

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

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(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, 2020

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)

**2 Queens Cross
Aberdeen, Aberdeenshire
AB15 4YB, United Kingdom**

(Address of Principal Executive Offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|---|-------------------|---|
| Common units representing limited partner interests | KNOP | 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 every Interactive Data File required to be submitted 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 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.

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 whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

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KNOT Offshore Partners LP

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F for the year ended December 31, 2020 (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:

- the length and severity of the outbreak of Coronavirus COVID-19 (“COVID-19”), including its impact on KNOT Offshore Partners’ business, cash flows and operations as well as the business and operations of its customers, suppliers and lenders;
- 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 to 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;

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- 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;
- 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, including the availability and cost of low sulfur fuel oil compliant with the International Maritime Organization ("IMO") sulfur emission limit reductions generally referred to as "IMO 2020" that took effect January 1, 2020;
- availability of skilled labor, vessel crews and management, including possible disruptions due to the COVID-19 outbreak;
- 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 its unitholders;
- estimated future maintenance and replacement capital expenditures;
- Marshall Islands economic substance requirements;

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- KNOT Offshore Partners' ability to retain key employees;
- customers' increasing emphasis on climate, 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.

In August 2013, June 2014, December 2014, June 2015, October 2015, December 2016, March 2017, June, 2017, September 2017, December 2017, March 2018 and December 2020, 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*, the *Brasil Knutsen*, the *Anna Knutsen* and the *Tove Knutsen* respectively, each of which we accounted for as an acquisition of a business, other than the *Anna Knutsen* and *Tove Knutsen*, which were accounted for as an asset. 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*, the *Brasil Knutsen*, the *Anna Knutsen* or the *Tove 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.

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Our financial position, results of operations and cash flows presented below may not be indicative of our future operating results or financial performance.

| | Year Ended December 31, | | | | |
|--|--|-------------|-------------|-------------|-------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | <i>(U.S. Dollars in thousands, except per unit amounts and fleet data)</i> | | | | |
| Statement of Operations Data: | | | | | |
| Total revenues | \$ 279,222 | \$ 282,561 | \$ 279,456 | \$ 219,203 | \$ 173,671 |
| Vessel operating expenses(1) | 61,005 | 60,129 | 56,730 | 46,709 | 30,903 |
| Depreciation | 89,743 | 89,844 | 88,756 | 71,583 | 56,230 |
| General and administrative expenses | 5,392 | 4,858 | 5,290 | 5,555 | 4,371 |
| Operating income | 123,082 | 127,730 | 128,680 | 95,356 | 82,167 |
| Interest income | 125 | 865 | 739 | 248 | 24 |
| Interest expense | (31,645) | (50,735) | (49,956) | (30,714) | (20,867) |
| Other finance expense | (705) | (845) | (1,260) | (1,406) | (1,311) |
| Realized and unrealized gain (loss) on derivative instruments | (25,679) | (17,797) | 4,039 | 4,831 | 1,213 |
| Net gain (loss) on foreign currency transactions | 57 | (252) | (79) | (267) | (139) |
| Income before income taxes | 65,235 | 58,966 | 82,163 | 68,048 | 61,087 |
| Income tax benefit (expense) | (10) | (9) | 2 | 16 | 15 |
| Net income | \$ 65,225 | \$ 58,957 | \$ 82,165 | \$ 68,064 | \$ 61,102 |
| Earnings Per Unit (Basic and Diluted): | | | | | |
| Common units (Basic) | 1.74 | 1.55 | 2.25 | 2.05 | 2.29 |
| Common units (Diluted) | 1.74 | 1.55 | 2.22 | 2.04 | 2.29 |
| Subordinated units(2) | — | — | — | — | 1.54 |
| General partner units | 1.74 | 1.55 | 2.25 | 2.05 | 2.25 |
| Cash distributions declared and paid per unit | 2.08 | 2.08 | 2.08 | 2.08 | 2.08 |
| Balance Sheet Data (at end of period): | | | | | |
| Cash and cash equivalents | \$ 52,583 | 43,525 | \$ 41,712 | \$ 46,104 | \$ 27,664 |
| Vessels and equipment, net | 1,708,786 | 1,677,488 | 1,767,080 | 1,723,023 | 1,256,889 |
| Total assets | 1,780,296 | 1,738,007 | 1,836,824 | 1,793,168 | 1,292,275 |
| Long-term debt (including current portion and seller's credits) | 1,030,345 | 995,396 | 1,077,291 | 1,026,615 | 741,646 |
| Series A Convertible Preferred Units | 89,264 | 89,264 | 89,264 | 89,264 | — |
| Partners' capital | 608,285 | 622,396 | 642,775 | 639,950 | 521,712 |
| Cash Flows Data: | | | | | |
| Net cash provided by operating activities | \$ 169,241 | \$ 165,692 | \$ 148,646 | \$ 154,585 | \$ 108,445 |
| Net cash used in investing activities | (21,433) | — | (15,493) | (94,857) | (13,952) |
| Net cash used in financing activities | (139,260) | (163,849) | (137,376) | (41,378) | (90,345) |
| Fleet Data: | | | | | |
| Number of shuttle tankers in operation at end of period | 17 | 16 | 16 | 15 | 11 |
| Average age of shuttle tankers in operation at end of period (years) | 7 | 7 | 6 | 5 | 5 |
| Total calendar days for fleet | 5,856 | 5,840 | 5,781 | 4,643 | 3,691 |
| Total operating days for fleet(3) | 5,762 | 5,810 | 5,657 | 4,400 | 3,668 |
| Other Financial Data: | | | | | |
| EBITDA(4) | \$ 186,498 | \$ 198,680 | \$ 220,136 | \$ 170,097 | \$ 138,160 |
| Adjusted EBITDA(4) | 212,825 | 217,574 | 217,436 | 166,939 | 138,397 |

(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.

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- (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 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.

| (U.S Dollars in thousands) | Year Ended December 31, | | | | |
|------------------------------|-------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Net income | \$ 65,225 | \$ 58,957 | \$ 82,165 | \$ 68,064 | \$ 61,102 |
| Interest income | (125) | (865) | (739) | (248) | (24) |
| Interest expense | 31,645 | 50,735 | 49,956 | 30,714 | 20,867 |
| Depreciation | 89,743 | 89,844 | 88,756 | 71,583 | 56,230 |
| Income tax (benefit) expense | 10 | 9 | (2) | (16) | (15) |
| EBITDA | \$ 186,498 | \$ 198,680 | \$ 220,136 | \$ 170,097 | \$ 138,160 |
| Other financial items (a) | 26,327 | 18,894 | (2,700) | (3,158) | 237 |
| Adjusted EBITDA | \$ 212,825 | \$ 217,574 | \$ 217,436 | \$ 166,939 | \$ 138,397 |

- (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

The risk factors summarized and detailed below could materially and adversely affect our business, our financial condition, our operating results and the trading price of our common units. These material risks include, but are not limited to, those relating to:

- 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.
- Failure to control the outbreak of COVID-19 is negatively affecting the global economy and energy demand and may adversely affect our business.
- Our cash distribution policy may adversely affect our ability to grow and to meet our financial needs.
- We must make substantial capital expenditures to maintain the operating capacity of our fleet. Each quarter we are required to deduct estimated maintenance and replacement capital expenditures from operating surplus in order to determine our distributable cash flow, which may result in less cash available to unitholders.
- 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.
- Our debt levels may limit our flexibility in obtaining additional financing, pursuing other business opportunities and paying distributions to our unitholders.
- Our financing agreements contain operating and financial restrictions
- Restrictions in our debt agreements may prevent us or our subsidiaries from paying distributions.
- We may fail to consummate or integrate acquisitions in a timely and cost-effective manner.
- Our charters are subject to early termination under certain circumstances.
- We may experience operational problems with vessels that reduce revenue and increase costs.
- We currently derive all of our time charter and bareboat revenues from seven customers.
- We depend on subsidiaries of KNOT to assist us in operating our businesses.
- Our growth depends on continued growth in demand for shuttle tanker transportation services.
- Declines in oil prices may adversely affect our growth prospects and results of operations.
- Adverse conditions in the global economy or financial markets may impair our customers' and suppliers' ability to pay for our services.
- The new economic and security relationship between the United Kingdom and the E.U. stemming from Brexit could adversely impact us.
- Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we face substantial competition.
- 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.
- The required drydocking of our vessels could be more expensive and time consuming than we anticipate.
- We may be unable to re-charter our vessels upon termination or expiration of their existing charters.
- Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business.
- The value of our vessels may decline, which could adversely affect our operating results.
- Climate change and greenhouse gas restrictions may adversely impact our operations and markets.
- Our international operations expose us to political, governmental and economic instability.
- Marine transportation is inherently risky, particularly in the extreme conditions in which our vessels operate. We could experience an incident involving loss of product or environmental contamination.
- Our insurance may not be sufficient to cover losses.
- Acts of piracy on ocean-going vessels may affect us.
- Vessels transporting oil are subject to substantial environmental and other regulations.

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- We are exposed to currency exchange rate fluctuations.
- Many seafaring employees are covered by collective bargaining agreements.
- 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.
- Maritime claimants could arrest our vessels, which could interrupt our cash flow.
- Lack of diversification and adverse developments in the shuttle tanker market or the conventional oil tanker market would negatively impact our results.
- 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.
- We could fail to comply with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, the anti-corruption provisions in the Norwegian Criminal Code and other anti-bribery legislation.
- A cyber-attack could materially disrupt our business.
- Our business is subject to complex and evolving laws, directives and regulations regarding privacy and data protection.
- KNOT and its affiliates may compete with us.
- 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.
- 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.
- 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 them.
- Fees and cost reimbursements, which affiliates of KNOT determine for services provided to us and our subsidiaries, are substantial and payable regardless of our profitability.
- Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our management or our general partner without KNOT's consent.
- The control of our general partner may be transferred to a third party without unitholder consent.
- 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.
- Our common units are subordinated to our existing and future indebtedness and 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.
- We may issue additional equity securities without the approval of our unitholders.
- 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.
- Our Series A Preferred Units have rights, preferences and privileges not held by common unitholders.
- In establishing cash reserves, our board may reduce the amount of cash available for distribution.
- Our general partner has a limited call right that may require our unitholders to sell their common units.
- Our unitholders may not have limited liability if a court finds that unitholder action constitutes control of our business.
- We can borrow money to pay distributions.
- Increases in interest rates may cause the market price of our common units to decline.
- We are exposed to market risks relating to the announced phase-out of the London Interbank Offered Rate ("LIBOR").
- We rely on the master limited partnership ("MLP") structure and its appeal to investors for accessing debt and equity markets to finance our growth and repay or refinance our debt.
- Unitholders may have liability to repay distributions.
- The Marshall Islands does not have a well-developed body of partnership law.
- Our operations may be subject to economic substance requirements of the EU.
- It may be difficult to serve us with legal process or enforce judgments against us.

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- Our partnership agreement designates the Court of Chancery of the State of Delaware as the exclusive forum for certain types of actions and proceedings that may be initiated by our unitholders unless otherwise provided for under the laws of the Marshall Islands.
- We are subject to taxes, which reduces our cash available for distribution to our unitholders.
- A change in tax laws in any country in which we operate could adversely affect us.
- U.S. tax authorities could treat us as a "passive foreign investment company."
- We may have to pay tax on U.S. source income, which would reduce our cash flow.
- Our unitholders may be subject to income tax in one or more non-U.S. jurisdictions if, under the laws of any such jurisdiction, we are considered to be carrying on business there.

In addition, risks not presently known to us or risks that we currently deem immaterial could materially and adversely affect our business, financial condition, results of operations and 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 March 18, 2021, 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, including the availability and cost of low sulfur fuel oil compliant with IMO 2020.

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;

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- 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.

Failure to control the outbreak of COVID-19 is negatively affecting the global economy and energy demand and may adversely affect our business.

The outbreak of the coronavirus (“COVID-19”) continues to negatively affect global economic activity, including the demand for oil and oil shipping, which may materially impact the Partnership’s operations and the operations of its customers and suppliers.

The ultimate length and severity of the current pandemic and its potential impact on the Partnership’s business, financial condition and results of operations remains uncertain at this time and has increased uncertainty in a number of areas of the Partnership’s business, including operational, commercial and financial activities. Large scale distribution of vaccines seems likely to mitigate some of these uncertainties, but it remains too early to definitively judge the speed, scale and overall effect of vaccination efforts.

The closure of, or restricted access to, ports and terminals and passenger air travel in regions affected by the virus may lead to further operational impacts that could result in higher costs. It is possible that an outbreak onboard a vessel could prevent the Partnership from meeting its obligations under a charter, resulting in an off-hire claim and loss of revenue. Any outbreak of COVID-19 on board one of the Partnership’s vessels or that affects any of the Partnership’s main suppliers could cause an inability to replace critical supplies or parts, maintain adequate crewing or fulfill the Partnership’s obligations under its time charter contracts which in turn could result in off-hire or claims for the impacted period.

COVID-19 has placed downward pressure on economic activity and energy demand and there remains significant uncertainty moving into 2021. Announced delays in new capital expenditure by many oil majors has had a negative impact on the demand for shuttle tankers in the short term and, given the uncertainty around the continuation of the COVID-19 situation, this dampened demand could persist and could affect the number of new, long-term offshore projects and the overall outlook for oil production, which could eventually and in turn impact the demand and pricing for shuttle tankers. Furthermore, the Partnership may be unable to re-charter its vessels at attractive rates in the future, particularly for vessels that are coming off charter in the next one to two years.

The Partnership is exposed to the uncertainty of cash flows from its time charter contracts arising from the credit risk associated with individual charterers. Any extended period of non-payment or idle time between charters caused by issues related to COVID-19 or otherwise could adversely affect the Partnership’s future liquidity, results of operations and cash flows. Although the Partnership has not so far experienced any reduced or non-payments for obligations under the Partnership’s time charter contracts and the Partnership has not provided concessions or made changes to the terms of payment for customers, no assurance can be given that customers will continue to meet their obligations and will not request concessions or changes to payment terms in the future.

COVID-19 has also had a sustained impact on global capital markets and the responses of governments around the world to manage the impact of the virus have led to lower interest rates and volatility in the prices of equities, bonds, commodities and their respective derivatives. The Partnership's common unit price remains lower than the price at the start of 2020, mainly due to the impact of COVID-19 on the wider economy and sentiment in the energy and shipping sectors. In these current market conditions with lower unit prices, issuing new common equity remains a less viable and more expensive option for accessing liquidity. The Partnership has two tranches of debt maturing in August and November 2021. The Partnership expects to refinance these tranches of long-term debt but, if it is unable to do so on satisfactory terms, the Partnership may not have sufficient funds or other assets to satisfy all of its obligations, which would have a material adverse effect on its business, results of operations and financial condition.

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.

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 in order to determine our distributable cash flow, 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, 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 comparable 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 order to determine our distributable cash flow 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, 2020, we had consolidated debt of approximately \$1,030.3 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
- 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.

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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. In addition, the COVID-19 outbreak has negatively impacted, and may continue to negatively impact, global economic activity, demand for energy and shipping and funds flows and sentiment in the global financial markets. Continued economic disruption caused by the continued failure to control the spread of the virus could significantly impact our ability to obtain additional debt financing.

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. This could lead to cross-defaults under other financing agreements and result in obligations becoming due and commitments being terminated under such agreements. 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;
- 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

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- 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 March 18, 2021, our fleet consists of seventeen 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, 2020, Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell ("Shell"), Eni Trading and Shipping S.p.A. ("ENI"), Fronape International Company, a subsidiary of Petrobras Transporte S.A. ("Transpetro"), Galp Sinopec Brazil Services B.V. ("Galp"), Repsol Sinopec Brasil, S.A. ("Repsol"), Vår Energi Marine AS a Norwegian subsidiary of Vår Energi AS ("Vår") (a joint venture owned by ENI and a private equity investor) and Equinor Shipping Inc., a subsidiary of Equinor ASA ("Equinor"), accounted for approximately 28%, 16%, 16%, 13%, 12%, 7%, and 6%, respectively, of our revenues.

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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

Oil prices can be volatile, and this could affect the equity value of many of our customers. 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, which in turn could harm our business, results of operations and financial condition. Additionally, at the end of a contractual term we could lose one or more of our customers due to a variety of causes unrelated to our performance, including changes in customers management or strategic exits from the offshore oil space or from regions in which we operate.

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 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, but are not limited to:

- 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, but are not limited to:

- 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.

If there is a persistent decline in oil prices, it 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.

Adverse conditions in the global economy or financial markets 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. Particularly, an extended period of adverse development in the outlook for European countries or Brazil could reduce the overall demand for our vessels 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.

Global financial markets and economic conditions have been, and continue to be, volatile. Credit markets and the debt and equity capital markets have been distressed and the uncertainty surrounding the future of the global credit markets has previously resulted in reduced access to credit worldwide. 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. 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.

The new economic and security relationship between the United Kingdom and the E.U. stemming from Brexit could adversely impact us.

On June 23, 2016, in a referendum vote commonly referred to as "Brexit," a majority of British voters voted to exit the European Union ("EU") and on January 31, 2020, the U.K. formally exited the EU. This resulted in a transition period that ended on December 31, 2020 during which the E.U.-U.K. trade relationship did not change. During the transition period, the E.U. and the U.K. negotiated their new economic and security relationship, including a new agreement on trade. The transition lasted until January 1, 2021, at which point a new trade agreement took effect. On December 24, 2020, the European Commission reached a trade agreement with the U.K. on the terms of its future cooperation with the E.U. (the "Trade Agreement"). The Trade Agreement offers U.K. and EU companies preferential access to each other's markets, ensuring imported goods covered by the Agreement will generally be free of tariffs and quotas; however, economic relations between the U.K. and the EU will now be on more restricted terms than existed previously.

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The Trade Agreement does not incorporate the full scope of the services sector, and businesses such as banking and finance face a further period of uncertainty. The U.K. and EU plan to put in place a regulatory dialogue on financial services based on a separate memorandum of understanding by March 2021. It is unclear what long-term economic, financial, trade and legal implications the withdrawal of the U.K. from the EU will have and how such withdrawal may affect our business.

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.

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 2018, the IMO adopted an initial strategy designed to reduce the emission of greenhouse gases from vessels, including short-term, mid-term and long-term candidate measures with a vision of reducing and phasing out greenhouse gas emissions from vessels as soon as possible in the 21st century ("IMO GHG Strategy"). In November 2020, the Marine Environment Protection Committee ("MEPC") of the IMO agreed to draft amendments to Annex VI of the 1973 International Convention for the Prevention of Pollution from Ships ("MARPOL") that would establish an enforceable regulatory framework to reduce greenhouse gas emissions from international shipping, consisting of technical and operational carbon reduction measures. These measures include use of an Energy Efficiency Existing Ship Index, an operational Carbon Intensity Indicator and an enhanced Ship Energy Efficiency Management Plan to drive reductions in the carbon intensity. This regulatory approach is consistent with the IMO GHG Strategy target of a 40% carbon intensity reduction for international shipping by 2030, as compared to 2008. The draft MARPOL Annex VI amendments will be proposed for formal adoption at the 2021 MEPC session and, once adopted, are expected to enter into force on January 1, 2023. 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 or mid-term, in the long-term climate change mitigation considerations may reduce the demand for oil and 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.

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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.

Harsh weather conditions in the North Sea 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.

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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 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. Additional requirements may take effect or be adopted in the future that could limit operations or further increase expenses. For example, under IMO's MARPOL Annex VI, effective January 1, 2020, absent the installation of expensive sulfur scrubbers to meet reduced emission requirements for sulfur, the maximum sulfur content in fuels used by the marine sector in all seas, including our vessels, was lowered from 3.5% to 0.5% sulfur. These low sulfur fuel requirements are generally referred to as IMO 2020.

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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, including due to disruptions caused by COVID-19.

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

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may be adversely affected. Furthermore, should there be an outbreak of COVID-19 on board, adequate crewing may not be available to fulfill the obligations under our contracts. Due to COVID-19, we could face (i) difficulty in finding healthy qualified replacement officers and crew; (ii) local or international transport or quarantine restrictions limiting the ability to transfer infected crew members off the vessel or bring new crew on board, or (iii) restrictions in availability of supplies needed on board due to disruptions to third-party suppliers or transportation alternatives. 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.

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 are also 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.

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 EU 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 U.K. 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, results of operations, financial condition, our reputation, or cash flows. We may be required to incur additional costs to modify or enhance our information technology systems or to prevent or remediate any such attacks.

Our business is subject to complex and evolving laws, directives and regulations regarding privacy and data protection.

We are subject to laws, directives, and regulations relating to the collection, use, retention, disclosure, security and transfer of personal data (“data protection laws”). These data protection laws, and their interpretation and enforcement, continue to evolve and may be inconsistent from jurisdiction to jurisdiction. For example, the General Data Protection Regulation (“GDPR”), which regulates the use of personally identifiable information, went into effect in the EU (“EU”) on May 25, 2018, applies globally to all of our activities conducted from an establishment in the EU, to related products and services that we offer to EU customers and to non-EU customers which offer services in the EU. Complying with the GDPR and similar emerging and changing data protection laws may cause us to incur substantial costs or require us to change our business practices. Noncompliance, or perceived noncompliance, with our legal obligations relating to data protection laws could result in penalties, fines, legal proceedings by governmental entities or others, loss of reputation, legal claims by individuals and customers and significant legal and financial exposure and could affect our ability to retain and attract customers. As noted above, we are also subject to the possibility of cyber attacks, which themselves may result in a violation of these laws.

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 66²/₃% 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 March 18, 2021, 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;

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- 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

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- 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.

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.

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- 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.

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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 March 18, 2021, 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 filed a registration statement to register resales of the common units underlying the Series A Preferred Units. Following their sale, 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

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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;
- 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 are convertible, under certain circumstances, at the applicable conversion rate, which is 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 at the then applicable conversion rate. In addition, we may redeem the Series A Preferred Units at any time before 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, 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

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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 in order to determine our distributable cash flow, 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

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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 March 18, 2021, 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.

We are exposed to market risks relating to the announced phase-out of the London Interbank Offered Rate (“LIBOR”).

We are exposed to a market risk relating to increases in interest rates because the amounts borrowed under our existing loan and credit facilities bear interest at rates based on LIBOR. On July 27, 2017, the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. On November 30, 2020, the administrator of LIBOR announced a delay in the phase out of a majority of the U.S. dollar LIBOR publications until June 30, 2023, with the remainder of LIBOR publications still being phased out at the end of 2021. The foregoing announcements indicate that the continuation of LIBOR on the current basis is not guaranteed after 2023. Significant increases in LIBOR or uncertainty surrounding its phase out after 2023 could adversely affect our business, financial condition, operating results and cash flows. The outcome of reforms may result in increased interest expense to us, may affect our ability to incur debt on terms acceptable to us and may result in increased costs related to amending our existing debt instruments, which could adversely affect our business, results of operations and financial condition. We use interest rate swaps to reduce our exposure to interest rate risk and hedge a portion of our outstanding indebtedness. There is no assurance that our derivative contracts will provide adequate protection against adverse changes in interest rates or that our bank counterparties will be able to perform their obligations.

We rely on the master limited partnership (“MLP”) structure and its appeal to investors for accessing debt and equity markets to finance our growth and repay or refinance our debt. The volatility in energy prices over the past few years has, among other factors, caused increased volatility and contributed to a dislocation in pricing for MLPs.

The volatility in energy prices and, in particular, the price of oil, among other factors, has contributed to increased volatility in the pricing of MLPs and the energy debt markets, as a number of MLPs and other energy companies may be adversely affected by a lower energy prices environment. A number of MLPs, including certain maritime MLPs, have reduced or eliminated their distributions to unitholders.

We rely on our ability to obtain financing and to raise capital in the equity and debt markets to fund our capital replacement, growth and investment expenditures, and to refinance our debt. A protracted deterioration in the valuation of our common units would increase our cost of capital, make any equity issuance significantly dilutive and may affect our ability to access capital markets and, as a result, our capacity to pay distributions to our unitholders and service or refinance our debt.

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 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

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make it, with respect to the subject matter thereof, uniform with the laws of the State of Delaware and, for non-resident limited partnerships such as ours, 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 and KNOT UK are Marshall Islands entities, our operations may be subject to economic substance requirements of the EU, which could harm our business.

On December 5, 2017, following an assessment of the tax policies of various countries by the Code of Conduct Group for Business Taxation of the EU (the “COCG”), the Council of the EU (the “Council”) approved and published Council conclusions containing a list of “non-cooperative jurisdictions” for tax purposes (the “2017 Conclusions”). On March 12, 2019, the Council adopted a revised list of non-cooperative jurisdictions (the “2019 Conclusions”). In the 2019 Conclusions, the Republic of the Marshall Islands, among others, was placed by the EU on its list of non-cooperative jurisdictions for tax purposes for failing to implement certain commitments previously made to the EU by the agreed deadline. The EU subsequently removed the Marshall Islands from that list in October 2019. EU member states have agreed upon a set of measures, which they can choose to apply against the listed countries, including increased monitoring and audits, withholding taxes, special documentation requirements and anti-abuse provisions. The European Commission has stated it will continue to support member states’ efforts to develop a more coordinated approach to sanctions for the listed countries. EU legislation prohibits EU funds from being channeled or transited through entities in non-cooperative jurisdictions.

We are a Marshall Islands partnership and KNOT UK is a Marshall Islands limited liability company. Regulations adopted in the Marshall Islands (which came into force on January 1, 2019) require certain entities that carry out particular activities to comply with an economic substance test whereby the entity must show that it (i) is directed and managed in the Marshall Islands in relation to that relevant activity, (ii) carries out core income-generating activity in relation to that relevant activity in the Marshall Islands (although it is being understood and acknowledged by the regulators that income-generated activities for shipping companies will generally occur in international waters) and (iii) having regard to the level of relevant activity carried out in the Marshall Islands has (a) an adequate amount of expenditures in the Marshall Islands, (b) adequate physical presence in the Marshall Islands and (c) an adequate number of qualified employees in the Marshall Islands. Based on our current business activities, we believe that we and KNOT UK are not required to comply with this economic substance test.

In addition, certain jurisdictions have enacted or may enact economic substance laws and regulations with which we may be obligated to comply. If we fail to comply with our obligations under any such laws and regulations, including the Marshall Islands regulations, we could be subject to financial penalties and spontaneous disclosure of information to foreign tax officials, or could be struck from the register of companies. Any of the foregoing could be disruptive to our business and could have a material adverse effect on our business, financial conditions and operating results.

We do not know if the EU will add the Marshall Islands to the list of non-cooperative jurisdictions; what actions the Marshall Islands may take, if any, to remove itself from the list if it is added; how quickly the EU would react to any changes in legislation of the Marshall Islands; or how EU banks or other counterparties will react while we or KNOT UK remain as entities organized and existing under the laws of the Marshall Islands. The effect of the EU list of non-cooperative jurisdictions, and any noncompliance by us with legislation adopted by the Marshall Islands to achieve removal from the list, could have a material adverse effect on our business, financial conditions and operating results.

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.

Our partnership agreement designates the Court of Chancery of the State of Delaware as the exclusive forum for certain types of actions and proceedings that may be initiated by our unitholders unless otherwise provided for under the laws of the Marshall Islands. This limits our unitholders' ability to choose the judicial forum for disputes with us or our directors, officers or other employees.

Our partnership agreement provides that, with certain limited exceptions, the Court of Chancery of the State of Delaware is the exclusive forum for any claims, suits, actions or proceedings (1) arising out of or relating in any way to our partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of our partnership agreement or the duties, obligations or liabilities among limited partners or of limited partners to us, or the rights or powers of, or restrictions on, our limited partners or us); (2) brought in a derivative manner on our behalf; (3) asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of us or our general partner, or owed by our general partner, to us or our limited partners; (4) asserting a claim arising pursuant to any provision of the Marshall Islands Act; and (5) asserting a claim governed by the internal affairs doctrine. This exclusive forum provision does not apply to actions arising under the U.S. Securities Act of 1933, as amended (the "Securities Act") or the U.S. Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Any person or entity purchasing or otherwise acquiring any interest in our units is deemed to have received notice of and consented to the foregoing provisions.

Although we believe these provisions will benefit us by providing increased consistency in the application of Delaware law for the specified types of actions and proceedings, the provisions may have the effect of discouraging lawsuits against our directors, officers, employees and agents. The enforceability of similar forum selection provisions in other companies' certificates of incorporation or similar governing documents have been challenged in legal proceedings, and it is possible that, in connection with one or more actions or proceedings described above, a court could find that the forum selection provision contained in our partnership agreement is inapplicable or unenforceable in such action or actions. Limited partners will not be deemed, by operation of the forum selection provision alone, to have waived claims arising under the federal securities laws and the rules and regulations thereunder. If a court were to find this choice of forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our financial position, results of operations and ability to make cash distributions to our unitholders.

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.

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

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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, unless the U.S. unitholders make certain elections.

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

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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 Section 883 of the Code and may not be exempt from U.S. federal income tax under the U.S.-Norway Tax Treaty and therefore may be subject to net income tax in the United States (currently at a 21% rate, plus branch profits tax at a rate of 30% (unless reduced or eliminated under an income tax treaty)).

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 any identifiable taxable 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 initial public offering (“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 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.

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.

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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.

On December 31, 2020, we acquired KNOT Shuttle Tankers 34 AS, the company that owns the shuttle tanker, the *Tove Knutsen*, from KNOT.

For more information regarding recent developments, please see “Item 5. Operating and Financial Review and Prospects—Significant Developments in 2020”

As of March 18, 2021, we had a fleet of seventeen 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 Puglisi & Associates, and its address is 850 Library Avenue, Suite 204, Newark, Delaware 19711.

Capital Expenditures

We reserve cash from operations for future maintenance capital expenditures, working capital and other matters. Our annual estimated maintenance and replacement capital expenditures are currently \$70.5 million per year, which is comprised of \$60.9 million for replacing our current vessels at the end of their useful lives and \$9.6 million for drydocking maintenance and classification surveys. We are required to deduct estimated maintenance and replacement capital expenditures from operating surplus in order to determine our distributable cash flow.

Access to Information

The SEC maintains a website on the Internet that contains reports, proxy, information statements and other information electronically filed via the SEC’s Electronic Data Gathering, Analysis, and Retrieval system, which may be accessed at the SEC’s website at www.sec.gov.

We maintain a website at www.knotoffshorepartners.com. The information on our website is not part of this Annual Report.

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

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stable cash flows. The vessels in our current fleet are chartered to Equinor, Transpetro, Repsol, Shell, Vår, Galp, and ENI. Our charters have an average remaining term of 2.9 years as of December 31, 2020.

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, 2020.

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 March 18, 2021, 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;

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- 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
- 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 seventeen shuttle tankers in our fleet as of March 18, 2021:

| 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 | Brazil | Time Charter | Equinor | 2021 (1) |
| <i>Windsor Knutsen</i> | 162,362 | 2007 | Brazil | — | — | — |
| <i>Carmen Knutsen</i> | 157,000 | 2013 | Brazil | Time Charter | Repsol | 2023 (2) |
| <i>Hilda Knutsen</i> | 123,000 | 2013 | North Sea | Time Charter | ENI | 2022 (2) |
| <i>Torill Knutsen</i> | 123,000 | 2013 | North Sea | Time Charter | ENI | 2022 (3) |
| <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 | Vår | 2024 (4) |
| <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) |
| <i>Tove Knutsen</i> | 153,000 | 2020 | Brazil | Time Charter | Equinor | 2027 (8) |

- (1) The charter is currently expected to expire on April 9, 2021.
- (2) Customer has the option to extend the charter for up to three one-year periods.
- (3) Customer has the option to extend the charter for up to two one-year periods.

