders.

23.4 Classification and repairs

The Borrower shall, and shall procure that the relevant Manager shall, keep or shall procure that the Vessel is kept in a good, safe and efficient condition consistent with first class ownership and management practice and in particular:

- (a) so as to maintain its class at the highest level with DNV GL or another IACS classification society approved to the Majority Lenders, free of overdue material recommendations and qualifications; and
- (b) so as to comply with the laws and regulations (statutory or otherwise) applicable to units registered under the flag state of the Vessel or to vessels trading to any jurisdiction to which the Vessel may trade from time to time;
- (c) not, without the prior written consent of the Majority Lenders, change the classification society of the Vessel;
- (d) not, without the prior written consent of the Agent, bring the Vessel or allow the Vessel to be brought to any yard for repairs or for the purpose of work being done upon her where the costs of such repairs or work is likely to exceed USD 1,000,000 (or the equivalent thereof in any other currency), unless such person shall first have given to the Agent and in terms reasonably satisfactory to it, a written undertaking not to exercise any lien on the Vessel or her Insurances or Earnings for the cost of such repairs or work or otherwise; and
- (e) not permit any major change or structural alteration to be made to the Vessel, nor any modification of, or part removal from, the Vessel in a way which would materially diminish her value;
- (f) procure that the Vessel is kept in a good, safe and efficient condition and state of repair consistent with the industry's best ownership and management practice with dry-docking to be completed at the frequency required under the relevant Charterparty; and

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- (g) not permit the Vessel to enter the territorial waters (12 mile limit) of the US unless a valid Certificate of Financial Responsibility as required by the United States Coast Guard has been obtained for the Vessel in advance.

23.5 **Inspections and class records**

- (a) The Borrower shall procure that the Agent's surveyor at the Borrower's cost, is permitted to inspect the condition of the Vessel twice a year provided always that such arrangement shall not interfere with the operation of the Vessel and subject to satisfactory indemnities approved by the P&I insurers.
- (b) The Borrower shall, and shall procure that the Manager shall procure that the Agent is:
 - (i) granted permission to access class records and other information from the classification society in relation to the Vessel, through a letter sent by the Borrower to the classification society (in a form prepared or approved by the Agent), which will also specify that should there be a condition of class imposed or a class recommendation issued in respect of the Vessel, the classification society shall immediately inform the Agent by email; and
 - (ii) granted electronic access to class records directly by the classification society or indirectly via the account manager of the Borrower and/or the Manager (as the case may be) and designating the Agent as a user or administrator of the system under its account.
- (c) The Borrower shall, and shall procure that the relevant Manager shall, instruct the classification society to send to the Agent, following a written request from the Agent, copies of all class records held by the classification society in relation to the Vessel.

23.6 **Surveys**

The Borrower shall, and shall procure that the relevant Manager shall, submit to or cause the Vessel to be submitted to such periodic or other surveys as may be required for classification purposes and to ensure full compliance with regulations of the flag state of the Vessel and to supply or to cause to be supplied to the Agent copies of all survey reports and confirmations of class issued in respect thereof whenever such is required by the Agent, however such requests are limited to once a year.

23.7 **Notification of certain events**

The Borrower shall immediately notify the Agent of:

- (a) any accident to the Vessel involving repairs where the costs will or is likely to exceed USD 3,000,000 (or the equivalent in any other currency);
- (b) any requirement or recommendation made by any insurer or classification society or by any competent authority which is not, or cannot be, complied with immediately;
- (c) any exercise or purported exercise of any arrest or lien on the Vessel, its Earnings or its Insurances;
- (d) any occurrence as a result of which the Vessel has become or is, by the passing of time or otherwise, likely to become a Total Loss; and
- (e) any claim for a material breach of the ISM Code or the ISPS Code being made against the Borrower or otherwise in connection with the Vessel.

23.8 **Operation of the Vessel**

- (a) The Borrower shall procure that the Vessel is managed by a Manager pursuant to a Management Agreement and shall not, without the prior written consent of the Majority Lenders, change or allow the change of the technical or commercial management of the Vessel.
- (b) The Borrower shall, and shall procure that each Manager shall, comply, or procure the compliance in all material respects with the International Convention for the Safety of Life at Sea (SOLAS) 1974, the ISM Code and the ISPS Code, all Environmental Laws and all other laws or regulations relating to the Vessel (all as adopted, amended or replaced from time to time), its ownership, operation and management or to the business of the Borrower and each Manager and shall not employ the Vessel nor allow its employment:
 - (i) in any manner contrary to law or regulation in any relevant jurisdiction including but not limited to the ISM Code;
 - (ii) to carry any nuclear waste or nuclear material under any circumstances;
 - (iii) in carrying illicit or prohibited goods;
 - (iv) in a way which may make it liable to be condemned by a prize court or destroyed, seized or confiscated; and
 - (v) in any part of the world where there are hostilities (whether war is declared or not) or in any zone which is declared a war zone by any government or is or becomes a listed area of enhanced risk by the war risk insurers of the Vessel unless the Borrower have (at their own expense) effected any special, additional or modified insurance cover which shall be necessary or customary for first class vessel owners within the territorial waters of such country at such time and has provided evidence of such cover to the Agent.

23.9 **ISM Code compliance**

The Borrower shall:

- (a) procure that the Vessel remains subject to a SMS;
- (b) procure that a valid and current SMC is maintained for the Vessel;
- (c) if not itself, procure that the relevant Manager maintains a valid and current DOC;
- (d) immediately notify the Agent in writing of any actual or threatened withdrawal, suspension, cancellation or modification of the SMC of the Vessel or of its DOC or the DOC of the relevant Manager; and
- (e) immediately notify the Agent in writing of any “accident” or “major nonconformity”, each as those terms is defined in the Guidelines in the application of the IMO International Safety Management Code issued by the International Chamber of Shipping and International Shipping Federation.

23.10 **Environmental compliance**

The Borrower shall, and shall procure that any charterers shall, comply in all respects with all Environmental Laws applicable to it or the Vessel, including without limitation, requirements relating to manning and establishment of financial responsibility and to obtain and comply with all Environmental Permits applicable to any of them and/or the Vessel.

23.11 **Arrest**

The Borrower shall pay and discharge when due:

- (a) all liabilities which give or may give rise to maritime or possessory liens on or claims enforceable against the Vessel, its Earnings or its Insurances;
- (b) all tolls, taxes, dues, fines, penalties and other amounts charged in respect of the Vessel, its Earnings or its Insurances; and
- (c) all other outgoings whatsoever in respect of the Vessel, its Earnings and its Insurances,

and forthwith (however not later than after thirty (30) Business Days) upon receiving a notice of arrest of the Vessel, or its detention in exercise or purported exercise of any lien or claim, the Borrower shall procure its release by providing bail or providing the provision of security or otherwise as the circumstances may require.

23.12 **Chartering and employment**

The Borrower shall not enter into arrangements which provide an obligation to charter (or similar arrangement) in any tonnage.

23.13 **Restrictions on sale, chartering etc.**

The Borrower shall not, without the prior written consent of the Lenders:

- (a) sell or otherwise dispose of the Vessel, unless the Loans are prepaid in accordance with Clause 7.5 (*Mandatory prepayment—Total Loss or sale of the Vessel*) in connection therewith; or
- (b) terminate, cancel, materially amend or supplement the Charterparty or other contract of employment entered into in respect of the Vessel, nor assign the Charterparty or other contract of employment to any other person.

23.14 **Charterparty**

The Borrower shall:

- (a) promptly upon becoming aware thereof, notify the Agent in writing of the details of any breach of the Charterparty which might adversely affect the ability of the parties thereto to perform their obligations under the Charterparty, any claim by the Charterer that the Borrower is in breach of the Charterparty, any delayed payment of hire in excess of fourteen (14) Business Days or any material claim for set-off or reduction of hire by the Charterer as well as information on what steps are being taken with regards to answer or oppose such;
- (b) promptly upon becoming aware thereof, notify the Agent in writing of the details of any material dispute, any alleged material claims or rights from a third party where such dispute, claim or right is held to be or will, to the Borrowers best knowledge, be governed by or recognized, and enforceable under the laws of Brazil; and
- (c) if the Charterparty is breached in any material respect by any party thereto and such breach is continuing and will entitle any party thereto to terminate the Charterparty, and if the Agent, in its reasonable opinion, determines that its position as mortgagee under the

Mortgage may be impaired or prejudiced by the Vessel trading in Brazilian waters or in any Brazilian port, the Borrower shall promptly upon the request of the Agent order the Vessel to proceed forthwith at the Borrower's risk and expense to a port or place outside Brazilian waters or Brazilian port (as the case may be) (and the Borrower undertakes to immediately give the necessary instructions to the Master of the Vessel to comply with any such order, and if the Borrower fails to give such instructions for any reason whatsoever the Agent shall have the right and power to give such instructions direct to the Master).

24. **EVENTS OF DEFAULT**

Each of the events or circumstances set out in Clause 23.14 (*Events of Default*) is an Event of Default (save for Clause 24.16 (*Acceleration*)).

24.1 **Non-payment**

An Obligor does not pay on the due date any amount payable pursuant to a Finance Document at the place and in the currency in which it is expressed to be payable unless:

- (a) its failure to pay is caused by:
 - (i) administrative or technical error; or
 - (ii) a Disruption Event; and
- (b) payment is made within three (3) Business Days of its due date.

24.2 **Financial covenants etc.**

Any requirement of Clause 21 (*Financial covenants*), Clause 22.19 (*Compliance with laws etc.*), Clause 22.20 (*Sanctions*), Clause 23.2 (*Insurance – Vessel*), Clause 23.3 (*Flag, name and registry*) and Clause 23.4 (*Classification and repairs*) is not satisfied.

24.3 **Other obligations**

- (a) An Obligor does not comply with any provision of the Finance Documents (other than those referred to in Clause 24.1 (*Non-payment*) and Clause 24.2 (*Financial covenants etc.*)).
- (b) No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within ten (10) Business Days of the earlier of (A) the Agent giving notice to the Borrower and (B) the Borrower becoming aware of the failure to comply.

24.4 **Misrepresentation**

Any representation or statement made or deemed to be made by an Obligor in the Finance Documents or any other document delivered by or on behalf of any Obligor under or in connection with any Finance Document is or proves to have been incorrect or misleading in any material respect when made or deemed to be made.

24.5 **Cross default**

- (a) Any Financial Indebtedness of any Obligor is not paid when due nor within any originally applicable grace period.
- (b) Any Financial Indebtedness of any Obligor is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- (c) Any commitment for any Financial Indebtedness of any Obligor is cancelled or suspended by a creditor as a result of an event of default (however described).

- (d) Any creditor of any Obligor becomes entitled to declare any Financial Indebtedness due and payable prior to its specified maturity as a result of an event of default (however described).
- (e) No Event of Default will occur under this Clause 24.5 (*Cross default*) if the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (a) to (d) above is less than USD 8,000,000 (or its equivalent in any other currency or currencies).

24.6 **Insolvency**

- (a) An Obligor:
 - (i) is unable or admits inability to pay its debts as they fall due;
 - (ii) suspends making payments on any of its debts; or
 - (iii) by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors (excluding any Finance Party or Hedging Bank in its capacity as such) with a view to rescheduling any of its indebtedness.
- (b) The value of the assets of any Obligor is less than its liabilities (taking into account contingent and prospective liabilities).
- (c) A moratorium is declared in respect of any indebtedness of any Obligor.

24.7 **Insolvency proceedings**

Any corporate action, legal proceedings or other procedure or step is taken in relation to:

- (a) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of any Obligor;
- (b) a composition, compromise, assignment or arrangement with any creditor of any Obligor;
- (c) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of any Obligor or any of its assets; or
- (d) enforcement of any Security over any assets of any Obligor,

or any analogous procedure or step is taken in any jurisdiction.

This Clause 24.7 (*Insolvency proceedings*) shall not apply to any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within thirty (30) days of commencement.

24.8 **Creditors' process**

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of an Obligor having an aggregate value of USD 8,000,000 and is not discharged within thirty (30) days.

24.9 **Cessation of business**

An Obligor suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a part of its business.

24.10 **Unlawfulness**

It is or becomes unlawful for an Obligor to perform any of its obligations under the Finance Documents or any Security created or expressed to be created or evidenced by any Security Document ceases to be effective or does not create the ranking and priority it is expressed to have.

24.11 **Material adverse change**

Any event or series of events occur which, in the opinion of the Majority Lenders, has or is likely to have a Material Adverse Effect.

24.12 **Repudiation, validity and cancellation/termination**

- (a) An Obligor repudiates a Finance Document or evidences an intention to repudiate a Finance Document or a Transaction Document.
- (b) Any Finance Document or Transaction Document ceases to be legal, valid, binding, enforceable or effective.
- (c) The Charterparty is cancelled or terminated for any reason, or any party to the Charterparty is in breach of any payment obligation thereunder.
- (d) The Vessel is not accepted by the Charterer under the Charterparty within the time period for such acceptance provided by the Charterparty.

24.13 **Insurances**

Any insurance policy taken out in respect of the Vessel is cancelled, revoked or lapses, or any insurance claim(s) by the Borrower is repudiated following a Total Loss.

24.14 **The Vessel**

- (a) Class certification of the Vessel is withdrawn.
- (b) There is an instability affecting a country of flag and the Vessel is not transferred to another Approved Ship Registry immediately upon request by the Agent.

24.15 **Litigation**

An Obligor is subject to an unsatisfied, uninsured judgment in its disfavour following final appeal and this is likely to have a Material Adverse Effect.

24.16 **Acceleration**

On and at any time after the occurrence of an Event of Default which is continuing the Agent may, and shall if so directed by the Majority Lenders, by notice to the Borrower:

- (a) require payment of default interest on the Loans in accordance with Clause 8.3 (*Default interest*);
- (b) cancel the Total Commitments whereupon they shall immediately be cancelled;
- (c) declare that all or part of the Loans, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or
- (d) declare that all or part of the Loans be payable on demand, whereupon they shall immediately become payable on demand by the Agent on the instructions of the Majority Lenders.

SECTION 9
CHANGES TO PARTIES

25. CHANGES TO THE LENDERS

25.1 Transfers by the Lenders

Subject to this Clause 25 (*Changes to the Lenders*), a Lender (the “ **Existing Lender** ”) may transfer by novation any of its rights and obligations, to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the “ **New Lender** ”).

25.2 Conditions of transfer

- (a) The consent of the Borrower is required for a transfer by an Existing Lender, unless the transfer is to another Lender or an Affiliate of a Lender or an Event of Default has occurred which is continuing,
- (b) Any transfer must be in a minimum amount of USD 10,000,000.
- (c) The New Lender must provide the Agent with all relevant “know your customer” information and documentation.
- (d) The consent of the Borrower to a transfer must not be unreasonably withheld or delayed. The Borrower will be deemed to have given its consent ten (10) Business Days after the Existing Lender has requested it unless consent is expressly refused by the Borrower within that time.
- (e) A transfer will only be effective if the procedure set out in Clause 25.5 (*Procedure for transfer*) is complied with.
- (f) If:
 - (i) a Lender transfers any of its rights or obligations under the Finance Documents or changes its Facility Office; and
 - (ii) as a result of circumstances existing at the date the transfer or change occurs, an Obligor would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 12 (*Tax gross-up and indemnities*) or Clause 13 (*Increased Costs*),then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the transfer or change had not occurred. This paragraph (d) shall not apply in respect of a transfer made in the ordinary course of the primary syndication of the Facility.
- (g) Each New Lender, by executing the relevant Transfer Certificate, confirms, for the avoidance of doubt, that the Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the transfer becomes effective in accordance with this Agreement and that it is bound by that decision to the same extent as the Existing Lender would have been had it remained a Lender.

25.3 Assignment or transfer fee

The New Lender shall, on the date upon which an assignment or transfer takes effect, pay to the Agent (for its own account) a fee of USD 5,000.

25.4 **Limitation of responsibility of Existing Lenders**

- (a) Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:
 - (i) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
 - (ii) the financial condition of any Obligor;
 - (iii) the performance and observance by any Obligor of its obligations under the Finance Documents or any other documents; or
 - (iv) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document, and any representations or warranties implied by law are excluded.
- (b) Each New Lender confirms to the Existing Lender and the other Finance Parties that it:
 - (i) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of each Obligor and its related entities in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Lender in connection with any Finance Document; and
 - (ii) will continue to make its own independent appraisal of the creditworthiness of each Obligor and its related entities whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.
- (c) Nothing in any Finance Document obliges an Existing Lender to:
 - (i) accept a re-transfer from a New Lender of any of the rights and obligations transferred under this Clause 25 (*Changes to the Lenders*); or
 - (ii) support any losses directly or indirectly incurred by the New Lender by reason of the non-performance by any Obligor of its obligations under the Finance Documents or otherwise.

25.5 **Procedure for transfer**

- (a) Subject to the conditions set out in Clause 25.2 (*Conditions of transfer*) a transfer is effected in accordance with paragraph (c) below when the Agent executes an otherwise duly completed Transfer Certificate delivered to it by the Existing Lender and the New Lender. The Agent shall, subject to paragraph (b) below, as soon as reasonably practicable after receipt by it of a duly completed Transfer Certificate appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Transfer Certificate.
- (b) The Agent shall only be obliged to execute a Transfer Certificate delivered to it by the Existing Lender and the New Lender once it is satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to the transfer to such New Lender.

- (c) Subject to Clause 25.8 (*Pro rata interest settlement*), on the Transfer Date:
- (i) to the extent that in the Transfer Certificate the Existing Lender seeks to transfer by novation its rights and obligations under the Finance Documents each of the Obligors and the Existing Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another under the Finance Documents shall be cancelled (being the “ **Discharged Rights and Obligations** ”);
 - (ii) each of the Obligors and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as that Obligor and the New Lender have assumed and/or acquired the same in place of that Obligor and the Existing Lender;
 - (iii) the Agent, the Mandated Lead Arrangers, the Hedging Banks, the New Lender and other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had the New Lender been an Original Lender with the rights and/or obligations acquired or assumed by it as a result of the transfer and to that extent the Agent, the Mandated Lead Arrangers, the Hedging Banks and the Existing Lender shall each be released from further obligations to each other under the Finance Documents; and
 - (iv) the New Lender shall become a Party as a “Lender”.

25.6 **Copy of Transfer Certificate to the Borrower**

The Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate, send to the Borrower a copy of that Transfer Certificate.

25.7 **Security over Lenders’ rights**

In addition to the other rights provided to Lenders under this Clause 25 (*Changes to the Lenders*), each Lender may without consulting with or obtaining consent from any Obligor, at any time charge, assign or otherwise create Security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other Security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other Security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or Security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by an Obligor other than or in excess of, or grant to any person any more extensive rights than, those required to be made or granted to the relevant Lender under the Finance Documents.

25.8 **Pro rata interest settlement**

- (a) If the Agent has notified the Lenders that it is able to distribute interest payments on a “*pro rata basis*” to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 25.5 (*Procedure for transfer*) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of an Interest Period):
- (i) any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date (“**Accrued Amounts**”) and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Interest Period (or, if the Interest Period is longer than six (6) Months, on the next of the dates which falls at six Monthly intervals after the first day of that Interest Period); and
 - (ii) the rights transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (A) when the Accrued Amounts become payable, those Accrued Amounts will be payable to the Existing Lender; and
 - (B) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 25.8 (*Pro rata interest settlement*), have been payable to it on that date, but after deduction of the Accrued Amounts.
- (b) In this Clause 25.8 (*Pro rata interest settlement*) references to “Interest Period” shall be construed to include a reference to any other period for accrual of fees.

26. **CHANGES TO THE OBLIGORS**

26.1 **Assignments and transfer by Obligors**

No Obligor may assign any of its rights or transfer any of its rights or obligations under the Finance Documents without the prior written consent of the Lenders.

26.2 **KNOP and KNOT ST as replacement Guarantors**

- (a) KNOT shall have the option to sell its shares in the Borrower to KNOP or a Subsidiary of KNOP during the period from the day the Vessel is delivered by the Borrower to the Charterer under the Charterparty and for up to two (2) years thereafter, subject to the terms and conditions set out in this Clause 26.2 (*KNOT and KNOT ST as replacement Guarantors*).
- (b) A Drop Down may only take place once the Agent (on behalf of the Lenders) in its sole discretion is satisfied that:
- (i) no Default is continuing or would result from the proposed Drop Down;
 - (ii) no Material Adverse Effect would result from the proposed Drop Down;
 - (iii) the Repeating Representations to be made by each Obligor (including KNOP and KNOT ST) are true in all material respects;
 - (iv) the Borrower have delivered to the Agent a duly completed and executed Accession Letter; and

- (v) the Agent has received all of the documents and other evidence listed in Part III (*Conditions precedent to Drop Down*) of Schedule 2 (*Conditions precedent and subsequent*) in form and substance satisfactory to it.
- (c) On a Drop Down Date:
 - (i) KNOP and KNOT ST shall accede to this Agreement as Guarantors and become liable for the obligations of the Borrower;
 - (ii) KNOT shall be released from its obligations under each Finance Document and each Hedging Agreement as a Guarantor for the obligations of the Borrower, and following the Drop Down, KNOT shall cease to be a Party to this Agreement;
 - (iii) all references to the terms “Guarantors”, “Guarantor”, “Obligors” or “Obligor” shall include KNOP and KNOT ST, unless the context implies otherwise;
 - (iv) the financial covenants regulated by Clause 21.4 (*Financial condition – KNOP*) shall become applicable; and
 - (v) following the Drop Down, the financial covenants regulated by Clause 21.3 (*Financial condition – KNOT*) shall cease to apply.
- (d) The Agent shall notify the other Parties, substantially in the form set out in Schedule 9 (*Form of Drop Down Confirmation Letter*), promptly upon being satisfied that (1) it has received (in form and substance satisfactory to it) all the documents and other evidence listed in paragraph (b) above, (2) KNOP and KNOT ST have acceded to this Agreement as Guarantors and (3) prepayment has been made in accordance with Clause 7.3 (*Mandatory prepayment—Drop Down*), and the Drop Down and the replacement of KNOT by KNOP and KNOT ST as Guarantors shall become effective as of the date and time the Parties are notified in accordance with this paragraph (d).
- (e) Irrespective of anything to the contrary set out in this Agreement or any other Finance Document, no representations, covenants or other obligations of a Guarantor or provisions referring to a Guarantor (whether in its capacity as Guarantor or otherwise) under this Agreement shall apply to KNOP or KNOT ST prior to the date KNOP and KNOT ST accede as Guarantors under this Agreement or to KNOT after such date as KNOT has been released from its obligations as a Guarantor under this Agreement.

SECTION 10 THE FINANCE PARTIES

27. **ROLE OF THE AGENT, THE MANDATED LEAD ARRANGERS AND THE REFERENCE BANKS**

27.1 **Appointment of the Agent**

- (a) Each other Finance Party and each Hedging Bank appoint the Agent to act as its agent under and in connection with the Finance Documents and the Hedging Agreements.
- (b) Each other Finance Party and each Hedging Bank authorises the Agent to perform the duties, obligations and responsibilities and to exercise the rights, powers, authorities and discretions specifically given to the Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

27.2 **Instructions**

- (a) The Agent shall:

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- (i) unless a contrary indication appears in a Finance Document, exercise or refrain from exercising any right, power, authority or discretion vested in it as Agent in accordance with any instructions given to it by:
 - (A) all Lenders if the relevant Finance Document stipulates the matter is an all Lender decision; and
 - (B) in all other cases, the Majority Lenders; and
 - (ii) not be liable for any act (or omission) if it acts (or refrains from acting) in accordance with paragraph (i) above.
 - (b) The Agent shall be entitled to request instructions, or clarification of any instruction, from the Majority Lenders (or, if the relevant Finance Document stipulates the matter is a decision for any other Lender or group of Lenders, from that Lender or group of Lenders) as to whether, and in what manner, it should exercise or refrain from exercising any right, power, authority or discretion. The Agent may refrain from acting unless and until it receives any such instructions or clarification that it has requested.
 - (c) Save in the case of decisions stipulated to be a matter for any other Lender or group of Lenders under the relevant Finance Document and unless a contrary indication appears in a Finance Document, any instructions given to the Agent by the Majority Lenders shall override any conflicting instructions given by any other Parties and will be binding on all Finance Parties.
 - (d) The Agent may refrain from acting in accordance with any instructions of any Lender or group of Lenders until it has received any indemnification and/or security that it may in its discretion require (which may be greater in extent than that contained in the Finance Documents and which may include payment in advance) for any cost, loss or liability which it may incur in complying with those instructions.
 - (e) In the absence of instructions, the Agent may act (or refrain from acting) as it considers to be in the best interest of the Lenders.
 - (f) The Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document.