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- (4) Customer has the option to extend the charter for up to five one-year periods.
- (5) Customer has the option to extend the charter for up to one three-year period and one two-year period.
- (6) On December 8, 2020, the Partnership secured new three-year fixed contracts for the vessels, *Tordis Knutsen*, *Vigdis Knutsen* and *Lena Knutsen*, with a major oil company. The commencement of these new time charters range between May and December 2023. The vessels will be marketed for short to mid-term charter business in the intervening period between the end of the vessels' current fixed charters (in 2022) and the commencement of the abovementioned new fixed charters (in 2023), which period on average is currently estimated to be 15 months for each vessel.
- (7) Customer has the option to extend the charter for up to two three-year periods.
- (8) Customer has the option to extend the charter for up to two two-year periods and nine one-year periods.

Customers

For the year ended December 31, 2020, Shell, ENI, Transpetro, Galp, Repsol, Vår and Equinor accounted for approximately 28%, 16%, 16%, 13%, 12%, 7%, and 6%, 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 March 18, 2021, thirteen of our shuttle tankers are chartered under time charters and four of our shuttle tankers are chartered under bareboat charters.

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

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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.

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 Fearnresearch, as of March 1, 2021, there were approximately 89 vessels in the global shuttle tanker fleet (including 13 newbuilds on order). Together KNOT and KNOP are the largest owners of shuttle tankers with 33 shuttle tankers (including 4 newbuilds on order). Altera Shuttle Tankers L.L.C (formerly Teekay Offshore Partners L.P.) is the second largest owner in the shuttle tanker market with 28 shuttle tankers (including 2 newbuilds on order). American Eagle Tankers (AET) is the third largest owner of shuttle tankers with 17 vessels (including 6 newbuilds on order). Petrobras, which does not own vessels, employs a total of 25 shuttle tankers (including 3 newbuilds on order) through long-term bareboat and time charters. There are other shuttle tanker owners in the industry, but such owners have a limited fleet size and their vessels do not participate or compete in our markets.

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 comply 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.

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, carbon intensity 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;

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- 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 is applied to our operations. We believe that the adoption of common standards results 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.

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.

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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 that apply to our operations, there is no assurance that such compliance or compliance with 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

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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 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 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. In 2017, the IMO's Maritime Safety Committee ("MSC") adopted Resolution MSC.428(98), Maritime Cyber Risk Management in Safety Management Systems, embracing guidelines on maritime cyber risk management approved by the MSC in 2017, affirming its view that the ISM Code requires mitigation of cyber risk as part of the safety management system, and effectively providing that that a vessel's safety management system must account for cyber risks in compliance with the ISM Code no later than the vessel's first annual compliance verification after January 1, 2021. 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. 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 required 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 decreased progressively until they reached the global limit of 0.5% applicable on and after January 1, 2020 (generally referred to as IMO 2020). MARPOL Annex VI also establishes three 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. However, the marine sector accounts for approximately half of the global fuel oil demand and the impact of the increased demand for compliant low sulfur fuels due to IMO 2020 is expected to affect the availability and cost of such fuels and increase our costs of operation.

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In addition, there are several other regulatory requirements to use low sulfur fuel or restrict or regulate emissions from vessels. 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 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 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. We have begun installation of ballast water treatment systems on our vessels to comply with the requirements of the BWM Convention. The *Anna Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Brasil Knutsen*, the *Lena Knutsen*, the *Torill Knutsen*, the *Hilda Knutsen*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Vigdis Knutsen*, the *Tordis Knutsen* and the *Tove Knutsen* have all installed IMO approved ballast water treatment system.. Although the cost to comply with IMO ballast water treatment regulations for our remaining vessels is difficult to estimate, it is anticipated to be approximately \$2.5-\$3.0 million per vessel for the *Recife Knutsen*, *Windsor Knutsen*, *Carmen Knutsen*, *Dan Cisne* and *Dan Sabia*. With respect to our vessels on bareboat charters, this cost is paid by the charterer.

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 introduced a harmonized and coordinated regime for port state

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control inspections and from January 1, 2011 an 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 adopted regulations that phased out single-hull tankers. All of our tankers are double-hulled.

Several regulatory requirements to use low sulfur fuel are in force. 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.

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, including MARPOL and the CLC, 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. Legal obligations also include immediately notifying the competent authorities about any incident occurring in our vessels that may cause pollution in waters under the national jurisdiction of Brazil, in addition to the adoption of other required response actions. Failure to comply may subject us to administrative, criminal and civil liability, with strict and joint liability in civil cases. In Brazil, civil liability for environmental pollution aims for the complete recovery of the damage caused to the ecosystem and affected third parties, regardless of the cost involved.

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

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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”).

OPA 90 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 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

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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. The EPA authorized these incidental discharges pursuant to a permit the EPA designated as the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels (the “VGP”), which incorporated 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 took effect under a staggered implementation schedule and do not apply to all vessels. Vessels with deferred deadlines for meeting the numeric standards are required to meet Best Management Practices, which are substantially similar to the requirements under the previous VGP.

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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. In December 2018, the Vessel Incidental Discharge Act ("VIDA") was signed into law and restructured the EPA and the U.S. Coast Guard programs for regulating incidental discharges from vessels. Rather than requiring CWA permits, the discharges will be regulated under a new CWA Section 312(p) establishing Uniform National Standards for Discharges Incidental to Normal Operation of Vessels. Under VIDA, VGP provisions and existing U.S. Coast Guard regulations will be phased out over a period of approximately four years and replaced with National Standards of Performance ("NSPs") to be developed by EPA and implemented and enforced by the U.S. Coast Guard. VIDA requires EPA to develop NSPs for approximately 30 discharges by December 2020. The discharges to be covered are similar to those in 2013 VGP and the NSPs are generally required to be at least as stringent as the requirements of the 2013 VGP. On October 26, 2020, EPA issued proposed regulations to establish NSPs, including general discharge standards of performance, covering general operation and maintenance, biofouling management, and oil management, and specific discharge standards applicable to specified pieces of equipment and systems. The scheduled expiration date of the 2013 VGP was December 18, 2018, but under VIDA the provisions of the VGP will remain in place until the new EPA NSPs and the corresponding U.S. Coast Guard implementation, compliance and enforcement regulations are in place. VIDA requires the corresponding U.S. Coast Guard regulations to be developed within two years following the adoption of the EPA NSPs.

In addition to the requirements in the VGP (to be replaced by the NSPs established under VIDA), 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.

While we do not believe that the costs associated with complying with the existing VGP permits and the NSPs that will be promulgated, including meeting related treatment requirements, will be material, it is difficult to predict the overall impact of CWA 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 were required to comply with these ballast water treatment standards, with existing ships required to comply by their first drydock after January 1, 2014 or January 1, 2016, depending on size.

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.

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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 were required to implement national programs to reduce emissions of greenhouse gases ("GHGs"). The Kyoto Protocol was effectively replaced by the Paris Agreement. Emissions of greenhouse gases from international shipping were not subject to the Kyoto Protocol and currently are not subject to the 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 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 data collection system requirement in October 2016 ("IMO DCS") that requires ships of 5000 gross tonnage and above to record and report their fuel oil consumption, indirectly addressing carbon dioxide emissions data. The requirement was entered into force on March 1, 2018. These requirements could cause us to incur additional compliance costs.

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The IMO is also taking steps toward the development of a market-based mechanism for greenhouse gas emissions from ships. At the October 2016 Marine Environmental Protection Committee ("MEPC") session, the IMO adopted a roadmap for developing a comprehensive IMO strategy on reduction of GHG emissions. In April 2018, the MEPC adopted an initial strategy designed to reduce GHG emissions from vessels, including short-term, mid-term and long-term candidate measures with a vision of reducing and phasing out GHG emissions from vessels as soon as possible in the 21st Century. The EU has indicated that it intends to implement regulation in an effort to limit GHG emissions from vessels if such emissions are not regulated through the IMO. In November 2020, the MEPC agreed upon draft amendments to MARPOL Annex VI that would establish an enforceable regulatory framework to reduce GHG emissions from international shipping, consisting of technical and operational carbon reduction measures. These measures include use of an Energy Efficiency Existing Ship Index ("EEXI"), an operational Carbon Intensity Indicator "CII") and an enhanced SEEMP to drive reductions in the carbon intensity. A vessel's attained EEXI would be calculated in accordance with values established based on type and size category, which compares the vessels' energy efficiency to a baseline. A vessel would then be required to meet a specific EEXI based on a required reduction factor expressed as a percentage relative to the EEDI baseline. Under the draft MARPOL VI amendments, vessels with a gross tonnage of 5,000 or greater must determine their required annual operational CII and their annual carbon intensity reduction factor needed to ensure continuous improvement of the vessel's CII. On an annual basis, the actual annual operational CII achieved would be documented and verified against the vessel's required annual operational CII to determine the vessel's operational carbon intensity rating on a performance level scale of A (major superior) to E (inferior). The performance level would be required to be recorded in the vessel's SEEMP. A vessel with an E rating, or three consecutive years of a D (minor inferior) rating, would be required to submit a corrective action plan showing how the vessel would achieve a C (moderate) rating. The draft MARPOL Annex VI amendments will be proposed for formal adoption at the 2021 MEPC session and, once adopted, are expected to enter into force on January 1, 2023. The MEPC regulatory approach is consistent with the IMO's GHG strategy target of a 40% carbon intensity reduction for international shipping by 2030, as compared to 2008.

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. 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 EU strategy to reduce greenhouse gas emissions. In accordance with this strategy, in April 2015 the European Parliament and Council adopted regulations (EU Directive 2015/757 or EU MRV Regulation) requiring vessels exceeding 5,000 gross tons using EU ports to monitor, report and verify their carbon dioxide emissions beginning in January 2018, with the first reports due in June 2019. In February 2019, the European Commission adopted a proposal to amend the EU MRV Regulation to harmonize the requirements of the EU MRV Regulation and the IMO DCS. Although, at present, the EU MRV Regulation is for monitoring, reporting and verification only, it is anticipated that in the future the EU may move from requiring reporting of emissions to regulations aimed at reducing them.

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 GHG emissions 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 maritime security 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, transactions 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 of the Marshall Islands, (ii) filing certificates (such as certificates of incumbency, merger, or re-domiciliation) 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 record keeping and vessel ownership, such as tonnage tax, or (v) non-compliance with economic substance regulations or 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. Moreover, we do not expect to earn any income that is effectively connected with the conduct of a trade or business in the United States.

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 owned vessels rather than income generated from operating the vessels (i.e., operating income), which is tax free. Based upon the net tonnage of our current vessels and the applicable rate of taxation, our Norwegian subsidiaries are liable for approximately \$240,908 of Norwegian tonnage tax for the year ended December 31, 2020. 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 operate 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 regular 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% joint ownership/control is required according to the Norwegian General Taxation Act Section 8-13, paragraph 6. Because 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.

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The United Kingdom's withdrawal and exit from EU, commonly referred to as "Brexit", took place on January 31, 2020. Even though the U.K. formally left the EU at that date, UK continued to follow the EU rules during a transition period, which ended on December 31, 2020. In order to meet any future national flag requirements pursuant to the Norwegian tonnage tax regime, we have reflagged some of our previously U.K.-flagged vessels to a EU/ European Economic Area ("EEA") flag. The national flagging requirement was not effective for the year ended December 31, 2020.

Further, as from January 1, 2021, as the Brexit transition period has ended, the domestic Norwegian legislation providing exemption of withholding tax on outbound dividends from KNOT Shuttle Tankers AS to KNOT UK is no longer applicable, as this exemption rule only includes dividend distributions to corporate shareholders within the EU/EEA. However, we expect that dividends from KNOT Shuttle Tankers AS to KNOT UK may still be exempt from withholding tax pursuant to the double tax treaty between Norway and the U.K.

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 U.K. tax in our own name, but rather any partners subject to U.K. 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

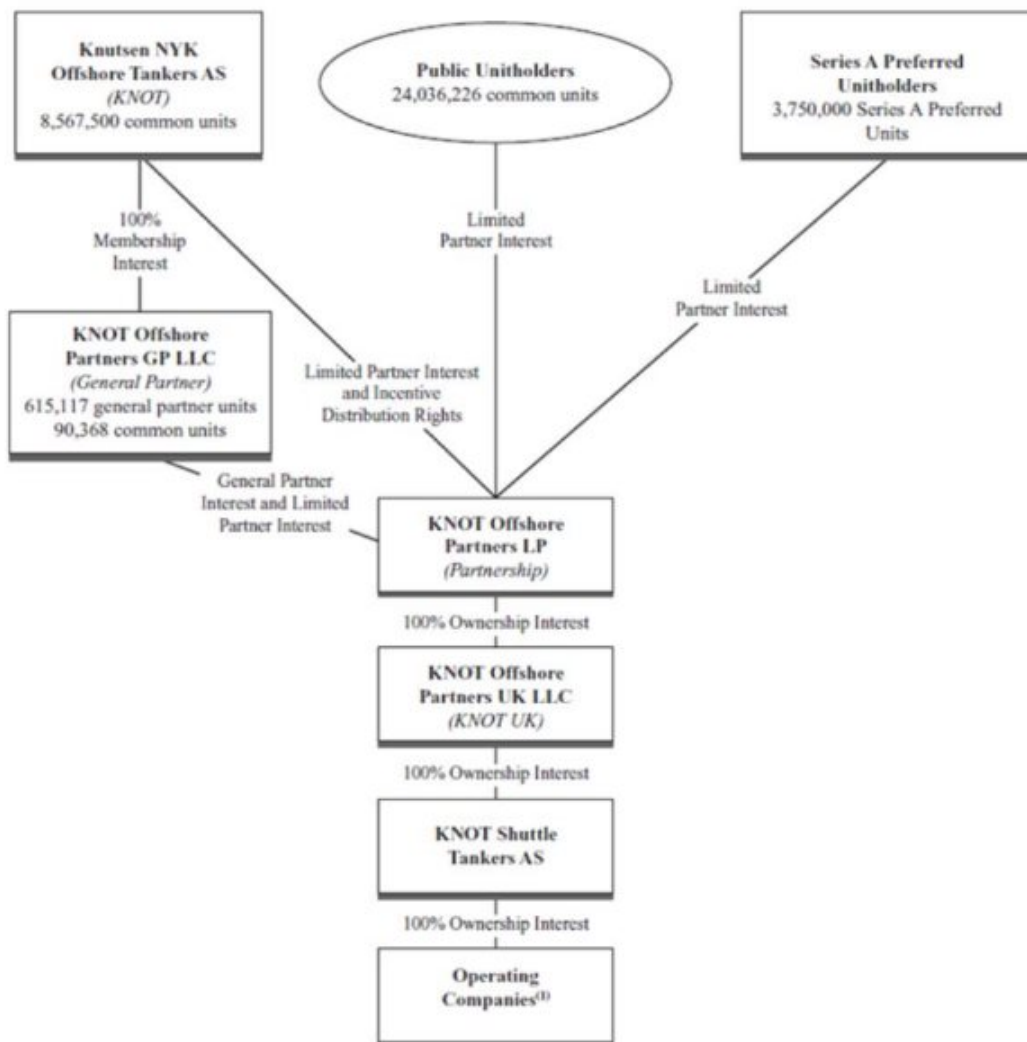
We directly employ one onshore employee and no seagoing employees. As of December 31, 2020, KNOT employed (directly and through ship managers) approximately 640 seagoing staff to serve on our vessels. KNOT and its affiliates may employ additional seagoing staff to assist us as we grow. KNOT, through 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 March 18, 2021.



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

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.

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 seventeen 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.

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 March 18, 2021, 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 2020 and Early 2021

Extension of Torill Knutsen Charter

In April 2020, Eni Trading and Shipping S.p.A. (“Eni”) exercised two of its one-year options to extend the time charter of the *Torill Knutsen* until November 2022. In connection with the early exercise by Eni of its options, the Partnership granted Eni a further option to extend the time charter by one additional one-year period. Eni now has the option to extend the time charter by two one-year periods until November 2024.

The Windsor Knutsen Charter

In October 2020, the charterer of the *Windsor Knutsen*, a subsidiary of Royal Dutch Shell (“Shell”), sent its notice of redelivery, which resulted in the expiration of the charter and the *Windsor Knutsen* was redelivered on December 7, 2020. It was expected that the vessel would then undertake a number of short-term voyage contracts when the vessel reported a crack in its main engine block on December 12, 2020 and the vessel was placed off-hire. The Partnership’s hull and machinery insurance is expected to cover the cost of repairs and loss of hire insurance is expected to provide income at approximately the level earned during the vessel’s prior long-term charter, excepting a 14-day deductible period under the policy, up to and until the vessel is ready to return to service. Based on lead times for the manufacturing of necessary parts, logistics and the repair itself, we currently anticipate that the vessel will return to service in or around June 2021. We have agreed on the commercial terms for an expected one-year fixed time charter contract for the *Windsor Knutsen* (with potential options to extend the charter by one one-year period and then one six-month period) with a major oil company to commence in the third quarter of 2021.

Revolving Credit Facility

In November 2020, KNOT Shuttle Tankers AS entered into an agreement with Shinsei Bank for an unsecured revolving credit facility of \$25 million. The facility matures in November 2023, bears interest at LIBOR plus a margin of 1.75% and has a commitment fee of 0.7% on the undrawn portion of the facility.

Sale Leaseback Agreement

On December 30, 2020, the Partnership through its wholly-owned subsidiary, Knutsen Shuttle Tankers 19 AS, which owned the *Raquel Knutsen*, agreed to enter into a sale and leaseback agreement with a Japanese-based lessor for a lease period of ten years. The closing of the transaction occurred on January 19, 2021. The gross sales price was \$94.3 million and a portion of the proceeds was used to repay the outstanding loan and cancellation of the interest rate swap agreements related to the vessel. The bareboat rate under the lease consists of a fixed element per day and there is a fixed-price purchase obligation at maturity. After repayment of the loan and related interest rate swaps, the Partnership realized net proceeds of \$38 million after fees and expenses.

New Charters for Tordis Knutsen, Vigdis Knutsen and Lena Knutsen

On December 8, 2020, the Partnership secured new three-year fixed contracts for the vessels, *Tordis Knutsen*, *Vigdis Knutsen* and *Lena Knutsen*, with a major oil company. The commencement of these new time charters range between May and December 2023, where it is the owner's choice which of the vessels will be put forward and used under each charter. All three charters are for fixed periods of three years, however the third charter grants cancellation options to the charterer at the end of the first and the second years with penalties payable to the Partnership if exercised. The vessels will be marketed for short to mid-term charter business in the intervening period between the end of the vessels' current fixed charters (in 2022) and the commencement of the abovementioned new fixed charters (in 2023), which period on average is currently estimated to be 15 months for each vessel.

Tove Knutsen Acquisition

On December 31, 2020, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 34 AS ("KNOT 34"), the company that owns the shuttle tanker *Tove Knutsen* from KNOT, for a purchase price of \$117.8 million, less \$93.1 million of outstanding indebtedness related to the *Tove Knutsen*, plus approximately \$0.8 million for certain capitalized fees related to the financing of the *Tove Knutsen*, minus other purchase price adjustments of \$3.6 million. On the closing of the acquisition, KNOT 34 repaid \$6.9 million of its indebtedness, leaving an aggregate of \$86.3 million of debt outstanding under the secured credit facility related to the *Tove Knutsen*. The purchase price was settled in cash.

The *Tove Knutsen* is operating in Brazil under a seven-year time charter with Equinor. The charterer has options to further extend the charter for up to two two-year periods and nine one-year periods. The credit facility secured by the *Tove Knutsen* bears interest at an annual rate equal to LIBOR plus a margin of 1.75% and matures in September 2025.

Bodil Redelivery Notice

On March 9, 2021, the charterer of the *Bodil Knutsen*, Equinor did not notify us by this due date of its intention to exercise its option to extend the time charter for the vessel. The charter is currently expected to expire on April 9, 2021. As a result, we have begun marketing the vessel for long-term employment and intend for the vessel to be utilised in any intervening period in the short-term market, including in the contract of affreightment ('COA') market in the North Sea.

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:

| | Time Charter | Bareboat Charter |
|------------------------------|---------------------|-------------------------|
| 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.

Employment of Our Fleet

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 (now Equinor) in May 2011. Included in the Partnership's initial fleet. |
| <i>Windsor Knutsen</i> | Delivered in May 2007. 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. In March 2019, the vessel began operating under a charter with Knutsen Shuttle Tankers Pool AS that ended in April 2020, when it was redelivered to Shell. In October 2020, Shell sent its notice of redelivery, which resulted in the expiration of the charter. The <i>Windsor Knutsen</i> was redelivered on December 7, 2021. It was expected that the vessel would then undertake a number of short-term voyage contracts when the vessel reported a crack in its main engine block on December 12, 2020 and the vessel was placed off-hire. Based on lead times for the manufacturing of necessary parts, logistics and the repair itself, we currently anticipate that the vessel will return to service in or around June 2021. We have agreed on the commercial terms for an expected one-year fixed time charter contract for the <i>Windsor Knutsen</i> (with potential options to extend the charter by one one-year period and then one six-month period) with a major oil company to commence in the third quarter of 2021. |
| <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. In 2019 Vår Energi AS acquired Standard Marine Tønsberg AS (now Vår Energi Marine AS). |
| <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>Vigdís 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 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. |
| <i>Tove Knutsen</i> | Delivered in September 2020 and commenced on long term time charter with Equinor in December 2020. Acquired by the Partnership in December 2020. |

Market Overview and Trends

As of March 1, 2021, the shuttle tanker market consisted of approximately 89 vessels (including 13 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 prior to mid-2014, higher oil prices and a positive long-term offshore oil outlook led to increased activity. During 2015-2018, oil companies delayed certain oil production start-ups in both the North Sea and Brazil however there were increased project startups again in 2019. Then, following announcements made during the COVID-19 crisis in 2020 by many of the large oil exploration and production companies, near-term capital expenditure cuts were again seen, delaying many new developments in Brazil and the North Sea by an expected 12 - 24 months. These announcements also indicated to the Partnership that these projects would not be cancelled. This assumption is supported by the relatively low costs of oil production in the North Sea and especially Brazil, the rebound in both oil prices and, to a degree, current global oil demand and FPSO activity, particularly in Brazil. Although we believe that these delays have softened the short-term market for shuttle tankers, we believe that demand and supply will, notwithstanding, remain largely in balance until such time as the delays are resolved and we believe that demand for existing and for newbuild shuttle tankers will continue to be driven over the long term, based on the requirement to replace older tonnage in the North Sea and Brazil and from further expansion of deep and ultra-deep water offshore oil production in areas such as Pre-salt Brazil and the Barents Sea. We therefore remain positive with respect to the mid-to-long-term outlook for the growth in demand for shuttle tankers and the opportunities that this will present.

The statements in this “Market Overview and Trends” section are forward-looking statements based on management’s current expectations and certain material assumptions and, accordingly, involve risks and uncertainties that could cause actual results, performance and outcomes to differ materially from those expressed herein. See “Item 3. Key Information—Risk Factors.”

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*, *the Anna Knutsen* and *the Tove 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 10—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 66%, 64% and 51% of the vessel operating expenses related to our vessels operating under time charters are denominated in U.S. Dollars and approximately 21%, 26% and 27% of such vessel operating expenses are denominated in Norwegian Kroner (“NOK”), for the years ended December 31, 2020, 2019 and 2018, 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* and our acquisition in 2017 of the shares in the subsidiary that owns the *Lena 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 23% in 2018 to 22% in 2019 and 2020.
- ***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 22% 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 length and severity of the COVID-19 outbreak;
- the number and availability of our vessels;
- 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;

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- 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;
- fluctuations in the price of oil;
- 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. The Partnership’s time charter contracts include both a lease component, consisting of the lease of the vessel, and non-lease component, consisting of operation of the vessel for the customers. The bareboat element is accounted for as an operating lease on a straight-line basis over the term of the charter, while the service element consisting of the operation of the vessel is recognized over time as the services are delivered. Revenue from time charters is recognized net of any commissions and is not recognized during days a vessel is off-hire. Revenue is recognized from delivery of a vessel to the charterer, until the end of the contract period. Under bareboat charters, the Partnership provides a specified vessel for a fixed period of time at a specified day rate and the Partnership recognizes revenues from bareboat charters as operating leases on a straight-line basis over the term of the charter, net of any commissions. 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.

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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 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 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. The historical average number of vessels consists of the average number of owned vessels that are in our possession during the periods presented. We use average number of vessels 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.

Customers

In the years ended December 31, 2020, 2019 and 2018, revenues from the following customers accounted for over 10% of our revenues:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | | | | |
|---|-------------------------|------|-----------|------|-----------|------|
| | 2020 | | 2019 | | 2018 | |
| Eni Trading and Shipping S.p.A. | \$ 44,175 | 16 % | \$ 44,610 | 16 % | \$ 43,955 | 16 % |
| Fronape International Company, a subsidiary of Petrobras Transporte S.A. | 45,235 | 16 % | 45,116 | 16 % | 45,115 | 17 % |
| Repsol Sinopec Brasil, B.V., a subsidiary of Repsol Sinopec Brasil, S.A. | 33,947 | 12 % | 36,346 | 13 % | 36,978 | 13 % |
| Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell | 76,959 | 28 % | 66,199 | 23 % | 81,816 | 29 % |
| Galp Sinopec Brasil Services BV | 35,684 | 13 % | 35,541 | 13 % | 30,029 | 11 % |

A. Operating Results**Year Ended December 31, 2020 Compared with the Year Ended December 31, 2019**

| (U.S. Dollars in thousands) | Year Ended December 31, | | Change | % Change |
|---|----------------------------|---------------|--------------|-------------|
| | 2020 | 2019 | | |
| Time charter and bareboat revenues | \$ 278,581 | \$ 282,502 | \$ (3,921) | (1)% |
| Other income | 641 | 59 | 582 | 986 % |
| Vessel operating expenses | 61,005 | 60,129 | 876 | 1 % |
| Depreciation | 89,743 | 89,844 | (101) | — % |
| General and administrative expenses | 5,392 | 4,858 | 534 | 11 % |
| Interest income | 125 | 865 | (740) | (86)% |
| Interest expense | 31,645 | 50,735 | (19,090) | (38)% |
| Other finance expense | 705 | 845 | (140) | (17)% |
| Realized and unrealized gain (loss) on derivative instruments | (25,679) | (17,797) | (7,882) | 44 % |
| Net gain (loss) on foreign currency transactions | 57 | (252) | 309 | (123)% |
| Income tax benefit (expense) | (10) | (9) | (1) | 11 % |
| Net income | 65,225 | 58,957 | 6,268 | 11 % |

Time Charter and Bareboat Revenues. Time charter and bareboat revenues for the year ended December 31, 2020 were \$278.6 million, a decrease of \$3.9 million compared to \$282.5 million for the year ended December 31, 2019. The decrease was principally due to (i) reduced revenue from the *Raquel Knutsen* due to a planned drydocking in first quarter of 2020, (ii) lower utilization for the *Windsor Knutsen*, which was redelivered in December 2020 and (iii) decreased earnings from the *Bodil Knutsen* due to its reduced daily rate from May 2019 when the vessel began operating under its new time charter option. This was partially offset by one extra operational day in the year ended December 31, 2020 compared to the year ended December 31, 2019 because of the leap year.

Other Income. Other income for the year ended December 31, 2020 was \$0.6 million, an increase of \$0.6 million compared to \$59,000 for the year ended December 31, 2019. The increase was primarily due to additional income related to the *Raquel Knutsen* as a result of an agreement with the charterer where we carried cargo from Brazil to Europe on the drydocking voyage in connection with the scheduled drydocking. As a result, the Partnership received \$0.6 million for this extra voyage and the additional revenue has been classified as other income.

Vessel Operating Expenses. Vessel operating expenses for the year ended December 31, 2020 were \$61.0 million, an increase of \$0.9 million from \$60.1 million in the year ended December 31, 2019. The increase was primarily due to *Raquel Knutsen's* scheduled drydocking and incurrence of \$0.8 million related to bunkers consumption in the year ended December 31, 2020 and increased costs due to one extra operational day in 2020.

Depreciation. Depreciation for the year ended December 31, 2020 was \$89.7 million, a decrease of \$0.1 million from \$89.8 million in the year ended December 31, 2019.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2020 were \$5.4 million, compared to \$4.9 million for 2019. The increase is mainly due to increased insurance premiums for the Partnership in 2020 compared to the year ended December 31, 2019.

Interest Income. Interest income for the year ended December 31, 2020 was \$0.1 million compared to \$0.9 million for the year ended December 31, 2019.

Interest Expense. Interest expense for the year ended December 31, 2020 was \$31.6 million, a decrease of \$19.1 million from \$50.7 million for the year ended December 31, 2019. The decrease was mainly due to lower LIBOR rate on average and decreased leverage for the entire fleet.

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Other Finance Expense. Other finance expense for the year ended December 31, 2020 was \$0.7 million, a decrease of \$0.1 million from \$0.8 million for the year ended December 31, 2019. Other finance expenses are primarily related to bank fees and guarantee commissions.

Realized and Unrealized Gain (Loss) on Derivative Instruments. Realized and unrealized loss on derivative instruments for the year ended December 31, 2020 was \$25.7 million, compared to a loss of \$17.8 million for the year ended December 31, 2019, as set forth in the table below:

| <i>(U.S. Dollars in thousands)</i> | Year Ended | | \$ Change |
|---|--------------------|--------------------|-------------------|
| | December 31, | December 31, | |
| | 2020 | 2019 | |
| Realized gain (loss): | | | |
| Interest rate swap contracts | \$ (3,528) | \$ 3,812 | \$ (7,340) |
| Foreign exchange forward contracts | (109) | (2,933) | 2,824 |
| Total realized gain (loss): | <u>(3,637)</u> | <u>879</u> | <u>(4,516)</u> |
| Unrealized gain (loss): | | | |
| Interest rate swap contracts | (21,795) | (20,663) | (1,132) |
| Foreign exchange forward contracts | (247) | 1,987 | (2,234) |
| Total unrealized gain (loss): | <u>(22,042)</u> | <u>(18,676)</u> | <u>(3,366)</u> |
| Total realized and unrealized gain (loss) on derivative instruments: | <u>\$ (25,679)</u> | <u>\$ (17,797)</u> | <u>\$ (7,882)</u> |

The increase in net realized and unrealized loss on derivative instruments was mainly due to a decrease in the US swap interest rate.

Net Gain (Loss) on Foreign Currency Transactions. Net gain on foreign currency transactions for the year ended December 31, 2020 was \$57,000, compared to a loss of \$0.3 million for the year ended December 31, 2019.

Income Tax Benefit (Expense). Income tax expense for the year ended December 31, 2020 was \$10,000 compared to an income tax expense of \$9,000 for the year ended December 31, 2019.

Net Income. As a result of the foregoing, we earned net income of \$65.2 million for the year ended December 31, 2020 compared to net income of \$59.0 million for the year ended December 31, 2019.

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

See "Item 5. Operating and Financial Review and Prospects—Operating Results—Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018" in our Annual Report on Form 20-F for the year ended December 31, 2019 (our "2019 20-F") for a discussion of our results of operations for the year ended December 31, 2019 compared to the year ended December 31, 2018 and other financial information related to the year ended December 31, 2018.

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.

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 \$51.1 million for drydocking and classification surveys for the thirteen vessels under time charters in our fleet as of December 31, 2020 between 2021 and 2025. 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 November 20, 2020, the Partnership entered into an agreement with Shinsei Bank, Limited for an unsecured revolving credit facility of \$25 million. The facility will mature in November 2023, bears interest at LIBOR plus a margin of 1.75% and has a commitment fee of 0.7% on the undrawn portion of the facility.

On December 30, 2020, the Partnership through its wholly-owned subsidiary, Knutsen Shuttle Tankers 19 AS, which owned the *Raquel Knutsen*, agreed to enter into a sale and leaseback agreement with a Japanese-based lessor for a lease period of ten years. The closing of the transaction occurred on January 19, 2021. The gross sales price was \$94.3 million and a portion of the proceeds was used to repay the outstanding loan and cancellation of the interest rate swap agreements related to the vessel. The bareboat rate under the lease consists of a fixed element per day and there is a fixed-price purchase obligation at maturity. After repayment of the loan and related interest rate swaps, the Partnership realized net proceeds of \$38 million after fees and expenses.

As of December 31, 2020, the Partnership had available liquidity of \$73.3 million, which consisted of cash and cash equivalents of \$52.6 million and availability under the revolving credit facilities of \$20.7 million. As of March 18, 2021, the revolving credit facilities had an aggregate undrawn capacity of \$55 million.

The consolidated financial statements have been prepared assuming that the Partnership will continue as a going concern. As of December 31, 2020, the Partnership's net current liabilities were \$147.5 million. Included in current liabilities are \$184.2 million short term loan obligations that mature before December 31, 2021 and are therefore, presented as current debt.

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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 \$55 million as of March 18, 2021, 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. Our annual estimated maintenance and replacement capital expenditures are currently \$70.5 million per year, which is comprised of \$60.9 million for replacing our current vessels at the end of their useful lives and \$9.6 million for drydocking maintenance and classification surveys. We are required to deduct estimated maintenance and replacement capital expenditures from operating surplus in order to determine our distributable cash flow.

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:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2020 | 2019 | 2018 |
| Net cash provided by operating activities | \$ 169,241 | \$ 165,692 | \$ 148,646 |
| Net cash used in investing activities | (21,433) | — | (15,493) |
| Net cash used in financing activities | (139,260) | (163,849) | (137,376) |
| Effect of exchange rate changes on cash | 510 | (30) | (169) |
| Net increase (decrease) in cash and cash equivalents | 9,058 | 1,813 | (4,392) |
| Cash and cash equivalents at the beginning of the period | 43,525 | 41,712 | 46,104 |
| Cash and cash equivalents at the end of the period | 52,583 | 43,525 | 41,712 |

Year Ended December 31, 2020 Compared with the Year Ended December 31, 2019

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased by \$3.5 million to \$169.2 million for the year ended December 31, 2020 compared to \$165.7 million for year ended December 31, 2019. The increase was mainly due to reduced interest payments due to a lower LIBOR rate on average for the year ended December 31, 2020 compared to the year ended December 31, 2019. This was partially offset by increased drydocking expenditures in 2020 compared to 2019 and an increase in working capital elements.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$21.4 million for the year ended December 31, 2020 compared to \$nil million for the year ended December 31, 2019. Net cash used in investing activities in 2020 of \$21.4 million was mainly due to the acquisition of the *Tove Knutsen* for which we paid a net cash amount equal to the difference between the purchase consideration of \$117.8 million and the \$93.1 million of outstanding indebtedness plus approximately \$0.8 million for certain capitalized fees related to the financing of the vessel and minus other purchase price adjustments of

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\$3.6 million. Net cash used in investing activities is net of cash acquired from the acquisition of the *Tove Knutsen* of \$0.8 million.

Net Cash Used in Financing Activities

Net cash used in financing activities during the year ended December 31, 2020 was \$139.3 million and mainly related to the following:

- Proceeds from drawdowns under two revolving credit facilities of \$33 million;

This was offset by the following:

- Repayment of long-term debt of \$92.8 million; and
- Payment of cash distributions to unitholders of \$79.3 million, of which \$7.2 million was distributions to Series A Preferred Units.

Net cash used in financing activities during the year ended December 31, 2019 was \$163.8 million and mainly related to the following:

- Repayment of long-term debt of \$84.5 million; and
- Payment of cash distributions to unitholders of \$79.3 million, of which \$7.2 million was distributions to Series A Preferred Units.

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Cash Flows” in our 2019 20-F for a discussion of changes in our cash flows from 2019 to 2018 and other financial information related to 2018.

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Borrowing Activities

Long-Term Debt. As of December 31, 2020 and 2019, our long-term debt consisted of the following:

| <i>(U.S. Dollars in thousands)</i> | <u>Vessel</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--|------------------------------|------------------------------|
| \$320 million loan facility | <i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen, Fortaleza Knutsen, Recife Knutsen, Ingrid Knutsen</i> | \$ 252,245 | \$ 282,360 |
| \$55 million revolving credit facility | | 34,279 | 26,279 |
| Hilda loan facility | <i>Hilda Knutsen</i> | 78,462 | 84,615 |
| Torill loan facility | <i>Torill Knutsen</i> | 81,667 | 88,333 |
| \$172.5 million loan facility | <i>Dan Cisne, Dan Sabia</i> | 58,340 | 70,739 |
| Raquel loan facility | <i>Raquel Knutsen</i> | 52,725 | 57,955 |
| Tordis loan facility | <i>Tordis Knutsen</i> | 75,871 | 80,931 |
| Vigdis loan facility | <i>Vigdis Knutsen</i> | 77,136 | 82,196 |
| Lena loan facility | <i>Lena Knutsen</i> | 75,950 | 80,850 |
| Brasil loan facility | <i>Brasil Knutsen</i> | 50,997 | 57,281 |
| Anna loan facility | <i>Anna Knutsen</i> | 62,196 | 66,274 |
| Tove loan facility | <i>Tove Knutsen</i> | 86,250 | — |
| \$25 million revolving credit facility with NTT | | 25,000 | 25,000 |
| \$25 million revolving credit facility with Shinsei | | 25,000 | — |
| Total long-term debt | | \$ 1,036,118 | \$ 1,002,813 |
| Less: current installments | | 186,723 | 85,945 |
| Less: unamortized deferred loan issuance costs | | 2,535 | 2,492 |
| Current portion of long-term debt | | 184,188 | 83,453 |
| Portion due after one year | | 849,395 | 916,868 |
| Less: unamortized deferred loan issuance costs | | 3,238 | 4,925 |
| Long-term debt, less current installments, and unamortized deferred loan issuance costs | | \$ 846,157 | \$ 911,943 |

The Partnership's outstanding debt of \$1,036.1 million as of December 31, 2020 is repayable as follows:

| <i>(U.S. Dollars in thousands)</i> | <u>Period repayment</u> | <u>Balloon repayment</u> | <u>Total</u> |
|------------------------------------|-------------------------|--------------------------|---------------------|
| 2021 | 90,912 | 95,811 | 186,723 |
| 2022 | 75,577 | 236,509 | 312,086 |
| 2023 | 59,902 | 235,185 | 295,087 |
| 2024 | 18,240 | 123,393 | 141,633 |
| 2025 | 4,583 | 96,006 | 100,589 |
| 2026 | — | — | — |
| Total | \$ 249,214 | \$ 786,904 | \$ 1,036,118 |

As of December 31, 2020, the interest rates on the Partnership's loan agreements were LIBOR plus a fixed margin ranging from 1.75% to 2.4%. See Note 2(f)—Financial Income (Expense) in the consolidated financial statements included in this Annual Report.

\$320 Million Term Loan Facility and \$55 Million Revolving Credit Facility

In September 2018, the Partnership's subsidiaries which own the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid Knutsen* ("the Vessels"), entered into new senior secured credit facilities (the "Multi-vessels Facility") in order to refinance their existing long term bank debt. The Multi-vessels Facility consists of a term loan of \$320 million and a \$55 million revolving credit facility. The term loan is repayable in 20 consecutive quarterly installments, with a final payment at maturity in September 2023 of \$177 million, which includes the balloon payment and last quarterly installment. The term loan bears interest at a rate per annum equal to LIBOR plus a margin of 2.125%. The revolving credit facility will mature in September 2023, and bears interest at LIBOR plus a margin of 2.125%. There is a commitment fee of 0.85% payable on the undrawn portion of the revolving credit facility. The loans are guaranteed by the Partnership and secured by mortgages on the Vessels.

The Vessels, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Multi-vessel facility. The Partnership and the borrowers (except for the Partnership subsidiary that owns the *Recife Knutsen* and the *Fortaleza Knutsen*) are guarantors, and the Multi-vessels Facility is secured by vessel mortgages on the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid Knutsen*.

The Multi-vessels Facility contains the following financial covenants:

- Positive working capital of the borrowers and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 12 additional vessels in excess of 8 vessels;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Multi-vessels Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the aggregate market value of the vessels is less than 125% of the outstanding balance under the Multi Vessel Facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrowers and the guarantors were in compliance with all covenants under this facility.

Hilda Loan Facility

In May 2017, the Partnership's subsidiary, Knutsen 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 final payment at maturity of \$58.5 million, which includes the balloon payment and last quarterly installment. 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 Hilda Facility contains the following primary financial covenants:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1 million for each additional vessel acquired by the Partnership in excess of eight vessels 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 Hilda Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of the vessels is less than 110% of the outstanding loan under the Hilda Facility for the first two years, 120% for the third and fourth year and 125% thereafter, upon a total loss or sale of the vessel and customary events of default. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility.

Torill Loan Facility

In January 2018, the Partnership's subsidiary, Knutsen Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, entered into a new \$100 million senior secured term loan facility (the "Torill Facility") with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent. The Torill Facility replaced a \$117 million secured loan facility, which was due to be paid in full in October 2018. The Torill Facility is repayable in 24 consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The 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 Torill Facility contains the following primary financial covenants:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Torill Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of the vessel is less than 110% of the outstanding loan under the Torill Facility for the first two years, 120% for the third and fourth year and 125% thereafter, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrower and the guarantor were in compliance with all covenants under this facility.

\$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.

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

- Minimum liquidity of the Partnership of \$15 million plus increments of \$1 million for each additional vessel acquired by the Partnership in excess of eight vessels 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 if the market value of either of the vessels are less than 125% of the respective loan, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrowers and the guarantor 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 was repayable in quarterly installments with a final balloon payment of \$30.5 million due at maturity in March 2025. The Raquel Facility bore interest at an annual rate equal to LIBOR plus a margin of 2.0%. The facility was secured by a vessel mortgage on the *Raquel Knutsen*. The *Raquel Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Raquel Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility. On January 21, 2021, the Raquel Facility was paid in full.

Raquel Sale and Leaseback

On December 30, 2020, the Partnership through its wholly-owned subsidiary, Knutsen Shuttle Tankers 19 AS, which owned the *Raquel Knutsen*, agreed to enter into a sale and leaseback agreement with a Japanese-based lessor for a lease period of ten years. The closing of the transaction occurred on January 19, 2021. The gross sales price was \$94.3 million and a portion of the proceeds was used to repay the outstanding loan and cancellation of the interest rate swap agreements related to the vessel. The bareboat rate under the lease consists of a fixed element per day and there is a fixed-price purchase obligation at maturity. After repayment of the loan and related interest rate swaps, the Partnership realized net proceeds of \$38 million after fees and expenses.

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:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;

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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 if the aggregate market value of the *Tordis Knutsen*, *Vigdis Knutsen* and *Lena Knutsen* is less than 130% of the outstanding balance under the Tordis Facility, Vigdis Facility and Lena Facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, 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:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- 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 if the aggregate market value of the *Tordis Knutsen*, *Vigdis Knutsen* and *Lena Knutsen* is less than 130% of the outstanding balance under the Tordis Facility, Vigdis Facility and Lena Facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, 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:

- Positive working capital of the borrower and the Partnership;

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- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- 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 if the aggregate market value of the *Tordis Knutsen*, *Vigdis Knutsen* and *Lena Knutsen* is less than 130% of the outstanding balance under the Tordis Facility, Vigdis Facility and Lena Facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, 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 \$40.0 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:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to a total of eight (8) vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to a total of twelve (12) vessels;
- 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 if the market value of the vessel is less than 125% of the outstanding loan first four years and 135% thereafter, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, 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.

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The Anna Facility contains the following financial covenants:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- 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 if the market value of the vessel is less than 130% of the outstanding loan, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility.

Tove Loan Facility

In July 2019, KNOT Shuttle Tankers 34 AS, the subsidiary owning the *Tove Knutsen*, as the borrower, entered into a secured loan facility (the "Tove Facility"). The Tove Facility is repayable in quarterly installments with a final balloon payment of \$65.5 million due at maturity in September 2025. The Tove Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.75%. The facility is secured by a standard security package for a vessel financing, including a vessel mortgage on the *Tove Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds. The Partnership and KNOT Shuttle Tankers AS guarantee the Tove Facility.

The Tove Facility contains the following financial covenants:

- Positive working capital of the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Tove Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of vessel falls below 110% of the outstanding loan, upon total loss or sale of the vessel and customary events of default. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility.

\$25 Million Revolving Credit Facility with NTT

In June 2019, KNOT Shuttle Tankers AS extended the maturity of its unsecured revolving credit facility of \$25 million with NTT Finance Corporation. The facility will mature in August 2021, 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.

\$25 Million Revolving Credit Facility with Shinsei

In November 2020, KNOT Shuttle Tankers AS entered into an unsecured revolving credit facility with Shinsei Bank. The facility will mature in November 2023, bears interest at LIBOR plus a margin of 1.75% and has a commitment fee of 0.7% 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, 2020, the Partnership's net exposure to floating interest rate fluctuations on its outstanding debt was approximately \$467.3 million based on total interest-bearing debt outstanding of \$1,036.1 million, less interest rate swaps of \$516.2 million, less cash and cash equivalents of \$52.6 million. Our interest rate swap contracts mature between February 2022 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 1.88%.

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.

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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 \$1,709 million as of December 31, 2020. With respect to the vessels, based on broker valuations as of December 31, 2020 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, 2020 for the vessels was approximately \$112 million. These vessels do, however, have fixed rate charter contracts. An impairment loss is recognized if there are indicators of impairment present and the undiscounted cash flows are less than the carrying amount. We have as of December 31, 2020 not recorded impairment charges for any of our vessels.

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. In addition, certain repair and maintenance items performed during a drydock may be expensed where we judge the cost to be routine in nature.

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, if the purchase is a business acquisition. 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.

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.

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, 2020 were related to the financial loss carry forwards and other net deferred tax assets 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, 2020, we determined that the deferred tax assets are likely to not be realized, and the booked value was, therefore, zero.

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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, 2020 and 2019, we had a valuation allowance for deferred tax assets of \$20.9 million and \$17.3 million, respectively.

Recently Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (or ASU 2016-13). ASU 2016-13 replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The new guidance is applicable to financial assets measured at amortized cost, including trade receivables, contract assets and net investment in financing leases and was effective for the Partnership from January 1, 2020, with a modified-retrospective approach. The adoption of ASU 2016-13 did not have a material impact on the 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 March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The update provides temporary optional expedients and exceptions to the guidance in US GAAP on contract modifications and hedge accounting, to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. For all types of hedging relationships, the guidance allows an entity to change the reference rate and other critical terms related to reference rate reform without having to dedesignate the relationship. The guidance is effective upon issuance through December 31, 2022. Although the Partnership does not apply hedge accounting, the Partnership has debt and interest rate swaps that reference LIBOR. The Partnership is evaluating the impact of the guidance on the consolidated financial statements.

Other recently issued accounting pronouncements are not expected to materially impact the Partnership..

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, 2020, 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, 2020:

| (U.S. Dollars in thousands) | Payments Due by Period | | | | |
|---|------------------------|---------------------|-------------------|-------------------|----------------------|
| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | More than 5 Years |
| Long-term debt | \$ 924,868 | \$ 182,356 | \$ 573,439 | \$ 169,073 | \$ — |
| Interest commitments on long-term debt(1) | 45,697 | 20,838 | 22,722 | 2,137 | — |
| Interest rate swaps(2) | 27,714 | 6,821 | 11,364 | 7,722 | 1,807 |
| Operating lease commitments | 1,566 | 703 | 761 | 102 | — |
| Total | \$ 999,845 | \$ 210,718 | \$ 608,286 | \$ 179,034 | \$ 1,807 |

- (1) The interest commitments on long-term debt have been calculated assuming interest rates based on the 6-month LIBOR as of December 31, 2020, 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, 2020.

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 | 70 | Chairman of the Board of Directors |
| Gary Chapman | 46 | Chief Executive Officer and Chief Financial Officer |
| Hans Petter Aas | 75 | Director, Chairman of the Audit Committee and Member of the Conflicts Committee |
| Edward A. Waryas, Jr. | 73 | Director and Chairman of the Conflicts Committee and Member of the Audit Committee |
| Andrew Beveridge | 73 | Director and Member of the Audit Committee |
| Richard Beyer | 51 | Director |
| Junya Omoto | 51 | Director |
| Simon Bird | 61 | Director and Member of the Conflicts Committee |

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 served as President of the Norwegian Shipowners’ Association from 2006 through 2008. 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.

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Hans Petter Aas has served on our board of directors since 2013, and currently serves as the Chairman of the Audit Committee and as a member of the Conflicts Committee. 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 currently a member of the board of directors of Gearbulk Holding Ltd. 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 and as a member of the Conflicts Committee since 2013, and as a member of the Audit Committee since 2015. 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 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 and as a member of the Audit Committee 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 served as Deputy Director of KNOT since 2011, 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.

Junya Omoto has served on our board of directors since April 2020. Mr. Omoto has served as the General Manager, Offshore Business Group, for NYK since April 1, 2020 and from 2016 was previously Deputy General Manager of NYK’s Offshore Business Group. Mr. Omoto joined NYK in 1993 and until 2006 he served in the Container and Logistics divisions in Japan and Hong Kong. In 2007, Mr. Omoto joined the Petroleum group and from 2010 he acted as Manager of the LNG Group. Mr. Omoto graduated from the University of Tokyo, Faculty of Law.

Simon Bird has served on our board of directors since May 2015 and currently serves as a member of the Conflicts Committee. Mr. Bird is currently Director Humber for Associated British 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 senior positions at British Aerospace plc, Thorn EMI plc and Philips. Prior to his industrial career, Mr Bird served in the Royal Navy and Her Majesty's Diplomatic Service. Mr. Bird is also a director of the Humber Local Enterprise Partnership, a public/private body. Mr Bird holds a Honorary Commission in the Royal Naval Reserve in the rank of Captain.

Gary Chapman has served as our and KNOT UK's Chief Executive Officer and Chief Financial Officer since June 2019. From 2008 to 2017, Mr. Chapman served as the Finance Director of NYK's energy transport business in the EMEA region and from 2003 to 2008 was the European Head of Tax for the NYK Group in Europe. Prior to 2003, Mr. Chapman served in various audit and tax roles for KPMG, including as a member of the Oil and Gas group. From 2017 to 2019, Mr. Chapman served as the Chief Financial Officer of Biggin Hill Airport Ltd, a private business aviation airport in London. Mr. Chapman is a fellow of the Institute of Chartered Accountants in England and Wales and holds a degree in Economics from Loughborough 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, Gary Chapman, as an officer of KNOT UK, provides executive officer functions for our benefit. Mr. Chapman 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, 2020, we incurred total costs, expenses and fees under this agreement of approximately \$1.5 million (which includes \$1.0 million that was paid to KOAS, KOAS UK and KNOT Management for services they provided for us as subcontractors 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.

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Mr. Chapman entered into an employment agreement with KNOT UK effective June 1, 2019. Pursuant to the employment agreement, Mr. Chapman serves as KNOT UK's Chief Executive Officer and Chief Financial Officer and is based in London. His annualized base salary is 240,000 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. Chapman's employment may be terminated on 6 months' prior written notice by either Mr. Chapman or KNOT UK. In addition, Mr. Chapman's employment agreement provides KNOT UK with the option to make a payment in lieu of notice or to place Mr. Chapman 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. Chapman 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, 2020, Mr. Chapman received \$307,088 in total compensation. In addition, an accrual of \$nil for 2020 was made to cover insurance and pension expenses for Mr. Chapman.

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, 2020 each of our directors and our Chairman received aggregate compensation of \$75,000. This amount is expected to increase to \$80,000 for the year ending December 31, 2021. 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, Junya Omoto, Hans Petter Aas, Edward A. Waryas, Jr., Andrew Beveridge and Simon Bird. Mr. Seglem, Mr. Beyer and Mr. Omoto 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. Aas is designated as our Class IV elected director and will serve until our annual meeting of unitholders in 2021. Mr. Waryas is designated as the Class I elected director and will serve until our annual meeting of unitholders in 2022. Mr. Beveridge is designated as our Class II elected director and will serve until our annual meeting of unitholders in 2023. Mr. Bird is designated as our Class III elected director and will serve until our annual meeting of unitholders in 2024. 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.

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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, Mr. Aas and Mr. Bird. 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.

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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, 2020, we directly employed one onshore employee and no seagoing employees. As of December 31, 2020, KNOT, through subsidiaries and affiliated companies, employed approximately 640 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 March 18, 2021, 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 March 18, 2021 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:

| Name of Beneficial Owner | Common Units Beneficially Owned | |
|---|---------------------------------|---------|
| | Number | Percent |
| KNOT(1) | 8,657,868 | 26.5 % |
| Offshore Merchant Partners Asset Yield Fund L.P.(2) | 2,199,583 | 6.3 % |
| Invesco Ltd.(3) | 1,776,804 | 5.4 % |

- (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) Offshore Merchant Partners Asset Yield Fund L.P. has shared voting and dispositive power as to 2,199,583 common units. Represents 2,199,583 common units into which the Series A Preferred Units owned by OMP AY Preferred Limited were convertible as of September 30, 2020, which common units are included in both the numerator and denominator in calculating the percentage beneficially owned. This information is based on the Schedule 13G/A filed by Offshore Merchant Partners Asset Yield Fund L.P. on February 5, 2021.

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- (3) Invesco Ltd. has sole voting power and dispositive power as to 1,776,804 common units. This information is based on the Schedule 13G filed by Invesco Ltd. on February 12, 2021.

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 March 18, 2021, 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.

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 March 18, 2021.

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, 2018 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.

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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.

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 indemnified 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 were excluded from the environmental indemnity. There was an aggregate cap of \$5 million on the amount of indemnity coverage provided by KNOT for environmental and toxic tort liabilities.

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 such period and the hire rate then in effect and payable under such other charter; provided, further, that 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 Charter with Knutsen Shuttle Tankers Pool AS

On December 17, 2018, our subsidiary that owns the *Windsor Knutsen*, KNOT Shuttle Tankers 18 AS, entered into a time charter contract with Knutsen Shuttle Tankers Pool AS, a wholly owned subsidiary of KNOT. Under the time charter contract with Knutsen Shuttle Tankers Pool AS, the *Windsor Knutsen* has been operating on the same terms as its existing time charter contract with Shell during the suspension period of the time charter contract. The suspension period commenced March 4, 2019 and ended April 3, 2020, when the vessel was redelivered to Shell.

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 had 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. Effective as of February 26, 2018, we entered into a second amendment to the administrative services agreement extending the term of the agreement indefinitely.

The administrative services agreement may be terminated by any party upon 90 days' notice for any reason. Under the administrative services agreement, Gary Chapman, as an officer of KNOT UK, provides executive officer functions for our benefit. Mr. Chapman 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. Chapman at any time in its sole discretion.

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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 quarter, 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*, the *Anna Knutsen* and the *Tove 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 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.

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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, KNOT Shuttle Tankers 32 AS, KNOT Shuttle Tankers 30 AS and KNOT Shuttle Tankers 34 AS as owners, paid a fee of \$0.62 million per year for 2020 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 2021 has been set at \$0.66 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*, the *Anna Knutsen* and the *Tove 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.

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.

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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 an annual fee in 2020 of \$0.06 million for the *Recife Knutsen* and the *Fortaleza Knutsen* and an annual fee in 2020 of \$0.02 million for the *Dan Sabia* and the *Dan Cisne* 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 2021 has been set at \$0.07 million for the *Recife Knutsen* and the *Fortaleza Knutsen* and \$0.03 million for the *Dan Sabia* and the *Dan Cisne*. 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.

Courses for Crew and Crewing Services

Simsea Real Operations AS, a company jointly owned by Trygve Seglem and by other shipping companies in Haugesund, provides simulation, operational training assessment and other certified maritime courses for seafarers, and as part of the seafarers competence training program the Partnership has purchased courses for seafarers on time charter contracts. The cost is course fees for seafarers. Knutsen OAS Crewing AS, a subsidiary of TSSI, provides administrative services related to East European crew on our vessels operating on time charter contracts. The cost is a fixed fee per month per East European crew onboard the vessel. We paid approximately \$0.1 million in total fees with respect to these arrangements for the year ended December 31, 2020.

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* and other purchase price adjustments of \$5.3 million. 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 *Anna Knutsen*. The purchase price was settled by way of a cash payment financed by cash on hand. The Conflicts Committee approved the acquisition of the *Anna Knutsen*.

Acquisition of the Tove Knutsen

In December 2020, we entered into a share purchase agreement pursuant to which we acquired KNOT's 100% interest in KNOT 34, the company that owns the shuttle tanker, *Tove Knutsen*, for a purchase price of \$117.8 million, less approximately \$93.1 million of outstanding indebtedness related to the *Tove Knutsen*, plus approximately \$0.8 million for certain capitalized fees related to the financing of the *Tove Knutsen*, minus other purchase price adjustments of \$3.6 million. On the closing of the acquisition on December 31, 2020, KNOT 34 repaid approximately \$6.9 million of the indebtedness, leaving an aggregate of approximately \$86.3 million of debt outstanding under the secured credit facility related to the *Tove Knutsen*. The purchase price was settled by way of a cash payment financed by cash on hand. The Conflicts Committee approved the acquisition of the *Tove Knutsen*. Please read Note 21—Acquisitions in the consolidated financial statements included in this Annual Report.

Other Related Party Transactions

The following table summarizes related party expenses charged or allocated to us for the year ended December 31, 2020 and included in the consolidated financial statements. Please read Note 18—Related Party Transactions in the consolidated financial statements included in this Annual Report.

| | Year Ended December 31, 2020 |
|--------------------------------------|---|
| | (U.S. Dollars in thousands) |
| Statement of Operations Data: | |
| Time charter and bareboat revenues: | 4,883 |
| Operating expenses(1) | 22,550 |
| General and administrative expenses: | 1,953 |
| Total income (expenses) | \$ (19,621) |

(1) Includes fees paid pursuant to the management and administration agreements, the technical management agreements, courses for crew, crew and crewing services.

Payables to KNOT and KOAS were \$0.5 million and \$1.6 million, respectively, for the year ended December 31, 2020. In addition, included in trade accounts payable, trading balances due to KOAS were \$1.3 million and trading balances due to KNOT were \$0.9 million for the year ended December 31, 2020. 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.

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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 aggregate quarterly distributions of \$22.1 million to KNOT for each of the years ended December 31, 2020 and 2019.

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.

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- 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 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 March 18, 2021, 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, 2020, the aggregate amount of cash distributions paid to the holders of the Series A Preferred Units was \$7.2 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, 2020, the aggregate amount of cash distributions paid to common unitholders was \$70.8 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.

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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.

| | <u>Total Quarterly Distribution Target</u> | <u>Marginal Percentage Interest in Distributions</u> | | <u>Holders of Incentive Distribution Rights</u> |
|--------------------------------|--|--|----------------------------|---|
| | | <u>Unitholders</u> | <u>General Partner</u> | |
| 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 22—Subsequent Events in the consolidated financial statements included in this Annual Report.

Item 9. The Offer and Listing

A. Offer and Listing Details

Our common units are traded on the NYSE under the symbol “KNOP”.

B. Plan of Distribution

Not applicable.

C. Markets

Our common units started trading on the NYSE 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 Exhibit 2.1 to this Annual Report.

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, Amendment No. 2, dated November 28, 2018, and Amendment No. 3, dated March 13, 2019. 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) 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.”
- (5) 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.”
- (6) 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.”

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- (7) 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.”
- (8) 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.”
- (9) 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.”
- (10) 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.”
- (11) 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”
- (12) 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.”
- (13) 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.”
- (14) 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.”
- (15) 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.”

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- (16) 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.”
- (17) 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.”
- (18) 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.”
- (19) Term Loan and Revolving Credit Facilities Agreement, dated September 4, 2018, among KNOT Shuttle Tankers AS, Knutsen Shuttle Tankers XII KS, Knutsen Shuttle Tankers 13 AS, Knutsen NYK Shuttle Tankers 16 AS, KNOT Shuttle Tankers 17 AS, KNOT Shuttle Tankers 18 AS, as borrowers, the other parties thereto. Please read “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—\$320 Million Term Loan Facility and \$55 Million Revolving Credit Facility.”
- (20) Facility Agreement, dated July 2, 2019, among KNOT Shuttle Tankers 34 AS and KNOT Shuttle Tankers 35 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-Tove Loan Facility.”
- (21) Accession Letter, dated December 2020, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 34 AS, KNOT Shuttle Tankers 35 AS and MUFJ Bank, Ltd. Please read “Item 5. Operating and Financial Review and Prospects-Liquidity and Capital Resources-Borrowing Activities-Long-Term Debt-Tove Loan Facility.”
- (22) Memorandum of Agreement, dated December 30, 2020, between Knutsen Shuttle Tankers 19 AS and MI-DAS Line S.A., as amended by Addendum No. 1, dated January 14, 2021. Please read "Item 5. Operating and Financial Review and Prospects-Liquidity and Capital Resources-Borrowing Activities-Long-Term Debt-Raquel Sale and Leaseback"
- (23) Bareboat Charter, dated December 30, 2020, between Knutsen Shuttle Tankers 19 AS and MI-DAS Line S.A. Please read "Item 5. Operating and Financial Review and Prospects-Liquidity and Capital Resources-Borrowing Activities-Long-Term Debt- Raquel Sale and Leaseback"
- (24) Employment Agreement, dated March 12, 2019, between KNOT Offshore Partners UK LLC and Gary Chapman. Please read “Item 6. Directors, Senior Management and Employees—Compensation—Executive Compensation.”
- (25) 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.
- (26) Registration Rights Agreement, dated February 2, 2017, among KNOT Offshore Partners LP and the Purchasers party thereto.

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- (27) 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.
- (28) Share Purchase Agreement, dated December 15, 2020, 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 *Tove Knutsen*.”

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 and non-citizen 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, individual retirement accounts, persons who own (actually or constructively) 10% or more of the vote or value of our equity or former citizens or long-term residents of the United States), persons who hold the units as part of a straddle, 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 or arrangement 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 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 with respect to a U.S. Holder for any taxable year (and regardless of whether we remain a PFIC over the subsequent taxable years), then such 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.

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 in which a U.S. Holder holds our common units 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 in which a U.S. Holder holds our common units, 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.

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 (provided, in the case of a Non-U.S. Holder entitled to the benefits of an income tax treaty with the United States, such distributions also are attributable to a U.S. permanent establishment). The after-tax amount of any effectively connected distributions received by a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes may also be subject to an additional U.S. branch profits tax at a rate of 30% (or, if applicable, a lower treaty rate).

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). The after-tax amount of any effectively connected gain of a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes may also be subject to an additional U.S. branch profits tax at a rate of 30% (or, if applicable, a lower treaty rate). 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 and 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 a properly completed 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, transactions 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, transactions or operations 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.

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 Norwegian General Taxation Act, 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
- neither of the following conditions are 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.

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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 Norwegian General Taxation Act, 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 U.K. tax returns and paying any applicable U.K. 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.

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, and may also be obtained from our website at www.knotoffshorepartners.com. 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.