27.3 **Duties of the Agent**

- (a) The Agent's duties under the Finance Documents are solely mechanical and administrative in nature.
- (b) Subject to paragraph (c) below, the Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Agent for that Party by any other Party.
- (c) Without prejudice to Clause 25.6 (*Copy of Transfer Certificate to the Borrower*), paragraph (b) above shall not apply to any Transfer Certificate.
- (d) Except where a Finance Document specifically provides otherwise, the Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.

- (e) If the Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the other Finance Parties.
- (f) If the Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Agent or the Mandated Lead Arrangers) under this Agreement it shall promptly notify the other Finance Parties.
- (g) The Agent shall have only those duties, obligations and responsibilities expressly specified in the Finance Documents to which it is expressed to be a party (and no others shall be implied).

27.4 Role of the Mandated Lead Arrangers

Except as specifically provided in the Finance Documents, the Mandated Lead Arrangers have no obligations of any kind to any other Party under or in connection with any Finance Document.

27.5 No fiduciary duties

- (a) Nothing in any Finance Document constitutes the Agent or the Mandated Lead Arrangers as a trustee or fiduciary of any other person.
- (b) Neither the Agent nor the Mandated Lead Arrangers shall be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.

27.6 Business with the Group

The Agent and the Mandated Lead Arrangers may accept deposits from, lend money to and generally engage in any kind of banking or other business with any member of the Group.

27.7 Rights and discretions

- (a) The Agent may:
 - (i) rely on any representation, communication, notice or document believed by it to be genuine, correct and appropriately authorised;
 - (ii) assume that:
 - (A) any instructions received by it from the Majority Lenders, any Lender or any group of Lenders are duly given in accordance with the terms of the Finance Documents; and
 - (B) unless it has received notice of revocation, that those instructions have not been revoked; and
 - (iii) rely on a certificate from any person:
 - (A) as to any matter of fact or circumstance which might reasonably be expected to be within the knowledge of that person; or
 - (B) to the effect that such person approves of any particular dealing, transaction, step, action or thing,as sufficient evidence that that is the case and, in the case of paragraph (A) above, may assume the truth and accuracy of that certificate.

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- (b) The Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Lenders) that:
 - (i) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 24.1 (*Non-payment*));
 - (ii) any right, power, authority or discretion vested in any Party or any group of Lenders has not been exercised; and
 - (iii) any notice or request made by the Borrower (other than a Utilisation Request or Selection Notice) is made on behalf of and with the consent and knowledge of all the Obligors.
 - (c) The Agent may engage and pay for the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts.
 - (d) Without prejudice to the generality of paragraph (c) above or paragraph (e) below, the Agent may at any time engage and pay for the services of any lawyers to act as independent counsel to the Agent (and so separate from any lawyers instructed by the Lenders) if the Agent in its reasonable opinion deems this to be necessary.
 - (e) The Agent may rely on the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts (whether obtained by the Agent or by any other Party) and shall not be liable for any damages, costs or losses to any person, any diminution in value or any liability whatsoever arising as a result of its so relying.
 - (f) The Agent may act in relation to the Finance Documents through its officers, employees and agents.
 - (g) Unless a Finance Document expressly provides otherwise the Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.
 - (h) Notwithstanding any other provision of any Finance Document to the contrary, neither the Agent nor any Mandated Lead Arranger is obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality.
 - (i) Notwithstanding any provision of any Finance Document to the contrary, the Agent is not obliged to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties, obligations or responsibilities or the exercise of any right, power, authority or discretion if it has grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it.

27.8 **Responsibility for documentation**

Neither the Agent nor any Mandated Lead Arranger is responsible or liable for:

- (a) the adequacy, accuracy or completeness of any information (whether oral or written) supplied by the Agent, any Mandated Lead Arranger, an Obligor or any other person given in or in connection with any Finance Document or the transactions contemplated in the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; or

- (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; or
- (c) any determination as to whether any information provided or to be provided to any Finance Party is non-public information the use of which may be regulated or prohibited by applicable law or regulation relating to insider dealing or otherwise.

27.9 **No duty to monitor**

The Agent shall not be bound to enquire:

- (a) whether or not any Default has occurred;
- (b) as to the performance, default or any breach by any Party of its obligations under any Finance Document; or
- (c) whether any other event specified in any Finance Document has occurred.

27.10 **Exclusion of liability**

- (a) Without limiting paragraph (b) below (and without prejudice to any other provision of any Finance Document excluding or limiting the liability of the Agent), the Agent will not be liable for:
 - (i) any damages, costs or losses to any person, any diminution in value, or any liability whatsoever arising as a result of taking or not taking any action under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
 - (ii) exercising, or not exercising, any right, power, authority or discretion given to it by, or in connection with, any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with, any Finance Document, other than by reason of its gross negligence or wilful misconduct; or
 - (iii) without prejudice to the generality of paragraphs (i) and (ii) above, any damages, costs or losses to any person, any diminution in value or any liability whatsoever (including, without limitation, for negligence or any other category of liability whatsoever but not including any claim based on the fraud of the Agent) arising as a result of:
 - (A) any act, event or circumstance not reasonably within its control; or
 - (B) the general risks of investment in, or the holding of assets in, any jurisdiction, including (in each case and without limitation) such damages, costs, losses, diminution in value or liability arising as a result of: nationalisation, expropriation or other governmental actions; any regulation, currency restriction, devaluation or fluctuation; market conditions affecting the execution or settlement of transactions or the value of assets (including any Disruption Event); breakdown, failure or malfunction of any third party transport, telecommunications, computer services or systems; natural disasters or acts of God; war, terrorism, insurrection or revolution; or strikes or industrial action.

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- (b) No Party (other than the Agent) may take any proceedings against any officer, employee or agent of the Agent in respect of any claim it might have against the Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Agent may rely on this Clause.
 - (c) The Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Agent if the Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Agent for that purpose.
 - (d) Nothing in this Agreement shall oblige the Agent or any Mandated Lead Arranger to carry out:
 - (i) any “know your customer” or other checks in relation to any person; or
 - (ii) any check on the extent to which any transaction contemplated by this Agreement might be unlawful for any Lender,on behalf of any Lender and each Lender confirms to the Agent and the Mandated Lead Arrangers that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Agent or any Mandated Lead Arranger.
 - (e) Without prejudice to any provision of any Finance Document excluding or limiting the Agent’s liability, any liability of the Agent arising under or in connection with any Finance Document shall be limited to the amount of actual loss which has been suffered (as determined by reference to the date of default of the Agent or, if later, the date on which the loss arises as a result of such default) but without reference to any special conditions or circumstances known to the Agent at any time which increase the amount of that loss. In no event shall the Agent be liable for any loss of profits, goodwill, reputation, business opportunity or anticipated saving, or for special, punitive, indirect or consequential damages, whether or not the Agent has been advised of the possibility of such loss or damages.

27.11 Lenders’ indemnity to the Agent

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero (0), to its share of the Total Commitments immediately prior to their reduction to zero (0)) indemnify the Agent, within three (3) Business Days of demand, against any cost, loss or liability incurred by the Agent (otherwise than by reason of the Agent’s gross negligence or wilful misconduct) in acting as Agent under the Finance Documents (unless the Agent has been reimbursed by an Obligor pursuant to a Finance Document).

27.12 Resignation of the Agent

- (a) The Agent may resign and appoint one of its Affiliates as successor by giving notice to the other Finance Parties and the Borrower.
- (b) Alternatively the Agent may resign by giving thirty (30) days’ notice to the other Finance Parties and the Borrower, in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Agent.

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- (c) If the Majority Lenders have not appointed a successor Agent in accordance with paragraph (b) above within twenty (20) days after notice of resignation was given, the retiring Agent (after consultation with the Borrower) may appoint a successor Agent.
- (d) If the Agent wishes to resign because (acting reasonably) it has concluded that it is no longer appropriate for it to remain as agent and the Agent is entitled to appoint a successor Agent under paragraph (c) above, the Agent may (if it concludes (acting reasonably) that it is necessary to do so in order to persuade the proposed successor Agent to become a party to this Agreement as Agent) agree with the proposed successor Agent amendments to this Clause 27 (*Role of the Agent and the Mandated Lead Arrangers*) and any other term of this Agreement dealing with the rights or obligations of the Agent consistent with then current market practice for the appointment and protection of corporate trustees together with any reasonable amendments to the agency fee payable under this Agreement which are consistent with the successor Agent's normal fee rates and those amendments will bind the Parties.
- (e) The retiring Agent shall, at its own cost, make available to the successor Agent such documents and records and provide such assistance as the successor Agent may reasonably request for the purposes of performing its functions as Agent under the Finance Documents. The Borrower shall, within three (3) Business Days of demand, reimburse the retiring Agent for the amount of all costs and expenses (including legal fees) properly incurred by it in making available such documents and records and providing such assistance.
- (f) The Agent's resignation notice shall only take effect upon the appointment of a successor.
- (g) Upon the appointment of a successor, the retiring Agent shall be discharged from any further obligation in respect of the Finance Documents (other than its obligations under paragraph (e) above) but shall remain entitled to the benefit of Clause 14.3 (*Indemnity to the Agent*) and this Clause 27 (*Role of the Agent and the Mandated Lead Arrangers*) (and any agency fees for the account of the retiring Agent shall cease to accrue from (and shall be payable on) that date). Any successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- (h) After consultation with the Borrower, the Majority Lenders may, by notice to the Agent, require it to resign in accordance with paragraph (b) above. In this event, the Agent shall resign in accordance with paragraph (b) above.
- (i) The Agent shall resign in accordance with paragraph (b) above (and, to the extent applicable, shall use reasonable endeavours to appoint a successor Agent pursuant to paragraph (c) above) if on or after the date which is three (3) Months before the earliest FATCA Application Date relating to any payment to the Agent under the Finance Documents, either:
- (i) the Agent fails to respond to a request under Clause 12.6 (*FATCA Information*) and a Lender reasonably believes that the Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;
 - (ii) the information supplied by the Agent pursuant to Clause 12.6 (*FATCA Information*) indicates that the Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date; or

- (iii) the Agent notifies the Borrower and the Lenders that the Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;

and (in each case) a Lender reasonably believes that a Party will be required to make a FATCA Deduction that would not be required if the Agent were a FATCA Exempt Party, and that Lender, by notice to the Agent, requires it to resign.

27.13 Confidentiality

- (a) In acting as agent for the Finance Parties, the Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.
- (b) If information is received by another division or department of the Agent, it may be treated as confidential to that division or department and the Agent shall not be deemed to have notice of it.

27.14 Relationship with the Lenders

- (a) Subject to Clause 25.8 (*Pro rata Interest Settlement*), the Agent may treat the person shown in its records as Lender at the opening of business (in the place of the Agent's principal office as notified to the Finance Parties from time to time) as the Lender acting through its Facility Office:
 - (i) entitled to or liable for any payment due under any Finance Document on that day; and
 - (ii) entitled to receive and act upon any notice, request, document or communication or make any decision or determination under any Finance Document made or delivered on that day,

unless it has received not less than five (5) Business Days' prior notice from that Lender to the contrary in accordance with the terms of this Agreement.

- (b) Any Lender may by notice to the Agent appoint a person to receive on its behalf all notices, communications, information and documents to be made or despatched to that Lender under the Finance Documents. Such notice shall contain the address, fax number and (where communication by electronic mail or other electronic means is permitted under Clause 32.5 (*Electronic communication*)) electronic mail address and/or any other information required to enable the sending and receipt of information by that means (and, in each case, the department or officer, if any, for whose attention communication is to be made) and be treated as a notification of a substitute address, fax number, electronic mail address, department and officer by that Lender for the purposes of Clause 32.2 (*Addresses*) and paragraph (a)(iii) of Clause 32.5 (*Electronic communication*) and the Agent shall be entitled to treat such person as the person entitled to receive all such notices, communications, information and documents as though that person were that Lender.

27.15 Credit appraisal by the Lenders

Without affecting the responsibility of any Obligor for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Agent and the Mandated Lead Arrangers that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- (a) the financial condition, status and nature of each member of the Group;

- (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- (c) whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- (d) the adequacy, accuracy or completeness of any information provided by the Agent, any Party or by any other person under or in connection with any Finance Document, the transactions contemplated by any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

27.16 Role of Reference Banks

- (a) No Reference Bank is under any obligation to provide a quotation or any other information to the Agent.
- (b) No Reference Bank will be liable for any action taken by it under or in connection with any Finance Document, or for any Reference Bank Quotation, unless directly caused by its gross negligence or wilful misconduct.
- (c) No Party (other than the relevant Reference Bank) may take any proceedings against any officer, employee or agent of any Reference Bank in respect of any claim it might have against that Reference Bank or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document, or to any Reference Bank Quotation, and any officer, employee or agent of each Reference Bank may rely on this Clause 27.16 (*Role of the Reference Banks*).

27.17 Third party Reference Banks

A Reference Bank which is not a Party may rely on Clause 27.16 (*Role of Reference Banks*), Clause 36.3 (*Other exceptions*) and Clause 40 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

27.18 Reference Banks

If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Agent shall (in consultation with the Borrower) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

27.19 Deduction from amounts payable by the Agent

If any Party owes an amount to the Agent under the Finance Documents the Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Agent would otherwise be obliged to make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

28. **CONDUCT OF BUSINESS BY THE FINANCE PARTIES AND THE HEDGING BANKS**

No provision of this Agreement will:

- (a) interfere with the right of any Finance Party and any Hedging Bank to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- (b) oblige any Finance Party or any Hedging Bank to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- (c) oblige any Finance Party or any Hedging Bank to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

29. **SHARING AMONG THE FINANCE PARTIES**

29.1 **Payments to Finance Parties**

If a Finance Party (a “**Recovering Finance Party**”) receives or recovers any amount from an Obligor other than in accordance with Clause 30 (*Payment mechanics*) (a “**Recovered Amount**”) and applies that amount to a payment due under the Finance Documents then:

- (a) the Recovering Finance Party shall, within three (3) Business Days, notify details of the receipt or recovery to the Agent;
- (b) the Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Finance Party would have been paid had the receipt or recovery been received or made by the Agent and distributed in accordance with Clause 30 (*Payment mechanics*), without taking account of any Tax which would be imposed on the Agent in relation to the receipt, recovery or distribution; and
- (c) the Recovering Finance Party shall, within three (3) Business Days of demand by the Agent, pay to the Agent an amount (the “**Sharing Payment**”) equal to such receipt or recovery less any amount which the Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 30.5 (*Partial payments*).

29.2 **Redistribution of payments**

The Agent shall treat the Sharing Payment as if it had been paid by the relevant Obligor and distribute it between the Finance Parties (other than the Recovering Finance Party) (the “**Sharing Finance Parties**”) in accordance with Clause 30.5 (*Partial payments*) towards the obligations of that Obligor to the Sharing Finance Parties.

29.3 **Recovering Finance Party’s rights**

On a distribution by the Agent under Clause 29.2 (*Redistribution of payments*) of a payment received by a Recovering Finance Party from an Obligor, as between the relevant Obligor and the Recovering Finance Party, an amount of the Recovered Amount equal to the Sharing Payment will be treated as not having been paid by that Obligor.

29.4 **Reversal of redistribution**

If any part of the Sharing Payment received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

- (a) each Sharing Finance Party shall, upon request of the Agent, pay to the Agent for the account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Sharing Payment which that Recovering Finance Party is required to pay) (the “**Redistributed Amount**”); and

- (b) as between the relevant Obligor and each relevant Sharing Finance Party, an amount equal to the relevant Redistributed Amount will be treated as not having been paid by that Obligor.

29.5 **Exceptions**

- (a) This Clause 29 (*Sharing among the Finance Parties*) shall not apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the relevant Obligor.
- (b) A Recovering Finance Party is not obliged to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of taking legal or arbitration proceedings, if:
- (i) it notified that other Finance Party of the legal or arbitration proceedings; and
 - (ii) that other Finance Party had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable having received notice and did not take separate legal or arbitration proceedings.

**SECTION 11
ADMINISTRATION**

30. **PAYMENT MECHANICS**

30.1 **Payments to the Agent**

- (a) On each date on which an Obligor or a Lender is required to make a payment under a Finance Document, that Obligor or Lender shall make the same available to the Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Agent as being customary at the time for settlement of transactions in the relevant currency in the place of payment.
- (b) Payment shall be made to such account with such bank as the Agent specifies.

30.2 **Distributions by the Agent**

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 30.3 (*Distributions to an Obligor*) and Clause 30.4 (*Clawback and pre-funding*) be made available by the Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement (in the case of a Lender, for the account of its Facility Office), to such account with such bank as that Party may notify to the Agent by not less than five (5) Business Days' notice.

30.3 **Distributions to an Obligor**

The Agent may (with the consent of the Obligor or in accordance with Clause 31 (*Set-off*)) apply any amount received by it for that Obligor in or towards payment (on the date and in the currency and funds of receipt) of any amount due from that Obligor under the Finance Documents or in or towards purchase of any amount of any currency to be so applied.

30.4 **Clawback and pre-funding**

- (a) Where a sum is to be paid to the Agent under the Finance Documents for another Party, the Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum.

- (b) Unless paragraph (c) below applies, if the Agent pays an amount to another Party and it proves to be the case that the Agent had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid by the Agent shall on demand refund the same to the Agent together with interest on that amount from the date of payment to the date of receipt by the Agent, calculated by the Agent to reflect its cost of funds.
- (c) If the Agent has notified the Lenders that it is willing to make available amounts for the account of the Borrower before receiving funds from the Lenders then if and to the extent that the Agent does so but it proves to be the case that it does not then receive funds from a Lender in respect of a sum which it paid to the Borrower:
 - (i) the Agent shall notify the Borrower of that Lender's identity and the Borrower shall on demand refund it to the Agent; and
 - (ii) the Lender by whom those funds should have been made available or, if that Lender fails to do so, the Borrower, shall on demand pay to the Agent the amount (as certified by the Agent) which will indemnify the Agent against any funding cost incurred by it as a result of paying out that sum before receiving those funds from that Lender.

30.5 Partial payments

- (a) If the Agent receives a payment under a Finance Document or a Hedging Agreement that is insufficient to discharge all the amounts then due and payable by an Obligor under the Finance Documents and/or by the Borrower under the Hedging Agreements, the Agent shall apply that payment towards the obligations of that Obligor under the Finance Documents and the Hedging Agreements in the following order:
 - (i) **first** , in or towards payment *pro rata* of any unpaid amount owing to the Agent under the Finance Documents;
 - (ii) **secondly** , in or towards payment *pro rata* of any accrued interest, fee or commission due but unpaid under this Agreement;
 - (iii) **thirdly** , in or towards payment *pro rata* of any principal due but unpaid under this Agreement;
 - (iv) **fourthly** , in or towards payment *pro rata* of any other sum due but unpaid under the Finance Documents (except any Hedging Agreement);
 - (v) **fifthly** , in or towards payment of any sum due but unpaid under the Hedging Agreements, *pro rata* in accordance with the amount of outstanding liabilities under the respective Hedging Agreements (after application of any netting arrangements in respect thereof).
- (b) The Agent shall, if so directed by the Lenders and the Hedging Banks, vary the order set out in paragraphs (a)(ii) to (v) above.
- (c) Paragraphs (a) and (b) above will override any appropriation made by an Obligor.

30.6 **No set-off by Obligor**

All payments to be made by an Obligor under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

30.7 **Business Days**

- (a) Any payment under the Finance Documents which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- (b) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

30.8 **Currency of account**

- (a) Subject to paragraphs (b) and (c) below, USD is the currency of account and payment for any sum due from an Obligor under any Finance Document.
- (b) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.
- (c) Any amount expressed to be payable in a currency other than USD shall be paid in that other currency.

31. **SET-OFF**

- (a) A Finance Party may set off any matured obligation due from an Obligor under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation owed by that Finance Party to that Obligor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.
- (b) Each Obligor hereby agrees and accepts that this Clause 31 (*Set-off*) shall constitute a waiver of the provisions of Section 29 of the FA Act and further agrees and accepts, to the extent permitted by law that Section 29 of the FA Act shall not apply to this Agreement.
- (c) The provisions of this Clause 31 (*Set-off*) shall not prejudice or otherwise affect or apply to any netting arrangements in any Hedging Agreement, provided that on and from a date when an Event of Default is continuing, any resulting amount due to a Hedging Bank is made to and/or through the Agent in accordance with Clause 30.1 (*Payments to the Agent*).

32. **NOTICES**

32.1 **Communications in writing**

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax, e-mail or letter.

32.2 **Addresses**

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

- (a) in the case of the Borrower, that identified with its name below;

KNOT Shuttle Tankers 30 AS
P. O. Box 2017
N-5504 Haugesund
Norway

Fax no.: +47 52 70 40 40
E-mail: finance@knutsenoas.com
omk@knotgroup.com
kly@knutsenoas.com

- (b) in the case of KNOT, that identified with its name below;

Knutsen NYK Offshore Tankers AS
P. O. Box 2017
N-5504 Haugesund
Norway

Fax no.: +47 52 70 40 40
E-mail: finance@knutsenoas.com
omk@knotgroup.com
kly@knutsenoas.com

- (c) in the case of each Lender or any other Obligor, that notified in writing to the Agent on or prior to the date on which it becomes a Party; and

- (d) in the case of the Agent, that identified with its name below,

Nordea Bank Norge ASA
P. O. Box 1166
N-0107 Oslo
Norway

E-mail: agency.soosid@nordea.com

or any substitute address or fax number or department or officer as the Party may notify to the Agent (or the Agent may notify to the other Parties, if a change is made by the Agent) by not less than five (5) Business Days' notice.

32.3 **Delivery**

- (a) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:
- (i) if by way of fax, when received in legible form;
 - (ii) if by way of electronic communication, when actually received in readable form and in the case of any electronic communication made to the Agent only if it is addressed in such a manner as the Agent shall specify for this purpose; or
 - (iii) if by way of letter, when it has been left at the relevant address or five (5) Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address;

and, if a particular department or officer is specified as part of its address details provided under Clause 32.2 (*Addresses*), if addressed to that department or officer.

- (b) Any communication or document to be made or delivered to the Agent will be effective only when actually received by the Agent and then only if it is expressly marked for the attention of the department or officer identified with the Agent's signature below (or any substitute department or officer as the Agent shall specify for this purpose).
- (c) All notices from or to an Obligor shall be sent through the Agent.
- (d) Any communication or document made or delivered to the Borrower in accordance with this Clause will be deemed to have been made or delivered to each of the Obligors.

32.4 Notification of address and fax number

Promptly upon receipt of notification of an address or fax number or change of address or fax number pursuant to Clause 32.2 (*Addresses*) or changing its own address or fax number, the Agent shall notify the other Parties.

32.5 Electronic communication

- (a) Any communication to be made between the Agent and a Lender under or in connection with the Finance Documents may be made by electronic mail or other electronic means, if the Agent and the relevant Lender:
 - (i) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;
 - (ii) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and
 - (iii) notify each other of any change to their address or any other such information supplied by them.
- (b) Any electronic communication made between the Agent and a Lender will be effective only when actually received in readable form and in the case of any electronic communication made by a Lender to the Agent only if it is addressed in such a manner as the Agent shall specify for this purpose.

32.6 English language

- (a) Any notice given under or in connection with any Finance Document must be in English.
- (b) All other documents provided under or in connection with any Finance Document must be:
 - (i) in English; or
 - (ii) if not in English, and if so required by the Agent, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

33. CALCULATIONS AND CERTIFICATES

33.1 Accounts

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by a Finance Party are *prima facie* evidence of the matters to which they relate.

33.2 **Certificates and Determinations**

Any certification or determination by a Finance Party of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

33.3 **Day count convention**

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of three hundred and sixty (360) days or, in any case where the practice in the Relevant Interbank Market differs, in accordance with that market practice.

34. **PARTIAL INVALIDITY**

If, at any time, any provision of a Finance Document is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

35. **REMEDIES AND WAIVERS**

No failure to exercise, nor any delay in exercising, on the part of any Finance Party, any right or remedy under a Finance Document shall operate as a waiver of any such right or remedy or constitute an election to affirm any of the Finance Documents. No election to affirm any Finance Document on the part of any Finance Party shall be effective unless it is in writing. No single or partial exercise of any right or remedy shall prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in each Finance Document are cumulative and not exclusive of any rights or remedies provided by law.

36. **AMENDMENTS AND WAIVERS**

36.1 **Required consents**

- (a) Subject to Clause 36.2 (*All Lender matters*) and Clause 36.3 (*Other exceptions*) any term of the Finance Documents may be amended or waived only with the consent of the Majority Lenders and the Obligors and any such amendment or waiver will be binding on all Parties.
- (b) The Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause.

36.2 **All Lender matters**

An amendment or waiver of any term of any Finance Document that has the effect of changing or which relates to:

- (a) the definitions of “Change of Control”, “Majority Lenders”, “Relevant Person” or “Restricted Party” in Clause 1.1 (*Definitions*);
- (b) an extension to the date of payment of any amount under the Finance Documents;
- (c) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fees or commission payable;
- (d) an increase in any Commitment, an extension of the Availability Period or any requirement that a cancellation of Commitments reduces the Commitments of the Lenders rateably under the Facility;
- (e) any provision which expressly requires the consent of all the Lenders;

- (f) Clause 2.1 (*Finance Parties' rights and obligations*), Clause 7.7 (*Mandatory prepayment – Change of Control*), Clause 7.11 (*Application of prepayments*), Clause 19.26 (*Sanctions*), Clause 22.19 (*Compliance with laws etc.*), Clause 22.20 (*Sanctions*), Clause 25 (*Changes to the Lenders*), Clause 26 (*Changes to the Obligors*), Clause 29 (*Sharing among the Finance Parties*), Clause 30.5 (*Partial payments*), this Clause 36 (*Amendments and waivers*), Clause 42 (*Governing law*) or Clause 43.1 (*Jurisdiction*);
- (g) the nature or scope of the guarantee and indemnity granted under Clause 18 (*Guarantee and indemnity*);
- (h) release of any Security created by the Security Documents unless permitted under the Finance Documents or undertaken by the Agent acting on instruction of the Majority Lenders following an Event of Default which is continuing;
- (i) a change to any Obligor, other than in accordance with Clause 26.2 (*KNOP and KNOT ST as replacement Guarantors*); or
- (j) any material change in any of the Security Documents,

shall not be made without the prior consent of all the Lenders and all the Hedging Banks.

36.3 **Other exceptions**

An amendment or waiver which relates to the rights or obligations of the Agent, a Bookrunner, a Mandated Lead Arranger, a Reference Bank or a Hedging Bank (each in their capacity as such) may not be effected without the consent of the Agent, that Bookrunner, that Mandated Lead Arranger, that Reference Bank or that Hedging Bank, as the case may be.

36.4 **Replacement of Lender**

- (a) If:
 - (i) any Lender becomes a Non-Consenting Lender (as defined in paragraph (d) below); or
 - (ii) an Obligor becomes obliged to repay any amount in accordance with Clause 7.4 (*Mandatory prepayment—illegality*) or to pay additional amounts pursuant to Clause 13 (*Increased costs*), Clause 12.2 (*Tax gross-up*) or Clause 12.3 (*Tax Indemnity*) to any Lender,

then the Borrower may, on ten (10) Business Days' prior written notice to the Agent and such Lender, replace such Lender by requiring such Lender to (and, to the extent permitted by law, such Lender shall) transfer pursuant to Clause 25 (*Changes to the Lenders*) all (and not part only) of its rights and obligations under this Agreement to a Lender or other bank, financial institution, trust, fund or other entity (a “ **Replacement Lender** ”) selected by the Borrower, which confirms its willingness to assume and does assume all the obligations of the transferring Lender in accordance with Clause 25 (*Changes to the Lenders*) for a purchase price in cash payable at the time of transfer in an amount equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest, (to the extent that the Agent has not given a notification under Clause 25.8 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

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- (b) The replacement of a Lender pursuant to this Clause 36.4 (*Replacement of Lender*) shall be subject to the following conditions:
- (i) the Borrower shall have no right to replace the Agent;
 - (ii) neither the Agent nor the Lender shall have any obligation to the Borrower to find a Replacement Lender;
 - (iii) in the event of a replacement of a Non-Consenting Lender such replacement must take place no later than thirty (30) days after the date on which that Lender is deemed a Non-Consenting Lender;
 - (iv) in no event shall the Lender replaced under this Clause 36.4 (*Replacement of Lender*) be required to pay or surrender to such Replacement Lender any of the fees received by such Lender pursuant to the Finance Documents; and
 - (v) the Lender shall only be obliged to transfer its rights and obligations pursuant to paragraph (a) above once it is satisfied that it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to that transfer.
- (c) A Lender shall perform the checks described in paragraph (b)(v) above as soon as reasonably practicable following delivery of a notice referred to in paragraph (a) above and shall notify the Agent and the Borrower when it is satisfied that it has complied with those checks.
- (d) In the event that:
- (i) the Borrower or the Agent (at the request of the Borrower) has requested the Lenders to give a consent in relation to, or to agree to a waiver or amendment of, any provisions of the Finance Documents;
 - (ii) the consent, waiver or amendment in question requires the approval of all the Lenders; and
 - (iii) Lenders whose Commitments aggregate more than $66 \frac{2}{3} \%$ of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than $66 \frac{2}{3} \%$ of the Total Commitments prior to that reduction) have consented or agreed to such waiver or amendment,

then any Lender who does not and continues not to consent or agree to such waiver or amendment shall be deemed a “ **Non-Consenting Lender** ”.

37. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

38. CONFLICT

In case of conflict between the Security Documents and this Agreement, the provisions of this Agreement shall prevail, provided however that this will not in any way be interpreted or applied to prejudice the legality, validity or enforceability of any Security Document.

**SECTION 12
MISCELLANEOUS**

39. DISCLOSURE OF INFORMATION AND CONFIDENTIALITY

- (a) Each Obligor irrevocably authorises any Finance Party to give, divulge and reveal from time to time information and details relating to its account, the Vessel, the Finance Documents, the Transaction Documents, the Facility, any Commitment and any agreement entered into by any Obligor or information provided by any Obligor in connection with the Finance Documents to;
- (i) any private, public or internationally recognised authorities;
 - (ii) the head offices, branches and Affiliates, auditors and professional advisors of any Finance Party;
 - (iii) any other parties to the Finance Documents;
 - (iv) a rating agency or their professional advisors;
 - (v) any person with whom they propose to enter (or contemplate entering) into contractual relations in relation to the Facility and/or Commitments; or
 - (vi) any other person(s) regarding the funding, re-financing, transfer, assignment, sale, sub-participation or operational arrangement or other transaction in relation thereto,
- including, without limitation, any enforcement, preservation, assignment, transfer, sale or sub-participation of any of the rights and obligations of any Finance Documents.
- (b) The Agent and/or the Mandated Lead Arrangers shall have the right, at its own expense, to publish information about its participation in and the agency and arrangement of the Facility and for such purpose use the Obligors' logos and trademark in connection with such publication.

40. CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS

40.1 Confidentiality and disclosure

- (a) The Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by paragraphs (b), (c) and (d) below.
- (b) The Agent may disclose:
- (i) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the relevant Borrower pursuant to Clause 8.4 (*Notification of rates of interest*); and
 - (ii) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Agent and the relevant Lender or Reference Bank, as the case may be.

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- (c) The Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:
- (i) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (i) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
 - (ii) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
 - (iii) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
 - (iv) any person with the consent of the relevant Lender or Reference Bank, as the case may be.
- (d) The Agent's obligations in this Clause 40 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without prejudice to its obligations to make notifications under Clause 8.4 (*Notification of rates of interest*) **provided that** (other than pursuant to paragraph (b)(i) above) the Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

40.2 **Related obligations**

- (a) The Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Agent, any Reference Bank Quotation for any unlawful purpose.
- (b) The Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:
 - (i) of the circumstances of any disclosure made pursuant to paragraph (c)(ii) of Clause 40.1 (*Confidentiality and disclosure*) except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and

-
- (ii) upon becoming aware that any information has been disclosed in breach of this Clause 40 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

40.3 **No Event of Default**

No Event of Default will occur under Clause 24.3 (*Other obligations*) by reason only of an Obligor's failure to comply with this Clause 40 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

41. **"KNOW YOUR CUSTOMER" CHECKS**

(a) If:

- (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation (whether in public regulation or in internal regulation of any of the Finance Parties) made after the date hereof;
- (ii) any change in the status of an Obligor or the composition of the shareholders of an Obligor after the date hereof;
- (iii) a proposed assignment or transfer by a Finance Party of any of its rights and/or obligations under this Agreement to a party that is not a Finance Party prior to such assignment or transfer; or
- (iv) any internal requirements or routines of any of the Finance Parties,

obliges the Agent or any Finance Party (or, in the case of paragraph (iii) above, any prospective new Finance Party) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, each Obligor shall promptly upon the request of the Agent or any Finance Party supply, or procure the supply of, such documentation and other evidence as is requested by the Agent (for itself or on behalf of any Finance Party) or any Finance Party (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Finance Party) in order for the Agent, such Finance Party or, in the case of the event described in paragraph (iii) above, any prospective new Finance Party to carry out and be satisfied with the results of all necessary "know your customer" or other checks in relation to any relevant person pursuant to the transactions contemplated in the Finance Documents.

- (b) Each Finance Party shall promptly upon the request of the Agent supply, or procure the supply of, such documentation and other evidence as is requested by the Agent (for itself) in order for the Agent to carry out and be satisfied with the results of all necessary "know your customer" or other checks on Finance Parties or prospective new Finance Parties pursuant to the transactions contemplated in the Finance Documents.

**SECTION 12
GOVERNING LAW AND ENFORCEMENT**

42. **GOVERNING LAW**

This Agreement is governed by Norwegian law.

43. **ENFORCEMENT**

43.1 **Jurisdiction**

- (a) The courts of Norway, the venue to be Oslo city court (in Norwegian: *Oslo tingrett*) have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute relating to the existence, validity or termination of this Agreement (a “ **Dispute** ”).
- (b) The Parties agree that the courts of Norway are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.
- (c) This Clause 43.1 (*Jurisdiction*) is for the benefit of the Finance Parties only. As a result, no Finance Party shall be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Finance Parties may take concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

SCHEDULE 1
THE ORIGINAL LENDERS

Name of Original Lender:	Tranche A Commitment	Tranche B Commitment	Total Commitment:
DBJ Europe Limited	USD 26,133,333,33	USD 3,866,666,67	USD 30,000,000
Mizuho Bank, Ltd.	USD 26,133,333,33	USD 3,866,666,67	USD 30,000,000
Nordea Bank Norge ASA	USD 26,133,333,34	USD 3,866,666,66	USD 30,000,000
	USD 78,400,000	USD 11,600,000	USD 90,000,000

SCHEDULE 2
CONDITIONS PRECEDENT AND SUBSEQUENT

Part I
General Conditions Precedent

1. Obligors

- (a) Copies of the constitutional documents of each Obligor.
- (d) A copy of a resolution of the board of directors of each Obligor:
 - (i) approving the terms of, and the transactions contemplated by, the Finance Documents and Transaction Documents to which it is a party and resolving that it shall execute the Finance Documents and Transaction Documents to which it is a party;
 - (ii) authorising a specified person or persons to execute the Finance Documents and Transaction Documents to which it is a party on its behalf; and
 - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices (including, if relevant, any Utilisation Request and Selection Notice) to be signed and/or despatched by it under or in connection with the Finance Documents to which it is a party.
- (e) A specimen of the signature of each person authorised by the resolution referred to in paragraph (b) above.
- (f) An original Power of Attorney (notarised and legalised if requested by the Agent).
- (g) A written confirmation in original from a Director of each Obligor that each document provided by that Obligor under Part I (*General Conditions Precedent*) of this Schedule 2 (*Conditions precedent and subsequent*) are true copies of the originals.

2. Know Your Customer (KYC) requirements

Any documents required by the Agent and the Lenders pursuant to any “Know your customer Checks” with respect to the Obligors and their signatories, directors and ultimate beneficial owners.

3. Authorisations

All approvals, authorisations and consents required by any government or other authorities for the Obligors to enter into and perform their obligations under this Agreement and/or any of the Finance Documents and Transaction Documents to which they are respective parties.

4. Finance Documents

- (a) The Agreement.
- (b) Each Fee Letter, duly acknowledged by the Borrower.
- (c) The Intercreditor Agreement.
- (d) The Assignment Agreement.

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- (e) Notices of Assignment of Hedging Agreement and each Hedging Bank's acknowledgement thereof.
 - (f) A Notice of Assignment of Insurances and the insurers' acknowledgement thereof.
 - (g) A Notice of Assignment of Earnings and the Charterer's acknowledgement thereof.
 - (h) The Account Pledge.
 - (i) A Notice of Pledge of Account and the Account Bank's acknowledgement thereof.
 - (j) The Assignment of Charterparty (if obtainable).
 - (k) A Notice of Assignment of Charterparty and the Charterer's acknowledgement thereof (if obtainable).
 - (l) The Share Pledge.
 - (m) Evidence of perfection of the Borrower's Share Pledge.
 - (n) The Factoring Agreement.
 - (o) A declaration of pledge in respect of the Factoring Agreement.
 - (p) Evidence that the Factoring Agreement has been registered with its intended priority in the Registry of Moveable Property (in No. *Løsøreregisteret*).
 - (q) The Mortgage.
 - (r) Evidence that the Mortgage have been registered with its intended priority in the relevant Approved Ship Registry.
 - (s) A Manager's Undertaking from each Manager.
- (All Finance Documents to be delivered in original).

5. **Transaction Documents**

- (a) A copy of the Shipbuilding Contract.
- (b) A copy of the Charterparty.

6. **Documents relating to the Vessel**

- (a) Copies of insurance policies/cover notes documenting that insurance cover has been taken out in respect of the Vessel in accordance with Clause 23.2 (*Insurance—Vessel*), and evidencing that the Agent's Security in the insurance policies have been noted in accordance with the relevant notices as required under the relevant Assignment Agreement.
- (b) A copy of a report, in form and scope reasonably acceptable to the Agent, from Bankserve or another firm of marine insurance brokers acceptable to the Lenders with respect to the insurance maintained in respect of the Vessel, together with a certificate from such broker certifying that such insurances (I) are placed with such insurance companies and/or underwriters and/or clubs, in such amounts, against such risks, and in such form, as is acceptable to the Lenders and (II) conform with requirements of the mortgage taken for the benefit of the Lenders in the Vessel.

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- (c) A copy of the current relevant DOC.
 - (d) A certified copy of the relevant Management Agreement.
 - (e) A copy of the relevant builder's certificate and/or bill of sale (as relevant) from the Shipyard.
 - (f) A copy of the protocol of delivery and acceptance under the relevant Shipbuilding Contract.
 - (g) Evidence (by way of transcript of registry) that the Vessel is, or will be, registered in the name of the relevant Borrower in an Approved Ship Registry acceptable to the Agent, that the relevant Mortgage has been, or will in connection with Utilisation of the relevant Loan be, executed and recorded with its intended priority against the Vessel and that no other encumbrances, maritime liens, mortgages or debts whatsoever are registered against the Vessel.
 - (h) A certified copy of an updated (interim) class certificate related to the Vessel from the relevant classification society, confirming that the Vessel is classed with the highest class in accordance with Clause 23.4 (*Classification and repairs*), free of extensions and overdue recommendations.
 - (i) A copy of the current (interim) SMC.
 - (j) A copy of the current (interim) ISSC.
 - (k) Valuation certificates issued not earlier than thirty (30) days before the Utilisation Date evidencing the Market Value of the Vessel.

7. **Other documents and evidence**

- (a) The Hedging Agreements (if relevant).
- (b) The Second Loan Agreement.
- (c) The Second Security Documents.
- (d) The Original Financial Statements of each Obligor.
- (e) An original Compliance Certificate confirming that the Borrower and the Guarantors are in compliance with the financial covenants as set out in Clause 21 (*Financial covenants*).
- (f) Evidence of Equity Contribution.
- (g) Evidence that the fees, costs and expenses then due from the Borrower pursuant to Clause 11 (*Fees*) and Clause 16 (*Costs and expenses*) have been paid or will be paid by the first Utilisation Date.
- (h) A complete and detailed breakdown of the cost amount, as acceptable to the Lenders.
- (i) A Utilisation Request.

- (j) If relevant, assurance that any withholding tax will be paid or application to tax authorities is or will be sent.
- (k) Evidence that any existing facilities will be cancelled and repaid in full prior to, or simultaneously with, the first drawdown under the Facility, and that any securities related thereto are being released or cancelled.
- (l) Any other document, authorisation, opinion or assurance requested by the Agent.

8. **Legal opinions**

The following documents to be received by the Agent latest on the Utilisation Date:

- (a) A legal opinion from Advokatfirmaet Schjødt AS, legal advisers to the Agent in Norway, substantially in the form distributed to the Original Lenders prior to signing this Agreement.
- (b) If an Obligor is incorporated in a jurisdiction other than Norway, a legal opinion from the legal advisers to the Agent in the relevant jurisdiction, substantially in the form distributed to the Original Lenders prior to signing this Agreement.
- (c) If any Mortgaged Asset is situated in a jurisdiction other than Norway, or any Finance Document is subject to any other choice of law than Norwegian law, a legal opinion from the legal advisers to the Agent in the relevant jurisdiction, substantially in the form distributed to the Original Lenders prior to signing this Agreement.
- (d) Any such other favourable legal opinions in form and substance satisfactory to the Agent from lawyers appointed by the Agent on matters concerning all relevant jurisdictions.

Part II

Conditions Precedent to Drop Down

9. **KNOP and the relevant Subsidiary which will become the owner of the Borrower**

- (a) Certified copies of the constitutional documents of KNOP and the relevant Subsidiary which will become the owner of the Borrower.
- (b) A certified copy of a resolution of the board of directors of KNOP and the relevant Subsidiary which will become the owner of the Borrower:
 - (i) approving the terms of, and the transactions contemplated by, the Finance Documents to which it will become a party and resolving that it shall execute the Finance Documents to which it will become a party;
 - (ii) authorising a specified person or persons to execute the Finance Documents to which it will become a party on its behalf; and
 - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in connection with the Finance Documents to which will become is a party.
- (c) A specimen of the signature of each person authorised by the resolution referred to in paragraph (b) above.

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- (d) A copy of a Power of Attorney (notarised and legalised if requested by the Agent).
 - (e) A written confirmation in original from a Director of KNOP and the relevant Subsidiary which will become the owner of the Borrower that each document provided by that Obligor under items 9 and 10 of Part II (*Conditions Precedent to Drop Down*) of this Schedule 2 (*Conditions precedent and subsequent*) are true copies of the originals.

10. **Know Your Customer (KYC) requirements**

Any documents required by the Finance Parties pursuant to any “Know your customer Checks” with respect to KNOP and its signatories, directors and ultimate beneficial owners.

11. **Authorisations**

All approvals, authorisations and consents required by any government or other authorities for KNOP to enter into and perform their obligations under this Agreement and/or any of the Finance Documents to which it will become a party.

12. **Finance Documents**

- (a) An Accession Letter.
- (b) The relevant Share Pledge (executed by KNOP (or a Subsidiary of KNOP)).
- (c) Evidence of perfection of the relevant Share Pledge.

13. **Other documents and evidence**

- (a) Evidence (by way of a share purchase agreement or similar and an updated register of shareholders issued by the Borrower) that all shares in the Borrower has been, or will in connection with the Drop Down, be transferred from KNOP to KNOP (or a Subsidiary of KNOP).
- (b) Evidence that all process agent appointments required by the Finance Documents have been duly accepted.
- (c) Evidence that the mandatory prepayment amount payable in accordance with Clause 7.3 (*Mandatory prepayment – Drop Down*) has been paid or will be paid by the Drop Down Date.
- (d) Any other documents as reasonably requested by the Agent.

14. **Legal opinions**

- (a) A legal opinion from Advokatfirmaet Schjødt AS, legal advisers to the Agent in Norway.
- (b) If an Obligor is incorporated in a jurisdiction other than Norway, a legal opinion from the legal advisers to the Agent in the relevant jurisdiction.
- (c) Any such other favourable legal opinions in form and substance satisfactory to the Agent from lawyers appointed by the Agent on matters concerning all relevant jurisdictions.

Part III
Conditions Subsequent

15. **Documents relating to the Vessel**

- (a) A copy of the protocol of delivery and acceptance under the Charterparty, within 1 March 2017.

SCHEDULE 3

REQUESTS

Part I

Utilisation Request

From: KNOT Shuttle Tankers 30 AS

To: Nordea Bank Norge ASA

Dated:

Dear Sirs

**KNOT Shuttle Tankers 30 AS –
USD 90,000,000 Facility Agreement dated 30 September 2016 (the “Agreement”)**

1. We refer to the Agreement. This is a Utilisation Request. Terms defined in the Agreement have the same meaning in this Utilisation Request unless given a different meaning in this Utilisation Request.
2. We wish to borrow the Loans on the following terms:

Proposed Utilisation Date: [] (or, if that is not a Business Day, the next Business Day)
Amount: [] or, if less, the Facility
Interest Period: []
3. We confirm that each condition specified in Clause 4.2 (*Further conditions precedent*) is satisfied on the date of this Utilisation Request.
4. The proceeds of this Loan should be credited to [*account*].
5. This Utilisation Request is irrevocable.

Yours faithfully

authorised signatory for
KNOT SHUTTLE TANKERS 30 AS

Part II
Selection Notice

From: KNOT Shuttle Tankers 30 AS

To: Nordea Bank Norge ASA

Dated:

Dear Sirs

KNOT Shuttle Tankers 30 AS –
USD 90,000,000 Facility Agreement dated 30 September 2016 (the “Agreement”)

1. We refer to the Agreement. This is a Selection Notice. Terms defined in the Agreement have the same meaning in this Selection Notice unless given a different meaning in this Selection Notice.
2. We request that the next Interest Period for the Loan under Tranche [] is [] Months.
3. This Selection Notice is irrevocable.

Yours faithfully

authorised signatory for
KNOT SHUTTLE TANKERS 30 AS

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SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: Nordea Bank Norge ASA as Agent
From: [*The Existing Lender*] (the “ **Existing Lender** ”) and [*The New Lender*] (the “ **New Lender** ”)
Dated:

KNOT Shuttle Tankers 30 AS –
USD 90,000,000 Facility Agreement dated 30 September 2016 (the “Agreement”)

1. We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.
2. We refer to Clause 25.5 (*Procedure for transfer*):
 - (a) The Existing Lender and the New Lender agree to the Existing Lender transferring to the New Lender by novation all or part of the Existing Lender’s Commitment, rights and obligations referred to in the Schedule in accordance with Clause 25.5 (*Procedure for transfer*).
 - (b) The proposed Transfer Date is [].
 - (c) The Facility Office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 32.2 (*Addresses*) are set out in the Schedule.
3. The New Lender expressly acknowledges the limitations on the Existing Lender’s obligations set out in paragraph (c) of Clause 25.3 (*Limitation of responsibility of Existing Lenders*).
4. This Transfer Certificate may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Transfer Certificate.
5. This Transfer Certificate is governed by Norwegian law.
6. This Transfer Certificate has been entered into on the date stated at the beginning of this Transfer Certificate.