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, 2020, we were party to interest rate swap contracts with a combined notional amount of approximately \$516.2 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 0.71% per annum and 2.90% per annum for all periods. The interest rate swap contracts mature between February 2022 and August 2027. The notional amount and fair value of our interest rate swap contracts recognized as net derivative liabilities as of December 31, 2020 are as follows:

| | December 31, 2020 | |
|---|-------------------|------------------------|
| | Notional Amount | Fair Value (liability) |
| (U.S. Dollars in thousands) Interest rate swap contracts | \$ 516,186 | \$ 30,053 |

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As of December 31, 2020, our net exposure to floating interest rate fluctuations on our outstanding debt was approximately \$467.3 million, based on our total interest-bearing debt of approximately \$1,036.1 million, less the notional amount of our floating to fixed interest rate swap contracts of approximately \$516.2 million, less cash and cash equivalents of \$52.6 million. A 1% change in short-term interest rates would result in an increase or decrease to our interest expense of approximately \$4.7 million on an annual basis as of December 31, 2020. 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, 2020, we had not entered into any foreign exchange forward contract.

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, 2020 and 2019, seven and eight 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, 2020, 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 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, 2020.

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 (2013 framework) (the COSO criteria). 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.

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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, 2020.

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, 2020.

Attestation Report of the Registered Public Accounting Firm

The effectiveness of the Partnership's internal control over financial reporting as of December 31, 2020 has been audited by Ernst & Young AS, an independent registered public accounting firm, as stated in its report which appears on page F-5 of our consolidated financial statements.

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 2020 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 2020 and 2019.

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Fees Incurred by the Partnership for Ernst & Young AS' Services:

| | <u>2020</u> | <u>2019</u> |
|--------------------|-------------------|-------------------|
| Audit Fees | \$ 648,034 | \$ 718,698 |
| Audit-Related Fees | — | — |
| Tax Fees | 3,585 | 2,978 |
| | <u>\$ 651,618</u> | <u>\$ 721,676</u> |

Audit Fees

Audit fees for 2020 and 2019 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 2020 and 2019 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 2020 and 2019 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.

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-1 through F-51, together with the related reports 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, 2020, 2019 and 2018 | F-6 |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019 and 2018 | F-7 |
| Consolidated Balance Sheets as of December 31, 2020 and 2019 | F-8 |
| Consolidated Statements of Changes in Partners' Capital for the Years Ended December 31, 2020, 2019 and 2018 | F-9 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019 and 2018 | F-10 |
| Notes to Consolidated Financial Statements | F-11 |

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.

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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) |
| 2.1 | Description of Securities Registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 2.1 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2019 filed on March 19, 2020) |
| 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 | Amendment No. 2 to the Administrative Services Agreement, dated November 28, 2018, 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 4.4 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2018 filed on April 10, 2019) |
| 4.5 | Amendment No. 3 to the Administrative Services Agreement, dated March 13, 2019, 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 4.5 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2018 filed on April 10, 2019) |
| 4.6 | 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) |
| 4.7 | 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) |
| 4.8 | 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 (incorporated by reference to Exhibit 4.9 to the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2017 filed on April 25, 2018) |
| 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) |

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| Exhibit Number | Description |
|-----------------------|---|
| 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 | 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) |
| 4.14 | 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) |
| 4.15 | 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) |
| 4.16 | 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) |
| 4.17 | 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 (incorporated by reference to Exhibit 4.21 to the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2017 filed on April 25, 2018) |
| 4.18 | 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. (incorporated by reference to Exhibit 4.22 to the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2017 filed on April 25, 2018) |
| 4.19 | Term Loan Facility Agreement, dated September 30, 2016, among KNOT Shuttle Tankers 30 AS, as borrower, and the other parties thereto (incorporated by reference to Exhibit 4.23 to the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2017 filed on April 25, 2018) |
| 4.20 | 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 (incorporated by reference to Exhibit 4.24 to the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2017 filed on April 25, 2018) |
| 4.21 | Term Loan and Revolving Credit Facilities Agreement, dated September 4, 2018, among KNOT Shuttle Tankers AS, Knutsen Shuttle Tankers XII KS, Knutsen Shuttle Tankers 13 AS, Knutsen NYK Shuttle Tankers 16 AS, KNOT Shuttle Tankers 17 AS, KNOT Shuttle Tankers 18 AS, as borrowers, the other parties thereto (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on September 4, 2018) |
| 4.22* | Facility Agreement, dated July 2, 2019, among KNOT Shuttle Tankers 34 AS and KNOT Shuttle Tankers 35 AS, as borrowers, and the other parties thereto |
| 4.23* | Accession Letter, dated December 2020, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 34 AS, KNOT Shuttle Tankers 35 AS and MUFG Bank, Ltd. |

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| Exhibit Number | Description |
|-----------------------|---|
| 4.24* | Memorandum of Agreement, dated December 30, 2020, between Knutsen Shuttle Tankers 19 AS and MI-DAS Line S.A., as amended by Addendum No. 1, dated January 14, 2021 |
| 4.25*† | Bareboat Charter, dated December 30, 2020, between Knutsen Shuttle Tankers 19 AS and MI-DAS Line S.A. |
| 4.26 | Employment Agreement, dated March 12, 2019, between KNOT Offshore Partners UK LLC and Gary Chapman (incorporated by reference to Exhibit 4.25 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2018 filed on April 10, 2019) |
| 4.27 | 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) |
| 4.28 | 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) |
| 4.29 | 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) |
| 4.30 | 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) |
| 4.31 | 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) |
| 4.32 | 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) |
| 4.33* | Share Purchase Agreement, dated December 15, 2020, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS |
| 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* | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema |
| 101.CAL* | Inline XBRL Taxonomy Extension Schema Calculation Linkbase |
| 101.DEF* | Inline XBRL Taxonomy Extension Schema Definition Linkbase |
| 101.LAB* | Inline XBRL Taxonomy Extension Schema Label Linkbase |
| 101.PRE* | Inline XBRL Taxonomy Extension Schema Presentation Linkbase |
| 104* | Cover Page Interactive Date File (formatted as Inline XBRL and contained in Exhibit 101) |

* Filed herewith.

† Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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/ GARY CHAPMAN

Name: Gary Chapman

Title: *Chief Executive Officer and Chief Financial Officer*

Date: March 18, 2021

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Report of Independent Registered Public Accounting Firm

To the Unitholders and the Board of Directors 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, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in partners' capital and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Partnership's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 18, 2021 expressed an unqualified opinion thereon.

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 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. 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Vessel impairment

Description of the Matter

The carrying value of the Partnership's vessels was \$1,709 million as of December 31, 2020. As explained in Note 2(n) to the consolidated financial statements, the Partnership assesses vessels for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If circumstances require a vessel to be tested for impairment, the Partnership compares the undiscounted cash flows expected to be generated by that vessel to its carrying value. If the carrying value of the vessel is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Management identified events or changes in circumstances which indicated the carrying value of one vessel may not be recoverable. Management conducted an undiscounted cashflow

analysis (“recoverability test”) for the vessel and on that basis concluded that the carrying value was recoverable as at December 31, 2020.

Auditing the Partnership’s recoverability test was complex due to the significant estimation uncertainty and judgement in forecasting the vessel’s undiscounted cashflows. Significant assumptions and judgements used in management’s analysis included the estimation of daily charter rates, vessel utilization and the costs of future drydockings.

How We Addressed the Matter in Our Audit

We obtained an understanding of the Partnership’s vessel impairment process and evaluated the design and tested the operating effectiveness of the controls over the Partnership’s determination of significant assumptions to the recoverability test.

To test the impairment process, we performed audit procedures that included, among others, analyzing management’s recoverability test by comparing the methodology used against relevant accounting guidance. We tested the reasonableness of estimated daily charter rates by comparing them to recent tender activity and historical rate information.

We assessed whether the vessel utilization assumptions were reasonable based on historical utilization of the Partnership’s vessels towards the end of their useful lives. We also reviewed market reports and analyzed how the economic factors such as future demand and supply for shuttle tankers have been incorporated in the charter rates. We compared the estimated costs of future drydocking estimates to budgets and to historical drydocking costs adjusted for factors such as inflation and planned future installations.

Acquisition of KNOT Shuttle Tankers 34 AS

Description of the Matter

As disclosed in Note 21 to the consolidated financial statements, during December 2020, the Partnership completed its acquisition of KNOT Shuttle Tankers 34 AS. The primary asset acquired was the *Tove Knutsen* (the “*Tove*” or “vessel”) shuttle tanker. The transaction was accounted for as an asset acquisition.

Auditing the Partnership’s accounting for its acquisition of KNOT Shuttle Tankers 34 AS was complex due to the significant judgment and estimation in the Partnership’s determination of the fair value of the *Tove* of \$118 million. The Partnership used a discounted cash flow model to measure the fair value of the vessel. The significant assumptions used to estimate the fair value of the vessel included forecasted time charter rates, vessel useful life, and expected costs of drydockings.

How We Addressed the Matter in Our Audit

We obtained an understanding of the Partnership’s accounting for acquisitions and evaluated the design and tested the operating effectiveness of the controls over the Partnership’s significant inputs to the valuation of the acquired vessel. We also tested management’s review of significant assumptions to the fair value estimation.

To test the fair value allocated to the vessel, we performed audit procedures that included, among others, evaluating the competence and objectivity of the Partnership’s financial valuation advisor and the selected valuation methodology. We involved our valuation specialists to assist with our recalculation and assess accuracy of the discounted cash flow model used by the Partnership. We compared forecasted time charter rates with historical charter rates. We evaluated market and economic factors related to future demand and supply for shuttle tankers which were incorporated into forecasted charter rates. We evaluated the vessel useful life against recent transactions

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and to peer averages and we compared the expected costs of drydocking estimates to budgets and historical costs. We also evaluated the completeness and accuracy of the underlying supporting data and reconciled to supporting documentation and market information, where applicable.

/s/ Ernst & Young AS

We have served as the Partnership's auditor since 2013.

Oslo, Norway

March 18, 2021

Report of Independent Registered Public Accounting Firm

To the Unitholders and the Board of Directors of KNOT Offshore Partners LP

Opinion on Internal Control Over Financial Reporting

We have audited KNOT Offshore Partners LP's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, KNOT Offshore Partners LP (the Partnership) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2020 consolidated financial statements of the Partnership and our report dated March 18, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes 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 the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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 or procedures may deteriorate.

/s/ Ernst & Young AS

Oslo, Norway
March 18, 2021

KNOT OFFSHORE PARTNERS LP**Consolidated Statements of Operations****For the Years Ended December 31, 2020, 2019 and 2018****(U.S. Dollars in thousands, except per unit amounts)**

| | Year Ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Operating revenues: (Notes 2(e), 5 and 18) | | | |
| Time charter and bareboat revenues | \$ 278,581 | \$ 282,502 | \$ 278,191 |
| Loss of hire insurance recoveries (Notes 2(t) and 8) | — | — | 450 |
| Other income | 641 | 59 | 815 |
| Total revenues (Notes 2(e), 5, 6, 7 and 18) | <u>279,222</u> | <u>282,561</u> | <u>279,456</u> |
| Operating expenses: | | | |
| Vessel operating expenses (Notes 2(e) and 18) | 61,005 | 60,129 | 56,730 |
| Depreciation (Notes 2(k) and 13) | 89,743 | 89,844 | 88,756 |
| General and administrative expenses | 5,392 | 4,858 | 5,290 |
| Total operating expenses | <u>156,140</u> | <u>154,831</u> | <u>150,776</u> |
| Operating income | <u>123,082</u> | <u>127,730</u> | <u>128,680</u> |
| Finance income (expense): | | | |
| Interest income | 125 | 865 | 739 |
| Interest expense (Note 9(a)) | (31,645) | (50,735) | (49,956) |
| Other finance expense (Notes 2(f) and 9(b)) | (705) | (845) | (1,260) |
| Realized and unrealized gain (loss) on derivative instruments (Note 10) | (25,679) | (17,797) | 4,039 |
| Net gain (loss) on foreign currency transactions | 57 | (252) | (79) |
| Total finance expense | <u>(57,847)</u> | <u>(68,764)</u> | <u>(46,517)</u> |
| Income before income taxes | 65,235 | 58,966 | 82,163 |
| Income tax benefit (expense) (Notes 2(r) and 17) | (10) | (9) | 2 |
| Net income | <u>\$ 65,225</u> | <u>\$ 58,957</u> | <u>\$ 82,165</u> |
| Series A Preferred unitholders' interest in net income | \$ 7,200 | \$ 7,200 | \$ 7,200 |
| General Partner's interest in net income | 1,072 | 956 | 1,384 |
| Limited Partners' interest in net income | 56,953 | 50,801 | 73,581 |
| Earnings per unit (Basic): (Note 20) | | | |
| Common unit (basic) | \$ 1.74 | \$ 1.55 | \$ 2.25 |
| General Partner unit (basic) | \$ 1.74 | \$ 1.55 | \$ 2.25 |
| Earnings per unit (Diluted): (Note 20) | | | |
| Common unit (diluted) | \$ 1.74 | \$ 1.55 | \$ 2.22 |
| General Partner unit (diluted) | \$ 1.74 | \$ 1.55 | \$ 2.25 |

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, 2020, 2019 and 2018
(U.S. Dollars in thousands)

| | Year Ended December 31, | | |
|--|--------------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Net income | \$ 65,225 | \$ 58,957 | \$ 82,165 |
| Other comprehensive income, net of tax | — | — | — |
| Comprehensive income | <u>\$ 65,225</u> | <u>\$ 58,957</u> | <u>\$ 82,165</u> |

The accompanying notes are an integral part of these financial statements.

KNOT OFFSHORE PARTNERS LP
Consolidated Balance Sheets
As of December 31, 2020 and 2019
(U.S. Dollars in thousands)

| | <u>At December 31, 2020</u> | <u>At December 31, 2019</u> |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents (Notes 2(g) and 11) | \$ 52,583 | \$ 43,525 |
| Trade accounts receivable, less provision for expected credit loss of \$0 in 2020 and \$0 in 2019 (Notes 2(h) and 12(a)) | — | — |
| Amounts due from related parties (Note 18(d)) | 5,726 | 2,687 |
| Inventories (Note 2(i)) | 2,652 | 2,292 |
| Derivative assets (Notes 2(q), 10 and 11) | — | 920 |
| Other current assets (Notes 2(j) and 12(b)) | 5,511 | 3,386 |
| Total current assets | 66,472 | 52,810 |
| Long-term assets: | | |
| Vessels, net of accumulated depreciation (Notes 2(k), 2(m), 2(n), 13 and 18(f)) | 1,708,786 | 1,677,488 |
| Right-of-use assets (Notes 2(l) and 6) | 1,490 | 1,799 |
| Intangible assets, net (Notes 2(o) and 14(a)) | 681 | 1,286 |
| Derivative assets (Notes 2(q), 10 and 11) | — | 648 |
| Accrued income | 2,867 | 3,976 |
| Total long term assets | 1,713,824 | 1,685,197 |
| Total assets | \$ 1,780,296 | \$ 1,738,007 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable (Note 18(e)) | \$ 3,848 | \$ 2,730 |
| Accrued expenses (Note 15) | 5,380 | 6,617 |
| Current portion of long-term debt (Notes 11 and 16) | 184,188 | 83,453 |
| Current lease liabilities (Notes 2(l) and 6) | 652 | 572 |
| Current portion of derivative liabilities (Notes 2(q), 10 and 11) | 10,695 | 910 |
| Income taxes payable (Notes 2(r) and 17) | 86 | 98 |
| Current portion of contract liabilities (Notes 2(o) and 14(b)) | 1,518 | 1,518 |
| Prepaid charter (Note 2(s)) | 5,424 | 6,892 |
| Amount due to related parties (Note 18(d)) | 2,140 | 1,212 |
| Total current liabilities | 213,931 | 104,002 |
| Long-term liabilities: | | |
| Long-term debt (Notes 2 (p), 11 and 16) | 846,157 | 911,943 |
| Lease liabilities (Notes 2(l) and 6) | 838 | 1,227 |
| Derivative liabilities (Notes 2(q), 10 and 11) | 19,358 | 5,133 |
| Contract liabilities (Notes 2(o) and 14(b)) | 2,168 | 3,685 |
| Deferred tax liabilities (Notes 2(r) and 17) | 295 | 357 |
| Total long-term liabilities | 868,816 | 922,345 |
| Total liabilities | 1,082,747 | 1,026,347 |
| <i>Commitments and contingencies (Notes 2(t) and 19)</i> | | |
| Series A Convertible Preferred Units | 89,264 | 89,264 |
| Equity: | | |
| Partners' capital: | | |
| Common unitholders: 32,694,094 units issued and outstanding at December 31, 2020 and 2019. | 597,390 | 611,241 |
| General partner interest: 615,117 units issued and outstanding at December 31, 2020 and 2019. | 10,895 | 11,155 |
| Total partners' capital | 608,285 | 622,396 |
| Total liabilities and equity | \$ 1,780,296 | \$ 1,738,007 |

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, 2020, 2019 and 2018

(U.S. Dollars in thousands)

| | Partners' Capital | | Accumulated Other Comprehensive Income (Loss) | Total Partners' Capital | Series A Convertible Preferred Units |
|--|-------------------|-----------------------------|--|-------------------------------|---|
| | Common Units | General Partner Units | | | |
| <i>(U.S. Dollars in thousands)</i> | | | | | |
| Consolidated balance at | | | | | |
| December 31, 2017 | \$ 628,471 | \$ 11,479 | \$ — | \$ 639,950 | \$ 89,264 |
| Net income | 73,581 | 1,384 | — | 74,965 | 7,200 |
| Other comprehensive income | — | — | — | — | — |
| Cash distributions | (70,804) | (1,332) | — | (72,136) | (7,200) |
| Net proceeds from issuance of common units | (4) | — | — | (4) | — |
| Consolidated balance at | | | | | |
| December 31, 2018 | 631,244 | 11,531 | — | 642,775 | 89,264 |
| Net income | 50,801 | 956 | — | 51,757 | 7,200 |
| Other comprehensive income | — | — | — | — | — |
| Cash distributions | (70,804) | (1,332) | — | (72,136) | (7,200) |
| Consolidated balance at | | | | | |
| December 31, 2019 | 611,241 | 11,155 | — | 622,396 | 89,264 |
| Net income | 56,953 | 1,072 | — | 58,025 | 7,200 |
| Other comprehensive income | — | — | — | — | — |
| Cash distributions | (70,804) | (1,332) | — | (72,136) | (7,200) |
| Consolidated balance at | | | | | |
| December 31, 2020 | \$ 597,390 | \$ 10,895 | \$ — | \$ 608,285 | \$ 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, 2020, 2019 and 2018
(U.S. Dollars in thousands)

| <i>(U.S. Dollars in thousands)</i> | 2020 | 2019 | 2018 |
|---|------------------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Net income (1) | \$ 65,225 | \$ 58,957 | \$ 82,165 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Depreciation | 89,743 | 89,844 | 88,756 |
| Amortization of intangible assets and contract liabilities | (912) | (912) | (912) |
| Amortization of deferred revenue | — | — | (1,056) |
| Amortization of deferred debt issuance cost | 2,503 | 2,617 | 3,188 |
| Drydocking expenditure | (2,724) | (252) | (12,421) |
| Income tax expense | 10 | 9 | (2) |
| Income taxes paid | (87) | (132) | (190) |
| Unrealized (gain) loss on derivative instruments | 22,042 | 18,676 | (2,076) |
| Unrealized (gain) loss on foreign currency transactions | (507) | 44 | 45 |
| Changes in operating assets and liabilities | | | |
| Decrease (increase) in amounts due from related parties | (3,039) | (1,547) | (49) |
| Decrease (increase) in inventories | (225) | 152 | 55 |
| Decrease (increase) in other current assets | (1,865) | (912) | 3,256 |
| Decrease (increase) in accrued income | 1,108 | (168) | (2,114) |
| Increase (decrease) in trade accounts payable | 700 | (2,100) | (1,297) |
| Increase (decrease) in accrued expenses | (1,859) | 153 | (1,052) |
| Increase (decrease) prepaid charter | (1,469) | 1,121 | (3,154) |
| Increase (decrease) in amounts due to related parties | 597 | 142 | (4,496) |
| Net cash provided by operating activities | 169,241 | 165,692 | 148,646 |
| INVESTING ACTIVITIES | | | |
| Disposals (additions) to vessel and equipment | (339) | — | (117) |
| Acquisition of <i>Tove Knutsen</i> (net of cash acquired) | (21,094) | — | — |
| Acquisition of <i>Anna Knutsen</i> (net of cash acquired) | — | — | (15,376) |
| Net cash used in investing activities | (21,433) | — | (15,493) |
| FINANCING ACTIVITIES | | | |
| Proceeds from long-term debt | 33,000 | — | 497,779 |
| Repayment of long-term debt | (92,834) | (84,534) | (527,979) |
| Repayment of long-term debt from related parties | — | — | (22,535) |
| Payment of debt issuance cost | (90) | 21 | (5,301) |
| Cash distribution | (79,336) | (79,336) | (79,336) |
| Net proceeds from issuance of common units | — | — | (4) |
| Net cash used in financing activities | (139,260) | (163,848) | (137,376) |
| Effect of exchange rate changes on cash | 510 | (30) | (169) |
| Net increase (decrease) in cash and cash equivalents | 9,058 | 1,813 | (4,392) |
| Cash and cash equivalents at the beginning of the period | 43,525 | 41,712 | 46,104 |
| Cash and cash equivalents at the end of the period | \$ 52,583 | \$ 43,525 | \$ 41,712 |

(1) included in net income are interests paid amounting to \$31.0, \$49.0 and \$45.9 million as of December 31, 2020, 2019 and 2018, respectively.

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.

As of December 31, 2020, the Partnership had a fleet of seventeen 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*, the *Brasil Knutsen*, the *Anna Knutsen* and the *Tove 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 2021 and 2027. Please see Note 6—Operating Leases.

The consolidated financial statements have been prepared assuming that the Partnership will continue as a going concern.

On December 31, 2020, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT Shuttle Tankers 34 AS, the company that owns the *Tove Knutsen*, from KNOT. The acquisition of the *Tove Knutsen* was accounted for as an acquisition of an asset. As a result, the Partnership has recorded the results of operations of the *Tove Knutsen* in its consolidated statement of operations from December 31, 2020. See Note 21—Acquisitions

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 March 18, 2021, the Partnership believes that its current resources, including the undrawn portion of its revolving credit facilities of \$55 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 on consolidation.

The consolidated financial statements include the financial statements of the entities listed in Note 4—Subsidiaries.

(b) Business Combinations and Asset Acquisitions

Business combinations are accounted for under the purchase method of accounting. 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. 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.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

Dependent on the facts and circumstances, the assessment of a transaction may be considered the acquisition of an asset, when substantially all of the fair value of assets acquired is concentrated in a single identifiable asset, rather than a business combination. Asset acquisitions are accounted for by allocating the cost of the acquisition to the individual assets acquired and liabilities assumed on a relative fair value basis. Acquisition related costs are capitalized as a component of the assets acquired. See Note 21- Acquisitions.

(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 and income taxes.

(e) Revenues and Operating Expenses

The Partnership's time charter contracts include both a lease component, consisting of the lease of the vessel, and non-lease component, consisting of operation of the vessel for the customers. The bareboat element is accounted for as an operating lease on a straight-line basis over the term of the charter, while the service element consisting of the operation of the vessel is recognized over time as the services are delivered. Revenue from time charters is recognized net of any commissions and 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 bareboat charters, the Partnership provides a specified Vessel for a fixed period of time at a specified day rate and the Partnership recognizes revenues from bareboat charters as operating leases on a straight-line basis over the term of the charter, net of any commissions. Where the term of the contract is based on the duration of a single voyage, the partnership evaluates whether the voyage contain leases and, if so, recognizes lease revenue as described above, and if not, recognizes revenue in accordance with ASC 606 upon the satisfaction of the performance obligations in the contract, i.e, when the underlying transportation service is provided to the customer.

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.

The Partnership directly employs one onshore employee and no seagoing employees. Related parties have provided the management services for the Vessels and employ the crews that work on the Vessels. The Partnership is not liable for any pension or post-retirement benefits. See Note 18—Related Party Transactions.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

(f) Financial Income (Expense)

Other finance expense includes external bank fees, commitment fees paid on undrawn revolving credit facility and guarantee commissions paid to external 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) 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. The allowance for expected credit losses is the Partnership's best estimate of the expected credit losses over the remaining lives of the assets. Expected credit losses are estimated using historical credit loss experience, relevant available information, from internal and external sources, relating to current conditions and reasonable and supportable forecasts of economic conditions impacting the collectability of the assets. There was no allowance for expected credit loss or amounts written off against the allowance as of December 31, 2020 and 2019. The Partnership does not have any off-balance-sheet credit exposure related to its customers.

(i) 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.

(j) Other Current Assets

Other current assets principally consist of prepaid expenses and other receivables.

(k) 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 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 dry-docking 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 charter-party bears the cost of any drydocking.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

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.

(l) Right-of-use assets and lease liabilities

The Partnership assesses whether a contract contains a lease at inception of the contract. The assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Partnership obtains substantially all the economic benefits from the use of that asset, and whether the Partnership has the right to direct the use of the asset. The Partnership does not separate lease components from non-lease components as lessee. The Partnership recognizes a right-of-use asset and a lease liability at the lease commencement date, except for short-term leases of 12 months or less, which are expensed on a straight-line basis over the lease term.

(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) Intangibles

Intangible assets represent contractual rights for charters obtained in connection with business and asset 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.

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)**

The contract related intangible assets and liabilities and their amortization periods at acquisition dates are as follows:

| Intangible category | Amortization Period |
|--|----------------------------|
| 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 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.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

(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. See Note 17—Income Taxes.

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

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.

(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 19—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.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

(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 June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (or ASU 2016-13). ASU 2016-13 replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The new guidance is applicable to financial assets measured at amortized cost, including trade receivables, contract assets and net investment in financing leases and was effective for the Partnership from January 1, 2020, with a modified-retrospective approach. The adoption of ASU 2016-13 did not have a material impact on the 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 March 2020, the FASB issued ASU 2020-04 *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The update provides temporary optional expedients and exceptions to the guidance in US GAAP on contract modifications and hedge accounting, to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. For all types of hedging relationships, the guidance allows an entity to change the reference rate and other critical terms related to reference rate reform without having to dedesignate the relationship. The guidance is effective upon issuance through December 31, 2022. Although the Partnership does not apply hedge accounting, the Partnership has debt and interest rate swaps that reference LIBOR. The Partnership is evaluating the impact of the guidance on the consolidated financial statements.

Other recently issued accounting pronouncements are not expected to materially impact the Partnership.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

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 incentive distribution rights ("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 OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

- 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;
- 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.

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)****4) Subsidiaries**

The following table lists the Partnership's subsidiaries and their purpose as of December 31, 2020.

| 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> |
| KNOT Shuttle Tankers 30 AS | Norway | Owner of the <i>Anna Knutsen</i> |
| KNOT Shuttle Tankers 34 AS | Norway | Owner of the <i>Tove Knutsen</i> |

5) Significant Risks and Uncertainties Including Business and Credit Concentrations

Each of the Vessels is currently employed under long-term fixed rate charters, which mitigates earnings risk, except for *Windsor Knutsen* and, as of April 9, 2021, *Bodil Knutsen*. 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 we may be able to achieve might vary over time. The market today is mainly dependent upon four factors: the supply of vessels, the demand for oil, the long-term oil price outlook and overall growth in the world economy. The general supply of vessels is impacted by the number of newbuilds, the removal of older vessels from the market and legislation that may limit the use of older vessels or new standards for vessels used in specific trades.

As of December 31, 2020, 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, 2020, 2019 and 2018.

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)**

The following table presents time charter and bareboat revenues and percentage of revenues for material customers that accounted for more than 10% of the Partnership's revenues during the years ended December 31, 2020, 2019 and 2018. All of these customers are subsidiaries of major international oil companies.

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | | | | |
|--|-------------------------|------|-----------|------|-----------|------|
| | 2020 | | 2019 | | 2018 | |
| Eni Trading and Shipping S.p.A. | \$ 44,175 | 16 % | \$ 44,610 | 16 % | \$ 43,955 | 16 % |
| Fronape International Company, a subsidiary of Petrobras Transporte S.A. | 45,235 | 16 % | 45,116 | 16 % | 45,115 | 17 % |
| Repsol Sinopec Brasil, B.V., a subsidiary of Repsol Sinopec Brasil, S.A. | 33,947 | 12 % | 36,346 | 13 % | 36,978 | 13 % |
| Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell | 76,959 | 28 % | 66,199 | 23 % | 81,816 | 29 % |
| Galp Sinopec Brasil Services BV | 35,684 | 13 % | 35,541 | 13 % | 30,029 | 11 % |

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***Revenues***

The Partnership's primary source of revenues is chartering its shuttle tankers to its customers. The Partnership uses two types of contracts, time charter contracts and bareboat charter contracts. The Partnership's time-charter contracts include both a lease component, consisting of the bareboat element of the contract, and non-lease component, consisting of operation of the vessel for the customers, which includes 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.

The following table presents the Partnership's revenues by time charter and bareboat charters and other revenues for the years ended December 31, 2020, 2019 and 2018:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | |
|---|-------------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| Time charter revenues (service element included) | \$ 233,346 | \$ 237,387 | \$ 233,076 |
| Bareboat revenues | 45,235 | 45,115 | 45,115 |
| Other revenues (loss of hire insurance recoveries and other income) | 641 | 59 | 1,265 |
| Total revenues | <u>\$ 279,222</u> | <u>\$ 282,561</u> | <u>\$ 279,456</u> |

As a result of the revised guidance on leasing, the lessor accounting did not change. See Note 2(1)—Right-of-use assets and lease liabilities.

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)**

As of December 31, 2020, the minimum contractual future revenues to be received from time charters and bareboat charters during the next five years and thereafter are as follows (including service element of the time charter, but excluding unexercised customer option periods):

| <i>(U.S. Dollars in thousands)</i> | |
|------------------------------------|-------------------|
| 2021 | 264,937 |
| 2022 | 184,259 |
| 2023 | 99,805 |
| 2024 | 83,959 |
| 2025 | 58,366 |
| 2026 and thereafter | 46,775 |
| Total | <u>\$ 738,101</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, 2020 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 April 2021 with Equinor Shipping Inc., a subsidiary of Equinor ASA;
- 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. In March 2019, the time charter contract was suspended until April 2020. During the suspension period, the *Windsor Knutsen* operated under a time charter contract with Knutsen Shuttle Tankers Pool AS that ended in April 2020, when it was redelivered to Shell. In October 2020, Shell sent its notice of redelivery, which resulted in the expiration of the charter. The *Windsor Knutsen* was redelivered on December 7, 2020. It was expected that the vessel would then undertake a number of short-term voyage contracts when the vessel reported a crack in its main engine block on December 12, 2020 and the vessel was placed off-hire. The Partnership's hull and machinery insurance is expected to cover the cost of repairs and loss of hire insurance is expected to provide income at approximately the level earned during the vessel's prior long-term charter, excepting a 14-day deductible period under the policy, up to and until the vessel is ready to return to service. Based on lead times for the manufacturing of necessary parts, logistics and the repair itself, the Partnership currently anticipates that the vessel will return to service in or around June 2021.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

- 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, B.V. a subsidiary of Repsol Sinopec Brasil, S.A. (“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 2022 with Eni Trading and Shipping S.p.A. (“ENI”), with options to extend until August 2025;
- the *Torill Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in November 2022 with ENI, with options to extend until November 2024;
- 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 Vår Energi Marine AS, a Norwegian subsidiary of Vår Energi (“Vår”), 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. The vessel will commence on a new 3-year time charter contract with a major oil company in 2023;
- 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. The vessel will commence on a new 3-year time charter contract with a major oil company in 2023;
- 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. The vessel will commence on a new 3-year time charter contract with a major oil company in 2023;
- 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; and
- The *Anna Knutsen*, a shuttle tanker built in 2017 that is currently operating under a time charter that expires in the first quarter of 2022 with Galp, with options to extend until the first quarter of 2028.
- The *Tove Knutsen*, a shuttle tanker built in 2020 that is currently operating under a time charter that expires in the fourth quarter of 2027 with Equinor, with options to extend until the fourth quarter of 2040.