THE SCHEDULE

Commitment/rights and obligations to be transferred

[*insert relevant details*]

[*Facility Office address, fax number and attention details for notices and account details for payments,*]

[Existing Lender]

[New Lender]

By:

By:

This Transfer Certificate is accepted by the Agent and the Transfer Date is confirmed as [].

[Agent]

By:

SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE

From: KNOT Shuttle Tankers 30 AS
Knutsen NYK Offshore Tankers AS

To: Nordea Bank Norge ASA as Agent

Dated:

Dear Sirs

**KNOT Shuttle Tankers 30 AS –
USD 90,000,000 Facility Agreement dated 30 September 2016 (the “Agreement”)**

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning when used in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that:
[]
3. [We confirm that each Repeating Representation is true and correct on this date and that no Default is continuing.]*

Yours faithfully

authorised signatory for
KNOT SHUTTLE TANKERS 30 AS
KNUTSEN NYK OFFSHORE TANKERS AS

* If this statement cannot be made, the certificate should identify any Default that is continuing and the steps, if any, being taken to remedy it.

SCHEDULE 6
FORM OF ACCESSION LETTER

From: KNOT Shuttle Tankers 30 AS
Knutsen NYK Offshore Tankers AS
KNOT Offshore Partners LP
KNOT Shuttle Tankers AS

To: Nordea Bank Norge ASA as Agent

Dated:

Dear Sirs

**KNOT Shuttle Tankers 30 AS –
USD 90,000,000 Facility Agreement dated 30 September 2016 (the “Agreement”)**

1. We refer to the Agreement. This is an Accession Letter. Terms defined in the Agreement have the same meaning in this Accession Letter unless given a different meaning in this Accession Letter.
2. KNOT Offshore Partners LP (“KNOP”) and KNOT Shuttle Tankers AS (“KNOT ST”) agree to become Guarantors with respect to all amounts outstanding the Agreement and to be bound by the terms of the Agreement as Guarantor pursuant to Clause 26.2 (*KNOP and KNOT ST as replacement Guarantors*) of the Agreement.
3. KNOP’s and KNOT ST’s administrative details are as follows:
Address:
Fax no.:
Attention:
4. We confirm that the Repeating Representations are made by each of KNOT Shuttle Tankers 30 AS, KNOP and KNOT ST on the date of this Accession Letter and that all Repeating Representations are true in all material respects on that date.
5. This Accession Letter is governed by Norwegian law and KNOP has appointed [*] as its process agents in respect of this Accession Letter and the other Finance Documents.

Yours faithfully

authorised signatory for
KNOT Shuttle Tankers 30 AS

authorised signatory for
Knutsen NYK Offshore Tankers AS

authorised signatory for
KNOT Offshore Partners LP

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SCHEDULE 8
DRAWINGS AND REPAYMENT SCHEDULE

Repayment Schedule Tranche A			Repayment Schedule Tranche B		
Instament nr	Instalment amount	Outstanding	Instament nr	Instalment amount	Outstanding
		78 400 000			11 600 000
1	1 031 579	77 368 421	1	580 000	11 020 000
2	1 031 579	76 336 842	2	580 000	10 440 000
3	1 031 579	75 305 263	3	580 000	9 860 000
4	1 031 579	74 273 684	4	580 000	9 280 000
5	1 031 579	73 242 105	5	580 000	8 700 000
6	1 031 579	72 210 526	6	580 000	8 120 000
7	1 031 579	71 178 947	7	580 000	7 540 000
8	1 031 579	70 147 368	8	580 000	6 960 000
9	1 031 579	69 115 789	9	580 000	6 380 000
10	1 031 579	68 084 211	10	580 000	5 800 000
11	1 031 579	67 052 632	11	580 000	5 220 000
12	1 031 579	66 021 053	12	580 000	4 640 000
13	1 031 579	64 989 474	13	580 000	4 060 000
14	1 031 579	63 957 895	14	580 000	3 480 000
15	1 031 579	62 926 316	15	580 000	2 900 000
16	1 031 579	61 894 737	16	580 000	2 320 000
17	1 031 579	60 863 158	17	580 000	1 740 000
18	1 031 579	59 831 579	18	580 000	1 160 000
19	1 031 579	58 800 000	19	580 000	580 000
20	1 031 579	57 768 421	20	580 000	—
Balloon payment	57 768 421	—			

SCHEDULE 9
FORM OF DROP DOWN CONFIRMATION LETTER

From: Nordea Bank Norge ASA as Agent

To: KNOT Shuttle Tankers 30 AS
Knutsen NYK Offshore Tankers AS
KNOT Offshore Partners LP
KNOT Shuttle Tankers AS
Finance Parties

Dated:

Dear Sirs

**KNOT Shuttle Tankers 30 AS –
USD 90,000,000 Facility Agreement dated 30 September 2016 (the “Agreement”)**

1. We refer to the Agreement. This is a Drop Down Confirmation Letter. The purpose of this Drop Down Confirmation Letter is to give notice that a Drop Down has become effective.
2. Terms defined in the Agreement have the same meaning in this Drop Down Confirmation Letter unless given a different meaning herein.
3. We hereby confirm that we have received:
 - (a) all the documents and other evidence listed in paragraph (b) of Clause 28.2 (*KNOP and KNOT ST as replacement Guarantors*) of the Facility Agreement (in form and substance satisfactory to us); and
 - (b) prepayment in accordance with Clause 7.3 (*Mandatory prepayment—Drop Down*),and consequently we confirm that:
 - (c) the Drop Down;
 - (d) the accession of KNOP and KNOT ST as Guarantors ; and
 - (e) the secession of KNOT as Guarantor,shall become effective as of [*time*] on [*date*], as per the terms of Clause 28.2 (*KNOP and KNOT ST as replacement Guarantors*) of the Facility Agreement.
4. This Drop Down Confirmation Letter is governed by Norwegian law.

Yours faithfully

authorised signatory for
Nordea Bank Norge ASA

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EXECUTION PAGE

Borrower:

KNOT SHUTTLE TANKERS 30 AS

By: /s/ Jan J. Greve

Name: Jan J. Greve

Title: Attorney-in-fact

Original Lender and Mandated Lead Arranger:

DBJ EUROPE LIMITED

By: /s/ Haruhisa Kawashita

Name: Haruhisa Kawashita

Title: Chairman, Member of the Board

Hedging Bank:

NORDEA BANK FINLAND PLC.

By: /s/ Thomas Dale

Name: Thomas Dale

Title: Attorney-in-fact

Guarantor:

KNUTSEN NYK OFFSHORE TANKERS AS

By: /s/ Jan J. Greve

Name: Jan J. Greve

Title: Attorney-in-fact

Original Lender Hedging Bank and Mandated Lead Arranger:

MIZUHO BANK, LTD.

By: /s/ Thomas Dale

Name: Thomas Dale

Title: Attorney-in-fact

Original Lender, Bookrunner, Mandated Lead Arranger and Agent:

NORDEA BANK NORGE ASA

By: /s/ Thomas Dale

Name: Thomas Dale

Title: Attorney-in-fact

ACCESSION LETTER

From: KNOT Shuttle Tankers 30 AS
 Knutsen NYK Offshore Tankers AS
 KNOT Offshore Partners LP
 KNOT Shuttle Tankers AS

To: Nordea Bank AB (publ), filial i Norge as Agent

Dated: 1 March 2018

Dear Sirs

**KNOT Shuttle Tankers 30 AS –
 USD 90,000,000 Facility Agreement dated 30 September 2016 (the “Agreement”)**

1. We refer to the Agreement. This is an Accession Letter. Terms defined in the Agreement have the same meaning in this Accession Letter unless given a different meaning in this Accession Letter.
2. KNOT Offshore Partners LP (“**KNOP**”) and KNOT Shuttle Tankers AS (“**KNOT ST**”) agree to become Guarantors with respect to all amounts outstanding under the Agreement and to be bound by the terms of the Agreement as Guarantor pursuant to Clause 26.2 (*KNOP and KNOT ST as replacement Guarantors*) of the Agreement.
3. KNOP’s and KNOT ST’s administrative details are as follows:

Address: 2 Queen’s Cross
 Aberdeen
 Aberdeenshire AB15 4YB
 United Kingdom

Fax no.: +44 (0) 1224 624891

Attention: CFO/CEO
4. We confirm that the Repeating Representations are made by each of KNOT Shuttle Tankers 30 AS, KNOP and KNOT ST on the date of this Accession Letter and that all Repeating Representations are true in all material respects on that date.
5. KNOP and KNOT ST both confirm having been notified by the Agent that accession to the Agreement as guarantors will imply that they become guarantors for existing debt, that there is no Event of Default, that the Drop Down has no Material Adverse Effect and that in addition to the guarantees from KNOP and KNOT ST, the Outstanding Indebtedness will be secured by the following Security Documents (all as defined in the Agreement):
 - (a) the Mortgage;
 - (b) the Assignment Agreement;
 - (c) Assignment of Charterparty;
 - (d) the Factoring Agreement;

(e) the Account Pledge; and

(f) the Share Pledge.

6. This Accession Letter is governed by Norwegian law and KNOP has appointed KNOT ST as its process agents in respect of this Accession Letter and the other Finance Documents.

Yours faithfully

/s/ Karl Gerhard Bråstein Dahl

authorised signatory for
KNOT Shuttle Tankers 30 AS

/s/ Karl Gerhard Bråstein Dahl

authorised signatory for
Knutsen NYK Offshore Tankers AS

/s/ John Costain

authorised signatory for
KNOT Offshore Partners LP

/s/ Karl Gerhard Bråstein Dahl

authorised signatory for
KNOT Shuttle Tankers AS

SHARE PURCHASE AGREEMENT

Between

Knutsen

NYK Offshore Tankers AS

(as Seller)

And

KNOT Shuttle Tankers

AS (as Buyer)

for the sale and purchase of the shares in

KNOT Shuttle Tankers 32 AS

SHARE PURCHASE AGREEMENT

This agreement (this “**Agreement**”) is entered into on the 15 December 2017 between:

- (1) **Knutsen NYK Offshore Tankers AS**, company registration no. 995 221 713
(the “**Seller**”), and
- (2) **KNOT Shuttle Tankers AS**, company registration no. 998 942 829
(the “**Buyer**”).

The Seller and the Buyer are hereinafter individually referred to as a “**Party**” and jointly the “**Parties**”.

1 RECITALS

WHEREAS:

- a) KNOT Shuttle Tankers 32 AS, company registration no. 918 447 954, is a private limited liability company that has as its purpose to engage in shipowning activities, is duly incorporated under Norwegian law and has its registered place of business in Haugesund, Norway (the “**Company**”);
- b) The Seller is the sole owner of the ownership interest in the Company, with a share capital of NOK 100,000;
- c) The Company is the owner of the MT “Brasil Knutsen”, having IMO No. 9637777 (the “**Vessel**”); and
- d) The Seller and the Buyer have agreed that the Buyer shall acquire 100% of the shares in the Company (the “**Shares**”) on the terms and conditions set forth in this Agreement.

2 DEFINITIONS

In this Agreement, the following definitions shall have the following meanings:

- a) **Accounting Principles** means the applicable Norwegian generally accepted accounting principles as defined by Norwegian law and regulations and accounting standards issued by the Norwegian Accounting Standards Board (Nw: *Norsk Regnskapsstiftelse/NRS*), applied on a consistent basis;
- b) **Accounts** means, in respect of the Company, its unaudited profit and loss and balance sheet statement as per the Accounts Date attached as Schedule 2;
- c) **Accounts Date** means 30 September 2017;

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- d) **Agreement** shall have the meaning ascribed to such term in the preamble to this Agreement;
- e) **Brasil Facility** means the USD 60,000,000 Term Loan Facility in respect of the Vessel, dated 27 June 2017, as amended by an Amendment Agreement No 1 dated 15 December 2017, and made between (i) the Company as borrower, (ii) the Seller as original guarantor (iii) the banks and financial institutions listed in Schedule 1 thereto as lenders, (iv) ABN AMRO Bank N.V., Oslo Branch and Danske bank A/S as bookrunners and mandated lead arrangers, (v) ABN AMRO Bank N.V. and Danske Bank A/S as swap providers and (vi) ABN AMRO Bank N.V. as agent and security agent;
- f) **Business** means the current business of the Company, being to own the Vessel, and charter the same under the Charter;
- g) **Business Day** means a day on which banks are open for general banking business in Norway;
- h) **Buyer** shall have the meaning ascribed to such term in the preamble to this Agreement;
- i) **Buyer Indemnitees** shall have the meaning ascribed to such term in Clause 12.1;
- j) **Capitalized Fees** means capitalized fees and transaction costs related to the financing of the Vessel as of the Closing Date. Provided the Closing Date occurs on 15 December, 2017, the Capitalized Fees will be USD 618,049.53.
- k) **Charter** means the Time Charter, dated 13 October 2017, entered into between the Company as owner and the Charterer as charterer in respect of the Vessel;
- l) **Charterer** means Galp Sinopec Brazil Services B.V.;
- m) **Closing** shall have the meaning ascribed to such term in Clause 5.1;
- n) **Closing Date** means the date when the Closing actually takes place according to Clause 5.1;
- o) **Companies Act** means the Norwegian Limited Liability Companies Act of 1997
- p) **Company** means KNOT Shuttle Tankers 32 AS, Norwegian organization no.: 918 447 954;
- q) **Company's Liquidity Loan** means a liquidity loan in the principal amount of NOK 292,529,268.30 as of 30 November 2017 from the Seller, equivalent to the amount of USD 35,235,150.72 when applying 8.3022 as the exchange rate for USD/NOK published as the middle rate of DNB Markets on 30 November 2017;

r)	Encumbrance	means any mortgage, charge, pledge, lien, option or other security interest or restriction of any kind;
s)	Governmental Authority	means any domestic or foreign government, including federal, provincial, state, municipal, county or regional government or governmental or regulatory authority, domestic or foreign, and includes any department, commission, bureau, board, administrative agency or regulatory body of any of the foregoing and any multinational or supranational organization;
t)	Indemnified Party	shall have the meaning ascribed to such term in Clause 12.3;
u)	Indemnifying Party	shall have the meaning ascribed to such term in Clause 12.3;
v)	Losses	means any loss, liability, claim, damage, expense (including costs of investigation and defence and reasonable attorneys' fees) or diminution of value, whether or not involving a third-party claim;
w)	Material Adverse Effect	means a material adverse effect on the condition (financial, commercial, technical, legal or otherwise) of the Business, assets, results of operations or prospects of the Company;
x)	Material Agreement	shall have the meaning ascribed to such term in Clause 8.11;
y)	Party	shall have the meaning ascribed to such term in the preamble to this Agreement;
z)	Parties	shall have the meaning ascribed to such term in the preamble to this Agreement;
aa)	Partnership	means KNOT Offshore Partners LP, a Marshall Islands limited partnership;
bb)	Purchase Price	shall have the meaning ascribed to such term in Clause 4;
cc)	Purchase Price Adjustments	shall have the meaning ascribed to such term in Clause 5.4;
dd)	Seller	shall have the meaning ascribed to such term in the preamble to this Agreement;
ee)	Seller Indemnities	shall have the meaning ascribed to such term in Clause 12.2;
ff)	Shares	shall have the meaning ascribed to such term in Clause 1;
gg)	Signing Date	means the date of this Agreement;

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- hh) **Swap Agreements** means the 2002 ISDA master agreements entered into between the Company and Danske Bank A/S and the Schedule thereto, dated 28 June 2017 and with ABN AMRO Bank N.V., dated 3 July 2017, and the Schedule thereto, each relating to the Brasil Facility;
- ii) **Taxes** means all taxes (including value-added tax and similar taxes), however denominated, including interest, penalties and other additions to tax that may become payable or imposed by any applicable statute, rule or regulation or any governmental agency, including all taxes, withholdings and other charges in respect of income, profits, gains, payroll, social security or other social benefit taxes, sales, use, excise, real or personal property, stamps, transfers and workers' compensation, which the Company is required to pay, withhold or collect; and
- jj) **Third-Party Claim** shall have the meaning ascribed to such term in Clause 12.3; and
- kk) **Vessel** shall have the meaning ascribed to such term in Clause 1.

3 SALE AND PURCHASE

Subject to the terms and conditions set forth in this Agreement, the Seller agrees to sell, and the Buyer agrees to purchase, the Shares, together with all rights attached to them.

The Shares shall be transferred to the Buyer on the Closing Date, free and clear from any Encumbrances, other than pursuant to the Brasil Facility.

4 PURCHASE PRICE

The Seller agrees to sell and transfer to the Buyer, and the Buyer agrees to purchase from the Seller the Shares for USD 96,000,000, less USD 59,000,000 of outstanding principal under the Brasil Facility at Closing and less USD 35,235,150.72 of outstanding principal under the Company's Liquidity Loan, plus the Capitalized Fees (the "**Purchase Price**"), plus the Purchase Price Adjustments, all in accordance with and subject to the terms and conditions set forth in this Agreement.

The Purchase Price is to be settled by way of cash payment on the Closing Date in the amount of USD 2,382,898.81 from the Buyer to the Seller, subject to the subsequent Purchase Price Adjustments in accordance with Clause 5.4 below.

The Purchase Price as calculated above is based on the assumption that Closing occurs on 15 December 2017 at 14:00 CET. If Closing should occur at another time the Parties shall agree on an adjusted Purchase Price to be paid on Closing, to reflect accrued interest, currency fluctuations and paid instalments (as applicable) in respect of the Brasil Facility, the Capitalized Fees and the Company's Liquidity Loan.

5 CLOSING

5.1 Time and place

Subject to the satisfaction or waiver of the conditions set forth in Clause 6, the completion of the transactions contemplated by this Agreement (the “**Closing**”) shall take place at the offices of the Seller at 15 December 2017 or such other time as the Parties agree.

5.2 The Seller’s Closing obligations

At the Closing, the Seller shall:

- a) deliver to the Buyer a copy of the minutes of the meeting of the board of directors of the Seller authorising the execution of, and the consummation of the transaction completed by, this Agreement; and
- b) in exchange for the payment of the Purchase Price, transfer the Shares to the Buyer and deliver to the Buyer the share register of the Company with the Buyer duly registered as the owner of the Shares, as well as the related notices according to Sections 4-7 and 4-10 of the Companies Act.

5.3 The Buyer’s Closing obligations

At the Closing, the Buyer shall

- a) settle the Purchase Price in accordance with Clause 4; and
- b) procure that the Company prepays the Company’s Liquidity Loan in full.

5.4 Post-Closing Adjustment

- a) Within 45 days following the Closing Date, the Buyer and the Seller shall agree on the amount of the post-Closing adjustments to the Purchase Price based on:
 - (i) the Company’s working capital as of 23:59 hours CET on the Closing Date;
 - (ii) currency fluctuations USD/NOK on the Company’s Liquidity Loan, between 30 November 2017 and the Closing Date, determined on the basis of the middle rates published by DNB Markets.
 - (iii) accrued interest on the Company’s Liquidity Loan between 30 September 2017 and the Closing Date.(the “**Purchase Price Adjustments**”).
- b) Within 15 days following the date on which the Purchase Price Adjustments have been agreed pursuant to Clause 5.4 a) above, the Buyer or the Seller (as the case may be) shall pay to the other Party an amount, in cash, equal to the net Purchase Price Adjustments. Any amounts other than those covered by the Purchase Price Adjustments varying in the period between the Signing Date and the Closing Date shall be for Seller’s account.

6 CLOSING CONDITIONS

6.1 Conditions to the Buyer's Closing obligations

The obligations of the Buyer to purchase the Shares and to take the other actions required to be taken by it at the Closing are subject to the satisfaction of each of the following conditions (any of which may be waived in whole or in part by the Buyer) on or before the Closing Date:

- a) that the Vessel has been delivered to the Charterer in accordance with the provisions of the Charter and that all costs and expenses related thereto have been settled by the Sellers;
- b) there is no material breach of any of the representations and warranties of the Seller set forth in Clause 8 and Clause 9;
- c) the Buyer shall have obtained the funds necessary to consummate the purchase of the Shares, to ensure prepayment by the Company of the Company's Liquidity Loan, and to pay all related fees and expenses;
- d) in all respects material to the transactions contemplated hereby, the Seller shall have performed or complied with all of its obligations pursuant to this Agreement to be performed or complied with by the Seller at or prior to the Closing Date and shall have delivered each document or instrument to be delivered by it pursuant to this Agreement; and
- e) the results of the searches, surveys, tests and inspections of the Vessel referred to in Clause 10.1 h) are reasonably satisfactory to the Buyer.

6.2 Conditions to the Seller's Closing obligations

The obligations of the Seller to sell the Shares and to take the other actions required to be taken by it at the Closing are subject to the satisfaction of each of the following conditions (any of which may be waived in whole or in part by the Seller) on or before the Closing Date:

- a) there is no material breach of any of the representations and warranties of the Buyer set forth in Clause 7;
- b) At Closing, the Buyer shall procure that the Partnership accede to the Brasil Facility as "Guarantor" by way of an "Accession Letter" set out therein, and that the Shares are pledged as contemplated by the Brasil Facility, and procure that relevant conditions precedent under the Brasil Facility relating to the Partnership and/or the Buyer have been satisfied. At Closing, the Seller shall be released from its guarantee obligations under the Brasil Facility; and
- c) in all respects material to the transactions contemplated hereby, the Buyer shall have performed or complied with all of its obligations pursuant to this Agreement to be performed or complied with by the Buyer at or prior to the Closing Date and shall have delivered each document or instrument to be delivered by it pursuant to this Agreement.

6.3 Conditions of the Parties .

The obligations of Seller to sell the Shares and the obligations of Buyer to purchase the Shares are subject to the satisfaction (or waiver by each of Seller and Buyer) on or prior to the Closing Date of the following conditions:

- a) The Seller shall have received any and all written consents, permits, approvals or authorizations of any Governmental Authority or any other Person (including, but not limited to, with respect to the Charter, the Brasil Facility, the Company's Liquidity Loan and the Swap Agreements) and shall have made any and all notices or declarations to or filing with any Governmental Authority or any other Person, including those related to any environmental laws or regulations, required in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereunder, including the transfer of the Shares; and
- b) No legal or regulatory action or proceeding shall be pending or threatened by any Governmental Authority to enjoin, restrict or prohibit the purchase and sale of the Shares.

7 REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer represents and warrants to the Seller that as of the Signing Date and on the Closing Date, unless otherwise expressly stated:

7.1 Corporate existence and power

The Buyer is duly incorporated, validly existing and in good standing under the laws of Norway.

The Buyer has not been declared insolvent; become the subject of a petition in bankruptcy; had a receiver appointed with respect to it or to the Business or part thereof; entered into any arrangement with, or made an assignment for the benefit of, its creditors; or ceased to function as a going concern.

7.2 Corporate authorisation and non-contravention

This Agreement and each other document or instrument delivered or to be delivered in connection with this Agreement has been duly authorised by all necessary corporate action(s) of the Buyer and constitutes or will, when executed, constitute valid and binding obligations of the Buyer enforceable in accordance with its respective terms.

The execution by the Buyer of this Agreement and each other document or instrument delivered or to be delivered in connection with it, and the performance by the Buyer of its obligations under this Agreement and the consummation of the transactions provided for in this Agreement, do not and will not result in a breach of any provision of the articles of association of the Buyer or of any applicable law, order, judgment or decree of any court or Governmental Authority or of any agreement to which the Buyer is bound.