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)*****Lease obligations***

The Partnership does not have any material leased assets but has some leased equipment on operational leases on the various ships operating on time charter contracts. Consequently, adoption of the new standard resulted in recording a right-of-use asset and a lease liability on the consolidated balance sheet for operating leases of \$2.3 million as of January 1, 2019 using the portfolio approach. There was no cumulative effect adjustment to retained earnings of initially applying the standard related to the lessee accounting. As of December 31, 2020, the right-of-use asset and lease liability for operating leases was \$1.5 million and are presented as separate line items on the balance sheets. The operating lease cost and corresponding cash flow effect for 2020 was \$0.6 million. As of December 31, 2020, the weighted average discount rate for the operating leases for the portfolio was 4.8% and was determined using the expected incremental borrowing rate for a loan facility of similar term. The *Tove Knutsen* leased equipment was treated as a separate lease agreement and as of December 31, 2020, the weighted average discount rate for the operating lease was 2.3% and was determined using the expected incremental borrowing rate for a loan facility of similar term. As of December 31, 2020, the weighted average remaining lease term of the lease is 4.8 years and 2.0 years for the portfolio.

A maturity analysis of the Partnership's lease liabilities from leased-in equipment as of December 31, 2020 is as follows:

| <i>(U.S. Dollars in thousands)</i> | |
|---|----------|
| 2021 | 703 |
| 2022 | 703 |
| 2023 | 58 |
| 2024 | 58 |
| 2025 | 44 |
| Total | \$ 1,566 |
| Less imputed interest | 76 |
| Carrying value of operating lease liabilities | \$ 1,490 |

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, 2020, the Partnership's fleet operated under twelve time charters and four bareboat charters, at December 31, 2019 and at December 31, 2018, the Partnership's fleet operated under twelve 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***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 were 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 December 31, 2018, the Partnership recorded \$0.45 million for loss of hire which was recorded as a component of total revenues since day rates are recovered under the terms of the policy.

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)**

For the year ended December 31, 2017, the Partnership recorded \$2.40 million to vessel operating expense as an estimate of the cost of repairs of the controllable pitch propeller. During 2018, an additional repair cost of \$0.15 million was recorded to vessel operating expenses. As of December 31, 2018, the Partnership had received payments and recorded \$2.25 million for hull and machinery repairs, resulting in a net expense of \$0.30 million. See Note 19— Commitments and Contingencies.

9) 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, 2020, 2019 and 2018:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | |
|---|--------------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Interest expense | \$ 29,142 | \$ 48,118 | \$ 46,768 |
| Amortization of debt issuance cost and fair value of debt assumed | 2,503 | 2,617 | 3,188 |
| Total interest cost | <u>\$ 31,645</u> | <u>\$ 50,735</u> | <u>\$ 49,956</u> |

(b) Other Finance Expense

The following table presents the components of other finance expense for the years ended December 31, 2020, 2019 and 2018:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | |
|------------------------------------|--------------------------------|---------------|-----------------|
| | 2020 | 2019 | 2018 |
| Bank fees, charges | \$ 441 | \$ 597 | \$ 551 |
| Guarantee costs | — | — | 403 |
| Commitment fees | 264 | 248 | 306 |
| Total other finance expense | <u>\$ 705</u> | <u>\$ 845</u> | <u>\$ 1,260</u> |

10) 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.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

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, 2020 and 2019, 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 \$516.2 million and \$561.8 million, respectively. As of December 31, 2020 and 2019 the carrying amount of the interest rate swaps contracts were net liability of \$30.1 million and net liability of \$4.7 million, respectively. See Note 11—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, 2020 and 2019, 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 nil million and NOK 46.1 million, respectively. As of December 31, 2020 and 2019, the carrying amount of the Partnership's foreign exchange forward contracts was a net asset of \$nil and a net asset of \$0.2 million, respectively. See Note 11—Fair Value Measurements.

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)**

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, 2020, 2019 and 2018:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | |
|---|--------------------------------|--------------------|-----------------|
| | 2020 | 2019 | 2018 |
| Realized gain (loss): | | | |
| Interest rate swap contracts | \$ (3,528) | \$ 3,812 | \$ 1,180 |
| Foreign exchange forward contracts | (109) | (2,933) | 1,084 |
| Total realized gain (loss): | (3,637) | 879 | 2,264 |
| Unrealized gain (loss): | | | |
| Interest rate swap contracts | (21,795) | (20,663) | 4,429 |
| Foreign exchange forward contracts | (247) | 1,987 | (2,654) |
| Total unrealized gain (loss): | (22,042) | (18,676) | 1,775 |
| Total realized and unrealized gain (loss) on derivative instruments: | \$ (25,679) | \$ (17,797) | \$ 4,039 |

11) 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, 2020 and 2019. 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, 2020 | | December 31, 2019 | |
|--|--------------------------|-------------------|--------------------------|-------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 52,583 | \$ 52,583 | \$ 43,525 | \$ 43,525 |
| Current derivative assets: | | | | |
| Interest rate swap contracts | — | — | 674 | 674 |
| Foreign exchange forward contracts | — | — | 246 | 246 |
| Non-current derivative assets: | | | | |
| Interest rate swap contracts | — | — | 648 | 648 |
| Financial liabilities: | | | | |
| Current derivative liabilities: | | | | |
| Interest rate swap contracts | 10,695 | 10,695 | 910 | 910 |
| Non-current derivative liabilities: | | | | |
| Interest rate swap contracts | 19,358 | 19,358 | 5,133 | 5,133 |
| Long-term debt, current and non-current | 1,036,118 | 1,036,118 | 1,002,813 | 1,002,813 |

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 \$5.8 million and \$7.4 million as of December 31, 2020 and 2019, respectively. The carrying value of trade accounts receivable, trade accounts payable and amounts due from/to related parties approximate their fair value.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

The fair values of the financial instruments shown in the above table as of December 31, 2020 and 2019 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.

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, 2020 and 2019 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 4.3 years and 4.0 years, as of December 31, 2020 and 2019, respectively), (2) the notional amount of the swap contract (ranging from \$7.0 million to \$40.1 million as of December 31, 2020 and ranging from \$8.5 million to \$50.0 million as of December 31, 2019), discount rates interpolated based on relevant LIBOR swap curves; and (3) the rate on the fixed leg of the swap contract (rates ranging from 0.71% to 2.90% for the contracts as of December 31, 2020 and rates ranging from 1.38% to 2.90% for the contracts as of December 31, 2019).
- *Long-term debt:* With respect to long-term debt measurements, the Partnership uses market interest rates and adjusts for risks such as 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.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

(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, 2020 and 2019:

| | Fair Value Measurements at Reporting Date Using | | | |
|--|--|--|---|--|
| | Carrying Value December 31, 2020 | 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 | \$ 52,583 | \$ 52,583 | \$ — | \$ — |
| Financial liabilities: | | | | |
| <i>Current derivative liabilities:</i> | | | | |
| Interest rate swap contracts | 10,695 | — | 10,695 | — |
| <i>Non-current derivative liabilities:</i> | | | | |
| Interest rate swap contracts | 19,358 | — | 19,358 | — |
| Long-term debt, current and non-current | 1,036,118 | — | 1,036,118 | — |

| | Fair Value Measurements at Reporting Date Using | | | |
|--|--|--|---|--|
| | Carrying Value December 31, 2019 | 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 | \$ 43,525 | \$ 43,525 | \$ — | \$ — |
| <i>Current derivative assets:</i> | | | | |
| Interest rate swap contracts | 674 | — | 674 | — |
| Foreign exchange forward contracts | 246 | — | 246 | — |
| <i>Non-current derivative assets:</i> | | | | |
| Interest rate swap contracts | 648 | — | 648 | — |
| Financial liabilities: | | | | |
| <i>Current derivative liabilities:</i> | | | | |
| Interest rate swap contracts | 910 | — | 910 | — |
| <i>Non-current derivative liabilities:</i> | | | | |
| Interest rate swap contracts | 5,133 | — | 5,133 | — |
| Long-term debt, current and non-current | 1,002,813 | — | 1,002,813 | — |

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.

12) Trade Accounts Receivable and Other Current Assets

(a) Trade Accounts Receivable

Trade accounts receivable are presented net of provisions for expected credit loss. As of December 31, 2020 and 2019, there was no trade receivables and no provision for expected credit loss.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

(b) Other Current Assets

Other current assets consist of the following:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | |
|------------------------------------|----------------------------|-----------------|
| | 2020 | 2019 |
| Refund of value added tax | \$ 1,429 | \$ 1,429 |
| Prepaid expenses | 1,050 | 1,014 |
| Other receivables | 3,032 | 943 |
| Total other current assets | <u>\$ 5,511</u> | <u>\$ 3,386</u> |

13) Vessels and Equipment

As of December 31, 2020 and 2019, Vessels with a book value of \$1,709 million and \$1,677 million, respectively, are pledged as security for the Partnership's long-term debt. See Note 16—Long-Term Debt.

| <i>(U.S. Dollars in thousands)</i> | Vessels & equipment | Accumulated depreciation | Net Vessels |
|------------------------------------|------------------------|-----------------------------|---------------------|
| Vessels, December 31, 2018 | \$ 2,130,423 | \$ (363,343) | \$ 1,767,080 |
| Additions | — | — | — |
| Drydock costs | 252 | — | 252 |
| Disposals | (1,663) | 1,663 | — |
| Depreciation for the year | — | (89,844) | (89,844) |
| Vessels, December 31, 2019 | \$ 2,129,012 | \$ (451,524) | \$ 1,677,488 |
| Additions | 115,277 | — | 115,277 |
| Drydock costs | 5,764 | — | 5,764 |
| Disposals | — | — | — |
| Depreciation for the period | — | (89,743) | (89,743) |
| Vessels, December 31, 2020 | \$ 2,250,053 | \$ (541,267) | \$ 1,708,786 |

Drydocking activity for the years ended December 31, 2020 and 2019 is summarized as follows:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | |
|---|----------------------------|------------------|
| | 2020 | 2019 |
| Balance at the beginning of the year | \$ 18,523 | \$ 25,568 |
| Costs incurred for dry docking | 2,724 | 252 |
| Costs allocated to drydocking as part of acquisition of asset | 3,040 | — |
| Drydock amortization | (7,181) | (7,297) |
| Balance at the end of the year | \$ 17,106 | \$ 18,523 |

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

14) 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, 2018 | \$ 911 | \$ 980 | \$ 1,891 |
| Additions | — | — | — |
| Amortization for the year | (303) | (302) | (605) |
| Intangibles, December 31, 2019 | \$ 608 | \$ 678 | \$ 1,286 |
| Additions | — | — | — |
| Amortization for the period | (303) | (302) | (605) |
| Intangibles, December 31, 2020 | \$ 305 | \$ 376 | \$ 681 |

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.

The estimated future amortization of intangible assets at December 31, 2020 is as follows:

| <i>(U.S. Dollars in thousands)</i> | |
|------------------------------------|---------------|
| 2021 | \$ 605 |
| 2022 | 75 |
| Total | \$ 681 |

(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 of December 31, 2018 | Amortization for the year ended December 31, 2019 | Balance of December 31, 2019 | Amortization for the year ended December 31, 2020 | Balance of December 31, 2020 |
|------------------------------------|------------------------------------|---|------------------------------------|---|------------------------------------|
| Contract liabilities: | | | | | |
| Unfavourable contract rights | \$ (6,721) | \$ 1,518 | \$ (5,203) | \$ 1,517 | \$ (3,686) |
| Total amortization income | | <u>\$ 1,518</u> | | <u>\$ 1,517</u> | |

Accumulated amortization for contract liabilities was \$14.5 million and \$13.0 million as of December 31, 2020 and 2019, respectively.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

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> | 2021 | 2022 | 2023 | 2024 | 2025 |
|------------------------------------|------------|------------|----------|------|------|
| Contract liabilities: | | | | | |
| Unfavourable contract rights | \$ (1,518) | \$ (1,518) | \$ (650) | \$ — | \$ — |

15) Accrued Expenses

The following table presents accrued expenses as of December 31, 2020 and 2019:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | |
|------------------------------------|----------------------------|-----------------|
| | 2020 | 2019 |
| Operating expenses | \$ 883 | \$ 855 |
| Interest expenses | 2,276 | 4,049 |
| Other expenses | 2,221 | 1,713 |
| Total accrued expenses | <u>\$ 5,380</u> | <u>\$ 6,617</u> |

16) Long-Term Debt

Long-term debt as of December 31, 2020 and 2019, consisted of the following:

| <i>(U.S. Dollars in thousands)</i> | Vessel | December 31, 2020 | December 31, 2019 |
|--|--|----------------------|----------------------|
| | <i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen, Fortaleza Knutsen, Recife Knutsen, Ingrid Knutsen</i> | | |
| \$320 million loan facility | | \$ 252,245 | \$ 282,360 |
| \$55 million revolving credit facility | | 34,279 | 26,279 |
| Hilda loan facility | <i>Hilda Knutsen</i> | 78,462 | 84,615 |
| Torill loan facility | <i>Torill Knutsen</i> | 81,667 | 88,333 |
| \$172.5 million loan facility | <i>Dan Cisne, Dan Sabia</i> | 58,340 | 70,739 |
| Raquel loan facility | <i>Raquel Knutsen</i> | 52,725 | 57,955 |
| Tordis loan facility | <i>Tordis Knutsen</i> | 75,871 | 80,931 |
| Vigdis loan facility | <i>Vigdis Knutsen</i> | 77,136 | 82,196 |
| Lena loan facility | <i>Lena Knutsen</i> | 75,950 | 80,850 |
| Brasil loan facility | <i>Brasil Knutsen</i> | 50,997 | 57,281 |
| Anna loan facility | <i>Anna Knutsen</i> | 62,196 | 66,274 |
| Tove loan facility | <i>Tove Knutsen</i> | 86,250 | — |
| \$25 million revolving credit facility with NTT | | 25,000 | 25,000 |
| \$25 million revolving credit facility with Shinsei | | 25,000 | — |
| Total long-term debt | | \$ 1,036,118 | \$ 1,002,813 |
| Less: current installments | | 186,723 | 85,945 |
| Less: unamortized deferred loan issuance costs | | 2,535 | 2,492 |
| Current portion of long-term debt | | 184,188 | 83,453 |
| Portion due after one year | | 849,395 | 916,868 |
| Less: unamortized deferred loan issuance costs | | 3,238 | 4,925 |
| Long-term debt, less current installments, and unamortized deferred loan issuance costs | | \$ 846,157 | \$ 911,943 |

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)**

The Partnership's outstanding debt of \$1,036.1 million as of December 31, 2020 is repayable as follows :

| <i>(U.S. Dollars in thousands)</i> | Period repayment | Balloon repayment | Total |
|------------------------------------|-------------------------|--------------------------|---------------------|
| 2021 | 90,912 | 95,811 | 186,723 |
| 2022 | 75,577 | 236,509 | 312,086 |
| 2023 | 59,902 | 235,185 | 295,087 |
| 2024 | 18,240 | 123,393 | 141,633 |
| 2025 | 4,583 | 96,006 | 100,589 |
| 2026 and thereafter | — | — | — |
| Total | \$ 249,214 | \$ 786,904 | \$ 1,036,118 |

As of December 31, 2020, the interest rates on the Partnership's loan agreements were LIBOR plus a fixed margin ranging from 1.75% to 2.4%.

\$320 Million Term Loan Facility and \$55 Million Revolving Credit Facility

In September 2018, the Partnership's subsidiaries which own the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid Knutsen* ("the Vessels"), entered into new senior secured credit facilities (the "Multi-vessels Facility") in order to refinance their existing long term bank debt. The Multi-vessels Facility consists of a term loan of \$320 million and a \$55 million revolving credit facility. The term loan is repayable in 20 consecutive quarterly installments, with a final payment at maturity in September 2023 of \$177 million, which includes the balloon payment and last quarterly installment. The term loan bears interest at a rate per annum equal to LIBOR plus a margin of 2.125%. The revolving credit facility will mature in September 2023, and bears interest at LIBOR plus a margin of 2.125%. There is a commitment fee of 0.85% payable on the undrawn portion of the revolving credit facility. The loans are guaranteed by the Partnership and secured by mortgages on the Vessels.

The Vessels, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Multi-vessel facility. The Partnership and the borrowers (except for the Partnership subsidiary that owns the *Recife Knutsen* and the *Fortaleza Knutsen*) are guarantors, and the Multi-vessels Facility is secured by vessel mortgages on the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid Knutsen*.

The Multi-vessels Facility contains the following financial covenants:

- Positive working capital of the borrowers and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 12 additional vessels in excess of 8 vessels;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Multi-vessels Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the aggregate market value of the vessels is less than 125% of the outstanding balance under the Multi Vessel Facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrowers and the guarantors were in compliance with all covenants under this facility.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

Hilda Loan Facility

In May 2017, the Partnership's subsidiary, Knutsen 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 final payment at maturity of \$58.5 million, which includes the balloon payment and last quarterly installment. 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 Hilda Facility contains the following primary financial covenants:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1 million for each additional vessel acquired by the Partnership in excess of eight vessels 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 Hilda Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of the vessels is less than 110% of the outstanding loan under the Hilda Facility for the first two years, 120% for the third and fourth year and 125% thereafter, upon a total loss or sale of the vessel and customary events of default. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility.

Torill Loan Facility

In January 2018, the Partnership's subsidiary, Knutsen Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, entered into a new \$100 million senior secured term loan facility (the "Torill Facility") with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent. The Torill Facility replaced a \$117 million secured loan facility, which was due to be paid in full in October 2018. The Torill Facility is repayable in 24 consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The 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 Torill Facility contains the following primary financial covenants:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

The Torill Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of the vessel is less than 110% of the outstanding loan under the Torill Facility for the first two years, 120% for the third and fourth year and 125% thereafter, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrower and the guarantor were in compliance with all covenants under this facility.

\$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:

- Minimum liquidity of the Partnership of \$15 million plus increments of \$1 million for each additional vessel acquired by the Partnership in excess of eight vessels 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 if the market value of either of the vessels are less than 125% of the respective loan, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrowers and the guarantor 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 was repayable in quarterly installments with a final balloon payment of \$30.5 million due at maturity in March 2025. The Raquel Facility bore interest at an annual rate equal to LIBOR plus a margin of 2.0%. The facility was secured by a vessel mortgage on the *Raquel Knutsen*. The *Raquel Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Raquel Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility. On January 21, 2021, the Raquel Facility was repaid in full.

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Notes to Consolidated Financial Statements (Continued)

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:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- 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 if the aggregate market value of the *Tordis Knutsen*, *Vigdis Knutsen* and *Lena Knutsen* is less than 130% of the outstanding balance under the Tordis Facility, Vigdis Facility and Lena Facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, 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:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- 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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Notes to Consolidated Financial Statements (Continued)

The Vigdis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the aggregate market value of the *Tordis Knutsen*, *Vigdis Knutsen* and *Lena Knutsen* is less than 130% of the outstanding balance under the Tordis Facility, Vigdis Facility and Lena Facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, 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:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- 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 if the aggregate market value of the *Tordis Knutsen*, *Vigdis Knutsen* and *Lena Knutsen* is less than 130% of the outstanding balance under the Tordis Facility, Vigdis Facility and Lena Facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, 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 \$40.0 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:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to a total of eight (8) vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to a total of twelve (12) vessels;

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Notes to Consolidated Financial Statements (Continued)

- 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 if the market value of the vessel is less than 125% of the outstanding loan first four years and 135% thereafter, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, 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:

- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- 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 if the market value of the vessel is less than 130% of the outstanding loan, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility.

Tove Loan Facility

In July 2019, KNOT Shuttle Tankers 34 AS, the subsidiary owning the *Tove Knutsen*, as the borrower, entered into a secured loan facility (the "Tove Facility"). The Tove Facility is repayable in quarterly installments with a final balloon payment of \$65.5 million due at maturity in September 2025. The Tove Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.75%. The facility is secured by a standard security package for a vessel financing, including a vessel mortgage on the *Tove Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds. The Partnership and KNOT Shuttle Tankers AS guarantee the Tove Facility.

The Tove Facility contains the following financial covenants:

- Positive working capital of the Partnership;

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Notes to Consolidated Financial Statements (Continued)

- Minimum liquidity of the Partnership of \$15 million plus increments of \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract up to 8 vessels and \$1 million for each owned vessel with less than 12 months remaining tenor on its employment contract in excess of 8 vessels;
- Minimum book equity ratio for the Partnership of 30%; and
- Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Tove Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of vessel falls below 110% of the outstanding loan, upon total loss or sale of the vessel and customary events of default. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility.

\$25 Million Revolving Credit Facility with NTT

In June 2019, KNOT Shuttle Tankers AS extended the maturity of its unsecured revolving credit facility of \$25 million with NTT Finance Corporation. The facility will mature in August 2021, 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.

\$25 Million Revolving Credit Facility with Shinsei

In November 2020, KNOT Shuttle Tankers AS entered into an unsecured revolving credit facility with Shinsei Bank. The facility will mature in November 2023, bears interest at LIBOR plus a margin of 1.75% and has a commitment fee of 0.7% on the undrawn portion of the facility.

17) 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, 2020, 2019 and 2018. 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 amount of tonnage tax included in operating expenses for each of the years ended December 31, 2020, 2019 and 2018 was \$0.2 million. 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, 2020, 2019 and 2018 are as follows:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | |
|------------------------------------|--------------------------------|---------------|-------------|
| | 2020 | 2019 | 2018 |
| Current tax benefit (expense) | \$ (10) | \$ (9) | \$ (18) |
| Deferred tax benefit (expense) | — | — | 20 |
| Income tax benefit (expense) | <u>\$ (10)</u> | <u>\$ (9)</u> | <u>\$ 2</u> |

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Notes to Consolidated Financial Statements (Continued)

(b) Taxation

Income taxes attributable to income from continuing operations was an income tax expense of \$10,000 for the year ended December 31, 2020 and an income tax expense of \$9,000 for the year ended December 31, 2019 and a tax benefit of \$2,000 for the year ended December 31, 2018, and differed from the amounts computed by applying the Norwegian and the UK ordinary income tax rate of 22% and 19% in 2020, 22% and 20% in 2019, and 23% and 20% in 2018, to pretax net income as a result of the following:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | |
|--|--------------------------------|---------------|-------------|
| | 2020 | 2019 | 2018 |
| Income tax benefit (expense) at Norwegian tonnage tax regime | \$ — | \$ — | \$ 20 |
| Income tax benefit (expense) within UK | (10) | (9) | (18) |
| Income tax benefit (expense) | <u>\$ (10)</u> | <u>\$ (9)</u> | <u>\$ 2</u> |
| Effective tax rate | <u>0 %</u> | <u>0 %</u> | <u>0 %</u> |

(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, 2020 and 2019 are presented below:

| <i>(U.S. Dollars in thousands)</i> | As of December 31, | |
|---|---------------------------|---------------|
| | 2020 | 2019 |
| Deferred tax assets: | | |
| Financial derivatives | \$ — | \$ (3) |
| Financial loss carry forwards for tonnage tax | 20,863 | 17,331 |
| Total deferred tax asset | 20,863 | 17,328 |
| Less valuation allowance | (20,863) | (17,328) |
| Net deferred tax asset | <u>—</u> | <u>—</u> |
| Deferred tax liabilities: | | |
| Entrance tax | 295 | 357 |
| Total deferred tax liabilities | <u>\$ 295</u> | <u>\$ 357</u> |

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, | |
|--------------------------------------|---------------------------|---------------|
| | 2020 | 2019 |
| Current deferred tax asset | \$ — | \$ — |
| Non-current deferred tax liabilities | 295 | 357 |
| Net deferred tax liabilities | <u>\$ 295</u> | <u>\$ 357</u> |

Changes in the net deferred tax liabilities at December 31, 2020 and 2019 are presented below:

| <i>(U.S. Dollars in thousands)</i> | As of December 31, | |
|--|---------------------------|---------------|
| | 2020 | 2019 |
| Net deferred tax liabilities at January 1, | \$ 357 | \$ 453 |
| Change in temporary differences | (72) | (90) |
| Translation differences | 10 | (6) |
| Net deferred tax liabilities at December 31, | <u>\$ 295</u> | <u>\$ 357</u> |

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 \$20.9 million and

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Notes to Consolidated Financial Statements (Continued)

\$17.3 million as of December 31, 2020 and 2019, 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, 2020, 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. At September 30, 2017 the Partnership acquired the shares in the subsidiary that owns the *Lena Knutsen*, and recognized an additional entrance tax of \$0.1 million. 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. At December 31, 2018 the entrance tax had declined to approximately \$0.6 million due to paid entrance tax, change in tax rate and translation effects. At December 31, 2019 the entrance tax had declined to approximately \$0.4 million due to paid entrance tax, change in tax rate and translation effects. At December 31, 2020 the entrance tax had declined to approximately \$0.4 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 the Norwegian corporate tax rate of 22% for 2020 and 2019, and the deferred tax liabilities, also mainly related to the entrance tax, are calculated based on a tax rate of 22% effective as from January 1, 2021 and January 1, 2020, respectively. Income tax expense within the UK of \$10,233 and \$8,754 for 2020 and 2019, respectively, was calculated by multiplying the tax basis with the UK tax rate of 19% in 2020 and 20% in 2019.

As of December 31, 2020, the total income taxes payable are estimated to be \$0.1 million and consist of payable entrance tax and ordinary UK corporation tax. As of December 31, 2019, the total income taxes payable were estimated to be \$0.1 million and consisted of payable entrance tax and ordinary UK corporation tax.

As of December 31, 2020, approximately \$0.08 million of the estimated entrance tax of \$0.38 million is estimated to be payable in the first and second quarter of 2021 and is presented as income taxes payable, while \$0.30 million is presented as non-current deferred taxes payable. As of December 31, 2019, approximately \$0.09 million of the estimated entrance tax of \$0.45 million was estimated to be payable in the first and second quarter of 2019 and was presented as income taxes payable, while \$0.36 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, 2020 and 2019. During the years ended December 31, 2020 and 2019, the Partnership did not incur any interest or penalties on its tax returns.

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Notes to Consolidated Financial Statements (Continued)

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.

18) 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*, the *Brasil Knutsen*, the *Anna Knutsen* and the *Tove 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 or KNOT Management Denmark. 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, 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. Effective as of February 26, 2018, the Partnership entered into a second amendment to the administrative services agreement extending the term of the agreement indefinitely, subject to termination by any party upon 90 days’ notice for any reason.

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Notes to Consolidated Financial Statements (Continued)

The amounts of such costs and expenses included in the consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 are as follows:

| <i>(U.S. Dollars in thousands)</i> | Year Ended December 31, | | |
|---|--------------------------------|-------------------|--------------------|
| | 2020 | 2019 | 2018 |
| Statements of operations: | | | |
| <i>Time charter and bareboat revenues:</i> | | | |
| Time charter income from KNOT (1) | 4,883 | 15,910 | — |
| <i>Other income:</i> | | | |
| Guarantee income from KNOT (2) | — | — | 749 |
| <i>Operating expenses:</i> | | | |
| Vessel operating expenses (3) | 14,693 | 14,489 | 13,719 |
| Technical and operational management fee from KNOT to Vessels (4) | 7,342 | 6,954 | 6,491 |
| Operating expenses from other related parties (5) | 515 | 487 | — |
| <i>General and administrative expenses:</i> | | | |
| Administration fee from KNOT Management (6) | 1,131 | 1,280 | 1,434 |
| Administration fee from KOAS (6) | 654 | 663 | 583 |
| Administration fee from KOAS UK (6) | 118 | 116 | 123 |
| Administration and management fee from KNOT (7) | 49 | 170 | 161 |
| Total income (expenses) | \$ (19,621) | \$ (8,249) | \$ (21,761) |

| <i>(U.S. Dollars in thousands)</i> | At December 31, | At December 31, | At December 31, |
|--|------------------------|------------------------|------------------------|
| | 2020 | 2019 | 2018 |
| Balance Sheet: | | | |
| <i>Vessels:</i> | | | |
| Drydocking supervision fee from KNOT (8) | \$ 47 | \$ — | \$ 187 |
| Drydocking supervision fee from KOAS (8) | — | — | 24 |
| Total | \$ 47 | \$ — | \$ 211 |

- (1) *Time charter income from KNOT:* On December 17, 2018, the Partnership's subsidiary that owns the *Windsor Knutsen* and Royal Dutch Shell ("Shell") agreed to suspend the vessel's time charter contract. The suspension period commenced March 4, 2019 and ended April 5, 2020, when the vessel was redelivered to Shell. During the suspension period, the *Windsor Knutsen* operated under a time charter contract with Knutsen Shuttle Tankers Pool AS on the same terms as the time charter contract with Shell.
- (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 (until April 15, 2018). 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 was paid by KNOT until April 15, 2018. The reimbursement from KNOT for the difference in the charter hire is accounted for as guarantee income. See Note 18(b)—Related Party Transactions—Guarantees and Indemnifications.
- (3) *Vessel operating expenses:* KNOT Management or KNOT Management Denmark provides technical and operational management of the vessels on time charter including crewing and crew training services. The crew hire has in previous years been disclosed qualitatively, but the Partnership has concluded this year to disclose quantitatively to make it more transparent.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

- (4) *Technical and operational management fee from KNOT Management or KNOT Management Denmark to Vessels:* KNOT Management or KNOT Management Denmark provides technical and operational management of the vessels on time charter including 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.
- (5) *Operating expenses from other related parties:* Simsea Real Operations AS, a company jointly owned by Trygve Seglem and by other shipping companies in Haugesund, provides simulation, operational training assessment and other certified maritime courses for seafarers. The cost is course fees for seafarers. Knutsen OAS Crewing AS, a subsidiary of TSSI, provides administrative services related to East European crew on vessels operating on time charter contracts. The cost is a fixed fee per month per East European crew onboard the vessel. AS Marin Elektro, a company that delivers electrical installations on ships, offshore installations and thermography, was (at the time when services for the Partnership were performed) owned by Level Group AS, where Trygve Seglem, his family and members of the TSSI management have significant influence. AS Marin Elektro provided drydocking, service and thermography/IR inspections for the Partnership for \$39,993. Level Power & Automation AS, also owned by Level Group AS, provided equipment and spare parts to the Partnership's vessels for \$47,399.
- (6) *Administration fee from KNOT Management and Knutsen OAS Shipping AS ("KOAS") and Knutsen OAS (UK) Ltd. ("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.
- (7) *Administration and management fee from KNOT Management and KNOT Management Denmark:* 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 is subject to a management and administration agreement 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.
- (8) *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 initial charters of each of the *Windsor Knutsen* and the *Bodil Knutsen* for a period of five years from the closing date of the IPO (until April 15, 2018).

In order to comply with its obligations under the Omnibus Agreement, KNOT and the Partnership entered into a time charter for the *Windsor Knutsen* while the vessel was not operating under a time charter with Shell. When the Shell time charter commenced in October 2015, the hire rate was lower than the initial rate, and the rate difference was paid by KNOT until April 15, 2018.

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)*****(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 18(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.