The Buyer is not required to obtain any authorisations, consents, approvals or exemptions by any Governmental Authority in connection with the entering into or performance of its obligations under this Agreement.

8 REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Seller represents and warrants to the Buyer as of the Signing Date and on the Closing Date, unless otherwise expressly stated:

8.1 Corporate existence and power

Each of the Company and the Seller is duly incorporated, validly existing and in good standing under the laws of Norway.

Each of the Company and the Seller has not been declared insolvent; become the subject of a petition in bankruptcy; had a receiver appointed with respect to it or to the Business or part thereof; entered into any arrangement with, or made an assignment for the benefit of, its creditors; or ceased to function as a going concern.

8.2 Corporate authorisation and non-contravention

This Agreement and each other document or instrument delivered or to be delivered in connection with this Agreement has been duly authorised by all necessary corporate action(s) of each of the Company and the Seller, as appropriate, and constitutes or will, when executed, constitute valid and binding obligations of each of the Company and the Seller, as appropriate, enforceable in accordance with its respective terms.

The execution by each of the Company and the Seller, as appropriate, of this Agreement and each other document or instrument delivered or to be delivered in connection with it, and the performance by each of the Company and the Seller, as appropriate, of its obligations under this Agreement and the consummation of the transactions provided for in this Agreement, do not and will not result in a breach of any provision of the articles of association of each of the Company and the Seller, as appropriate, or of any applicable law, order, judgment or decree of any court or Governmental Authority or of any agreement to which each of the Company and the Seller, as appropriate, is bound.

Each of the Company and the Seller, as appropriate, is not required to obtain any authorisations, consents, approvals or exemptions by any Governmental Authority in connection with the entering into or performance of its obligations under this Agreement.

8.3 Capitalisation and title

The Seller has full ownership to the Shares. The Shares are fully authorised, validly issued, fully paid and at Closing, free and clear from any Encumbrances, other than pursuant to the Brasil Facility.

There is no outstanding subscription, option or similar rights relating to the Shares.

8.4 Records

The Company's articles of association and shareholders' register are true, accurate, up-to-date and complete.

8.5 Charter documents; validity of the Charter

The Seller has supplied to the Buyer true and correct copies of the Charter and any related documents, as amended to the Closing Date. The Charter is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms and, to the knowledge of the Seller, the Charter is a valid and binding agreement of all other parties thereto enforceable against such parties in accordance with its terms.

8.6 Accounts

The Accounts have been prepared in accordance with the Accounting Principles and in accordance with the books and records of the Company. The Accounts give a true and accurate view of the financial position, solvency, assets, liabilities, liquidity, cash flow and the result of the operations of the Company as of the Accounts Date.

8.7 No undisclosed liabilities

Neither the Company nor the Vessel has any Encumbrances, or other liabilities or obligations of any nature, whether absolute, accrued, contingent or otherwise, and whether due or to become due (including, without limitation, any liability for Taxes and interest, penalties and other charges payable with respect to any such liability or obligation), except for such liabilities or obligations arising under the Charter, the Brasil Facility, the Company's Liquidity Loan, the Swap Agreements, the management agreement relating to the Vessel with KNOT Management AS, the inter-company balances described in Clause 8.8 c) and the Encumbrances appearing in the ship registry of the Vessel and arising under the Brasil Facility and the Swap Agreements.

8.8 Loans and other financial facilities

All loans and other financial facilities available to the Company have been made available for review by the Buyer.

- a) As of the Signing Date, the principal outstanding amount under the Brasil Facility is USD 59,000,000. Hence, the amount for which the Company will be responsible at the time of Closing is USD 59,000,000 (provided Closing takes place on 15 December 2017);
- b) The principal outstanding amount under the Company's Liquidity Loan for which the Company will be responsible to prepay at the time of Closing is USD 35,235,150.72 (provided Closing takes place on 15 December 2017, and
- c) As of 30 November 2017, the non-interest bearing inter-company balance between the Company (as borrower) and KNOT Management AS (as lender) was NOK 2,626,452.30.

No event has occurred which gives, or after notice or lapse of time, or both, would give any third party the right to call for repayment from the Company prior to normal maturity of any loan or other financial facility. The Company shall not be indebted, directly or indirectly, to any person who is an officer, director, stockholder or employee of any of the Seller or any spouse, child or other relative or any affiliate of any such person, nor shall any such officer, director, stockholder, employee, relative or affiliate be indebted to the Company.

8.9 Assets

At the Closing Date, the Company shall not be using assets in the Business that it neither owns nor has the right to use pursuant to written agreements with third parties. At the Closing Date, the assets of the Company will comprise all the assets necessary for carrying on the Business fully and effectively to the extent to which it is conducted at the Signing Date.

8.10 Absence of certain changes or events

Since the Accounts Date, there has not occurred or arisen:

- a) any change of accounting methods, principles or practices, accounting, invoicing and supplier practice or procedures for the Company;
- b) any acquisition or disposal of, or the entering into any agreement to acquire or dispose of, any asset, other than the sale of products in the ordinary course of business;
- c) the termination of any Material Agreement, other than the Commercial Management Agreement dated 16 May 2017 between the Company and KNOT Management AS pursuant to the Agreement on Termination of the Commercial Management Agreement dated 28 November 2017;
- d) any obligations, commitments or liabilities, contingent or otherwise, whether for Taxes or otherwise, except obligations, commitments and liabilities arising in the ordinary course of business;
- e) any event or condition, whether covered by insurance or not, which has resulted in or may result in a Material Adverse Effect; or
- f) the entering into of any agreements or commitments other than on customary terms.

8.11 Agreements

Each Material Agreement is in full force and effect. No other Material Agreements will be entered into by the Company prior the Closing Date without the prior consent of the Buyer (such consent not to be unreasonably withheld). The Company has fulfilled all material obligations required pursuant to the Material Agreements to have been performed by it prior to the Signing Date and has not waived any material rights thereunder.

There has not occurred any material default on the part of the Company under any of the Material Agreements, or to the knowledge of the Seller, on the part of any other party thereto, nor has any event occurred that with the giving of notice or the lapse of time, or both, would constitute any material default on the part of the Company under any of the Material Agreements nor, to the knowledge of the Seller, has any event occurred that with the giving of notice or the lapse of time, or both, would constitute any material default on the part of any other party to any of the Material Agreements.

The term “ **Material Agreement** ” means each agreement, contract or other undertaking by or of the Company (a) that is of material importance to the Business or (b) the value of which, in respect of total turnover during one year, is not less than NOK 500,000, provided, however, that such term includes the Charter, the Brasil Facility, the Company’s Liquidity Loan and the Swap Agreements.

8.12 Insurance

The Company maintains insurance policies on fire, theft, loss, disruption, product and general liability and other forms of insurance with reputable insurers that would reasonably be judged to be sound and required for the Business.

The Company's insurance policies do not contain any provisions regarding a change of control or ownership of the insured.

The Company is in compliance with all terms and conditions contained in the insurance policies, and nothing has been done or omitted to be done that would make any insurance policy or insurance void or voidable or that would result in a reduction of the coverage (*No: avkortning*).

8.13 Environmental matters

The Company is not and has not been in breach of any applicable laws (whether civil, criminal or administrative), statutes, regulations, directives, codes, judgments, orders or any other measures imposed by any governmental, statutory or regulatory body with regard to the pollution or the protection of the environment or to the protection of human health or human safety, or any other living organisms supported by the environment.

There is no current governmental investigation or disciplinary proceeding relating to any alleged breach of any law or permit by the Company, and none is pending, nor threatened.

The Company has not, other than as permitted under applicable permits or applicable laws or regulations held from time to time, disposed of, discharged, released, placed, dumped or emitted any hazardous substances, such as pollutants, contaminants, hazardous or toxic materials, wastes or chemicals. Neither the Seller nor the Company has received any formal or informal notice or other communication from which it appears that the Company may be or has been in violation of any laws or permits. There are no actual or contingent obligations on the Company to pay money or carry out any work in order to keep or be granted an extension or renewal of any existing permit. There are no facts or circumstances that could result in such an obligation. The properties used by the Company are not made of or do not contain any form of asbestos or any other toxic substance that may cause damage to the health of the persons working or visiting the premises.

8.14 Compliance with laws

The Company has at all times conducted the Business in accordance with and has complied with any applicable laws in Norway and in any other relevant countries relating to its operations and the Business.

All necessary licences, consents, permits and authorisations have been obtained by the Company to enable the Company to carry on the Business in the places and in the manner in which such Business is now conducted and all such licences, consents, permits and authorisations are valid and subsisting and have been complied with in all respects.

8.15 Litigation

There are no claims, actions, lawsuits, administrative, governmental, arbitration or other legal proceedings (including but not limited to proceedings related to Taxes) pending or threatened against or involving the Company, the Business or properties or assets of the Company and which would result in a Material Adverse Effect if adversely determined.

8.16 Taxes

The Company has properly filed with the appropriate Tax authorities all Tax returns and reports required to be filed for all Tax periods ending prior to the Closing Date. Such filings are true, correct and complete. All information required for a correct assessment of Taxes has been provided.

The Tax returns of the Company have been assessed and approved by the Tax authorities through the Tax years up to and including the years for which such assessment and approval is required, and the Company is not subject to any dispute with any such authority.

All Taxes that have become due have been fully paid or fully provided for in the Accounts, and the Company shall not be liable for any additional Tax pertaining to the period before the Accounts Date. All Taxes for the period after the Accounts Date have been fully paid when due.

There are no Tax audits, Tax disputes or Tax litigation pending or threatened against or involving the Company. There is no basis for assessment of any deficiency in any Taxes against the Company that has not been provided for in the Accounts or that has not been paid.

The Company is not and has not been involved in any transaction that could be considered as Tax-evasive. All losses for Tax purposes incurred by of the Company are trading losses and are available to be carried forward and set off against income in succeeding periods without limitation and have been accepted by the relevant Tax authorities.

The Company is not and has not been subject to any Tax outside its respective country of fiscal residence.

8.17 Relationship with the Seller

Except as disclosed to the Buyer, there are no written or oral agreements or arrangements between the Company and the Seller, and no liabilities or obligations (contingent or otherwise) owed by the Company to the Seller.

No services provided by the Seller to the Company are necessary in the ordinary course of business.

No payments of any kind, including, but not limited to management charges, have been made by the Company to the Seller, save for payments under agreements or arrangements made on an arm's-length basis in accordance with applicable law and regulations.

8.18 Information

All documents provided to the Buyer by or on behalf of the Seller or the Company are true and correct, and no document provided to the Buyer by or on behalf of the Seller or the Company contains any untrue statement of a relevant fact or omits to state a relevant fact necessary to make the statements contained in the document not misleading.

There are no facts or circumstances known to the Seller, relating to the affairs of the Company, that have not been disclosed to the Buyer, which, if disclosed, reasonably could have been expected to influence the decision of the Buyer to purchase the Shares on the terms of this Agreement.

The Seller confirms that the Seller, prior to the Signing Date, has made, and until the Closing Date, shall continue to make, all investigations necessary in order to ensure that the statements in Clauses 8 and 9 are correct.

9 REPRESENTATIONS AND WARRANTIES OF THE SELLER REGARDING THE VESSEL

The Seller represents and warrants to the Buyer as of the Signing Date and on the Closing Date, unless otherwise expressly stated:

9.1 Flag and title

The Company is the registered owner of the Vessel and has good and marketable title to the Vessel, free and clear of any and all Encumbrances, other than those arising under the Brasil Facility and the Swap Agreements. The Vessel is properly registered in the name of the Seller under and pursuant to the flag and law of Bahamas, and all fees due and payable in connection with such registration have been paid.

9.2 Classification

The Vessel is entered with the American Bureau of Shipping and has the highest classification rating. The Vessel is in class without any recommendations or notation as to class or other requirement of the relevant classification society, and if the Vessel is in a port, it is in such condition that it cannot be detached by any port state authority or the flag state authority for any deficiency.

9.3 Maintenance

The Vessel has been maintained in a proper and efficient manner in accordance with internationally accepted standards for good ship maintenance, is in good operating order, condition and repair and is seaworthy, and all repairs made to the Vessel during the last two years and all known scheduled repairs due to be made and all known deficiencies have been disclosed to the Buyer.

9.4 Liens

The Vessel is not (a) under arrest or otherwise detained, (b) other than in the ordinary course of business, in the possession of any person (other than her master and crew) or (c) subject to a possessory lien.

9.5 Safety

The Vessel is supplied with valid and up-to-date safety, safety construction, safety equipment, radio, loadline, health, tonnage, trading and other certificates or documents as may for the time being be prescribed by the law of Bahamas or of any other pertinent jurisdiction, or that would otherwise be deemed necessary by a shipowner acting in accordance with internationally accepted standards for good ship management and operations.

9.6 No blacklisting or boycotts

No blacklisting or boycotting of any type has been applied or currently exists against or in respect of the Vessel.

9.7 No options

There are not outstanding any options or other rights to purchase the Vessel.

9.8 Insurance

The insurance policies relating to the Vessel are as set forth on Schedule 1 hereto, each of which is in full force and effect and, to the Seller's knowledge, not subject to being voided or terminated for any reason.

10 COVENANTS PRIOR TO THE CLOSING

10.1 Covenants of the Seller Prior to the Closing

From the Signing Date to the Closing Date, the Seller shall cause the Company to conduct its business in the usual, regular and ordinary course in substantially the same manner as previously conducted. The Seller shall not permit the Company to enter into any contracts or other written or oral agreements prior to the Closing Date, other than such contracts and agreements as have been disclosed to the Buyer prior to the Signing Date, without the prior consent of the Buyer (such consent not to be unreasonably withheld). In addition, the Seller shall not permit the Company to take any action that would result in any of the conditions to the purchase and sale of the Shares set forth in Clause 6 not being satisfied. Furthermore, the Seller hereby agrees and covenants that it:

- a) shall use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary to consummate and make effective as promptly as possible the transactions contemplated by this Agreement and to co-operate with the Buyer and others in connection with the foregoing;
- b) shall use its best efforts to obtain the authorisations, consents, orders and approvals of regulatory bodies and officials that may be or become necessary for the performance of its obligations pursuant to this Agreement and the completion of the transactions contemplated by it;
- c) shall co-operate with the Buyer and promptly seek to obtain such authorisations, consents, orders and approvals as may be necessary for the performance of the Parties' respective obligations pursuant to this Agreement;
- d) shall not amend, alter or otherwise modify or permit any amendment, alteration or modification of any material provision of or terminate the Charter or any other contract prior to the Closing Date without the prior written consent of the Buyer, such consent not to be unreasonably withheld or delayed;
- e) shall not exercise or permit any exercise of any rights or options contained in the Charter, without the prior written consent of the Buyer, not to be unreasonably withheld or delayed;
- f) shall observe and perform in a timely manner, all of its covenants and obligations under the Charter, the Brasil Facility, the Company's Liquidity Loan and the Swap Agreements, if any, and in the case of a default by another party thereto, it shall forthwith advise the Buyer of such default and shall, if requested by the Buyer, enforce all of its rights under such Charter, the Brasil Facility, the Company's Liquidity Loan or the Swap Agreements, as applicable, in respect of such default;
- g) shall not cause or, to the extent reasonably within its control, permit any Encumbrances to attach to the Vessel other than in connection with the Brasil Facility and the Swap Agreements; and

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- h) shall permit representatives of the Buyer to make, prior to the Closing Date, at the Buyer's risk and expense, such surveys, tests and inspections of the Vessel as the Buyer may deem desirable, so long as such surveys, tests or inspections do not damage the Vessel or interfere with the activities of the Seller, the Company or the Charterer thereon and so long as the Buyer shall have furnished the Seller with evidence that adequate liability insurance is in full force and effect.

10.2 Covenants of the Buyer Prior to the Closing

The Buyer hereby agrees and covenants that during the period of time after the Signing Date and prior to the Closing Date, the Buyer shall, in respect of the Shares to be transferred on the Closing Date, take, or cause to be taken, all necessary company action, steps and proceedings to approve or authorize validly and effectively the purchase and sale of the Shares and the execution and delivery of this Agreement and the other agreements and documents contemplated hereby.

11 TERMINATION

11.1 Termination

This Agreement may be terminated, and the transactions contemplated by this Agreement may be abandoned, at any time prior to the Closing Date:

- a) by either Party if a breach of any provision of this Agreement has been committed by the other Party, such breach has not been waived and such breach is material to the transactions contemplated hereby, the Business or the assets, financial condition or prospect of the Company;
- b) by the Buyer if satisfaction of any of the conditions in Clause 6.1 is or becomes impossible (other than through the failure of the Buyer to comply with its obligations under this Agreement) and the Buyer has not waived such condition;
- c) by the Seller if satisfaction of any of the conditions in Clause 6.2 is or becomes impossible (other than through the failure of the Seller to comply with its obligations under this Agreement) and the Seller has not waived such condition;
- d) by either Party if satisfaction of any of the conditions in Clause 6.3 is or becomes impossible and Buyer and Seller have not waived such condition;
- e) by the Buyer due to a change having occurred that has resulted or may result in a Material Adverse Effect; or
- f) by mutual written consent of the Seller and the Buyer.

11.2 Rights on termination

If this Agreement is terminated pursuant to Clause 11.1, all further obligations of the Parties pursuant to this Agreement shall terminate without further liability of a Party to the other, provided, however, that the obligations of the Parties contained in Clause 13 (Costs) and Clause 17 (Governing Law and arbitration) shall survive such termination, and further provided, that if this Agreement is terminated by a Party because of the breach of this Agreement by the other Party or because one or more of the conditions to the terminating Party's obligations under this Agreement is not satisfied as a result of the other Party's failure to comply with its obligations under this Agreement, the terminating Party's right to pursue all legal remedies will survive such termination unimpaired.

12 INDEMNIFICATION

12.1 Indemnity by the Seller

Following the Closing, the Seller shall be liable for, and shall indemnify, defend and hold harmless the Buyer and its respective officers, directors, employees, agents and representatives (the “**Buyer Indemnitees**”) from and against, any Losses, suffered or incurred by such Buyer Indemnitees:

- a) by reason of, arising out of or otherwise in respect of any inaccuracy in, breach of any representation or warranty, or a failure to perform or observe fully any covenant, agreement or obligation of, the Seller in or under this Agreement or in or under any document, instrument or agreement delivered pursuant to this Agreement by the Seller;
- b) subject to Clause 13 b), any fees, expenses or other payments incurred or owed by the Seller to any brokers, financial advisors or comparable other persons retained or employed by it in connection with the transaction contemplated by this Agreement;
- c) any Losses of the Company or the Vessel incurred prior to or on the Closing Date arising from any violation of any applicable law or regulation relating to protection of natural resources, health and safety and the environment;
- d) all federal, state, foreign and local income tax liabilities attributable to the Company or operation of the Vessel prior to the Closing Date; or
- e) any Losses suffered or incurred by such Buyer Indemnitees in connection with any claim for the repayment of hire or Losses in relation to the Vessel for periods prior to the Closing.

12.2 Indemnity by the Buyer

Following the Closing, the Buyer shall be liable for, and shall indemnify, defend and hold harmless the Seller and its respective officers, directors, employees, agents and representatives (the “**Seller Indemnitees**”) from and against, any Losses, suffered or incurred by such Seller Indemnitees by reason of, arising out of or otherwise in respect of any inaccuracy in, breach of any representation or warranty, or a failure to perform or observe fully any covenant, agreement or obligation of, the Buyer in or under this Agreement or in or under any document, instrument or agreement delivered pursuant to this Agreement by the Buyer.

12.3 Indemnification procedures with respect to third-party claims

If the Seller or the Buyer, as the case may be (an “**Indemnified Party**”), shall receive notice of any claim by a third party that is or may be subject to indemnification or compensation from the other Party pursuant to this Agreement (a “**Third-Party Claim**”), the Indemnified Party shall give the other Party (the “**Indemnifying Party**”) prompt written notice of such Third-Party Claim and the Indemnifying Party shall, at the Indemnifying Party’s option, have the right to participate in the defence thereof by counsel at the Indemnifying Party’s own cost and expense. If the Indemnifying Party acknowledges within 30 days from such written notice in writing its obligation to indemnify the

Indemnified Party against all Losses that may result from such Third-Party Claim, the Indemnifying Party shall be entitled, at the Indemnifying Party's option, to assume and control the defence of such Third-Party Claim at the Indemnifying Party's cost and expense and through counsel of the Indemnifying Party's choice. No such Third-Party Claim may be settled by the Indemnifying Party without the written consent of the Indemnified Party, unless the settlement involves only the payment of money by the Indemnifying Party. No Third-Party Claim that is being defended in good faith by the Indemnifying Party shall be settled by the Indemnified Party without the written consent of the Indemnifying Party. The Indemnifying Party shall have no obligation to indemnify the Indemnified Party for any losses resulting from the settlement of Third-Party Claims in violation of the provisions of this Clause 12.3.

13 COSTS

- a) Subject to Clause 13b) and 13c), each party shall pay its own costs and expenses in connection with the preparation for and completion of the transactions contemplated by this Agreement, including but not limited to all fees and expenses of its own representatives, agents, brokers, legal and financial advisers and authorities and no such costs or expenses shall be charged to or paid by, neither directly or indirectly, the Company.
- b) The fees and expenses related to the fairness opinion of Pareto Securities Ltd. dated 30 November 2017 will be divided equally between the Buyer and the Seller.
- c) Legal fees to Norwegian legal counsel (Advokatfirmaet Thommessen AS) related to the transactions contemplated by this Agreement and the related and financing arrangements will be divided equally between the Buyer and the Seller.

14 NOTICES

All notices, requests, demands, approvals, waivers and other communications required or permitted under this Agreement must be in writing in the English language and shall be deemed to have been received by a Party when:

- a) delivered by post, unless actually received earlier, on the third Business Day after posting, if posted within Norway, or the fifth Business Day, if posted to or from a place outside Norway;
- b) delivered by hand, on the day of delivery; or
- c) delivered by fax, on the day of dispatch if supported by a written confirmation from the sender's fax machine that the message has been properly transmitted.

All such notices and communications shall be addressed as set forth below or to such other addresses as may be given by written notice in accordance with this Clause 14.

If to the Seller:
Knutsen NYK Offshore Tankers AS
Attention: President & CEO
Smedasundet 40, Postboks 2017, 5504 Haugesund, Norway
Fax no.: +47 52 70 40 40

If to the Buyer:
KNOT Shuttle Tankers AS
Attention: Chairman of the Board
Smedasundet 40, Postboks 2017, 5504 Haugesund, Norway
Fax no.: +47 52 70 40 40

15 ASSIGNMENT

This Agreement shall be binding upon and inure to the benefit of the successors of the Parties, but shall not be assignable by any of the Parties without the prior written consent of the other Party. The benefit of this Agreement may, however, be assigned by either of the Parties to any group directly or indirectly controlling, controlled by or under common control of the assignor, provided that the assignor shall remain liable for its own debt and for all obligations under this Agreement.

16 MISCELLANEOUS

16.1 Further Assurances

From time to time after the Signing Date, and without any further consideration, the Parties agree to execute, acknowledge and deliver all such additional deeds, assignments, bills of sale, conveyances, instruments, notices, releases, acquittances and other documents, and shall do all such other acts and things, all in accordance with applicable law, as may be necessary or appropriate (a) more fully to assure that the applicable Parties own all of the properties, rights, titles, interests, estates, remedies, powers and privileges granted by this Agreement, or which are intended to be so granted, (b) more fully and effectively to vest in the applicable Parties and their respective successors and assigns beneficial and record title to the interests contributed and assigned by this Agreement or intended so to be and (c) more fully and effectively to carry out the purposes and intent of this Agreement.