(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, 2020 | At December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Balance Sheet: | | |
| Trading balances due from KOAS | \$ 170 | \$ 687 |
| Trading balances due from KNOT and affiliates (1) | 5,556 | 2,000 |
| Amount due from related parties | <u>\$ 5,726</u> | <u>\$ 2,687</u> |
| Trading balances due to KOAS | \$ 1,596 | \$ 840 |
| Trading balances due to KNOT and affiliates | 544 | 372 |
| Amount due to related parties | <u>\$ 2,140</u> | <u>\$ 1,212</u> |

- (1) Trading balances due from KNOT and affiliates includes the post-closing settlement amount of \$3.6 million related to the acquisition of the *Tove Knutsen*, refer to Note 21 Acquisitions

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 and other current assets

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, 2020 | At December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Balance Sheet: | | |
| Trading balances due to KOAS | \$ 1,304 | \$ 216 |
| Trading balances due to KNOT and affiliates | 902 | 685 |
| Trade accounts payables to related parties | <u>\$ 2,206</u> | <u>\$ 901</u> |

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)**

Trading balances from KNOT and affiliates are included in other current assets in the balance sheet. The balances from related parties consisted of the following:

| <i>(U.S. Dollars in thousands)</i> | At December 31, 2020 | At December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Balance Sheet: | | |
| Trading balances due from KOAS | 1,697 | 105 |
| Trading balances due from KNOT and affiliates | 450 | — |
| Other current assets from related parties | <u>\$ 2,147</u> | <u>\$ 105</u> |

(f) Acquisitions from KNOT

On March 1, 2018, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 30 AS, the company that owns and operates the *Anna Knutsen*. This acquisition was accounted for as an acquisition of assets.

On December 31, 2020, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 34 AS, the company that owns and operates the *Tove Knutsen*. This acquisition was accounted for as an acquisition of assets.

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 21—Acquisitions.

19) Commitments and Contingencies***Assets Pledged***

As of December 31, 2020 and 2019, Vessels with a book value of \$1,709 million and \$1,677 million, respectively, were pledged as security held as guarantee for the Partnership's long-term debt and interest rate swap obligations. See Note 10—Derivative Instruments, Note 13—Vessels and Equipment and Note 16—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. No accrual for possible claim was recorded for the years ended December 31, 2020, 2019 and 2018.

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.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

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.

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 were subject to an insurance claim. Under its loss of hire insurance policies, the Partnership's insurer paid 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 December 31, 2018, the Partnership recorded \$0.45 million, for loss of hire which was recorded as a component of total revenues since day rates are recovered under the terms of the policy.

For the year ended December 31, 2017, the Partnership recorded \$2.40 million to vessel operating expense as an estimate of the cost of repairs of the controllable pitch propeller. During 2018, an additional repair cost of \$0.15 million was recorded to vessel operating expenses. As of December 31, 2018, the Partnership had received payments and recorded \$2.25 million for hull and machinery repairs, resulting in a net expense of \$0.30 million. See Note 8—Insurance Proceeds.

KNOT OFFSHORE PARTNERS LP**Notes to Consolidated Financial Statements (Continued)****20) 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, | | |
|--|--------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| Net income | \$ 65,225 | \$ 58,957 | \$ 82,165 |
| Less: Series A Preferred unitholders' interest in net income | 7,200 | 7,200 | 7,200 |
| Net income attributable to the unitholders of KNOT Offshore Partners LP | 58,025 | 51,757 | 74,965 |
| Less: Distributions (2) | 72,136 | 72,136 | 72,136 |
| Under (over) distributed earnings | (14,111) | (20,379) | 2,829 |
| Under (over) distributed earnings attributable to: | | | |
| Common unitholders (3) | (13,851) | (20,003) | 2,777 |
| General Partner | (261) | (376) | 52 |
| Weighted average units outstanding (basic) (in thousands): | | | |
| Common unitholders | 32,694 | 32,694 | 32,694 |
| General Partner | 615 | 615 | 615 |
| Weighted average units outstanding (diluted) (in thousands): | | | |
| Common unitholders (4) | 32,694 | 32,694 | 36,370 |
| General Partner | 615 | 615 | 615 |
| Earnings per unit (basic) | | | |
| Common unitholders | \$ 1.74 | \$ 1.55 | \$ 2.25 |
| General Partner | 1.74 | 1.55 | 2.25 |
| Earnings per unit (diluted): | | | |
| Common unitholders (4) | \$ 1.74 | \$ 1.55 | \$ 2.22 |
| General Partner | 1.74 | 1.55 | 2.25 |
| Cash distributions declared and paid in the period per unit (5) | \$ 2.08 | \$ 2.08 | \$ 2.08 |
| Subsequent event: Cash distributions declared and paid per unit relating to the period (6) | \$ 0.52 | \$ 0.52 | \$ 0.52 |

- (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, 2020, 2019 and 2018 of \$2.8 million, respectively.
- (3) This includes the net income attributable to the IDR holder. The net income attributable to IDRs for the years ended December 31, 2020, 2019 and 2018 was \$2.8 million, respectively.
- (4) Diluted weighted average units outstanding for the year ended December 31, 2020 excludes 3.8 million potential common shares relating to the convertible preferred units since the assumed issuance had an anti-dilutive effect on the calculation of diluted earnings per unit.
- (5) Refers to cash distributions declared and paid during the period.
- (6) Refers to cash distributions declared and paid subsequent to December 31, 2020.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2020, 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).

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.

The General Partner's and common 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 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.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

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.

21) Acquisitions

During the years ended December 31, 2020 and 2018, the Partnership acquired from KNOT equity interests in two subsidiaries which own and operate the *Tove Knutsen* and the *Anna 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 cost of the fee paid to the financial advisor was divided equally between the Partnership and KNOT. Acquisition related costs of \$0.1 million, \$nil million and \$0.1 million as of December 31, 2020, 2019 and 2018, 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 Tove Knutsen December 31, 2020 | Final Anna Knutsen March 1, 2018 |
|---|---|---|
| Purchase consideration (1) | \$ 21,898 | \$ 19,913 |
| Less: Fair value of net assets acquired: | | |
| Vessels and equipment (2) | 117,978 | 120,274 |
| Cash | 804 | 4,537 |
| Inventories | 136 | 257 |
| Derivatives assets (liabilities) | (3,537) | 1,839 |
| Others current assets | 270 | 111 |
| Amounts due from related parties | — | 520 |
| Long-term debt | (93,139) | (84,217) |
| Long-term debt from related parties | — | (22,535) |
| Deferred debt issuance costs | 769 | 1,228 |
| Trade accounts payable | (430) | (971) |
| Accrued expenses | (622) | (1,013) |
| Amounts due to related parties | (331) | (117) |
| Total purchase consideration | 21,898 | 19,913 |
| Difference between the purchase price and fair value of net assets acquired | \$ — | \$ — |

(1) The purchase consideration comprises the following:

| <i>(U.S. Dollars in thousands)</i> | Final Tove Knutsen December 31, 2020 | Final Anna Knutsen March 1, 2018 |
|---|---|---|
| Cash consideration paid to KNOT (from KNOP) | \$ 25,430 | \$ 14,637 |
| Purchase price adjustments | (3,596) | 5,276 |
| Acquisition-related costs | 64 | — |
| Purchase price | \$ 21,898 | \$ 19,913 |

(2) Vessel and equipment includes allocation to drydocking for the following vessels (in thousands): *Tove Knutsen* of \$3,040 and *Anna Knutsen* of \$2,329.

KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

Tove Knutsen

On December 31, 2020, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 34 AS ("KNOT 34"), the company that owns and operates the *Tove Knutsen*. The purchase price for the vessel was \$117.8 million, less \$93.1 million of outstanding indebtedness, plus approximately \$0.8 million for certain capitalized fees related to the financing of the vessel and minus other purchase price adjustments of \$3.6 million.

Anna Knutsen

On March 1, 2018, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 30 AS ("KNOT 30"), the company that owns and operates the *Anna Knutsen*. The purchase price for the vessel was \$120.0 million, less \$106.8 million of outstanding indebtedness, plus approximately \$1.4 million for certain capitalized fees related to the financing of the vessel and plus other purchase price adjustments of \$5.3 million.

22) Subsequent Events

The Partnership has evaluated subsequent events from the balance sheet date through March 18, 2021, 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 February 11, 2021, the Partnership paid a quarterly cash distribution of \$0.52 per common unit with respect to the quarter ended December 31, 2020. The aggregate amount of the distribution was \$18.0 million. On February 11, 2021, the Partnership also paid a cash distribution to holders of Series A Preferred Units with respect to the quarter ended December 31, 2020 in an aggregate amount equal to \$1.8 million.

On December 30, 2020, the Partnership through its wholly-owned subsidiary, Knutsen Shuttle Tankers 19 AS, which owned the *Raquel Knutsen*, agreed to enter into a sale and leaseback agreement with a Japanese-based lessor for a lease period of ten years. The closing of the transaction occurred on January 19, 2021. The gross sales price was \$94.3 million and a portion of the proceeds was used to repay the outstanding loan and cancellation of the interest rate swap agreements related to the vessel. The bareboat rate under the lease consists of a fixed element per day and there is a fixed-price purchase obligation at maturity. After repayment of the loan and related interest rate swaps, the Partnership realized net proceeds of \$38 million after fees and expenses.

On March 1, 2020, the *Tove Knutsen* developed a technical default due to leakage from its controllable pitch propeller. The *Tove Knutsen* is in Rio de Janeiro waiting for spare parts, which are estimated to arrive around March 18, 2021. The Partnership expects the vessel to be in operation again around March 21, 2021. Under its loss of hire insurance policies, the Partnership will be compensated by insurance for the contractual hire rate for the *Tove Knutsen* for each day in excess of 14 deductible days while the vessel is off-hire, for a maximum of 180 days. The Partnership also expects that the repair cost will be covered by insurance, in excess of a deductible of \$150,000. The Partnership currently estimates that the aggregate cost to it due to the propeller default (including off-hire and repairs) will be approximately \$0.3 million.

On March 9, 2021, the charterer of the *Bodil Knutsen*, Equinor did not notify the Partnership by this due date of its intention to exercise its option to extend the time charter for the vessel. The charter is currently expected to expire on April 9, 2021.

The Partnership has agreed on the commercial terms for an expected one-year fixed time charter contract for the *Windsor Knutsen* (with potential options to extend the charter by one one-year period and then one six-month period) with a major oil company to commence in the third quarter of 2021.

Dated 28 June 2019

**KNOT SHUTTLE TANKERS 34 AS
KNOT SHUTTLE TANKERS 35 AS**
as joint and several Borrowers

with

KNUTSEN NYK OFFSHORE TANKERS AS
as Guarantor

arranged by

MUFG BANK, LTD.
acting as Mandated Lead Arranger and Bookrunner

with

THE FINANCIAL INSTITUTIONS LISTED IN SCHEDULE 1
acting as Original Lenders

THE FINANCIAL INSTITUTIONS LISTED IN SCHEDULE 2
acting as Hedging Banks

and

MUFG BANK, LTD.
acting as Agent

USD192,100,000 FACILITY AGREEMENT

in relation to the financing of two DP2 shuttle tankers with hull nos.
3114 and 3115 under construction at Hyundai Heavy Industries,
Co. Ltd.

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THIS AGREEMENT is made on 28 June 2019

BETWEEN

- (1) **KNOT SHUTTLE TANKERS 34 AS**, a company incorporated under the laws of Norway with Norwegian registration no. 921 065 698 having its registered office at Smedasundet 40, N-5529 Haugesund, Norway (**Borrower A**) and **KNOT SHUTTLE TANKERS 35 AS**, a company incorporated under the laws of Norway with Norwegian registration no. 821 065 852 having its registered office at Smedasundet 40, N-5529 Haugesund, Norway (**Borrower B**) as joint and several borrowers (together the **Borrowers** and each individually a **Borrower**);
- (2) **KNUTSEN NYK OFFSHORE TANKERS AS**, a company incorporated under the laws of Norway with Norwegian registration no. 995 221 713 having its registered office at Smedasundet 40, N-5529 Haugesund, Norway as guarantor (**KNOT**);
- (3) **MUFG BANK, LTD.**, acting through its office at 25 Ropemaker Street, London, EC2Y 9AN, United Kingdom as mandated lead arranger (in that capacity, the **Mandated Lead Arranger**) and bookrunner (in that capacity, the **Bookrunner**);
- (4) **THE FINANCIAL INSTITUTIONS** whose names and Facility Offices are listed in Schedule 1 as lenders (the **Original Lenders**);
- (5) **THE FINANCIAL INSTITUTIONS** whose names and Facility Offices are listed in Schedule 2 as hedging banks (the **Original Hedging Banks**); and
- (6) **MUFG BANK, LTD.**, acting through its office at 25 Ropemaker Street, London, EC2Y 9AN, United Kingdom as facility agent and security agent 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 Borrowers, KNOT and KNOP in respect of the Drop Down and the replacement of KNOT by KNOP and KNOT ST as Guarantors in respect of Borrower A and/or Borrower B substantially in the form set out in Schedule 7 (*Form Of Accession Letter*).

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 Pledges means together the Borrower A Account Pledge and the Borrower B Account Pledge, and **Account Pledge** means either of them.

Accounts means together:

- (a) the Borrower A Account; and
- (b) the Borrower B Account,

and **Account** means either of them.

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.

Aggregate Project Cost means, in respect of a Vessel, the sum of the contract amount payable to the Shipyard pursuant to the relevant Shipbuilding Contract, including variation orders, and other documented capital expenditures related to supervision, buyer's supplies, the cost of delivering the Vessel to the Charterer under the Charter (including but not limited to the costs of transportation to the location of delivery of the Vessel under Charter) and finance. This amount is estimated to be approximately USD113,000,000 per Vessel.

Agreement means this facility agreement, as it may be amended, supplemented and varied in writing from time to time, including its schedules.

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 Malta, the United Kingdom, the Isle of Man, Bermuda, Panama or Liberia, or any other ship registry as approved in writing by the Agent (on behalf of all Lenders).

Approved Shipbroker means Fearnleys AS, Clarkson Platou AS and Lorentzen & Stemoco or such other firm of internationally reputable shipbrokers acceptable to the Agent (on behalf of all Lenders).

Authorisation means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

Available Commitment means a Lender's Commitment in respect of a Tranche minus:

- (a) the amount of its participation in any outstanding Loans utilised under that Tranche; and
- (b) in relation to any proposed Utilisation, the amount of its participation in any Loans that are due to be made utilised under that Tranche on or before the proposed Utilisation Date.

Available Facility means, in respect of a Tranche, the aggregate for the time being of each Lender's Available Commitment in relation to that Tranche.

Availability Period means, in respect of a Tranche, the period from and including the date of this Agreement to and including:

- (a) 31 March 2021 in respect of the Pre-Delivery Tranche A and the Post-Delivery Tranche A; and
- (b) 31 May 2021 in respect of the Pre-Delivery Tranche B and the Post-Delivery Tranche B.

Bail-In Action means the exercise of any Write-down and Conversion Powers.

Bail-In Legislation means:

- (a) in relation to an EEA Member Country which has implemented, or which at any time implements, Article 55 BRRD, the relevant implementing law or regulation as described in the EU Bail-In Legislation Schedule from time to time; and
- (b) in relation to any state other than such an EEA Member Country or (to the extent that the United Kingdom is not such an EEA Member Country) the United Kingdom, any analogous law or regulation from time to time which requires contractual recognition of any Write-down and Conversion Powers contained in that law or regulation.

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 A Account Pledge means an agreement dated on or about the date hereof for the pledge of the Borrower A Account, entered or to be entered into between Borrower A 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).

Borrower A Account means USD account no. NO45 1250 0585 267, held in the name of Borrower A with the Account Bank.

Borrower A Factoring Agreement means a Norwegian law factoring agreement in the amount of USD230,520,000 dated on or about the date hereof between Borrower A 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 Borrower A with the Norwegian Registry of Movable Property (in Norwegian, *Løsøreregisteret*).

Borrower A Hedging Agreement Security means a deed or other instrument creating security over Borrower A's rights under the Hedging Agreements to which it is or is to become a party to be entered into between Borrower A 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).

Borrower A Mortgage means a first priority mortgage in the amount of USD230,520,000 (and deed of covenants or declaration of pledge collateral thereto (if applicable)), to be executed and recorded by Borrower A against Vessel A 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).

Borrower A Pre-Delivery Assignment Agreement means an agreement dated on or about the date hereof for the assignment of all present and future rights under and in connection with the Shipbuilding Contract A and the Refund Guarantee A, entered into between Borrower A 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).

Borrower A Post-Delivery Assignment Agreement means an agreement dated on or about the Delivery Date of Vessel A for the assignment of the Earnings, the Insurances and any Requisition Compensation in respect of Vessel A, entered or to be entered into between Borrower A 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).

Borrower A Share Pledge means an agreement for the charge/pledge of 100% of the shares in Borrower A 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).

Borrower B Account Pledge means an agreement dated on or about the date hereof for the pledge of the Borrower B Account, entered or to be entered into between Borrower B 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).

Borrower B Account means USD account no. NO45 1250 0585 275, held in the name of Borrower B with the Account Bank.

Borrower B Factoring Agreement means a Norwegian law factoring agreement in the amount of USD230,520,000 dated on or about the date hereof between Borrower B 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 Borrower B with the Norwegian Registry of Movable Property (in Norwegian, *Løsøreregisteret*).

Borrower B Hedging Agreement Security means a deed or other instrument creating security over Borrower B's rights under the Hedging Agreements to which it is or is to become a party to be entered into between Borrower B 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).

Borrower B Mortgage means a first priority mortgage in the amount of USD230,520,000 (and deed of covenants or declaration of pledge collateral thereto (if applicable)), to be executed and recorded by Borrower B against Vessel B 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).

Borrower B Pre-Delivery Assignment Agreement means an agreement dated on or about the date hereof for the assignment of all present and future rights under and in connection with the Shipbuilding Contract B and the Refund Guarantee B, entered into between Borrower B 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).

Borrower B Post-Delivery Assignment Agreement means an agreement dated on or about the Delivery Date of Vessel B for the assignment of the Earnings, the Insurances and any Requisition Compensation in respect of Vessel B, entered or to be entered into between Borrower B 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).

Borrower B Share Pledge means an agreement for the charge/pledge of 100% of the shares in Borrower B 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).

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 London, New York City, Tokyo and Oslo.

Change of Control means:

- (a) if one or both Borrowers are 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 Borrowers or, following the Drop Down of one of the Borrowers only, the Borrower not owned by KNOP; or
 - (ii) if TS Shipping Invest AS (or a 100% owned subsidiary of TS Shipping Invest AS) and NYK Logistics Holding (Europe) B.V. (or Nippon Yusen Kabushiki Kaisha 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; and/or
- (b) if one or both Borrowers are 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 Nippon Yusen Kabushiki Kaisha 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 Borrowers or, following the Drop Down of one of the Borrowers only, the Borrower not owned by KNOT;
 - (iii) if KNOP does not own or is not able to vote for (directly or indirectly) all of the shares in KNOT ST;
 - (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) the General Partner ceases to be to general partner of KNOP;
 - (vi) if KNOT does not own at least 25% of all the common and general partner 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 33.33% of the common and general partner units or voting rights in KNOP,

(paragraphs (i) – (vii) being a **KNOP Change of Control**).

Charterer means Equinor Shipping Inc., a company incorporated under the laws of the United States of America having its registered office at 120 Long Ridge Road, Suite 3E01, Stamford, CT 06902, United States of America, a company within the Equinor ASA group.

Charterparty A means the time charterparty agreement dated 26 September 2018 entered into between Borrower A and the Charterer for the chartering of Vessel A for a period of 7 years from the Delivery Date of Vessel A at a daily time charter rate of minimum USD45,800 per day.

Charterparty B means the time charterparty agreement dated 26 September 2018 entered into between Borrower B and the Charterer for the chartering of Vessel B for a period of 5 years from the Delivery Date of Vessel B at a daily time charter rate of minimum USD45,800 per day.

Charterparties means together Charterparty A and Charterparty B, and **Charterparty** means either of them.

Classification Society means, in respect of a Vessel, DNV GL or such other classification society which is a member of the International Association of Classification Societies as may be approved in writing by the Agent (acting upon instructions from the Majority Lenders).

Code means the US Internal Revenue Code of 1986.

Commitment means, in respect of a Tranche or Facility:

- (a) in relation to an Original Lender, the amount set opposite its name in respect of that Tranche or Facility in Schedule 1 (*The Original Lenders*) and the amount of any other Commitment in respect of that Tranche or Facility 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 in respect of that Tranche or Facility,

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 6 (*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.

Delivery Date means, in respect of a Vessel, the date of delivery of that Vessel from the Shipyard to the relevant Borrower pursuant to the relevant Shipbuilding Contract, scheduled to be on 30 June 2020 for Vessel A and on 31 August 2020 for Vessel B.

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 a Vessel a valid document of compliance issued to such company pursuant to paragraph 14.2 of the ISM Code.

Drop Down means the acquisition by KNOP (or a Subsidiary of KNOP) of 100% of the shares in a Borrower.

Drop Down Date means the date on which a Drop Down actually takes place, as determined in accordance with Clause 28.2 (*KNOP and KNOT ST as replacement Guarantors*).

Earnings means all moneys whatsoever which are now or later become, payable (actually or contingently) to a Borrower in respect of and/or arising out of the use of or operation of a Vessel, including (but not limited to):

- (a) all freight, hire and passage moneys payable to that 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 that Vessel;
- (b) any claim under any guarantees related to hire payable to that Vessel as a consequence of the operation of that Vessel;
- (c) any compensation payable to that Borrower in the event of any requisition of that Vessel or for the use of that Vessel by any government authority or other competent authority;
- (d) remuneration for salvage, towage and other services performed by that Vessel payable to that Borrower;
- (e) demurrage and retention money receivable by that Borrower in relation to that Vessel;
- (f) all moneys which are at any time payable under the Insurances in respect of loss of earnings from that Vessel;
- (g) if and whenever that Vessel is employed on terms whereby any moneys falling within paragraphs (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 that Vessel; and
- (h) any other money which arise out of the use of or operation of that Vessel and moneys whatsoever due or to become due to that Borrower from third parties in relation to that 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.

EU Bail-In Legislation Schedule means the document described as such and published by the Loan Market Association (or any successor person) from time to time.

Event of Default means any event or circumstance specified as such in Clause 26 (*Events of Default*).

Existing Shipyard means Korea Shipbuilding & Offshore Engineering Co., Ltd. (formerly known as Hyundai Heavy Industries, Co., Ltd.), a company organised and existing under the laws of the Republic of Korea, having its registered office at Hyundai Building 75, Yulgo-ro, Jongno-gu, Seoul, Korea.

FA Act means the Norwegian Financial Agreements Act of 25 June 1999 No. 46 (in Norwegian, *finansavtaleloven*).

Facilities means together the Pre-Delivery Facility and the Post-Delivery Facility, and Facility means either of them.

Facility Office means:

- (a) in respect of an Original Lender or Original Hedging Bank, the office through which it will perform its obligations under this Agreement or the relevant Hedging Agreement, as the case may be, being the office specified against its name in Schedule 1 (*The Original Lenders*) or Schedule 2 (*The Original Hedging Banks*);
- (b) in respect of any other Lender or Hedging Bank, the office through which it will perform its obligations under this Agreement or the relevant Hedging Agreement, as the case may be, as notified to the Agent in writing on or before the date it becomes a Lender or Hedging Bank; or
- (c) in respect of any other Finance Party, the office in the jurisdiction in which it is resident for tax purposes,

or, in each such case, as the case may be, or such other office as may be selected by it and notified to the Agent in accordance with Clause 27.8 (*Change of Facility Office*).

Facility Period means the period commencing on the date of this Agreement and ending on the date on which the Agent notifies the Borrowers, the other Finance Parties and the Hedging Banks that:

- (a) all amounts which have become due for payment by the Borrowers 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 or a Hedging Agreement or any asset covered (or previously covered) by a Security created by a Finance Document or a Hedging Agreement.

Factoring Agreements means together the Borrower A Factoring Agreement and the Borrower B Factoring Agreement, and **Factoring Agreement** means either of them.

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; or
- (b) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) above, the first date from which such payment may become subject to a deduction or withholding required by FATCA.

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 any fee letter dated on or about the date of this Agreement from the Agent to the Borrowers and KNOT setting out any of the fees referred to in Clause 12.3 (*Other fees*).

Final Maturity Date means:

- (a) in respect of the Pre-Delivery Tranche A, the earlier of the Delivery Date of Vessel A and 31 March 2021;
- (b) in respect of the Pre-Delivery Tranche B, the earlier of the Delivery Date of Vessel B and 31 May 2021;
- (c) in respect of the Post-Delivery Tranche A, the date falling 60 Months after the Utilisation Date of the Post-Delivery Tranche A; and
- (d) in respect of the Post-Delivery Tranche B, the date falling 60 Months after the Utilisation Date of the Post-Delivery Tranche B.

Finance Document means this Agreement (including the Guarantees), any Security Document, any Fee Letter, any Manager's Undertaking, any Accession Letter, any Letter of Quiet Enjoyment, any other document designated as such by the Agent and the Borrowers and, as long as there is an Event of Default which is continuing and for the purposes of Clause 31 (*Sharing among the Finance Parties*), Clause 32 (*Payment mechanics*) and Clause 33 (*Set-off*) only, **Finance Document** shall also include any Hedging Agreement to which a Borrower to whom that Event of Default relates is a party.

Finance Party means the Agent, the 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 31 (*Sharing among the Finance Parties*), Clause 32 (*Payment mechanics*) and Clause 33 (*Set-off*) only, **Finance Party** shall also include the Hedging Banks under any Hedging Agreement to which a Borrower to whom that Event of Default relates.

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 the relevant 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, in respect of a Vessel, such state or territory (being the state or territory of an Approved Ship Registry) in which the relevant Borrower's ownership title of that Vessel is from time to time registered in accordance with the provisions of the Finance Documents.

Funding Rate means any individual rate notified by a Lender to the Agent pursuant to paragraph (a)(ii) of Clause 11.4 (*Cost of funds*).

GAAP means:

- (a) in relation to the Borrowers, KNOT ST and KNOT, generally accepted accounting principles in Norway, including IFRS; and
- (b) in relation to KNOP, generally accepted accounting principles in the United States of America, including IFRS.

General Partner means KNOT Offshore Partners GP LLC, a company incorporated 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 KNOP.

Group means:

- (a) prior to any Drop Down Date, the KNOT Group;
- (b) from the Drop Down Date in respect of one of the Borrowers only, the KNOT Group and the KNOP Group; and
- (c) from the Drop Down Date in respect of both Borrowers, the KNOP Group.

Guarantees means the guarantee liabilities of each Guarantor pursuant to Clause 19 (*Guarantee and indemnity*), and **Guarantee** means any of them.

Guarantor means:

- (a) prior to any Drop Down Date, KNOT;
- (b) from the Drop Down Date in respect of one of the Borrowers only, KNOT (guaranteeing the Loan or Loans relating to the Vessel owned by KNOT's Subsidiary only) and (2) KNOP and KNOT ST jointly and severally (guaranteeing the Loan or Loans relating to the Vessel owned by KNOP's Subsidiary only); and
- (c) from the Drop Down Date in respect of both Borrowers, KNOP and KNOT ST jointly and severally.

Hedging Agreement means any transaction or hedging arrangement which is:

- (a) entered or to be entered into between a Borrower and a Hedging Bank pursuant to a Hedging Master Agreement made between them (including any schedule thereto or confirmation thereunder); and
- (b) made solely for the purpose of hedging the interest rate in relation to a Loan to which the relevant Borrower's Vessel relates and/or for hedging that Borrower's currency exposure in relation to the daily operation of its Vessel.

Hedging Agreement Securities means together the Borrower A Hedging Agreement Security and the Borrower B Hedging Agreement Security, and **Hedging Agreement Security** means either of them.

Hedging Bank means an Original Hedging Bank or any bank or financial institution which becomes a Hedging Bank in accordance with Clause 27.11 (*Assignments and transfers by the Hedging Banks*).

Hedging Master Agreement means any hedging master agreement entered into or to be entered into by a Borrower and a Hedging Bank as the basis for any Hedging Agreement between those Parties.

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 a Vessel, all policies and contracts of insurance (which expression includes all entries of that Vessel in a protection and indemnity or war risk association) which are from time to time during the Security Period in respect of that Vessel in place or taken out or entered into by or for the benefit of the relevant Borrower (whether in the sole name of that Borrower or in the joint names of that Borrower and any other person) in respect of that Vessel or otherwise in connection with that Vessel and all benefits thereunder (including claims of whatsoever nature and return of premiums).

Interest Period means, in relation to a Loan, each period determined in accordance with Clause 10 (*Interest Periods*) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 9.3 (*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 11.00 a.m. in London on the Quotation Day for USD.

Intra-Group Indebtedness means, in respect of a Group, intercompany loans, deposits or equity contributions within that Group.

ISDA Novation Agreements means:

- (a) the novation agreement to be made between Borrower A, KNOT and MUFG Securities EMEA plc (as hedging bank) pursuant to which rate swap transactions dated 12 April 2019 and 29 May 2019 (as evidenced by confirmations dated 12 April 2019 and 30 May 2019 from MUFG Securities EMEA plc to KNOT) and entered into pursuant to an ISDA Master Agreement dated 12 April 2019 between MUFG Securities EMEA plc and KNOT are to be novated from and out of the name of KNOT into the name of Borrower A; and
- (b) the novation agreement to be made between Borrower B, KNOT and MUFG Securities EMEA plc (as hedging bank) pursuant to which rate swap transactions dated 12 April 2019 and 29 May 2019 (as evidenced by confirmations dated 12 April 2019 and 30 May 2019 from MUFG Securities EMEA plc to KNOT) and entered into pursuant to an ISDA Master Agreement dated 12 April 2019 between MUFG Securities EMEA plc and KNOT are to be novated from and out of the name of KNOT into the name of Borrower B.

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, in respect of a Vessel, an International Ship Security Certificate issued by the

Classification Society confirming that that 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 having its registered office at 2 Queen's Cross, Aberdeen, Aberdeenshire, AB15 4YB, United Kingdom.

KNOP Group means KNOP and its Subsidiaries.

KNOT Group means KNOT and its Subsidiaries.

KNOT ST means KNOT Shuttle Tankers AS, a company incorporated under the laws of Norway with Norwegian registration no. 998 942 829 having its registered office 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 27 (*Changes to the Lenders*),

which in each case has not ceased to be a Party in accordance with the terms of this Agreement.

Letter of Quiet Enjoyment means, in respect of a Vessel, a letter of quiet enjoyment entered or to be entered into between the Agent, the Charterer and the relevant Borrower in respect of the Charterer's quiet enjoyment of that Vessel under the relevant Charterparty, in form and substance satisfactory to the Charterer and the Agent (on behalf of the Lenders), if required by the relevant Charterer and the relevant Borrower is contractually obliged to procure the same.

LIBOR means, in relation to any 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 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, LIBOR shall be deemed to be zero.

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.

Management Agreement means any agreement made or to be made between a Borrower and a Manager for the technical and/or commercial management of a 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 and the Hedging Banks).

Margin means 1.75% per annum.

Market Value means the fair market value of a Vessel, being the mean average of valuations of that Vessel obtained from 2 Approved Shipbrokers, with or without physical inspection of that 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 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.

Mortgages means together the Borrower A Mortgage and the Borrower B Mortgage, and **Mortgage** means either of them.

New Shipyard means Hyundai Heavy Industries Co., Ltd., a company organised and existing under the laws of the Republic of Korea, having its registered office at 1000, Bangeojinsunhwan-doro, Dong-gu, Ulsan, 44032, Korea.

Norwegian Companies Act means the Norwegian Limited Liability Companies Act of 13 June 1997 No. 44 (in Norwegian, *aksjeloven*).