16.2 Integration

This Agreement, the Schedules hereto and the instruments referenced herein supersede all previous understandings or agreements among the Parties, whether oral or written, with respect to its subject matter hereof. This Agreement, the Schedules hereto and the instruments referenced herein contain the entire understanding of the Parties with respect to the subject matter hereof and thereof. No understanding, representation, promise or agreement, whether oral or written, is intended to be or shall be included in or form part of this Agreement unless it is contained in a written amendment hereto executed by the Parties hereto after the Signing Date.

16.3 No Broker's Fees

No one is entitled to receive any finder's fee, brokerage or other commission in connection with the purchase of the Shares or the consummation of the transactions contemplated by this Agreement.

17 GOVERNING LAW AND ARBITRATION

This Agreement shall be governed by and construed in accordance with Norwegian law.

The Parties shall seek to solve through negotiations any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity hereof. If the Parties fail to solve such dispute, controversy or claim by a written agreement within 60 days after one of the Parties has requested such negotiations by notice to the other Party, such dispute, controversy or claim shall be finally settled by arbitration in Haugesund in the English language in accordance with the Norwegian Arbitration Act. The arbitration tribunal shall consist of three arbitrators, of which the Buyer shall appoint one arbitrator and the Seller shall appoint one arbitrator. The arbitrators so appointed shall appoint the third arbitrator, who shall be the chairman of the arbitration tribunal. In the event of failure by a Party to appoint its arbitrator within 30 days after the request for arbitration first is given, or the failure by the first two arbitrators to appoint the third arbitrator within 30 days after appointment of the last of the first two arbitrators to be appointed, such arbitrator or arbitrators shall be appointed by the district judge (No: “*Sorenskriver*”) of Haugesund District Court. Any Party may seek judgement upon any award in any court having jurisdiction, or an application may be made to such court for the judicial acceptance of the award and for an order of enforcement.

Notwithstanding the above, either Party may bring an action in any court of competent jurisdiction (a) for provisional relief pending the outcome of arbitration, including, without limitation, provisional injunctive relief or pre-judgement attachment of assets, or (b) to compel arbitration or enforce any arbitral award. For purposes of any proceeding authorised by this Clause 17, each Party hereby consents to the non-exclusive jurisdiction of Haugesund, Norway.

* * *

This Agreement has been executed in two original copies, of which each Party has retained one copy.

Knutsen NYK Offshore Tankers AS

By: /s/ Karl Gerhard B. Dahl
Name: Karl Gerhard B. Dahl
Title: Senior Vice President

KNOT Shuttle Tankers AS

By: /s/ Karl Gerhard B. Dahl
Name: Karl Gerhard B. Dahl
Title: Director

INSURANCES

Insurance Policies (all quoted values are USD)

Insurance Policies (all quoted values are USD)

Hull & Machinery

Hull	Insured Value:	\$88 000 000
	Policy Renewal:	01.11.2017-31.10.2018
Hull Interest	Insured Value:	\$22 000 000
	Policy Renewal:	01.11.2017-31.10.2018
Freight Interest	Insured Value:	\$22 000 000
	Policy Renewal:	01.11.2017-31.10.2018

P&I Insurance

Gross Tonnage:	83942
Policy Renewal:	17.07.2017-20.02.2018

War Risk

Insured Value:	\$132 000 000
Policy Renewal:	17.07.2017-31.12.2017

Hull & Machinery

10,0%	Aon London Broking Center
	10% Lloyds Syndicate 2003 XLC
5,0%	Aon London Broking Center
	5% Arch Insurance Comp. (Europe) Ltd.
10,0%	Aon London Broking Center
	10% Swiss Re International SE, UK Branch
7,5%	Aon London Broking Center
	7,5% Lloyds Syndicate 2987 BRT
4,0%	Aon London Broking Center
	4% Lloyds Syndicate 9577 AMT
2,0%	Aon London Broking Center
	2% Lloyds Syndicate 4472 LIB
10,0%	Aon London Broking Center
	10% Allianz Global Corporate & Speciality SE, London
5,0%	Aon Singapore Pte. Ltd.
	5% India International Insurance Pte Ltd
7,5%	Gard AS, as agents only for Gard M&E Ltd
2,5%	International Insurance Company of Hannover SE
7,5%	Norwegian Hull Club
4,0%	The Swedish Club
25,0%	Tokio Marine & Nichido Fire Insurance Co., Ltd.
100,0%	Total

ACCOUNTS

[Separate attachment]

KNOT Shuttle Tankers 32 AS
Profit & Loss Account

Report for the period 9

NOK 1000

	30. sep. 17
Revenue	
Freight income	9 510
Voyage expenses	-4 264
<i>Total Revenue</i>	5 246
Operating Expenses	
Crew-hire	5 475
Maintenance and technical expenses	5 358
General and administration expenses	1 156
<i>Total Operating Expenses</i>	11 989
<i>Operating result before depreciation</i>	-6 743
Ordinary depreciation	9 914
<i>Total depreciation and write-downs</i>	9 914
<i>Operating Profit/(Loss)</i>	-16 657
Financial Income and Expenses	
Finance income	4
Foreign exchange gain/loss	-120
Finance expenses	-9 484
<i>Net Finance Items</i>	-9 600
<i>Profit/(loss) before income tax</i>	-26 257
<i>Net profit/(loss)</i>	-26 257

KNOT Shuttle Tankers 32 AS
Balance Sheet

Report for the period 9

NOK 1000

	30. sep. 17
Assets	
Non Current Assets	
Vessel	726 764
<i>Total Non Current Assets</i>	726 764
Current Assets	
Inventories	5 065
Receivables	15 908
Other receivables	194
Bank deposits	8 059
<i>Total Current Assets</i>	29 228
TOTAL ASSETS	755 992

KNOT Shuttle Tankers 32 AS
Balance Sheet

Report for the period 9

NOK 1000

30. sep. 17

Equity and Liabilities	
Equity	
Share capital	100
Share premium	14
<i>Total capital paid-in</i>	114
Other equity	-26 257
<i>Total Equity</i>	-26 143
Non Current Liabilities	
Liabilities to financial institutions	500 337
Long-term debt group	271 160
<i>Total Non Current Liabilities</i>	771 497
Current Liabilities	
Accounts payable	4 276
Accrued interest	4 150
Current liabilities group	1 638
Other current liabilities	573
<i>Total Current Liabilities</i>	10 637
<i>Total liabilities</i>	782 134
EQUITY AND LIABILITIES	755 992

SHARE PURCHASE AGREEMENT

Between

Knutsen NYK Offshore Tankers AS

(as Seller)

And

KNOT Shuttle Tankers AS

(as Buyer)

for the sale and purchase of the shares in

KNOT Shuttle Tankers 30 AS

SHARE PURCHASE AGREEMENT

This agreement (this “ **Agreement** ”) is entered into on the 20 February 2018 between:

(1) **Knutsen NYK Offshore Tankers AS** , company registration no. 995 221 713

(the “ **Seller** ”), and

(2) **KNOT Shuttle Tankers AS** , company registration no. 998 942 829

(the “ **Buyer** ”).

The Seller and the Buyer are hereinafter individually referred to as a “ **Party** ” and jointly the “ **Parties** ”.

1 RECITALS

WHEREAS:

- a) KNOT Shuttle Tankers 30 AS, company registration no. 914 716 527, is a private limited liability company that has as its purpose to engage in shipowning activities, is duly incorporated under Norwegian law and has its registered place of business in Haugesund, Norway (the “ **Company** ”);
- b) The Seller is the sole owner of the ownership interest in the Company, with a share capital of NOK 100,000;
- c) The Company is the owner of the MT “Anna Knutsen”, having IMO No. 9769221 (the “ **Vessel** ”); and
- d) The Seller and the Buyer have agreed that the Buyer shall acquire 100% of the shares in the Company (the “ **Shares** ”) on the terms and conditions set forth in this Agreement.

2 DEFINITIONS

In this Agreement, the following definitions shall have the following meanings:

- a) **Accounting Principles** means the applicable Norwegian generally accepted accounting principles as defined by Norwegian law and regulations and accounting standards issued by the Norwegian Accounting Standards Board (Nw: *Norsk Regnskapsstiftelse/NRS*), applied on a consistent basis;
- b) **Accounts** means, in respect of the Company, its audited profit and loss and balance sheet statement as per the Accounts Date attached as Schedule 2 ;
- c) **Accounts Date** means 31 December 2017;

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- d) **Agreement** shall have the meaning ascribed to such term in the preamble to this Agreement;
- e) **Anna Facility** means the USD 90,000,000 Term Loan Facility in respect of the Vessel, dated 30 September 2016, and made between (i) the Company as borrower, (ii) the Seller as original guarantor (iii) the banks and financial institutions listed in Schedule 1 thereto as lenders, (iv) Nordea Bank AB (Publ), filial i Norge (former Nordea Bank Norge ASA) as bookrunner, (v) DBJ Europe Limited, Mizuho Bank, Ltd. and Nordea Bank AB (Publ), filial i Norge as mandated lead arrangers, (vi) Mizuho Bank, Ltd. and Nordea Bank Finland Plc. as hedging banks and (vii) Nordea Bank AB (Publ), filial i Norge as agent and security agent;
- f) **Business** means the current business of the Company, being to own the Vessel, and charter the same under the Charter;
- g) **Business Day** means a day on which banks are open for general banking business in Norway;
- h) **Buyer** shall have the meaning ascribed to such term in the preamble to this Agreement;
- i) **Buyer Indemnitees** shall have the meaning ascribed to such term in Clause 12.1;
- j) **Capitalized Fees** means capitalized fees and transaction costs related to the financing of the Vessel as of the Closing Date. Provided the Closing Date occurs on 1 March, 2018, the Capitalized Fees will be USD 1,389,069.
- k) **Charter** means the time charterparty dated 17 December 2014, as amended, entered into between the Company as owner and the Charterer as charterer in respect of the Vessel;
- l) **Charterer** means Galp Sinopec Brazil Services B.V.;
- m) **Closing** shall have the meaning ascribed to such term in Clause 5.1;
- n) **Closing Date** means the date when the Closing actually takes place according to Clause 5.1;
- o) **Companies Act** means the Norwegian Limited Liability Companies Act of 1997
- p) **Company** means KNOT Shuttle Tankers 30 AS, Norwegian organization no.: 914 716 527;
- q) **Encumbrance** means any mortgage, charge, pledge, lien, option or other security interest or restriction of any kind;

r)	Facility Prepayment Amount	means the amount of the Anna Facility to be prepaid by the Company on Closing in accordance with the terms of the Anna Facility being USD 9,785,880 (representing the total outstanding amount under Tranche B (as defined in the Anna Facility) provided that Closing occurs on 1 March 2018), plus accumulated interest.
s)	Governmental Authority	means any domestic or foreign government, including federal, provincial, state, municipal, county or regional government or governmental or regulatory authority, domestic or foreign, and includes any department, commission, bureau, board, administrative agency or regulatory body of any of the foregoing and any multinational or supranational organization;
t)	Indemnified Party	shall have the meaning ascribed to such term in Clause 12.3;
u)	Indemnifying Party	shall have the meaning ascribed to such term in Clause 12.3;
v)	Losses	means any loss, liability, claim, damage, expense (including costs of investigation and defence and reasonable attorneys' fees) or diminution of value, whether or not involving a third-party claim;
w)	Material Adverse Effect	means a material adverse effect on the condition (financial, commercial, technical, legal or otherwise) of the Business, assets, results of operations or prospects of the Company;
x)	Material Agreement	shall have the meaning ascribed to such term in Clause 8.11;
y)	Party	shall have the meaning ascribed to such term in the preamble to this Agreement;
z)	Parties	shall have the meaning ascribed to such term in the preamble to this Agreement;
aa)	Partnership	means KNOT Offshore Partners LP, a Marshall Islands limited partnership;
bb)	Purchase Price	shall have the meaning ascribed to such term in Clause 4;
cc)	Purchase Price Adjustments	shall have the meaning ascribed to such term in Clause 5.4;
dd)	Seller	shall have the meaning ascribed to such term in the preamble to this Agreement;

ee)	Seller Indemnities	shall have the meaning ascribed to such term in Clause 12.2;
ff)	Shareholder Loan	means the loan made by Nippon Yusen Kabushiki Kaisha to the Company pursuant to a secured shareholder loan facility agreement dated 26 March 2015, as amended, the outstanding principal of which was USD 22,534,907.89 on the date of this Agreement.
gg)	Shares	shall have the meaning ascribed to such term in Clause 1;
hh)	Signing Date	means the date of this Agreement;
ii)	Swap Agreements	means the 2002 ISDA master agreements entered into between the Company and Mizuho Bank, Ltd. and the Schedule thereto, dated 30 September 2016 and with Nordea Bank Finland Plc., dated 30 September 2016, and the Schedule thereto, each relating to the Anna Facility;
jj)	Swap Balance	means the balance under the Swap Agreements as determined according to a mark-to-market determination as of the Closing Date and applying the middle rate for USD/NOK as published by DNB Markets on the Closing Date, adjusted by USD 112,962 in favour of the Seller to cover the hedging margin compared to the rate at which the Swap Agreements were entered into . As of 31 January, 2018 the Swap Balance (being the balance under swaps entered into with Nordea Bank Finland Plc was USD 1,459,238 (in favour of the Company));
kk)	Taxes	means all taxes (including value-added tax and similar taxes), however denominated, including interest, penalties and other additions to tax that may become payable or imposed by any applicable statute, rule or regulation or any governmental agency, including all taxes, withholdings and other charges in respect of income, profits, gains, payroll, social security or other social benefit taxes, sales, use, excise, real or personal property, stamps, transfers and workers' compensation, which the Company is required to pay, withhold or collect; and
ll)	Third-Party Claim	shall have the meaning ascribed to such term in Clause 12.3; and
mm)	Vessel	shall have the meaning ascribed to such term in Clause 1.

3 SALE AND PURCHASE

Subject to the terms and conditions set forth in this Agreement, the Seller agrees to sell, and the Buyer agrees to purchase, the Shares, together with all rights attached to them.

The Shares shall be transferred to the Buyer on the Closing Date, free and clear from any Encumbrances, other than pursuant to the Anna Facility.

4 PURCHASE PRICE

The Seller agrees to sell and transfer to the Buyer, and the Buyer agrees to purchase from the Seller the Shares for USD 120,000,000, less USD 84,217,065 of outstanding principal under the Anna Facility (including the Facility Prepayment Amount) at Closing and less USD 22,534,907.89 of outstanding principal under the Shareholder Loan, plus the Capitalized Fees in the amount of USD 1,389,069 (the “**Purchase Price**”), plus the Purchase Price Adjustments, all in accordance with and subject to the terms and conditions set forth in this Agreement.

The Purchase Price is to be settled by way of cash payment on the Closing Date in the amount of USD 14,637,096.11 from the Buyer to the Seller, subject to the subsequent Purchase Price Adjustments in accordance with Clause 5.4 below.

The Purchase Price as calculated above is based on the assumption that Closing occurs on 1 March 2018 at 00:01 CET. If Closing should occur at another time the Parties shall agree on an adjusted Purchase Price to be paid on Closing, to reflect accrued interest, currency fluctuations and paid instalments (as applicable) in respect of the Anna Facility, the Capitalized Fees and the Shareholder Loan.

5 CLOSING

5.1 Time and place

Subject to the satisfaction or waiver of the conditions set forth in Clause 6, the completion of the transactions contemplated by this Agreement (the “**Closing**”) shall take place at the offices of the Seller at 1 March 2018 or such other time as the Parties agree.

5.2 The Seller’s Closing obligations

At the Closing, the Seller shall:

- a) deliver to the Buyer a copy of the minutes of the meeting of the board of directors of the Seller authorising the execution of, and the consummation of the transaction contemplated by, this Agreement; and
- b) in exchange for the payment of the Purchase Price, transfer the Shares to the Buyer and deliver to the Buyer the share register of the Company with the Buyer duly registered as the owner of the Shares, as well as the related notices according to Sections 4-7 and 4-10 of the Companies Act.

5.3 The Buyer’s Closing obligations

At the Closing, the Buyer shall

- a) settle the Purchase Price in accordance with Clause 4;
- b) procure that the Company prepays the Shareholder Loan in full; and
- c) procure that the Company prepays the Facility Prepayment Amount in full.

5.4 Post-Closing Adjustment

- a) Within 45 days following the Closing Date, the Buyer and the Seller shall agree on the amount of the post-Closing adjustments to the Purchase Price based on:
 - (i) the Company's working capital, including the amounts owed to KNOT Management AS pursuant to Clause 8.8 c), of this Agreement as of 00:01 hours CET on the Closing Date;
 - (ii) the Swap Balance; and
 - (iii) accrued interest on the Shareholder Loan between 15 December 2017 and the Closing Date.(the "**Purchase Price Adjustments**").
- b) Within 3 business days following the date on which the Purchase Price Adjustments have been agreed pursuant to Clause 5.4 a) above, the Buyer or the Seller (as the case may be) shall pay to the other Party an amount, in cash, equal to the net Purchase Price Adjustments. Any amounts other than those covered by the Purchase Price Adjustments varying in the period between the Signing Date and the Closing Date shall be for Seller's account.

6 CLOSING CONDITIONS

6.1 Conditions to the Buyer's Closing obligations

The obligations of the Buyer to purchase the Shares and to take the other actions required to be taken by it at the Closing are subject to the satisfaction of each of the following conditions (any of which may be waived in whole or in part by the Buyer) on or before the Closing Date:

- a) any Encumbrance provided as security for the Shareholder Loan, including a share pledge over the shares issued in the Company, shall have been released and discharged;
- b) that the Vessel has been delivered to the Charterer in accordance with the provisions of the Charter and that all costs and expenses related thereto have been settled by the Seller;
- c) there is no material breach of any of the representations and warranties of the Seller set forth in Clause 8 and Clause 9;
- d) the Buyer shall have obtained the funds necessary to consummate the purchase of the Shares, to ensure prepayment by the Company of the Shareholder Loan and the Facility Prepayment Amount, and to pay all related fees and expenses;
- e) in all respects material to the transactions contemplated hereby, the Seller shall have performed or complied with all of its obligations pursuant to this Agreement to be performed or complied with by the Seller at or prior to the Closing Date and shall have delivered each document or instrument to be delivered by it pursuant to this Agreement; and

-
- f) the results of the searches, surveys, tests and inspections of the Vessel referred to in Clause 10.1 h) are reasonably satisfactory to the Buyer.

6.2 Conditions to the Seller's Closing obligations

The obligations of the Seller to sell the Shares and to take the other actions required to be taken by it at the Closing are subject to the satisfaction of each of the following conditions (any of which may be waived in whole or in part by the Seller) on or before the Closing Date:

- a) there is no material breach of any of the representations and warranties of the Buyer set forth in Clause 7;
- b) At Closing, the Buyer shall procure that the Partnership accede to the Anna Facility as "Guarantor" by way of an "Accession Letter" set out therein, and that the Shares are pledged as contemplated by the Anna Facility, and procure that relevant conditions precedent under the Anna Facility relating to the Partnership and/or the Buyer have been satisfied. At Closing, the Seller shall be released from its guarantee obligations under the Anna Facility; and
- c) in all respects material to the transactions contemplated hereby, the Buyer shall have performed or complied with all of its obligations pursuant to this Agreement to be performed or complied with by the Buyer at or prior to the Closing Date and shall have delivered each document or instrument to be delivered by it pursuant to this Agreement.

6.3 Conditions of the Parties.

The obligations of Seller to sell the Shares and the obligations of Buyer to purchase the Shares are subject to the satisfaction (or waiver by each of Seller and Buyer) on or prior to the Closing Date of the following conditions:

- a) The Seller shall have received any and all written consents, permits, approvals or authorizations of any Governmental Authority or any other Person (including, but not limited to, with respect to the Charter, the Anna Facility, the Shareholder Loan and the Swap Agreements) and shall have made any and all notices or declarations to or filing with any Governmental Authority or any other Person, including those related to any environmental laws or regulations, required in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereunder, including the transfer of the Shares; and
- b) No legal or regulatory action or proceeding shall be pending or threatened by any Governmental Authority to enjoin, restrict or prohibit the purchase and sale of the Shares.

7 REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer represents and warrants to the Seller that as of the Signing Date and on the Closing Date, unless otherwise expressly stated:

7.1 Corporate existence and power

The Buyer is duly incorporated, validly existing and in good standing under the laws of Norway.

The Buyer has not been declared insolvent; become the subject of a petition in bankruptcy; had a receiver appointed with respect to it or to the Business or part thereof; entered into any arrangement with, or made an assignment for the benefit of, its creditors; or ceased to function as a going concern.

7.2 Corporate authorisation and non-contravention

This Agreement and each other document or instrument delivered or to be delivered in connection with this Agreement has been duly authorised by all necessary corporate action(s) of the Buyer and constitutes or will, when executed, constitute valid and binding obligations of the Buyer enforceable in accordance with its respective terms.

The execution by the Buyer of this Agreement and each other document or instrument delivered or to be delivered in connection with it, and the performance by the Buyer of its obligations under this Agreement and the consummation of the transactions provided for in this Agreement, do not and will not result in a breach of any provision of the articles of association of the Buyer or of any applicable law, order, judgment or decree of any court or Governmental Authority or of any agreement to which the Buyer is bound.

The Buyer is not required to obtain any authorisations, consents, approvals or exemptions by any Governmental Authority in connection with the entering into or performance of its obligations under this Agreement.

8 REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Seller represents and warrants to the Buyer as of the Signing Date and on the Closing Date, unless otherwise expressly stated:

8.1 Corporate existence and power

Each of the Company and the Seller is duly incorporated, validly existing and in good standing under the laws of Norway.

Each of the Company and the Seller has not been declared insolvent; become the subject of a petition in bankruptcy; had a receiver appointed with respect to it or to the Business or part thereof; entered into any arrangement with, or made an assignment for the benefit of, its creditors; or ceased to function as a going concern.

8.2 Corporate authorisation and non-contravention

This Agreement and each other document or instrument delivered or to be delivered in connection with this Agreement has been duly authorised by all necessary corporate action(s) of each of the Company and the Seller, as appropriate, and constitutes or will, when executed, constitute valid and binding obligations of each of the Company and the Seller, as appropriate, enforceable in accordance with its respective terms.

The execution by each of the Company and the Seller, as appropriate, of this Agreement and each other document or instrument delivered or to be delivered in connection with it, and the performance by each of the Company and the Seller, as appropriate, of its obligations under this Agreement and the consummation of the transactions provided for in this Agreement, do not and will not result in a breach of any provision of the articles of association of each of the Company and the Seller, as appropriate, or of any applicable law, order, judgment or decree of any court or Governmental Authority or of any agreement to which each of the Company and the Seller, as appropriate, is bound.

Each of the Company and the Seller, as appropriate, is not required to obtain any authorisations, consents, approvals or exemptions by any Governmental Authority in connection with the entering into or performance of its obligations under this Agreement.

8.3 Capitalisation and title

The Seller has full ownership to the Shares. The Shares are duly authorised, validly issued and fully paid and at Closing, will be free and clear from any Encumbrances, other than pursuant to the Anna Facility and the Shareholder Loan (Encumbrances in respect of the Shareholder Loan to be discharged on or prior to Closing).

There is no outstanding subscription, option or similar rights relating to the Shares.

8.4 Records

The Company's articles of association and shareholders' register are true, accurate, up-to-date and complete.

8.5 Charter documents; validity of the Charter

The Seller has supplied to the Buyer true and correct copies of the Charter and any related documents, as amended to the Closing Date. The Charter is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms and, to the knowledge of the Seller, the Charter is a valid and binding agreement of all other parties thereto enforceable against such parties in accordance with its terms.

8.6 Accounts

The Accounts have been prepared in accordance with the Accounting Principles and in accordance with the books and records of the Company. The Accounts give a true and accurate view of the financial position, solvency, assets, liabilities, liquidity, cash flow and the result of the operations of the Company as of the Accounts Date.

8.7 No undisclosed liabilities

Neither the Company nor the Vessel has any Encumbrances, or other liabilities or obligations of any nature, whether absolute, accrued, contingent or otherwise, and whether due or to become due (including, without limitation, any liability for Taxes and interest, penalties and other charges payable with respect to any such liability or obligation), except for such liabilities or obligations arising under the Charter, the Anna Facility, the Shareholder Loan, the Swap Agreements, the management agreement relating to the Vessel with KNOT Management AS, the inter-company balances described in Clause 8.8 c) and the Encumbrances appearing in the ship registry of the Vessel and arising under the Anna Facility and the Swap Agreements.

8.8 Loans and other financial facilities

All loans and other financial facilities available to the Company have been made available for review by the Buyer.

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- a) As of the Signing Date, the principal outstanding amount under the Anna Facility in respect of the Vessel is USD 74,431,185 under Tranche A and USD 9,785,880 under Tranche B. Hence, the amount for which the Company will be responsible at the time of Closing is USD 84,217,065 (provided Closing takes place on 1 March 2018) including the Facility Prepayment Amount which the Company will be responsible to prepay immediately following Closing;
 - b) The principal outstanding amount under the Shareholder Loan for which the Company will be responsible to prepay at the time of Closing is USD 22,534,907.89 (provided Closing takes place on 1 March 2018, and
 - c) As of 31 January 2018, the non-interest bearing inter-company balance between the Company (as borrower) and KNOT Management AS (as lender) was NOK 1,242,225.07.

No event has occurred which gives, or after notice or lapse of time, or both, would give any third party the right to call for repayment from the Company prior to normal maturity of any loan or other financial facility. The Company shall not be indebted, directly or indirectly, to any person who is an officer, director, stockholder or employee of any of the Seller or any spouse, child or other relative or any affiliate of any such person, nor shall any such officer, director, stockholder, employee, relative or affiliate be indebted to the Company.

8.9 Assets

At the Closing Date, the Company shall not be using assets in the Business that it neither owns nor has the right to use pursuant to written agreements with third parties. At the Closing Date, the assets of the Company will comprise all the assets necessary for carrying on the Business fully and effectively to the extent to which it is conducted at the Signing Date.

8.10 Absence of certain changes or events

Since the Accounts Date, there has not occurred or arisen:

- a) any change of accounting methods, principles or practices, accounting, invoicing and supplier practice or procedures for the Company;
- b) any acquisition or disposal of, or the entering into any agreement to acquire or dispose of, any asset, other than the sale of products in the ordinary course of business;
- c) the termination of any Material Agreement, other than the Commercial Management Agreement dated 15 May 2015 between the Company and KNOT Management AS pursuant to the Agreement on Termination of the Commercial Management Agreement dated 20 February 2018;
- d) any obligations, commitments or liabilities, contingent or otherwise, whether for Taxes or otherwise, except obligations, commitments and liabilities arising in the ordinary course of business;
- e) any event or condition, whether covered by insurance or not, which has resulted in or may result in a Material Adverse Effect; or
- f) the entering into of any agreements or commitments other than on customary terms.

8.11 Agreements

Each Material Agreement is in full force and effect. No other Material Agreements will be entered into by the Company prior the Closing Date without the prior consent of the Buyer (such consent not to be unreasonably withheld). The Company has fulfilled all material obligations required pursuant to the Material Agreements to have been performed by it prior to the Signing Date and has not waived any material rights thereunder.

There has not occurred any material default on the part of the Company under any of the Material Agreements, or to the knowledge of the Seller, on the part of any other party thereto, nor has any event occurred that with the giving of notice or the lapse of time, or both, would constitute any material default on the part of the Company under any of the Material Agreements nor, to the knowledge of the Seller, has any event occurred that with the giving of notice or the lapse of time, or both, would constitute any material default on the part of any other party to any of the Material Agreements.

The term “ **Material Agreement** ” means each agreement, contract or other undertaking by or of the Company (a) that is of material importance to the Business or (b) the value of which, in respect of total turnover during one year, is not less than NOK 500,000, provided, however, that such term includes the Charter, the Anna Facility, the Shareholder Loan and the Swap Agreements.

8.12 Insurance

The Company maintains insurance policies on fire, theft, loss, disruption, product and general liability and other forms of insurance with reputable insurers that would reasonably be judged to be sound and required for the Business.

The Company’s insurance policies do not contain any provisions regarding a change of control or ownership of the insured.

The Company is in compliance with all terms and conditions contained in the insurance policies, and nothing has been done or omitted to be done that would make any insurance policy or insurance void or voidable or that would result in a reduction of the coverage (*No: avkortning*).

8.13 Environmental matters

The Company is not and has not been in breach of any applicable laws (whether civil, criminal or administrative), statutes, regulations, directives, codes, judgments, orders or any other measures imposed by any governmental, statutory or regulatory body with regard to the pollution or the protection of the environment or to the protection of human health or human safety, or any other living organisms supported by the environment.

There is no current governmental investigation or disciplinary proceeding relating to any alleged breach of any law or permit by the Company, and none is pending, nor threatened.

The Company has not, other than as permitted under applicable permits or applicable laws or regulations held from time to time, disposed of, discharged, released, placed, dumped or emitted any hazardous substances, such as pollutants, contaminants, hazardous or toxic materials, wastes or chemicals. Neither the Seller nor the Company has received any formal or informal notice or other communication from which it appears that the Company may be or has been in violation of any laws or permits. There are no actual or contingent obligations on the Company to pay money or carry out

any work in order to keep or be granted an extension or renewal of any existing permit. There are no facts or circumstances that could result in such an obligation. The properties used by the Company are not made of or do not contain any form of asbestos or any other toxic substance that may cause damage to the health of the persons working or visiting the premises.

8.14 Compliance with laws

The Company has at all times conducted the Business in accordance with and has complied with any applicable laws in Norway and in any other relevant countries relating to its operations and the Business.

All necessary licences, consents, permits and authorisations have been obtained by the Company to enable the Company to carry on the Business in the places and in the manner in which such Business is now conducted and all such licences, consents, permits and authorisations are valid and subsisting and have been complied with in all respects.

8.15 Litigation

There are no claims, actions, lawsuits, administrative, governmental, arbitration or other legal proceedings (including but not limited to proceedings related to Taxes) pending or threatened against or involving the Company, the Business or properties or assets of the Company and which would result in a Material Adverse Effect if adversely determined.

8.16 Taxes

The Company has properly filed with the appropriate Tax authorities all Tax returns and reports required to be filed for all Tax periods ending prior to the Closing Date. Such filings are true, correct and complete. All information required for a correct assessment of Taxes has been provided.

The Tax returns of the Company have been assessed and approved by the Tax authorities through the Tax years up to and including the years for which such assessment and approval is required, and the Company is not subject to any dispute with any such authority.

All Taxes that have become due have been fully paid or fully provided for in the Accounts, and the Company shall not be liable for any additional Tax pertaining to the period before the Accounts Date. All Taxes for the period after the Accounts Date have been fully paid when due.

There are no Tax audits, Tax disputes or Tax litigation pending or threatened against or involving the Company. There is no basis for assessment of any deficiency in any Taxes against the Company that has not been provided for in the Accounts or that has not been paid.

The Company is not and has not been involved in any transaction that could be considered as Tax-evasive. All losses for Tax purposes incurred by of the Company are trading losses and are available to be carried forward and set off against income in succeeding periods without limitation and have been accepted by the relevant Tax authorities.

The Company is not and has not been subject to any Tax outside its respective country of fiscal residence.

8.17 Relationship with the Seller

Except as disclosed to the Buyer, there are no written or oral agreements or arrangements between the Company and the Seller, and no liabilities or obligations (contingent or otherwise) owed by the Company to the Seller.

No services provided by the Seller to the Company are necessary in the ordinary course of business.

No payments of any kind, including, but not limited to management charges, have been made by the Company to the Seller, save for payments under agreements or arrangements made on an arm's-length basis in accordance with applicable law and regulations.

8.18 Information

All documents provided to the Buyer by or on behalf of the Seller or the Company are true and correct, and no document provided to the Buyer by or on behalf of the Seller or the Company contains any untrue statement of a relevant fact or omits to state a relevant fact necessary to make the statements contained in the document not misleading.

There are no facts or circumstances known to the Seller, relating to the affairs of the Company, that have not been disclosed to the Buyer, which, if disclosed, reasonably could have been expected to influence the decision of the Buyer to purchase the Shares on the terms of this Agreement.

The Seller confirms that the Seller, prior to the Signing Date, has made, and until the Closing Date, shall continue to make, all investigations necessary in order to ensure that the statements in Clauses 8 and 9 are correct.

9 REPRESENTATIONS AND WARRANTIES OF THE SELLER REGARDING THE VESSEL

The Seller represents and warrants to the Buyer as of the Signing Date and on the Closing Date, unless otherwise expressly stated:

9.1 Flag and title

The Company is the registered owner of the Vessel and has good and marketable title to the Vessel, free and clear of any and all Encumbrances, other than those arising under the Anna Facility and the Swap Agreements. The Vessel is properly registered in the name of the Seller under and pursuant to the flag and law of Denmark, and all fees due and payable in connection with such registration have been paid.

9.2 Classification

The Vessel is entered with the DNV GL and has the highest classification rating. The Vessel is in class without any recommendations or notation as to class or other requirement of the relevant classification society, and if the Vessel is in a port, it is in such condition that it cannot be detached by any port state authority or the flag state authority for any deficiency.

9.3 Maintenance

The Vessel has been maintained in a proper and efficient manner in accordance with internationally accepted standards for good ship maintenance, is in good operating order, condition and repair and is seaworthy, and all repairs made to the Vessel during the last two years and all known scheduled repairs due to be made and all known deficiencies have been disclosed to the Buyer.

9.4 Liens

The Vessel is not (a) under arrest or otherwise detained, (b) other than in the ordinary course of business, in the possession of any person (other than her master and crew) or (c) subject to a possessory lien.

9.5 Safety

The Vessel is supplied with valid and up-to-date safety, safety construction, safety equipment, radio, loadline, health, tonnage, trading and other certificates or documents as may for the time being be prescribed by the law of Denmark or of any other pertinent jurisdiction, or that would otherwise be deemed necessary by a shipowner acting in accordance with internationally accepted standards for good ship management and operations.

9.6 No blacklisting or boycotts

No blacklisting or boycotting of any type has been applied or currently exists against or in respect of the Vessel.

9.7 No options

There are not outstanding any options or other rights to purchase the Vessel.

9.8 Insurance

The insurance policies relating to the Vessel are as set forth on Schedule 1 hereto, each of which is in full force and effect and, to the Seller's knowledge, not subject to being voided or terminated for any reason.

10 COVENANTS PRIOR TO THE CLOSING

10.1 Covenants of the Seller Prior to the Closing

From the Signing Date to the Closing Date, the Seller shall cause the Company to conduct its business in the usual, regular and ordinary course in substantially the same manner as previously conducted. The Seller shall not permit the Company to enter into any contracts or other written or oral agreements prior to the Closing Date, other than such contracts and agreements as have been disclosed to the Buyer prior to the Signing Date, without the prior consent of the Buyer (such consent not to be unreasonably withheld). In addition, the Seller shall not permit the Company to take any action that would result in any of the conditions to the purchase and sale of the Shares set forth in Clause 6 not being satisfied. Furthermore, the Seller hereby agrees and covenants that it:

- a) shall use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary to consummate and make effective as promptly as possible the transactions contemplated by this Agreement and to co-operate with the Buyer and others in connection with the foregoing;
- b) shall use its best efforts to obtain the authorisations, consents, orders and approvals of regulatory bodies and officials that may be or become necessary for the performance of its obligations pursuant to this Agreement and the completion of the transactions contemplated by it;

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- c) shall co-operate with the Buyer and promptly seek to obtain such authorisations, consents, orders and approvals as may be necessary for the performance of the Parties' respective obligations pursuant to this Agreement;
 - d) shall not amend, alter or otherwise modify or permit any amendment, alteration or modification of any material provision of or terminate the Charter or any other contract prior to the Closing Date without the prior written consent of the Buyer, such consent not to be unreasonably withheld or delayed;
 - e) shall not exercise or permit any exercise of any rights or options contained in the Charter, without the prior written consent of the Buyer, not to be unreasonably withheld or delayed;
 - f) shall observe and perform in a timely manner, all of its covenants and obligations under the Charter, the Anna Facility, the Shareholder Loan and the Swap Agreements, if any, and in the case of a default by another party thereto, it shall forthwith advise the Buyer of such default and shall, if requested by the Buyer, enforce all of its rights under such Charter, the Anna Facility, the Shareholder Loan or the Swap Agreements, as applicable, in respect of such default;
 - g) shall not cause or, to the extent reasonably within its control, permit any Encumbrances to attach to the Vessel other than in connection with the Anna Facility and the Swap Agreements; and
 - h) shall permit representatives of the Buyer to make, prior to the Closing Date, at the Buyer's risk and expense, such surveys, tests and inspections of the Vessel as the Buyer may deem desirable, so long as such surveys, tests or inspections do not damage the Vessel or interfere with the activities of the Seller, the Company or the Charterer thereon and so long as the Buyer shall have furnished the Seller with evidence that adequate liability insurance is in full force and effect.

10.2 Covenants of the Buyer Prior to the Closing

The Buyer hereby agrees and covenants that during the period of time after the Signing Date and prior to the Closing Date, the Buyer shall, in respect of the Shares to be transferred on the Closing Date, take, or cause to be taken, all necessary company action, steps and proceedings to approve or authorize validly and effectively the purchase and sale of the Shares and the execution and delivery of this Agreement and the other agreements and documents contemplated hereby.

11 TERMINATION

11.1 Termination

This Agreement may be terminated, and the transactions contemplated by this Agreement may be abandoned, at any time prior to the Closing Date:

- a) by either Party if a breach of any provision of this Agreement has been committed by the other Party, such breach has not been waived and such breach is material to the transactions contemplated hereby, the Business or the assets, financial condition or prospect of the Company;

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- b) by the Buyer if satisfaction of any of the conditions in Clause 6.1 is or becomes impossible (other than through the failure of the Buyer to comply with its obligations under this Agreement) and the Buyer has not waived such condition;
 - c) by the Seller if satisfaction of any of the conditions in Clause 6.2 is or becomes impossible (other than through the failure of the Seller to comply with its obligations under this Agreement) and the Seller has not waived such condition;
 - d) by either Party if satisfaction of any of the conditions in Clause 6.3 is or becomes impossible and Buyer and Seller have not waived such condition;
 - e) by the Buyer due to a change having occurred that has resulted or may result in a Material Adverse Effect; or
 - f) by mutual written consent of the Seller and the Buyer.

11.2 Rights on termination

If this Agreement is terminated pursuant to Clause 11.1, all further obligations of the Parties pursuant to this Agreement shall terminate without further liability of a Party to the other, provided, however, that the obligations of the Parties contained in Clause 13 (Costs) and Clause 17 (Governing Law and arbitration) shall survive such termination, and further provided, that if this Agreement is terminated by a Party because of the breach of this Agreement by the other Party or because one or more of the conditions to the terminating Party's obligations under this Agreement is not satisfied as a result of the other Party's failure to comply with its obligations under this Agreement, the terminating Party's right to pursue all legal remedies will survive such termination unimpaired.

12 INDEMNIFICATION

12.1 Indemnity by the Seller

Following the Closing, the Seller shall be liable for, and shall indemnify, defend and hold harmless the Buyer and its respective officers, directors, employees, agents and representatives (the "**Buyer Indemnitees**") from and against, any Losses, suffered or incurred by such Buyer Indemnitees:

- a) by reason of, arising out of or otherwise in respect of any inaccuracy in, breach of any representation or warranty, or a failure to perform or observe fully any covenant, agreement or obligation of, the Seller in or under this Agreement or in or under any document, instrument or agreement delivered pursuant to this Agreement by the Seller;
- b) subject to Clause 13 b), any fees, expenses or other payments incurred or owed by the Seller to any brokers, financial advisors or comparable other persons retained or employed by it in connection with the transaction contemplated by this Agreement;
- c) any Losses of the Company or the Vessel or any other vessel chartered or owned by the Company incurred prior to or on the Closing Date arising from any violation of any applicable law or regulation relating to protection of natural resources, health and safety and the environment;

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- d) all federal, state, foreign and local income tax liabilities attributable to the Company or operation of the Vessel prior to the Closing Date; or
 - e) any Losses suffered or incurred by such Buyer Indemnitees in connection with any claim for the repayment of hire or Losses in relation to the Vessel or any other vessel chartered or owned by the Company for periods prior to the Closing.

12.2 Indemnity by the Buyer

Following the Closing, the Buyer shall be liable for, and shall indemnify, defend and hold harmless the Seller and its respective officers, directors, employees, agents and representatives (the “**Seller Indemnitees**”) from and against, any Losses, suffered or incurred by such Seller Indemnitees by reason of, arising out of or otherwise in respect of any inaccuracy in, breach of any representation or warranty, or a failure to perform or observe fully any covenant, agreement or obligation of, the Buyer in or under this Agreement or in or under any document, instrument or agreement delivered pursuant to this Agreement by the Buyer.

12.3 Indemnification procedures with respect to third-party claims

If the Seller or the Buyer, as the case may be (an “**Indemnified Party**”), shall receive notice of any claim by a third party that is or may be subject to indemnification or compensation from the other Party pursuant to this Agreement (a “**Third-Party Claim**”), the Indemnified Party shall give the other Party (the “**Indemnifying Party**”) prompt written notice of such Third-Party Claim and the Indemnifying Party shall, at the Indemnifying Party’s option, have the right to participate in the defence thereof by counsel at the Indemnifying Party’s own cost and expense. If the Indemnifying Party acknowledges within 30 days from such written notice in writing its obligation to indemnify the Indemnified Party against all Losses that may result from such Third-Party Claim, the Indemnifying Party shall be entitled, at the Indemnifying Party’s option, to assume and control the defence of such Third-Party Claim at the Indemnifying Party’s cost and expense and through counsel of the Indemnifying Party’s choice. No such Third-Party Claim may be settled by the Indemnifying Party without the written consent of the Indemnified Party, unless the settlement involves only the payment of money by the Indemnifying Party. No Third-Party Claim that is being defended in good faith by the Indemnifying Party shall be settled by the Indemnified Party without the written consent of the Indemnifying Party. The Indemnifying Party shall have no obligation to indemnify the Indemnified Party for any losses resulting from the settlement of Third-Party Claims in violation of the provisions of this Clause 12.3.

13 COSTS

- a) Subject to Clause 13b) and 13c), each party shall pay its own costs and expenses in connection with the preparation for and completion of the transactions contemplated by this Agreement, including but not limited to all fees and expenses of its own representatives, agents, brokers, legal and financial advisers and authorities and no such costs or expenses shall be charged to or paid by, neither directly or indirectly, the Company.
- b) The fees and expenses related to the fairness opinion of Pareto Securities Ltd. dated 16 February 2018 will be divided equally between the Buyer and the Seller.

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- c) Legal fees to Norwegian legal counsel (Advokatfirmaet Thommessen AS) related to the transactions contemplated by this Agreement and the related and financing arrangements will be divided equally between the Buyer and the Seller.

14 NOTICES

All notices, requests, demands, approvals, waivers and other communications required or permitted under this Agreement must be in writing in the English language and shall be deemed to have been received by a Party when:

- a) delivered by post, unless actually received earlier, on the third Business Day after posting, if posted within Norway, or the fifth Business Day, if posted to or from a place outside Norway;
- b) delivered by hand, on the day of delivery; or
- c) delivered by fax, on the day of dispatch if supported by a written confirmation from the sender's fax machine that the message has been properly transmitted.

All such notices and communications shall be addressed as set forth below or to such other addresses as may be given by written notice in accordance with this Clause 14.

If to the Seller:

Knutsen NYK Offshore Tankers AS
Attention: President & CEO
Smedasundet 40, Postboks 2017, 5504 Haugesund, Norway
Fax no.: +47 52 70 40 40

If to the Buyer:

KNOT Shuttle Tankers AS
Attention: Chairman of the Board
Smedasundet 40, Postboks 2017, 5504 Haugesund, Norway
Fax no.: +47 52 70 40 40

15 ASSIGNMENT

This Agreement shall be binding upon and inure to the benefit of the successors of the Parties, but shall not be assignable by any of the Parties without the prior written consent of the other Party. The benefit of this Agreement may, however, be assigned by either of the Parties to any group directly or indirectly controlling, controlled by or under common control of the assignor, provided that the assignor shall remain liable for its own debt and for all obligations under this Agreement.

16 MISCELLANEOUS

16.1 Further Assurances

From time to time after the Signing Date, and without any further consideration, the Parties agree to execute, acknowledge and deliver all such additional deeds, assignments, bills of sale, conveyances, instruments, notices, releases, acquittances and other documents, and shall do all such other acts and things, all in accordance with applicable

law, as may be necessary or appropriate (a) more fully to assure that the applicable Parties own all of the properties, rights, titles, interests, estates, remedies, powers and privileges granted by this Agreement, or which are intended to be so granted, (b) more fully and effectively to vest in the applicable Parties and their respective successors and assigns beneficial and record title to the interests contributed and assigned by this Agreement or intended so to be and (c) more fully and effectively to carry out the purposes and intent of this Agreement.

16.2 Integration

This Agreement, the Schedules hereto and the instruments referenced herein supersede all previous understandings or agreements among the Parties, whether oral or written, with respect to its subject matter hereof. This Agreement, the Schedules hereto and the instruments referenced herein contain the entire understanding of the Parties with respect to the subject matter hereof and thereof. No understanding, representation, promise or agreement, whether oral or written, is intended to be or shall be included in or form part of this Agreement unless it is contained in a written amendment hereto executed by the Parties hereto after the Signing Date.

16.3 No Broker's Fees

No one is entitled to receive any finder's fee, brokerage or other commission in connection with the purchase of the Shares or the consummation of the transactions contemplated by this Agreement.

17 GOVERNING LAW AND ARBITRATION

This Agreement shall be governed by and construed in accordance with Norwegian law.

The Parties shall seek to solve through negotiations any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity hereof. If the Parties fail to solve such dispute, controversy or claim by a written agreement within 60 days after one of the Parties has requested such negotiations by notice to the other Party, such dispute, controversy or claim shall be finally settled by arbitration in Haugesund in the English language in accordance with the Norwegian Arbitration Act. The arbitration tribunal shall consist of three arbitrators, of which the Buyer shall appoint one arbitrator and the Seller shall appoint one arbitrator. The arbitrators so appointed shall appoint the third arbitrator, who shall be the chairman of the arbitration tribunal. In the event of failure by a Party to appoint its arbitrator within 30 days after the request for arbitration first is given, or the failure by the first two arbitrators to appoint the third arbitrator within 30 days after appointment of the last of the first two arbitrators to be appointed, such arbitrator or arbitrators shall be appointed by the district judge (No: "*Sorenskriver*") of Haugesund District Court. Any Party may seek judgement upon any award in any court having jurisdiction, or an application may be made to such court for the judicial acceptance of the award and for an order of enforcement.

Notwithstanding the above, either Party may bring an action in any court of competent jurisdiction (a) for provisional relief pending the outcome of arbitration, including, without limitation, provisional injunctive relief or pre-judgement attachment of assets, or (b) to compel arbitration or enforce any arbitral award. For purposes of any proceeding authorised by this Clause 17, each Party hereby consents to the non-exclusive jurisdiction of Haugesund, Norway.

* * *

This Agreement has been executed in two original copies, of which each Party has retained one copy.