Obligors means the Borrowers, 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.

Original Financial Statements means:

- (a) in relation to each Borrower, the audited financial statements (being the audited financial statements for the financial year ending 31 December 2019) delivered to the Agent pursuant

to Clause 21.2(a) (*Financial statements*); and

(b) in relation to KNOT, its audited financial statements for its financial year ended 31 December 2018.

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.

Post-Delivery Assignment Agreements means together the Borrower A Post-Delivery Assignment Agreement and the Borrower B Post-Delivery Assignment Agreement, and **Post-Delivery Assignment Agreement** means either of them.

Post-Delivery Facility means the post-delivery term loan facility made available under this Agreement as described in Clause 2.2 (*The Post-Delivery Facility*).

Post-Delivery Security Period means, in respect of a Vessel, the period from the Delivery Date of that Vessel until the end of the Security Period relating to it.

Post-Delivery Tranche A means the lesser of (a) USD96,050,000 and (b) 85% of the Aggregate Project Cost of Vessel A made or to be made under the Post-Delivery Facility relating to the acquisition by Borrower A of Vessel A, or the principal amount outstanding for the time being of that tranche.

Post-Delivery Tranche B means the lesser of (a) USD96,050,000 and (b) 85% of the Aggregate Project Cost of Vessel B made or to be made under the Post-Delivery Facility relating to the acquisition by Borrower B of Vessel B, or the principal amount outstanding for the time being of that tranche.

Post-Delivery Tranches means together the Post-Delivery Tranche A and the Post-Delivery Tranche B, and **Post-Delivery Tranche** means any of them.

Pre-Delivery Assignment Agreements means together the Borrower A Pre-Delivery Assignment Agreement and the Borrower B Pre-Delivery Assignment Agreement, and **Pre-Delivery Assignment Agreement** means either of them.

Pre-Delivery Facility means the pre-delivery term loan facility made available under this Agreement as described in Clause 2.1 (*The Pre-Delivery Facility*).

Pre-Delivery Security Period means, in respect of a Vessel, the period from the first Utilisation Date until the Delivery Date of that Vessel.

Pre-Delivery Tranche A means USD42,500,000 made or to be made under the Pre-Delivery Facility relating to the acquisition by Borrower A of Vessel A, available for utilisation in the maximum of 3 Loans as per the relevant milestones in the Shipbuilding Contract A as set out in paragraph (a) of Clause 5.3 (*Utilisation Dates*) or the principal amount outstanding for the time being of that tranche.

Pre-Delivery Tranche B means USD42,500,000 made or to be made under the Pre-Delivery Facility relating to the acquisition by Borrower B of Vessel B, available for utilisation in the maximum of 3 Loans as per the relevant milestones in the Shipbuilding Contract B as set out in paragraph (b) of Clause 5.3 (*Utilisation Dates*) or the principal amount outstanding for the time being of that tranche.

Pre-Delivery Tranches means together the Pre-Delivery Tranche A and the Pre-Delivery Tranche B, and **Pre-Delivery Tranche** means either of them.

Quotation Day means, in relation to any period for which an interest rate is to be determined, 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 those Lenders who, in accordance with paragraph (a) of Clause 29.17 (*Role of Reference Banks*), agree to be appointed as Reference Banks and such other banks as may (with their consent) be appointed as Reference Banks by the Agent in consultation with the Borrowers.

Refund Guarantee A means the refund guarantee (titled "Our Letter of Guarantee No. M04KC18127700018") dated 21 December 2018 in the maximum amount of USD44,085,520 executed by the Refund Guarantor in favour of Borrower A guaranteeing the Existing Shipyard's obligation to refund to Borrower A the pre-delivery instalments paid by Borrower A to the Existing Shipyard under Shipbuilding Contract A should they become due to be refunded under such Shipbuilding Contract and which, pursuant to the Refund Guarantee Confirmation relating to Vessel A, is amended to guarantee the refund obligations of the New Shipyard to Borrower A under Shipbuilding Contract A upon the Shipbuilding Contract Novation Agreement relating to Vessel A becoming effective.

Refund Guarantee B means the refund guarantee (titled "Our Letter of Guarantee No. M04KC18127700025") dated 21 December 2018 in the maximum amount of USD44,085,520 executed by the Refund Guarantor in favour of Borrower B guaranteeing the Existing Shipyard's obligation to refund to Borrower B the pre-delivery instalments paid by Borrower B to the Existing Shipyard under Shipbuilding Contract B should they become due to be refunded under such Shipbuilding Contract and which, pursuant to the Refund Guarantee Confirmation relating to Vessel B, is amended to guarantee the refund obligations of the New Shipyard to Borrower B under Shipbuilding Contract B upon the Shipbuilding Contract Novation Agreement relating to Vessel B becoming effective.

Refund Guarantee Confirmation means:

- (a) in relation to Refund Guarantee A, the acknowledgement and consent substantially in the form appended to the Shipbuilding Contract Novation Agreement for Vessel A issued or to be issued by the Refund Guarantor in favour of Borrower A confirming that Refund Guarantee A remains valid and continues to guarantee the New Shipyard's refund obligations under Shipbuilding Contract A on the same basis as if the New Shipyard had originally been a party to Shipbuilding Contract A in place of the Existing Shipyard; and
- (b) in relation to Refund Guarantee B, the acknowledgement and consent substantially in the form appended to the Shipbuilding Contract Novation Agreement for Vessel B issued or to be issued by the Refund Guarantor in favour of Borrower B confirming that Refund Guarantee B remains valid and continues to guarantee the New Shipyard's refund obligations under Shipbuilding Contract B on the same basis as if the New Shipyard had originally been a party to Shipbuilding Contract B in place of the Existing Shipyard.

Refund Guarantees means together the Refund Guarantee A and the Refund Guarantee B, and **Refund Guarantee** means either of them.

Refund Guarantor means Industrial Bank of Korea of IBK Tower 16 FL, 82 Eulji-ro, Jung-gu, Seoul, South Korea.

Relevant Event of Default means any Event of Default other than an Event of Default occurring under Clause 26.2 (*Non-payment*).

Relevant Interbank Market means the London interbank market.

Relevant Nominating Body means any applicable central bank, regulator or other supervisory authority or a group of them, or any working group or committee sponsored or chaired by, or constituted at the request of, any of them or the Financial Stability Board.

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 20 (*Representations*).

Replacement Benchmark means a benchmark rate which is:

- (a) formally designated, nominated or recommended as the replacement for the Screen Rate by:
 - (i) the administrator of the Screen Rate (provided that the market or economic reality that such benchmark rate measures is the same as that measured by the Screen Rate); or
 - (ii) any Relevant Nominating Body,

and if replacements have, at the relevant time, been formally designated, nominated or recommended under both paragraphs, the **Replacement Benchmark** will be the replacement under paragraph (ii) above;

- (b) in the opinion of the Majority Lenders and the Borrowers, generally accepted in the international syndicated loan markets as the appropriate successor to the Screen Rate; or
- (c) in the opinion of the Majority Lenders and the Borrowers, an appropriate successor to the Screen Rate.

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 a Vessel by any governmental entity.

Restricted Asset means any asset derived from any transaction with a Restricted Party or in which any Restricted Party has any legal or beneficial interest.

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 (b) above.

Sanctions means all laws, regulations and orders concerning any trade, economic or financial sanctions or embargoes or restrictive measures which are administered, enacted or enforced at any time by any Sanctions Authority to which the relevant Obligor, a Relevant Person and/or the relevant Finance Party is subject or compliance with which is reasonable in the ordinary course of business of such person or, in the case of a Finance Party, is required due to internal compliance and regulation.

Sanctions Authority means the Norwegian State, the United Nations, the European Union, the member states of the European Union, the United States of America, the United Kingdom, 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 Borrowers and the Lenders.

Screen Rate Replacement Event means, in relation to the Screen Rate:

- (a) the methodology, formula or other means of determining the Screen Rate has, in the opinion of the Majority Lenders and the Borrowers, materially changed; or
- (b)
 - (i)
 - (A) the administrator of the Screen Rate or its supervisor publicly announces that such administrator is insolvent; or
 - (B) information is published in any order, decree, notice, petition or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body which reasonably confirms that the administrator of the Screen Rate is insolvent,

provided that, in each case, at that time, there is no successor administrator to continue to provide the Screen Rate;
or
 - (ii) the administrator of the Screen Rate publicly announces that it has ceased or will cease, to provide the Screen Rate permanently or indefinitely and, at that time, there is no successor administrator to continue to provide the Screen Rate; or
 - (iii) the supervisor of the administrator of the Screen Rate publicly announces that the Screen Rate has been or will be permanently or indefinitely discontinued; or
 - (iv) the administrator of the Screen Rate or its supervisor announces that the Screen Rate may no longer be used; or
- (c) the administrator of the Screen Rate determines that the Screen Rate should be calculated in accordance with its reduced submissions or other contingency or fallback policies or arrangements and either:
 - (i) the circumstances or events leading to such determination are not (in the opinion of the Majority Lenders and the Borrowers) temporary; or
 - (ii) the Screen Rate is calculated in accordance with any such policy or arrangement for a period no less than 3 months;
or
- (d) in the opinion of the Majority Lenders and the Borrowers, the Screen Rate is otherwise no longer appropriate for the purposes of calculating interest under this Agreement.

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 Assets means:

- (a) the Vessels;
- (b) the Earnings;

- (c) the Insurances;
- (d) the Accounts;
- (e) any Requisition Compensation;
- (f) the Shipbuilding Contracts;
- (g) the Refund Guarantees;
- (h) the shares in each Borrower; and
- (i) the rights of each Borrower under the Hedging Agreements.

Security Document means each document listed in Clause 18 (*Security*) and any other document agreed between the Parties to be a Security Document.

Security Period means, in relation to a Vessel, the period from its Delivery Date until the earlier of:

- (a) the date on which the Loans relating to that Vessel are prepaid in full under Clause 8.5 (*Mandatory prepayment – Total Loss or sale of a Vessel*) together with all other sums then due and payable under the Finance Documents following the sale or Total Loss of that Vessel;
- (b) any date on which (with the approval of the Lenders and the Hedging Banks) the relevant Mortgage and all other Security Documents relating to that Vessel are released without being replaced by a new Mortgage and any other relevant Security Documents; and
- (c) the last day of the Facility Period.

Share Pledges means together the Borrower A Share Pledge and the Borrower B Share Pledge, and **Share Pledge** means either of them.

Shareholder Loans means shareholder loans and/or loans from other companies within the Group and/or loans from other Affiliates.

Shipbuilding Contract A means the shipbuilding contract dated 26 September 2018 originally made between Borrower A and the Existing Shipyard for the construction of Vessel A and which is to be novated from and out of the name of the Existing Shipyard to and into the name of the New Shipyard pursuant to the Shipbuilding Contract Novation Agreement relating to Vessel A.

Shipbuilding Contract B means the shipbuilding contract dated 26 September 2018 originally made between Borrower B and the Existing Shipyard for the construction of Vessel B and which is to be novated from and out of the name of the Existing Shipyard to and into the name of the New Shipyard pursuant to the Shipbuilding Contract Novation Agreement relating to Vessel B.

Shipbuilding Contract Novation Agreement means:

- (a) in relation to Vessel A, the novation agreement made or to be made between Borrower A, the Existing Shipyard and the New Shipyard pursuant to which Shipbuilding Contract A is to be novated out of the name of the Existing Shipyard into the name of the New Shipyard; and
- (b) in relation to Vessel B, the novation agreement made or to be made between Borrower B, the Existing Shipyard and the New Shipyard pursuant to which Shipbuilding Contract B is to be novated out of the name of the Existing Shipyard into the name of the New Shipyard.

Shipbuilding Contracts means together the Shipbuilding Contract A and the Shipbuilding Contract B (in each case as novated by the relevant Shipbuilding Contract Novation Agreement), and **Shipbuilding Contract** means either of them.

Shipyard means:

- (a) at any time prior to the novation of the Shipbuilding Contracts pursuant to the Shipbuilding

Contract Novation Agreements, the Existing Shipyard; and

- (b) at all times thereafter, the New Shipyard.

SMC means, in respect of a Vessel, a valid safety management certificate issued for that Vessel issued by the Classification Society pursuant to paragraph 13.7 of the ISM Code.

SMS means a safety management system for a 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 USD277,100,000 at the date of this Agreement.

Total Loss means, in relation to a Vessel:

- (a) the actual, constructive, compromised, agreed, arranged or other total loss of that Vessel;
- (b) the requisition for title or compulsory acquisition of that Vessel by any government or other competent authority;
- (c) the capture, seizure, destruction, abandonment, condemnation, arrest, detention or confiscation of that Vessel by any government or by persons acting or purporting to act on behalf of any government or public authority, unless that Vessel is released and returned to the possession of the relevant Borrower within 30 days after the capture, seizure, arrest, detention or confiscation in question; or
- (d) any piracy, hijacking or theft of that Vessel, unless that Vessel is released and restored to the relevant Borrower within 30 days after the occurrence of such incident.

Total Loss Date means:

- (a) in the case of an actual total loss of a Vessel, the date on which it occurred or, if that is unknown, the date when that Vessel was last heard of;
- (b) in the case of a constructive, compromised, agreed or arranged total loss of a 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 3 Months after notice of abandonment of that Vessel was given to the insurers and (ii) the date of compromise, arrangement or agreement made by or on behalf of the relevant Borrower with that Vessel's insurers in which the insurers agree to treat that 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.

Total Post-Delivery Commitments means the aggregate of the Commitments relating to the Post-Delivery Facility being USD192,100,000 at the date of this Agreement.

Total Pre-Delivery Commitments means the aggregate of the Commitments relating to the Pre-Delivery Facility being USD85,000,000 at the date of this Agreement.

Tranches means together the Pre-Delivery Tranches and the Post-Delivery Tranches, and **Tranche** means any of them.

Transaction Documents means each Shipbuilding Contract, each Refund Guarantee, 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 Borrowers, and **Transaction Document** means any of them.

Transfer Certificate means a certificate substantially in the form set out in Schedule 5 (*Form of Transfer Certificate*) or any other form agreed between the Agent and the Borrowers.

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.

UK Bail-In Legislation means (to the extent that the United Kingdom is not an EEA Member Country which has implemented or implements Article 55 BRRD) Part I of the United Kingdom Banking Act 2009 and any other law or regulation applicable in the United Kingdom relating to the resolution of unsound or failing banks, investment firms or other financial institutions or their affiliates (otherwise than through liquidation, administration or other insolvency proceedings).

US means the United States of America.

US Tax Obligor means:

- (a) a 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 a utilisation of a 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 Schedule 4 (*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 A means a newbuilding DP2 shuttle tanker with the Shipyard's hull no. 3114, with a contract price of USD105,713,800 and estimated delivery in June 2020, to be registered in the name of Borrower A with an Approved Ship Registry upon delivery.

Vessel B means a newbuilding DP2 shuttle tanker with the Shipyard's hull no. 3115, with a contract price of USD105,713,800 and estimated delivery in August 2020, to be registered in the name of Borrower B with an Approved Ship Registry upon delivery.

Vessels means together Vessel A and Vessel B, and **Vessel** means either of them.

Write-down and Conversion Powers means:

- (a) in relation to any Bail-In Legislation described in the EU Bail-In Legislation Schedule from time to time, the powers described as such in relation to that Bail-In Legislation in the EU Bail-In Legislation Schedule; and
- (b) in relation to any other applicable Bail-In Legislation or UK Bail-In Legislation:
 - (i) any powers to cancel, transfer or dilute shares issued by a person that is a bank or investment firm or other financial institution or affiliate of a bank, investment firm or other financial institution, to cancel, reduce, modify or change the form of a liability of such a person or any contract or instrument under which that liability arises, to convert all or part of that liability into shares, securities or obligations of that person or any other person, to provide that any such contract or instrument is to have effect as if a right had been exercised under it or to suspend any obligation in respect of that liability or any of the powers that are related to or ancillary to any of those powers; and
 - (ii) any similar or analogous powers under that Bail-In Legislation or UK Bail-In Legislation.

1.2 **Construction**

- (a) Unless a contrary indication appears, any reference in this Agreement to:
 - (i) the **Agent**, the **Mandated Lead Arranger**, the **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) the **Charterer** shall be construed so as to include its successors in title under any Charter;
 - (iv) **assets** includes present and future properties, revenues and rights of every description;
 - (v) 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;
 - (vi) a **group of Lenders** includes all the Lenders;
 - (vii) **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;
 - (viii) 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);
 - (ix) 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;
 - (x) a provision of law is a reference to that provision as amended or re-enacted;
 - (xi) words importing the singular shall include the plural and vice versa; and
 - (xii) 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) 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.

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 FACILITIES

2. **THE FACILITIES**

2.1 **The Pre-Delivery Facility**

Subject to the terms of this Agreement, the Lenders make available to the Borrowers a senior secured USD pre-delivery term loan facility in an aggregate amount equal to the Total Pre-Delivery Commitments.

2.2 **The Post-Delivery Facility**

Subject to the terms of this Agreement, the Lenders make available to the Borrowers a senior secured USD post-delivery term loan facility in an aggregate amount equal to the Total Post-Delivery Commitments.

2.3 **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 of the Pre-Delivery Facility**

The Borrowers shall apply all amounts borrowed by them under the Pre-Delivery Facility towards financing of instalments under the Shipbuilding Contracts.

3.2 **Purpose of the Post-Delivery Facility**

The Borrowers shall apply all amounts borrowed by them under the Post-Delivery Facility towards (a) refinancing the amounts borrowed under the Pre-Delivery Facility, (b) financing the delivery instalments of the Vessels and (c) financing and/or refinancing any other Aggregate Project Costs.

3.3 **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 Borrowers may not deliver a Utilisation Request relating to a Loan under the Pre-Delivery Facility unless the Agent is satisfied that it has received all of the documents and other evidence listed in Part 1 (*General Conditions Precedent*) and Part 2 (*Conditions Precedent To The Utilisation Of Each Loan Under The Pre-Delivery Facility*) of Schedule 3 (*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 Borrowers and the Lenders promptly upon being so satisfied.
- (b) The Borrowers may not deliver a Utilisation Request relating to a Loan under the Post-Delivery Facility unless the Agent is satisfied that it has received all of the documents and other evidence listed in Part 1 (*General Conditions Precedent*) and Part 3 (*Conditions Precedent To The Utilisation Of Each Loan Under The Post-Delivery Facility*) of Schedule 3 (*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 Borrowers and the Lenders promptly upon being so satisfied.
- (c) 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 5.5 (*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 Borrowers shall deliver or cause to be delivered to the Agent the additional documents and other evidence listed in Part 5 (*Conditions Subsequent*) of Schedule 3 (*Conditions Precedent And Subsequent*), within the time periods therein specified, in form and substance satisfactory to the Agent.

4.4 **Maximum number of Loans**

- (a) The Pre-Delivery Tranche A may be drawn in no more than 3 Loans.
- (b) The Pre-Delivery Tranche B may be drawn in no more than 3 Loans.
- (c) The Post-Delivery Tranche A may be drawn in no more than one Loan.
- (d) The Post-Delivery Tranche B may be drawn in no more than one Loan.

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 a Utilisation Request**

The Borrowers may utilise a Facility by delivery to the Agent of a duly completed Utilisation Request not later than 12:00 noon London time on the date falling 3 Business Days prior to the 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, and complies with Clause 5.3 (*Utilisation Dates*);
- (b) the currency and amount of the Utilisation comply with Clause 5.4 (*Currency and amount*); and
- (c) the proposed Interest Period complies with Clause 10 (*Interest Periods*).

5.3 **Utilisation Dates**

Subject always to the terms of this Agreement:

- (a) The Pre-Delivery Tranche A may only be utilised on the following dates:

- (i) on the date of the third instalment under the Shipbuilding Contract A, within 3 Business Days of receipt by Borrower A of a facsimiled advice from the Shipyard confirmed by the Classification Society that steel cutting of Vessel A has been commenced, but in no event earlier than 8 July 2019;
 - (ii) on the date of the fourth instalment under the Shipbuilding Contract A, within 3 Business Days of receipt by Borrower A of a facsimiled advice from the Shipyard confirmed by the Classification Society that the first block of the keel of Vessel A has been laid, but in no event earlier than 18 November 2019; and
 - (iii) on the date of the fifth instalment under the Shipbuilding Contract A, within one month prior to the delivery of Vessel A.
- (b) The Pre-Delivery Tranche B may only be utilised on the following dates:
- (i) on the date of the third instalment under the Shipbuilding Contract B, within 3 Business Days of receipt by Borrower B of a facsimiled advice from the Shipyard confirmed by the Classification Society that steel cutting of Vessel B has been commenced, but in no event earlier than 8 July 2019;
 - (ii) on the date of the fourth instalment under the Shipbuilding Contract B, within 3 Business Days of receipt by Borrower B of a facsimiled advice from the Shipyard confirmed by the Classification Society that the first block of the keel of Vessel B has been laid, but in no event earlier than 18 November 2019; and
 - (iii) on the date of the fifth instalment under the Shipbuilding Contract B, within one month prior to the delivery of Vessel B.
- (c) The Post-Delivery Tranche A may only be utilised on or after the Delivery Date of Vessel A.
- (d) The Post-Delivery Tranche B may only be utilised on or after the Delivery Date of Vessel B.

5.4 **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 Available Facility in respect of the relevant Tranche, provided that:
 - (i) the Loans utilised under the Pre-Delivery Tranche A must be amounts which are not more than:
 - (A) USD17,250,000 in respect of the Loan described in paragraph (a)(i) of Clause 5.3 (*Utilisation Dates*);
 - (B) USD11,050,000 in respect of the Loan described in paragraph (a)(ii) of Clause 5.3 (*Utilisation Dates*);
 - (C) USD14,200,000 in respect of the Loan described in paragraph (a)(iii) of Clause 5.3 (*Utilisation Dates*);
 - (ii) the Loans utilised under the Pre-Delivery Tranche B must be amounts which are not more than:
 - (A) USD17,250,000 in respect of the Loan described in paragraph (b)(i) of Clause 5.3 (*Utilisation Dates*);
 - (B) USD11,050,000 in respect of the Loan described in paragraph (b)(ii) of Clause 5.3 (*Utilisation Dates*);
 - (C) USD14,200,000 in respect of the Loan described in paragraph (b)(iii)(i) of Clause 5.3 (*Utilisation Dates*);

- (iii) the Loan utilised under the Post-Delivery Tranche A must be an amount which is not more than the lesser of (a) USD96,050,000 and (b) 85% of the Aggregate Project Cost of Vessel A, and shall be applied by Borrower A towards financing the delivery instalment of Vessel A and applicable project costs; and
- (iv) the Loan utilised under the Post-Delivery Tranche B must be an amount which is not more than the lesser of (a) USD96,050,000 and (b) 85% of the Aggregate Project Cost of Vessel B, and shall be applied by Borrower B towards financing the delivery instalment of Vessel B and applicable project costs.

5.5 **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 Available Commitment to the Available Facility (each in respect of the Tranche to which that Loan relates) 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 London time on the date falling one Business Day prior to the relevant Utilisation Date.

5.6 **Cancellation of Commitments**

The Commitments which, at that time, are unutilised shall be immediately cancelled at the end of the Availability Period.

6. **EXTENT OF LIABILITY**

6.1 **Joint and several liability**

Subject to Clause 6.2 (*Limitations*) and Clause 28 (*Changes to the Obligors*), each Borrower shall be and remain jointly and severally liable with the other Borrower for:

- (a) the payment of each and every sum from time to time due from the Borrowers;
- (b) each and every obligation undertaken; and
- (c) each and every liability incurred on the part of the Borrowers,

under or pursuant to the Finance Documents.

If at any time a Borrower has paid to the Finance Parties or the Finance Parties have recovered from that Borrower a sum which was due from the Borrowers under or pursuant to the Finance Documents and such sum is higher than the amount which that Borrower was obliged to contribute in its relation (if any) with the other Borrower, then that Borrower shall not have the benefit of any right of subrogation and shall not exercise any right of recourse or claim any set-off or counterclaim against the other Borrower or prove otherwise in competition with the Finance Parties (all such rights being hereby irrevocably waived by each Borrower) unless and until the Outstanding Indebtedness has been paid and discharged in full.

6.2 **Limitations**

- (a) Notwithstanding the joint and several liability of each Borrower with the other Borrower under the Finance Documents:
 - (i) the maximum liability of each Borrower under the Finance Documents shall always be limited to USD230,520,000 plus (1) any interest, default interest, Break Cost or other costs, fees and expenses related to the Borrowers' obligations under the Finance Documents and (2) any default interest or other costs, fees and expenses related to the liability of that Borrower hereunder; and

- (ii) the joint and several liability of each Borrower with the other Borrower does not apply to any liability if and to the extent that it would constitute unlawful financial assistance within the meaning of Chapter 8 of the Norwegian Companies Act or any equivalent and applicable provisions under the laws of the relevant jurisdiction of the Borrowers.
- (b) The limitations set out in this Clause 6.2 (*Limitations*) shall only apply to the extent the joint and several obligations (or parts thereof) are deemed to be guarantee obligations (in Norwegian, *kausjon*) pursuant to the terms of the FA Act.
- (c) The joint and several liability of each Borrower with the other Borrower shall not apply from the date a Drop Down in respect of one Borrower has occurred until a Drop Down has occurred also for the other Borrower (whereupon such joint and several liability shall automatically reinstate), and during this time:
 - (i) Borrower A shall only be liable for the Outstanding Indebtedness relating to the Pre-Delivery Tranche A and the Post-Delivery Tranche A (if any); and
 - (ii) Borrower B shall only be liable for the Outstanding Indebtedness relating to the Pre-Delivery Tranche B and the Post-Delivery Tranche B (if any).

6.3 **Waiver of defences**

Each Borrower hereby specifically agrees and accepts that the nature of its liability hereunder is joint and several, and that the obligations of a Borrower under the Finance Documents will not be affected by an act, omission, matter or thing which, but for this Clause 6 (*Extent Of Liability*), would reduce, release or prejudice any of its obligations under this Clause 6 (*Extent Of Liability*) (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, the other Borrower or any other person;
- (b) the release of the other Borrower or any other person under the terms of any composition or arrangement with any creditor of that Borrower;
- (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, the other Borrower or any 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 the other Borrower or any other person;
- (e) any amendment, novation, supplement, extension (whether of maturity or otherwise) or restatement (in each case, however fundamental and of whatsoever nature) or replacement of a Finance Document or any other document or security in relation to the other Borrower;
- (f) any unenforceability, illegality or invalidity of any obligation of the other Borrower under any Finance Document or any other document or security; or
- (g) any insolvency or similar proceedings in relation to the other Borrower.

6.4 **FA Act**

Each Borrower, to the extent it is considered to be a guarantor for the obligations of the other Borrower, 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 Borrower might have with each of the Finance Parties individually against the amount due);

- (b) § 63 (1) – (2) (to be notified of a Default or an Event of Default hereunder and to be kept informed thereof);
- (c) § 63 (3) (to be notified of any extension granted to the other Borrower in payment of principal and/or interest);
- (d) § 63 (4) (to be notified of the other Borrower's bankruptcy proceedings or debt reorganisation proceedings and/or any application for the latter);
- (e) § 65 (3) (that the consent of that Borrower is required for that Borrower to be bound by amendments to the Finance Documents 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 that Borrower's liabilities hereunder, since no such reduction shall apply as long as any amount is outstanding under the Finance Documents);
- (h) § 67 (4) (that that Borrower's liabilities hereunder shall lapse after 10 years, as that Borrower shall remain liable hereunder as long as any amount is outstanding under any of the Finance Documents);
- (i) § 70 (as that Borrower shall not have any right of subrogation into the rights of the Finance Parties under the Finance Documents until and unless the Finance Parties shall have received all amounts due or to become due to them under the Finance Documents);
- (j) § 71 (as the Finance Parties shall have no obligation first to make demand upon or seek to enforce remedies against any other Obligor or any other Security provided in respect of any other Obligor's liabilities under the Finance Documents before demanding payment under or seeking to enforce the guarantee obligations of that Borrower hereunder);
- (k) § 72 (as all interest and default interest due under any of the Finance Documents shall be secured by the guarantee obligations of that Borrower hereunder);
- (l) § 73 (1) – (2) (as all costs and expenses related to a termination event, a Default or an Event of Default shall be secured by the guarantee obligations of that Borrower hereunder); and
- (m) § 74 (1) – (2) (as that Borrower shall not make any claim against the other Borrower for payment by reason of performance by it of its obligations under the Finance Documents until and unless the Finance Parties first shall have received all amounts due or to become due to them under the Finance Documents).

**SECTION 4
REPAYMENT, PREPAYMENT AND CANCELLATION**

7. REPAYMENT

7.1 Repayment of the Pre-Delivery Tranche A

- (a) The Pre-Delivery Tranche A and any Outstanding Indebtedness related thereto is due and payable on the Final Maturity Date of the Pre-Delivery Tranche A.
- (b) No Borrower may reborrow any part of the Pre-Delivery Tranche A which is repaid.

7.2 Repayment of the Pre-Delivery Tranche B

- (a) The Pre-Delivery Tranche B and any Outstanding Indebtedness related thereto is due and payable on the Final Maturity Date of the Pre-Delivery Tranche B.
- (b) No Borrower may reborrow any part of the Pre-Delivery Tranche B which is repaid.

7.3 **Repayment of the Post-Delivery Tranche A**

- (a) The Post-Delivery Tranche A shall be repaid by 20 consecutive quarterly repayment instalments over a 20 year profile as set out in Schedule 9 (*Repayment Schedule*), provided that if the full amount of the Post-Delivery Tranche A is not advanced to the Borrowers, the amount of each such repayment instalment shall be reduced pro rata to the amount of the Post-Delivery Tranche A actually advanced. The first such repayment instalment is due and payable on the date falling 3 months after the Delivery Date of Vessel A and subsequent repayment instalments are due and payable at successive 3 monthly intervals thereafter.
- (b) Any Outstanding Indebtedness related to the Post-Delivery Tranche A is due and payable on the Final Maturity Date of the Post-Delivery Tranche A.
- (c) No Borrower may reborrow any part of the Post-Delivery Tranche A which is repaid.

7.4 **Repayment of the Post-Delivery Tranche B**

- (a) The Post-Delivery Tranche B shall be repaid by 20 consecutive quarterly repayment instalments over a 20 year profile as set out in Schedule 9 (*Repayment Schedule*), provided that if the full amount of the Post-Delivery Tranche B is not advanced to the Borrowers, the amount of each such repayment instalment shall be reduced pro rata to the amount of the Post-Delivery Tranche B actually advanced. The first such repayment instalment is due and payable on the date falling 3 months after the Delivery Date of Vessel B and subsequent repayment instalments are due and payable at successive 3 monthly intervals thereafter.
- (b) Any Outstanding Indebtedness related to the Post-Delivery Tranche B is due and payable on the Final Maturity Date of the Post-Delivery Tranche B.
- (c) No Borrower may reborrow any part of the Post-Delivery Tranche B which is repaid.

7.5 **Final Maturity Date**

All Outstanding Indebtedness is due and payable on the Final Maturity Date of the Post-Delivery Tranche B (or, if the Delivery Date of Vessel B occurs before the Delivery Date of Vessel A, on the Final Maturity Date of the Post-Delivery Tranche A).

8. **PREPAYMENT AND CANCELLATION**

8.1 **Voluntary cancellation**

The Borrowers may, if they give the Agent not less than 10 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 USD5,000,000) of the Available Facility in respect of a Tranche. Any cancellation under this Clause 8.1 (*Voluntary Cancellation*) shall reduce the Commitments of the Lenders in respect of that Tranche rateably.