Knutsen NYK Offshore Tankers AS

By: /s/ Trygve Seglem
Name: Trygve Seglem
Title: CEO

KNOT Shuttle Tankers AS

By: /s/ Trygve Seglem
Name: Trygve Seglem
Title: Chairman

INSURANCES

Insurance Policies (all quoted values are USD)

Hull & Machinery

Hull	Insured Value: \$88,000,000 Policy Renewal: 01.11.2017-31.10.2018
Hull Interest	Insured Value: \$22,000,000 Policy Renewal: 01.11.2017-31.10.2018
Freight Interest	Insured Value: \$22,000,000 Policy Renewal: 01.11.2017-31.10.2018

P&I Insurance

Gross Tonnage:	83936
Policy Renewal:	20.02.2018-20.02.2019

War Risk

Insured Value:	\$132,000,000
Policy Renewal:	01.01.2018-31.12.2018

Hull & Machinery

10,0%	Aon London Broking Center 10% Lloyds Syndicate 2003 XLC
5,0%	Aon London Broking Center 5% Arch Insurance Comp. (Europe) Ltd.
10,0%	Aon London Broking Center 10% Swiss Re International SE, UK Branch
7,5%	Aon London Broking Center 7,5% Lloyds Syndicate 2987 BRT
4,0%	Aon London Broking Center 4% Lloyds Syndicate 9577 AMT
2,0%	Aon London Broking Center 2% Lloyds Syndicate 4472 LIB
10,0%	Aon London Broking Center 10% Allianz Global Corporate & Speciality SE, London
5,0%	Aon Singapore Pte. Ltd. 5% India International Insurance Pte Ltd
7,5%	Gard AS, as agents only for Gard M&E Ltd
2,5%	International Insurance Company of Hannover SE
7,5%	Norwegian Hull Club
4,0%	The Swedish Club
25,0%	Tokio Marine & Nichido Fire Insurance Co., Ltd.
100,0%	Total

ACCOUNTS

[Separate attachment]

KNOT Shuttle Tankers 30 AS
Annual Report 2017



M/T "Anna Knutsen"



Knutsen
Group



KNOT SHUTTLE TANKERS 30 AS
REPORT OF THE BOARD OF DIRECTORS 2017

KNOT Shuttle Tankers 30 AS owns one 152,000 DWT suez-max DP2 shuttle tanker named M/T Anna Knutsen delivered from COSCO (Zhoushan) Shipyard Co., Ltd. in China March 10, 2017.

The company operates out of Haugesund, Norway and has no employees and working environment. KNOT Management AS in Haugesund manages the daily operations of the company in accordance with separate agreement.

The company's activity

The Company got delivered one suez-max DP2 shuttle tanker from COSCO (Zhoushan) Shipyard Co., Ltd. in Zhoushan, China, named M/T Anna Knutsen, March 10th 2017. The vessel is chartered to Galp Sinopec Brazil Services B.V. from May 2017 on a five-year time charter agreement with two options of three years in charters option. M/T Sallie Knutsen has been operated under the time charter from 2015 and until the vessel was redelivered to the company in November 2017. The company redelivered the vessel to the owner and that charter party was terminated immediately after the charterer redelivered the vessel to the company.

Result for the year

The company got a net income of NOK 179 334 286 in 2017 (NOK 119 939 788 in 2016). The operating result for KNOT Shuttle Tankers 30 AS was NOK 29 760 577 in 2017 compared to NOK 4 904 146 in 2016. After net financial loss of NOK 34 292 270 in 2017, NOK 3 143 933 in 2016, the loss of the year were NOK 4 531 693 in 2017 compared to a profit of NOK 1 760 214 in 2016.

The Board of Directors propose to transfer the result for the year to other equity/loss carried forward. The book equity will at the end of 2017 be negative. The company have long term freight contract for the vessel, long term financing and valuations that the vessel is worth more than the book value so the Board of Directors are of the opinion that the market value of the equity is positive.

Total cash flow from operational activities was NOK 44 405 041 in 2017, compared to minus NOK 24 556 737 from operation in 2016. The liquidity position was NOK 34 825 328 as per 31.12.2017 compared to NOK 10 814 321 as per 31.12.2016. The company's ability to finance its investments is good. The company have secured a long term financing for the vessel and secure long term stable cash flow for the company. The outstanding mortgage loan is at the end of 2017 USD 84 million and USD 23 million to NYK.

The company's short term debt was 2.7 % of total debt as of 31.12.2017, compared to 2.3 % as of 31.12.2016.

Total capital was by the end of the year NOK 912 337 788, compared to NOK 187 869 531 the year before. The equity share as of 31.12.2017 was negative, compared to 2.3 % per 31.12.2016.

The company is exposed to fluctuations in foreign exchange rates, especially USD, as the company's income is denominated in USD. Since the majority of the company's operating expenses and financial costs also are denominated in USD, this limits the company's foreign exchange risk. The company has not entered into any forward contracts or other agreements in order to reduce the company's foreign exchange risk, and thereby operating related market risk.

The company is also exposed to changes in the interest rate level, as its long-term debt carrying floating interest rate. The company has one interest rate swap agreement in the amount of USD 48 million to reduce the company's interest rate risk.

The financial accounts are made on the assumption of a going concern. The Board of Directors confirms the conditions for continued operation. The Board of the Directors is of the opinion that the financial statements give a true and fair reflection of the company's assets and liabilities as well as financial strength and profitability.

The environment safety and quality control

The requirements for environment and safety in the operations of vessels are increasing, and both the Company, the manager and the Knutsen NYK Offshore Tankers Group emphasize operational quality.

The Company and the manager allocate considerable resources to quality control, and there are strict requirements to safety and the operational systems of vessels. There are no indications that the company pollutes the external environment significantly, and the board of directors considers the working conditions as satisfactory. All certificates are valid. M/T Anna Knutsen is certified in accordance with both the ISM and ISPS codes.

The company have no employees and thus no working environment. The company aims to be workplace where there is no discrimination related to gender, ethnicity, religion or disability. The company aims to avoid gender discrimination regarding salary, promotion and recruiting. The members of the Board of Directors are all men.

Future prospects

M/T Anna Knutsen is operated on a long term charter with Galp Sinopec Brazil Services B.V. The charterer and trading area is well known for the manager and the Board of Directors. The Board of Directors expect that 2018 will be a stable profitable year for the company.

Haugesund, February 19, 2018

/s/ Trygve Seglem
Trygve Seglem

Chairman of the board

/s/ Karl Gerhard Bråstein Dahl
Karl Gerhard Bråstein Dahl

Member of the board

/s/ Fumitake Shishido
Fumitake Shishido

Member of the board

KNOT Shuttle Tankers 30 AS

Profit & Loss Account

	Note	2017	2016
Operating Income			
Freight income	2	184 347 299	123 327 156
Commissions		-5 013 013	-3 387 368
<i>Total Operating income</i>		179 334 286	119 939 788
Operating Expenses			
Rent vessel		78 735 528	114 042 051
Crew-hire	9	14 933 361	129 810
Other operating expenses		18 843 183	240 055
Administration	6	4 078 192	623 726
<i>Total Operating Expenses</i>		116 590 264	115 035 642
Ordinary depreciation	12	32 983 445	0
<i>Operating Result</i>		29 760 577	4 904 146
Financial Income and Expenses			
Financial income	4	542 154	964 898
Foreign exchange gain/loss		2 093 124	-2 287 080
Financial expenses	4	-36 927 548	-1 821 751
<i>Net Financial Items</i>		-34 292 270	-3 143 933
Result before taxes		-4 531 693	1 760 214
Taxes	10	0	0
<i>Result for the year</i>		-4 531 693	1 760 214

KNOT Shuttle Tankers 30 AS
Balance Sheet as of 31. December

	Note	2017	2016
Assets			
Fixed assets			
Vessel	2, 12	863 528 790	164 217 274
<i>Total Fixed Assets</i>		863 528 790	164 217 274
Current Assets			
Inventories	13	2 203 678	0
Receivables		3 054 636	12 837 185
Current receivables group		8 725 357	751
Bank deposits	3	34 825 328	10 814 321
<i>Total Current Assets</i>		48 808 999	23 652 258
TOTAL ASSETS		912 337 788	187 869 531

KNOT Shuttle Tankers 30 AS
Balance Sheet as of 31. December

	Note	2017	2016
Shareholders Equity and Liabilities			
Equity			
Share capital		10 000	10 000
<i>Total capital paid-in</i>		100 000	100 000
Other equity		-301 499	4 230 194
<i>Total Shareholders' Equity</i>	7, 8	-201 499	4 330 194
Long Term Liabilities			
Financial instruments	11	415 997	0
Liabilities to financial institutions	11	701 633 954	0
Other long term liabilities	11	185 712 429	179 302 356
<i>Total Long Term Liabilities</i>		185 712 429	179 302 356
Current Liabilities			
Accounts payable	5	6 093 956	1 020 299
Accrued interest		2 331 632	473 513
Current liabilities group		2 621 488	2 186 974
Other current liabilities	5	137 298 33	496 195
<i>Total Current Liabilities</i>		24 776 908	4 236 981
<i>SHAREHOLDERS' EQUITY AND LIABILITIES</i>		912 337 788	187 869 531

Haugesund, February 19, 2018

/s/ Trygve Seglem

Trygve Seglem

chairman of the board

/s/ Karl Gerhard Bråstein Dahl

Karl Gerhard Bråstein Dahl

member of the board

/s/ Fumitake Shishido

Fumitake Shishido

member of the board

KNOT Shuttle Tankers 30 AS

CASHFLOW STATEMENT

	2017	2016
Total generated from operations ¹⁾	25 010 849	1760214
Change in working capital	19 394 192	-26316951
Net cashflow from operations	44 405 041	-24556737
Cashflow from investments		
Invested in vessel under construction	-732 294 961	-73 319 725
Net cashflow from investments	-732 294 961	-73 319 725
Cashflow from financing		
Net change in other long term liabilities	10 774 392	60 314 007
Net drawn mortgage debt	700 679 036	0
Net change financial instruments	447 498	0
Net cashflow from financing	711 900 927	60 314 007
Net cashflow for the year	24 011 007	-37 562 455
+ Cash balance per 01.01.	10 814 321	48 376 776
= Cash Balance per 31.12.	34 825 328	10 814 321

1) Generated from operations:

Result before tax	-4 531 693	1 760 214
+Unrealized profit/loss on foreign exchange other long term liabilities	-4 364 319	0
+Amortized aquired interest swap	-31 502	
+Amortized debt issuance cost	2 347 726	0
+Ordinary depreciation	32 983 445	0
+Realized profit/loss on foreign exchange mortgage debt	-1 392 808	0
= Total generated from operations	25 010 849	1 760 214

KNOT Shuttle Tankers 30 AS
Notes to the Financial Statement 31.12.2017

1 Accounting Principles

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Current Assets/Current Liabilities

Fixed assets are intended for long-term ownership and use. Other assets are classified as current assets. Short-term liabilities are due within one year or tied to the operation of the vessel. Other liabilities are classified as long-term liabilities.

Current assets are valued at the lower of cost and fair value. Short-term liabilities are recorded at nominal value at the time of the entering.

Fixed Assets and Dry-Docking

Yard instalments paid on new buildings are gradually recorded as fixed assets as the instalments are paid. All costs regarding construction supervision, construction financing (including building loan interest, arrangement fees, provision of guarantees), purchases beyond the yard contract regarding the individual

The total cost of the vessel is capitalised at delivery and depreciated linearly to zero at the date 25 years after delivery of the vessel from newbuilding yard.

Dry-docking expenses are capitalised and expensed over the period till the next dry-docking. This is in line with the depreciation plan of the vessel, and takes into account that the vessel is classified to operate for an additional period. Dry-docking is carried out every 5th year for vessels less than 15 years, and every 2.5 year for vessels more than 15 years. In the case of a newbuilding, a portion of the total cost of the vessel equal to the dry-docking cost is capitalised. Actual expenses related to repair and maintenance of the vessel are expensed when the work is executed.

The fixed assets are valued according to the lowest of the depreciated value and the market value unless the fall in value is assumed to be temporary.

Income

The income from charter party is in USD, and is recorded in profit and loss on a straight line basis over the lease term, net of hedging impact.

Interest-bearing loan and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recorded in the profit and loss over the period of the interest-bearing liabilities. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in the net profit and loss statement when the liabilities are devalued or depreciated, as well as through the amortization process.

Tax

The company have elected to be taxed based on the Norwegian tonnage tax regime. The tonnage tax regime have a list of requirements that companies have to fulfill to qualify for election of the regime, such as minimum 3% direct or indirect ownership in vessels that perform transportation only. The company are restricted to what assets, liabilities and business they can participate in, and the same will apply for underlying companies and/or partnerships.

In the tonnage tax regime the company pay a tonnage tax based on the weight of the owned vessels and taxable result is based on a taxable financial result. This means that the company's operating results is not taxable. The taxable financial result is based on the net financial items in the profit and loss account where only a portion of the foreign exchange gain is taxable and a portion of the foreign exchange loss and interest expenses is deductible. The portion is based on the amount of financial assets compared to total assets in the balance sheet. The company will also have to pay a calculated tax on the equity if the equity exceed 70% of total capital. Tonnage tax is classified as an operating expense in the profit and loss statement.

The calculated tax expenses in the profit and loss statement includes both the payable tax for the period in addition to the change in deferred tax. Deferred tax is calculated based on the temporary differences between the balance sheet values in the accounts and the tax values in addition to the tax loss carried forward at the end of the financial year. Tax increasing and decreasing changes in temporary differences that can be reversed in the same period are offset and the net value is taken into the accounts.

Transactions in Foreign Currency

The income received in USD is recorded at the rate of exchange on the day the transaction is carried out. Income and expenditure in foreign currency are converted with the exchange rate at the time of the transaction.

All current assets and current liabilities in foreign currency are registered at the rate of exchange as per 31.12. Realised foreign exchange gain and loss are registered as financial items.

The debt is valued at the historical rate, to the extent that the future net nominal income flow exceed the borrowed amount. To the extent that long-term debt exceeds the net nominal income flow, the unrealised foreign exchange loss on the exceeding amount is recorded.

Realized and unrealized profit and loss on foreign exchange are recorded as financial income / expenses.

Cash flow statement

The cash flow statement is presented using the indirect method of NRS. The liquidity balance is defined as the sum of cash, bank deposits and other short term liquid deposits.

Related party transactions

The Company has undertaken several agreements and transactions with related parties in the KNOT group. The level of fees are based on market terms and are in accordance with the arm's length principle.

2 Contracts

The company has secured employment of MT Anna Knutsen with a 5 year firm + two options each of 3 years with Galp Sinopec Brazil Services B.V. from delivery to charterer in May 2017.

MT Sallie Knutsen has been chartered in on time-charter from the sister company Luky KS and further chartered out to Galp Sinopec Brazil Services B.V. from 2015 and both contracts for MT Sallie Knutsen was terminated in November.

KNOT Management AS is appointed as manager for the company and KNOT Management Denmark A/S is appointed as manager for MT Anna Knutsen.

3 Bank deposits

The company doesn't have restricted bank funds per 31.12.

4 Financial Income and Expenses

	<u>2017</u>	<u>2016</u>
Financial Income:		
Interest income	174 410	5 819
Interest income from related parties/group companies	<u>367 743</u>	<u>959 079</u>
Total financial income	542 154	964 898
Financial expenses:		
Interest expenses to group companies/related parties	9 138 484	0
Interest expenses	23 507 115	0
Guarantee cost related parties	3 744 596	0
Other financial expenses	<u>537 353</u>	<u>1 821 751</u>
Total financial expenses	36 927 548	1 821 751

5 Balances with related parties

	2017	2016
<u>Accounts payable</u>		
KNOT Management Denmark A/S	5 995 629	0
<u>Other current liabilities</u>		
Knutsen OAS Shipping AS	0	107 530

6 Remuneration

The company have not paid salary or any other remuneration, nor given any loan or guarantees to any leading person or board members during the year.

	2017	2016
<u>Auditors remuneration (excl. VAT):</u>		
Audit	20 500	0
Tax advice	0	0
Other services besides audit	0	0
	20 500	0

7 Equity

Specification of the equity per 31.12.

	Share capital	Other equity	Total equity
Equity 01.01.	100 000	4 230 194	4 330 194
Result for the year	0	-4 531 693	-4 531 693
Equity 31.12.	100 000	-301 499	-201 499

Share capital consist of 100 shares a NOK 1,000

Knutsen NYK Offshore Tankers AS owns all the shares in the company. Financial statements for the group can be obtained at company's registered office, Smedasundet 40, 5529 Haugesund.

8 Shares Owned by Board Members and Affiliates

Trygve Seglem controls TS Shipping Invest AS, which owns 50 % of the parent company Knutsen NYK Offshore Tankers AS.

9 Employees

The company has no employees and thereby no pension liabilities (under the new OTP regulation). KNOT Management AS manages the Company in accordance with a separate management agreement.

10 Tax

The company is taxed based on the shipping tax regime. This means that companies are not taxed on the basis of its operating income. However it is calculated an annual tax of 24% on the company's net financial income. At the same time companies within the tonnage tax scheme will have to pay a tonnage tax based on the size of the company's operated vessels, which in 2017 amounted to NOK 138 528 (NOK 0 in 2016). Tonnage tax is classified as an operating expense.

Below is a specification of the temporary differences at the end of the financial year.

	31.12.2017	Change	31.12.2016
Loss carried forward	-15 027 901	6 734 914	-8 292 987
Basis for deferred tax (benefit)	-15 027 901	6 734 914	-8 292 987
Deferred tax (benefit)	0	0	0

Deferred tax assets related to losses carried forward are only recognized to the extent that there is convincing evidence that these will be utilized in the future.

Taxable result tonnage tax scheme:

	2017	2016
Net financial Items	-34 292 270	-3 143 933
Non-taxable currency gain	-1 870 518	1 762 652
Non-deductible interest	29 311 014	-4 776 089
Deductible financial items	-83 139	-624 450
Other-non deductible items	200 000	0
Taxable income before loss carried forward	-6 734 914	-6 781 820
Loss carried forward	-6 734 914	-6 781 820
Taxable income	0	0
Tax payable	0	0
Excess provision tax last year	0	0
Change in deferred tax	0	0
Tax expense	0	0

11 Long term liabilities

31.12.2017	USD	Historical rate	Rate as at 31.12	NOK
USD-loan NYK	22 534 908	8,4348	8,2411	185 712 429
Deferred debt issuance cost				0
				185 712 429

31.12.2017	USD	Historical rate	Rate as at 31.12	NOK
USD-loan	84 217 065	8,4710	8,4710	713 402 758
Deferred debt issuance cost				-11 768 804
				701 633 954
Current portion:				
USD-loan	6 380 980	8,4710	8,4710	54 053 282
Deferred debt issuance cost				-2 781 090
				51 272 192

31.12.2016	USD	Historical rate	Rate as at 31.12	NOK
USD-loan NYK	21 253 221	8,4386	8,4386	179 347 705
Deferred debt issuance cost				-45 348
				179 302 356

The USDNOK exchange rate at the year-end was 8,2411 (8,6456 in 2016).

The company has aimed to reduce the market risk by entering financial contracts. Hedge accounting has been applied for revenue in USD (cash flow hedge). Loans in USD are used as hedging instrument. The profit and loss impact of the hedging instrument (loan in USD) is presented together with the hedged risk. This implies that realized currency gain/losses on the loans are presented as an increase/reduction of operating income.

Future income flows from anticipated fixed contracts in USD exceed debt in USD. Therefore it is not recognized foreign exchange gains/losses on USD debt on the basis of the year-end exchange rate. Per 31.12.2017 the not recorded foreign exchange gain (i.e. off-balance) is NOK 19 million compared to a loss of NOK 4 million as per 31.12.2016.

Security for the USD-loan from NYK is made through second priority assignment of the shipbuilding contract and refund guarantee, pledge in the shares of the company and 50 % guarantee from TS shipping Invest AS. The long term bank financing have not been drawn at the end of 2016, but they have the same securities with first priority.

Book value of mortgaged assets is NOK 864 million (NOK 164 million in 2016).

The company has aimed to reduce the market risk by entering financial contracts. The company has entered long term freight contracts in USD, with the intention of having income, vessel investment and loans in the same currency in order to minimize the effects of exchange rate fluctuations.

Aquired interest swans	2017	
Book value 01.01.		0
Additions		-447 498
Amortization		-31 502
Book value 31.12.		-415 997

12 **Fixed Assets**

Vessel under construction	2017	2016
Book value 01.01.	164 217 274	90 897 549
Additions	732 294 961	73 319 725
Delivery new vessel	-896 512 235	0
Book value 31.12.	0	164 217 274

Vessel	2017	
Historical value 01.01.		0
Accumulated depreciation 01.01.		0
Book value 01.01.		0
Delivered new building		872 007 235
Additions/disposals		0
Annual depreciation		28 960 538
Book value 31.12.		843 046 697

The economic life of the vessels is estimated to 25 years, and is depreciated accordingly.

Drv-docking	2017	
Capitalised dry-docking		0
Accumulated depreciation dry-docking 01.01.		0
Capitalised dry-docking 01.01.		0
Delivered new building		24 505 000
Annual depreciation		4 022 907
Book value 31.12.		20 482 093
Total book value vessel 31.12.		863 528 790

13 **Inventories**

Inventories refer to lube oil and stores as per 31.12.

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of KNOT Shuttle Tankers 30 AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of KNOT Shuttle Tankers 30 AS, which comprise the balance sheet as at 31 December 2017, profit and loss accounts and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors (management) are responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Building a better
working world

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 19 February 2018
ERNST & YOUNG AS
/s/ Magnus H.. Birkeland

Magnus H.. Birkeland
State authorized Public Accountant (Norway)

Independent auditor's report - KNOT Shuttle Tankers 30 AS

SUBSIDIARIES OF KNOT OFFSHORE PARTNERS LP

<u>Subsidiary</u>	<u>Jurisdiction of Formation</u>
KNOT Offshore Partners UK LLC	Marshall Islands
KNOT Shuttle Tankers AS	Norway
KNOT Shuttle Tankers 12 AS	Norway
KNOT Shuttle Tankers 17 AS	Norway
KNOT Shuttle Tankers 18 AS	Norway
KNOT Shuttle Tankers 20 AS	Norway
KNOT Shuttle Tankers 21 AS	Norway
KNOT Shuttle Tankers 24 AS	Norway
KNOT Shuttle Tankers 25 AS	Norway
KNOT Shuttle Tankers 26 AS	Norway
KNOT Shuttle Tankers 30 AS	Norway
KNOT Shuttle Tankers 32 AS	Norway
Knutsen NYK Shuttle Tankers 16 AS	Norway
Knutsen Shuttle Tankers 13 AS	Norway
Knutsen Shuttle Tankers 14 AS	Norway
Knutsen Shuttle Tankers 15 AS	Norway
Knutsen Shuttle Tankers 19 AS	Norway
Knutsen Shuttle Tankers XII AS	Norway
Knutsen Shuttle Tankers XII KS	Norway

**CERTIFICATION PURSUANT TO
RULE 13A-14(B) OR RULE 15D-14(B) AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE (18 U.S.C. 1350)**

I, John Costain, certify that:

1. I have reviewed this annual report on Form 20-F of KNOT Offshore Partners LP (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 25, 2018

KNOT OFFSHORE PARTNERS LP

By: /s/ John Costain
Name: John Costain
Title: Principal Executive Officer
and Principal Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. 1350**

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of KNOT Offshore Partners LP, a Marshall Islands limited partnership (the “*Partnership*”), certifies, to such officer’s knowledge, that:

The annual report on Form 20-F for the year ended December 31, 2017 of the Partnership (the “*Report*”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: April 25, 2018

KNOT OFFSHORE PARTNERS LP

By: /s/ John Costain

Name: John Costain

Title: Principal Executive Officer
and Principal Financial Officer

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form F-3 No. 333-218254) of KNOT Offshore Partners LP and in the related prospectus of our report dated April 25, 2018, with respect to the consolidated financial statements of KNOT Offshore Partners LP in this Annual Report (Form 20-F) for the year ended December 31, 2017.

/s/ Ernst & Young AS

Oslo, Norway

April 25, 2018