8.2 **Voluntary prepayment of Loans**

- (a) The Borrowers may, if they give the Agent not less than 10 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 USD2,000,000).
- (b) Any prepayment under this Clause 8.2 (*Voluntary Prepayment Of Loans*) shall rateably satisfy the Borrowers' obligations under (1) Clause 7.1 (*Repayment Of The Pre-Delivery Tranche A*) and Clause 7.2 (*Repayment Of The Pre-Delivery Tranche B*) or (2) Clause 7.3 (*Repayment Of The Post-Delivery Tranche A*) and Clause 7.4 (*Repayment Of The Post-Delivery Tranche B*) (as the case may be, depending on whether or not the Vessels have been delivered and the Post-Delivery Facility utilised), pro rata to the remaining instalments and the balloon payment.

8.3 **Mandatory prepayment - Drop Down**

If a Drop Down occurs in relation to a Borrower, the Borrowers shall, on the relevant Drop Down Date, prepay a part of the Post-Delivery Tranche A (if the Drop Down relates to Borrower A) or a part of the Post-Delivery Tranche B (if the Drop Down relates to Borrower B) in the amount (if any) by which (a) the outstanding amount of the relevant Post-Delivery Tranche exceeds (b) 75% of the Market Value of that Borrower's Vessel as determined not more than 14 days prior to the relevant Drop Down Date pursuant to Clause 21.8 (*Market Value*), together with accrued interest and all other amounts accrued in relation thereto. Such amounts will become immediately due and payable on the relevant Drop Down Date whereupon the Total Commitments relating to the relevant Tranche shall be cancelled in the amount to be prepaid.

8.4 **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 Borrowers, each Available 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 8.8 (*Right of replacement or repayment and cancellation in relation to a single Lender*), the Borrowers 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 Borrowers 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.

8.5 **Mandatory prepayment – Total Loss or sale of a Vessel**

If a 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 that Vessel to the buyer; or
- (b) in the case of a Total Loss, on the earlier of the date falling 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 relating to the relevant Tranches under which that Vessel is financed 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 relating to the relevant Tranches under which that Vessel is financed will be cancelled and all such outstanding amounts will become immediately due and payable.

8.6 **Mandatory prepayment – Market Value**

- (a) If:
 - (i) following the Delivery Date of the first Vessel to be delivered but before the Delivery Date of the second Vessel to be delivered, the Market Value of the Vessel which has been delivered falls below 110% of the Post-Delivery Tranche relating to that Vessel; or
 - (ii) following the Delivery Date of both Vessels but after a Drop Date has occurred in respect of one Borrower only, the Market Value of a Vessel falls below 110% of the Post-Delivery Tranche relating to that Vessel;

the Borrower which is the owner of the relevant Vessel shall, unless otherwise agreed with the Agent within 30 days, either:

- (A) prepay the Post-Delivery Tranche relating to that Vessel or a part of that Post-Delivery Tranche (as the case may be); and/or
- (B) provide the Lenders with such additional security, in form and substance and being of a kind and having a value satisfactory to the Lenders,

as is required to restore the aforesaid ratio.

- (b) Any prepayment under paragraph (a) shall satisfy the relevant Borrower's obligations under Clause 7.3 (*Repayment Of The Post-Delivery Tranche A*) or 7.4 (*Repayment of the Post-Delivery Tranche B*) (as applicable) pro rata to the remaining instalments and the balloon payment.
- (c) If following the Delivery Date of both Vessels and no Drop Down has occurred or a Drop Down has occurred in respect of both Borrowers, the aggregate Market Value of the Vessels falls below 110% of the aggregate amount of the Post Delivery Tranches, the Borrowers shall, unless otherwise agreed with the Agent within 30 days, either:

- (i) prepay the Post-Delivery Tranches or a part of the Post-Delivery Tranches (as the case may be); 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,

as is required to restore the aforesaid ratio.

- (d) Any prepayment under paragraph (c) shall rateably satisfy the Borrowers' obligations under Clause 7.3 (*Repayment Of The Post-Delivery Tranche A*) and Clause 7.4 (*Repayment Of The Post-Delivery Tranche B*), pro rata to the remaining instalments and the balloon payments.
- (e) Any additional security shall be documented and perfected in such terms as the Agent (on behalf of all Lenders) may approve or require.

8.7 **Mandatory prepayment – Change of Control or delisting of KNOP**

- (a) If a Change of Control occurs in relation to both Borrowers or, if a Drop Down has taken place in relation to both Borrowers, KNOP ceases to be listed on the New York Stock Exchange:
 - (i) the Borrowers shall promptly notify the Agent upon becoming aware of that event;
 - (ii) a Lender shall not be obliged to fund a Utilisation; and
 - (iii) the Agent (acting on the instructions of the Majority Lenders) may, by giving notice to the Borrowers of not less than the relevant period specified in paragraph (c) below, 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.
- (b) If a Change of Control occurs in relation to one Borrower only or, if a Drop Down has taken place in relation to one Borrower only, KNOP ceases to be listed on the New York Stock Exchange (in each case, such Borrower being the **Affected Borrower**):
 - (i) the Borrowers shall promptly notify the Agent upon becoming aware of that event;
 - (ii) a Lender shall not be obliged to fund a Utilisation for the Tranche which relates to the Vessel owned by the Affected Borrower (the **Affected Tranche**); and

(iii) the Agent (acting on the instructions of the Majority Lenders) may, by giving notice to the Borrowers of not less than the relevant period specified in paragraph (c) below, cancel the Total Commitments for the Affected Tranche and declare all outstanding Loans in connection with the Affected Tranche, together with accrued interest, and all other amounts in connection with the Affected Tranche accrued under the Finance Documents immediately due and payable, whereupon the Total Commitments for the Affected Tranche will be cancelled and all such outstanding Loans for the Affected Tranche and amounts will become immediately due and payable.

(c) The relevant notice period specified in paragraphs (a)(iii) and (b)(iii) above is:

(i) 30 days in relation to a Change of Control (other than a KNOP Change of Control); or

(ii) 60 days in relation to a KNOP Change of Control or a delisting of KNOP.

8.8 **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 13.2 (*Tax gross-up*); or

(ii) any Lender claims indemnification from a Borrower under Clause 13.3 (*Tax indemnity*) or Clause 14.1 (*Increased costs*),

the Borrowers 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 Borrowers have given notice of cancellation under paragraph (a) above (or, if earlier, the date specified by the Borrowers in that notice), the Borrowers 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 8.4 (*Mandatory prepayment – illegality*) to any Lender,

the Borrowers may, on 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 27 (*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 Borrowers which confirms its willingness to assume and does assume all the obligations of the transferring Lender in accordance with Clause 27 (*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 27.7 (*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 Borrowers 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 Borrowers when it is satisfied that it has complied with this checks.

8.9 **Restrictions**

- (a) Any notice of cancellation or prepayment given by any Party under this Clause 8 (*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 and amounts (if any) payable under the Hedging Agreements in connection with that prepayment, without premium or penalty.
- (c) The Borrowers may not reborrow any part of a Facility which is prepaid.
- (d) The Borrowers 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 8 (*Prepayment and cancellation*) it shall promptly forward a copy of that notice to either the Borrowers 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.

8.10 **Application of prepayments**

Any prepayment of the Loan pursuant to Clause 8.2 (*Voluntary prepayment of Loans*), Clause 8.3 (*Mandatory prepayment - Drop Down*), Clause 8.5 (*Mandatory prepayment – Total Loss or sale of a Vessel*), Clause 8.6 (*Mandatory prepayment – Market Value*) or Clause 8.7 (*Mandatory prepayment – Change of Control*) shall be applied pro rata to each Lender's participation in that Loan.

SECTION 5 COSTS OF UTILISATION

9. **INTEREST**

9.1 **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) Interest shall be calculated on the actual number of days elapsed on the basis of a 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 9, there is any fraction equating to less than one hundredth of one dollar (USD0.01), such fraction shall be discarded.

9.2 **Payment of interest**

The Borrowers shall pay accrued interest on each Loan on the last day of each Interest Period (and, if the Interest Period is longer than 3 Months, on the dates falling at 3 monthly intervals after the first day of the Interest Period).

9.3 **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 2.00% 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).
- (b) If a Relevant Event of Default has occurred and is continuing in respect of a Loan and notice to pay default interest on it is given by the Agent to the relevant Borrower or the Borrowers (as the case may be) in accordance with paragraph (a) of Clause 26.16 (*Acceleration*), interest shall accrue on such Loan (but only to the extent that default interest is not then accruing on it under paragraph (a) above) from the date when such notice is given by the Agent to the relevant Borrower or the Borrowers (save in case of breach of Clause 21.6 (*Notification of default*), in which case default interest shall be payable from the date when the Relevant Event of Default occurred) up to the date on which the Relevant Event of Default is remedied at a rate which is 2.00% per annum higher than the normal interest rate then applicable to the relevant Loan.
- (c) Any interest accruing under this Clause 9.3 shall be immediately payable by the Obligor on demand by the Agent.
- (d) 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 2.00% per annum higher than the rate which would have applied if the overdue amount had not become due.
- (e) 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.

9.4 **Notification of rates of interest**

- (a) The Agent shall promptly notify the Lenders and the Borrowers of the determination of a rate of interest under this Agreement.
- (b) The Agent shall promptly notify the relevant Borrower of each Funding Rate relating to a Loan.

10. INTEREST PERIODS

10.1 Interest Periods

- (a) Except as provided in Clause 10.1(c) and Clause 10.1(d), each Interest Period shall be in relation to a Loan and shall be for a duration of 3 months.
- (b) The first Interest Period in respect of the first Loan to be utilised in respect of a Pre-Delivery Tranche shall commence on the first Utilisation Date for that Loan and end on the date falling 3 months after and each subsequent Interest Period for that Loan shall commence on the last day of the immediately preceding Interest Period.
- (c) The first Interest Period in respect of each subsequent Loan for that Pre-Delivery Tranche shall commence on its Utilisation Date and end on the last day of the then current Interest Period for the other Loans already drawn in relation to that Pre-Delivery Tranche (so that the Interest Periods for all Loans shall be consolidated) and each subsequent Interest Period shall commence on the last day of the immediately preceding Interest Period.
- (d) No Interest Period in respect of a Pre-Delivery Tranche that commences before the Utilisation Date of its applicable Post-Delivery Tranche shall extend beyond the Utilisation Date for such Post-Delivery Tranche and for the purposes of ensuring that the then current Interest Period for the Loans for the relevant Pre-Delivery Tranche ends on that date, Interest Periods of less than 3 months' duration may be set by the Agent so that it ends on the Utilisation Date of relevant Post-Delivery Tranche.
- (e) An Interest Period in respect of a Loan shall not extend beyond the relevant Final Maturity Date and shall be shortened so that it ends on the relevant Final Maturity Date.

10.2 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).

11. CHANGES TO THE CALCULATION OF INTEREST

11.1 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.

11.2 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 11.4 (*Cost of funds*) shall apply to that Loan for that Interest Period.

11.3 **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 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 11.4 (*Cost of funds*) shall apply to that Loan for the relevant Interest Period.

11.4 **Cost of funds**

- (a) If this Clause 11.4 (*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 3 Business Days of the first day of that Interest Period (or, if earlier, on the date falling 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 11.4 (*Cost of Funds*) applies and the Agent or a Borrower so requires, the Agent and the Borrowers shall enter into negotiations (for a period of not more than 30 days with a view to agreeing a substitute basis for determining the rate of interest.
- (c) Any alternative basis agreed pursuant to paragraph (b) above shall, with the prior consent of all the Lenders and the Borrowers, be binding on all Parties.

11.5 **Break Costs**

- (a) Each Borrower shall, within 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 Borrowers 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.

12. **FEES**

12.1 **Commitment fee**

- (a) The Borrowers shall pay to the Agent (for the account of each Lender) a commitment fee computed at the rate of 0.70% per annum on that Lender's Net Available Commitment for the period commencing on the date of this Agreement and ending on the last day of the Availability Period.
- (b) For the purposes of this Clause 12.1 (*Commitment fee*), the **Net Available Commitment** of a Lender is equal to the aggregate of:
 - (i) its Available Commitments in respect of the Pre-Delivery Tranches; plus
 - (ii) the amount by which its Available Commitments in respect of the Post-Delivery Tranches exceed the amount in paragraph (i) above.

- (c) The accrued commitment fee is payable on the last day of each successive period of 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.

12.2 **Flat fee**

The Borrowers shall pay to the Agent for distribution to each Original Lender a non-refundable flat fee in the amount equal to 1.00% of that Original Lender's Total Commitments to the Post-Delivery Facility, being:

- (a) a fee of USD510,500 to be paid to MUFG Bank, Ltd.;
- (b) a fee of USD960,500 to be paid to Mizuho Bank, Ltd.; and
- (c) a fee of USD450,000 to be paid to Sumitomo Mitsui Trust Bank, Limited (London Branch),

such amounts to be paid within 10 Business Days after the date of this Agreement.

12.3 **Other fees**

The Borrowers shall pay to the Agent such other fees as are set out in any Fee Letter.

SECTION 6 ADDITIONAL PAYMENT OBLIGATIONS

13. **TAX GROSS UP AND INDEMNITIES**

13.1 **Definitions**

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.

13.2 **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 Borrowers 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 Borrowers 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 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.

13.3 Tax indemnity

- (a) The Borrowers shall (within 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 13.2 (*Tax gross-up*); or
 - (B) would have been compensated for by an increased payment under Clause 13.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in paragraph (d) of Clause 13.2 (*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 Borrowers.
- (d) A Protected Party shall, on receiving a payment from an Obligor under this Clause 13.3 (*Tax indemnity*), notify the Agent.

13.4 Stamp taxes

The Borrowers shall pay and, within 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.

13.5 VAT

- (a) All amounts expressed to be payable under a Finance Document by any Party to a Finance Party which (in whole or in part) constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is chargeable on that supply, and accordingly, subject to paragraph (b) below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document and such Finance Party is required to account to the relevant tax authority for the VAT, that Party must pay to such 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 the VAT (and such Finance Party must promptly provide an appropriate VAT invoice to that Party).

- (b) If VAT is or becomes chargeable on any supply made by any Finance Party (the **Supplier**) to any other Finance Party (the **Recipient**) under a Finance Document, and any Party other than the Recipient (the **Relevant Party**) is required by the terms of any Finance Document to pay an amount equal to the consideration for that supply to the Supplier (rather than being required to reimburse or indemnify the Recipient in respect of that consideration):
 - (i) (where the Supplier is the person required to account to the relevant tax authority for the VAT) the Relevant Party must also pay to the Supplier (at the same time as paying that amount) an additional amount equal to the amount of the VAT. The Recipient must (where this paragraph (i) applies) promptly pay to the Relevant Party an amount equal to any credit or repayment the Recipient receives from the relevant tax authority which the Recipient reasonably determines relates to the VAT chargeable on that supply; and
 - (ii) (where the Recipient is the person required to account to the relevant tax authority for the VAT) the Relevant Party must promptly, following demand from the Recipient, pay to the Recipient an amount equal to the VAT chargeable on that supply but only to the extent that the Recipient reasonably determines that it is not entitled to credit or repayment from the relevant tax authority in respect of that VAT.
- (c) 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 of it 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.
- (d) Any reference in this Clause 13.5 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term **representative member** to have the same meaning as in the Value Added Tax Act 1994).
- (e) In relation to any supply made by a Finance Party to any Party under a Finance Document, if reasonably requested by such Finance Party, that Party must promptly provide such Finance Party with details of that Party's VAT registration and such other information as is reasonably requested in connection with such Finance Party's VAT reporting requirements in relation to such supply.

13.6 **FATCA Information**

- (a) Subject to paragraph (c) below, each Party shall, within 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 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.

13.7 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 Borrowers and the Agent and the Agent shall notify the other Finance Parties.

14. INCREASED COSTS

14.1 Increased costs

(a) Subject to Clause 14.3 (*Exceptions*) the Borrowers shall, within 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.

14.2 Increased cost claims

- (a) A Finance Party intending to make a claim pursuant to Clause 14.1 (*Increased costs*) shall notify the Agent of the event giving rise to the claim, following which the Agent shall promptly notify the Borrowers.
- (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.

14.3 Exceptions

(a) Clause 14.1 (*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 13.3 (*Tax indemnity*) (or would have been compensated for under Clause 13.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in paragraph (b) of Clause 13.3 (*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 14.3 (*Exceptions*), a reference to a **Tax Deduction** has the same meaning given to the term in Clause 13.1 (*Definitions*).

15. OTHER INDEMNITIES

15.1 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 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.

15.2 **Other indemnities**

Each Obligor shall, within 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 in respect of any Loan in respect of which that Obligor is then liable as Borrower or Guarantor;
- (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 31 (*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 Borrowers 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 Borrowers.

The indemnity in this Clause 15.2 (*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.

15.3 **Indemnity to the Agent**

The Borrowers 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.

16. **MITIGATION BY THE LENDERS**

16.1 **Mitigation**

- (a) Each Finance Party shall, in consultation with the Borrowers, 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 8.4 (*Mandatory prepayment – illegality*), Clause 13 (*Tax gross-up and indemnities*) or Clause 14 (*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.

16.2 **Limitation of liability**

- (a) The Borrowers 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 16.1 (*Mitigation*).
- (b) A Finance Party is not obliged to take any steps under Clause 16.1 (*Mitigation*) if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

17. **COSTS AND EXPENSES**

17.1 **Transaction expenses**

The Borrowers shall promptly on demand pay the Agent, the Hedging Banks 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.

17.2 **Amendment and enforcement costs**

The Borrowers shall, within 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.

17.3 **Costs and expenses payable even if no Utilisation**

For the avoidance of doubt, costs payable by the Borrowers under Clause 17.1 (*Transaction Expenses*) and this Clause 17.2 (*Amendment and enforcement costs*) remain payable whether or not a Utilisation is ever made.

SECTION 7 SECURITY

18. SECURITY

18.1 Security

The obligations and liabilities of a Borrower under the Finance Documents and the Hedging Agreements to which it is a party including (without limitation) that Borrower's obligation to repay the Loans for which, in accordance with Clause 6.1 (*Joint and several liability*) and Clause 6.2 (*Limitations*), it is from time to time liable under this Agreement together with all unpaid interest, default interest, commissions, charges, expenses and any other derived liability whatsoever of that Borrower towards the Finance Parties and/or the Hedging Banks in connection therewith shall, at any time until all amounts owing by it to the Finance Parties and the Hedging Banks under the Finance Documents and the Hedging Agreements to which it is a party have been paid and/or repaid in full, be guaranteed by the Guarantee from KNOT (if no Drop Down has taken place in respect of that Borrower) or by the Guarantees from KNOP and KNOT ST (if a Drop Down has taken place in respect of that Borrower) and be secured by the following security:

- (a) the Account Pledge executed by that Borrower;
- (b) the Factoring Agreement executed by that Borrower;
- (c) the Share Pledge in respect of that Borrower;
- (d) the Hedging Agreement Security executed by that Borrower;
- (e) during the Pre-Delivery Security Period relating to its Vessel, the Pre-Delivery Assignment Agreement executed by that Borrower; and
- (f) during the Post-Delivery Security Period relating to its Vessel, the Mortgage and Post-Delivery Assignment Agreement executed by that Borrower,

and any other document that may have been or shall from time to time hereafter be executed as Security for that Borrower's obligations under or pursuant to the Finance Documents and/or the Hedging Agreements to which it is a party.

18.2 Ranking

The Security Documents entered into by or in respect of a Borrower shall:

- (a) rank with first priority;
- (b) secure all obligations of that Borrower under the Finance Documents and the Hedging Agreements to which it is a party, subject always to the provisions of Clause 32.5 (*Partial Payments*); and
- (c) as between the Hedging Banks and the other Finance Parties, secure the obligations of that Borrower under the Hedging Agreements to which it is a party on a pari passu basis with the rights of the other Finance Parties.

18.3 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 date of the initial Utilisation Request or the Delivery Dates of the respective Vessels (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 reasonably 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.

19. **GUARANTEE AND INDEMNITY**

19.1 **Guarantee and indemnity**

Each Guarantor irrevocably and unconditionally:

- (a) guarantees to each Finance Party and each Hedging Bank punctual performance by each Borrower of all that Borrower's obligations under the Finance Documents and the Hedging Agreements;
- (b) undertakes with each Finance Party and each Hedging Bank that whenever a Borrower does not pay any amount when due under or in connection with any Finance Document or any Hedging Agreement, each Guarantor shall immediately on demand pay that amount as if it was principal obligor, and no Guarantor shall 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 Borrowers shall have an impact on a Guarantor's obligation to pay under the guarantee set out in this Clause 19 (*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 and that Hedging Bank immediately on demand against any cost, loss or liability it incurs as a result of a 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 19 (*Guarantee and indemnity*) if the amount claimed had been recoverable on the basis of a guarantee,

subject, however, to Clause 19.2 (*Guarantee limitations*) below.

19.2 **Guarantee limitations**

Notwithstanding the obligations of a Guarantor pursuant to the guarantee set out in this Clause 19 (*Guarantee and indemnity*):

- (a) the maximum guarantee liability of that Guarantor hereunder shall always be limited to USD230,520,000 plus (i) any interest, default interest, Break Cost or other costs, fees and expenses related to the Borrowers' 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 19 (*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 Norwegian Companies Act or any equivalent and applicable provisions under the laws of the relevant jurisdiction of that Guarantor; and
- (c) with effect from the date a Drop Down in respect of one Borrower has occurred and until a Drop Down has occurred also for the other Borrower (whereafter KNOP and KNOT ST shall be jointly and severally liable for both Borrowers' obligations under the Finance Documents):
 - (i) the guarantee liabilities of KNOT shall be limited to the obligations of the Borrower owned by it only; and
 - (ii) the joint and several guarantee liabilities of KNOP and KNOT ST shall be limited to the obligations of the Borrower owned by KNOP or a Subsidiary of KNOP only.

19.3 **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.

19.4 **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 Guarantors under this Clause 19 (*Guarantee and indemnity*) will continue or be reinstated as if the discharge, release or arrangement had not occurred.

19.5 **Waiver of defences**

The obligations of each Guarantor under this Clause 19 (*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 19 (*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.

19.6 **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 19 (*Guarantee and indemnity*). This waiver applies irrespective of any law or any provision of a Finance Document or a Hedging Agreement to the contrary.

19.7 **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 19 (*Guarantee and indemnity*).

19.8 **Deferral of the 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 19 (*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 19 (*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 32 (*Payment mechanics*).

19.9 **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.

19.10 **FA Act**

Each Guarantor, to the extent it is considered 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 individually against the amount due);
- (b) § 63 (1) – (2) (to be notified of a Default or 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 a Borrower in payment of principal and/or interest);
- (d) § 63 (4) (to be notified of a 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 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

20. REPRESENTATIONS

20.1 Date of representations and warranties

- (a) Subject to paragraph (b), each Obligor makes the representations and warranties set out in this Clause 20 (*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.
- (b) Each Borrower make the representations and warranties set out in Clause 20.13 (*Financial statements*) (in so far as they relate to a Borrower's Original Financial Statements) to each Finance Party and each Hedging Bank on the date on which the first set of audited financial statements (being the audited financial statements for the financial year ending 31 December 2019) are delivered by each Borrower to the Agent pursuant to Clause 21.2(a) (*Financial statements*) and on the dates on which the Repeating Representations are made.

20.2 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.

20.3 **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 relevant 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 a Vessel, for the Mortgage over that Vessel to constitute a valid and enforceable first priority mortgage over that Vessel.

20.4 **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.

20.5 **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 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 authorise the execution of the Finance Documents and the Transaction Documents, the compliance with the provisions thereof and the performance of its obligations thereunder.
- (c) Each Borrower acts for its own account by entering into the Finance Documents and obtaining the Facilities.

20.6 **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.

20.7 **Governing law and enforcement**

- (a) The choice of English and Norwegian law respectively as the governing law of the Finance Documents (other than the Mortgage on any Vessel whose Flag State is not Norway or the

United Kingdom) will be recognised and enforced in its jurisdiction of incorporation and each Flag State.

- (b) Any judgment obtained in England and Wales and/or Norway in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation and each Flag State.

20.8 Insolvency

No corporate action, legal proceeding or other procedure or step described in Clause 26.7 (*Insolvency*), 26.8 (*Insolvency proceedings*) or Clause 26.9 (*Creditors' process*) is currently pending or, to its knowledge, threatened in relation to it, and none of the circumstances described in Clause 26.7 (*Insolvency*), 26.8 (*Insolvency proceedings*) or Clause 26.9 (*Creditors' process*) applies to it.

20.9 Deduction of Tax

It is not required to make any Tax Deduction from any payment it may make under any Finance Document.

20.10 No filing or stamp taxes

Except for registration of:

- (a) each Mortgage in the ship registry of the relevant Vessel's Flag State; and
- (b) the Factoring Agreements with the Norwegian Register of Moveable Property (*Løsøreregisteret*) (and payment of associated fees),

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.

20.11 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 (including, without limitation, the Finance Documents and the Transaction Documents) which might have a Material Adverse Effect.

20.12 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.

20.13 Financial statements

- (a) Its Original Financial Statements and the financial information most recently delivered to the Agent pursuant to Clause 21 (*Information Undertakings*) were prepared in accordance with the relevant GAAP consistently applied.
- (b) Its Original Financial Statements and the financial information most recently delivered to the

Agent pursuant to Clause 21 (*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 21 (*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.

20.14 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.

20.15 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.

20.16 Title

The Borrowers hold or will hold the legal title to, and/or are or will be the beneficial owner of, as the case may be, the Security Assets (other than the shares pledged pursuant to the Shares Pledge, which are owned by (a) KNOT or (b) KNOP or a Subsidiary of KNOP (as the case may be).

20.17 No security

None of the Security Assets are affected by any Security, and it is not a party to, nor is it or any of the Security 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 Security 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 23.3 (*Negative pledge*).

20.18 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 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 the Finance Documents, the Hedging Agreements and the Transaction Documents will constitute, private and commercial acts done and performed for private and commercial purposes.

20.19 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.

20.20 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.

- (c) It is resident for Tax purposes only in the jurisdiction of its incorporation, unless the Agent shall have been otherwise informed in writing.

20.21 Environmental compliance

Each 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 Vessels.

20.22 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.

20.23 ISM Code and ISPS Code compliance

All requirements of the ISM Code and the ISPS Code as they relate to the Borrowers (or any of their Affiliates), the Manager, any charterers and the Vessels have been complied with.

20.24 The Vessels

Each Vessel will on the Utilisation Date of the Loans under the relevant Post-Delivery Tranche be:

- (a) in the absolute ownership of the relevant Borrower free and clear of all encumbrances (other than current crew wages and the relevant Mortgage) and that Borrower will be the sole, legal and beneficial owner of that Vessel;
- (b) registered in the name of the relevant 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 the Classification Society, free of all overdue requirements and other recommendations.

20.25 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).

20.26 Sanctions

None of the Obligors, nor any of their Subsidiaries nor any of their directors and officers or, or to their knowledge, any other Relevant Person is or has been:

- (a) a Restricted Party or the owner or controller of 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.

20.27 Ownership

The structure chart set out in Schedule 8 (*Structure Chart*) 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 8 (*Structure Chart*) if and when requested by the Agent (on behalf of any Lender, acting reasonably).

20.28 **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.

20.29 **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 each Utilisation Request, on each 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).

21. **INFORMATION UNDERTAKINGS**

21.1 **General**

The undertakings in this Clause 21 (*Information undertakings*) remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents and/or the Hedging Agreements and/or any Commitment is in force.

21.2 **Financial statements**

The Borrowers 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 150 days after the end of each of their financial years:
 - (i) their audited financial statements for that financial year; and
 - (ii) the audited consolidated financial statements of the Guarantors for that financial year;
- (b) as soon as the same become available, but in any event within 90 days after the end of their financial quarters (other than for the 4th financial quarter in each financial year):
 - (i) their unaudited financial statements for that financial quarter; and
 - (ii) the unaudited consolidated financial statements of the Guarantors for that financial quarter;
- (c) as soon as the same become available, but in any event on or before 31 January of each financial year, the consolidated annual budget and cash flow projections for that financial year and for the next 5 years for the Guarantors, specifying major assumptions and structure charts which correctly reflects the KNOT Group and/or the KNOP Group on such date.

21.3 **Compliance Certificate**

The Borrowers shall supply to the Agent, with each set of financial statements delivered pursuant to paragraph (a)(i) or (b)(i) of Clause 21.2 (*Financial statements*), a Compliance Certificate signed by the chief financial officer of the Borrowers and the Guarantors setting out (in reasonable detail) computations as to compliance with Clause 22 (*Financial covenants*) and the relevant Market Value requirement set out in Clause 8.6 (*Mandatory prepayment – Market Value*) as at the date as at which those financial statements were drawn up.

21.4 **Requirements as to financial statements**

- (a) Each set of financial statements delivered by the Borrowers pursuant to Clause 21.2 (*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 Borrowers shall procure that each set of financial statements of an Obligor delivered pursuant to Clause 21.2 (*Financial statements*) is prepared using the relevant 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 the relevant 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 relevant 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 22 (*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.

21.5 **Information: miscellaneous**

Each Obligor shall supply to the Agent (in sufficient copies for all the Lenders, if the Agent so requests):

- (a) 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;
- (b) 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;
- (c) promptly upon becoming aware that it, any of its direct or indirect owners, other member of the Group or any of their respective directors, officers, employees, agents or representatives has become or is likely to become a Restricted Party; and
- (d) 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.

21.6 **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).

21.7 **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 any 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 any Vessel,

where the claim would be reasonably likely, if determined against an Obligor (or any of its Affiliates) or any Vessel, to have a Material Adverse Effect.

21.8 **Market Value**

- (a) The Borrowers shall arrange or undertake to let the Agent arrange for the Market Value of each Vessel to be determined:
 - (i) (if applicable) prior to the Drop Down Date in relation to the Borrower which owns that Vessel;
 - (ii) semi-annually; and
 - (iii) at any other time when requested by the Majority Lenders.
- (b) The cost of each valuation obtained for the purposes of paragraphs (i) and (ii) of paragraph (a) above shall be at the expense of the Borrowers.
- (c) The cost of each valuation obtained for the purposes of paragraph (iii) of paragraph (a) above shall be at the expense of the Lenders, unless an Event of Default has occurred in which case each such valuation shall be at the expense of the Borrowers (if they are then jointly and severally liable for the Loans) or at the expense of the Borrower who owns the relevant Vessel (if the Borrowers are then severally liable for the Loans).

21.9 **Inspection reports**

If any relevant inspection reports are made or issued in respect of a Vessel, the Borrowers shall promptly forward copies of such reports to the Agent.

22. **FINANCIAL COVENANTS**

22.1 **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 the relevant GAAP and as shown in the latest financial statements including preferred equity (and Subordinated Shareholder Loans shall be included in the calculation of Book Equity when determining the Equity Ratio for KNOT).

Current Assets means the aggregate (on a consolidated basis) of all inventory, work in progress, trade and other receivables including prepayments in relation to operating items and sundry debtors expected to be realised within twelve months from the date of computation but excluding amounts in respect of:

- (a) receivables in relation to Tax;
- (b) exceptional items and other non-operating items;
- (c) insurance claims; and
- (d) any interest owing to any member of the relevant Group.

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 12 months after the relevant calculation date and (when calculating the Current Liabilities of a Borrower) any group 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 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 the relevant GAAP; and
- (c) (when determining the Free Liquidity of KNOP) the undrawn portion of all revolving facilities to the KNOP Group maturing in no less than 3 months.

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 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 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 December 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 23.11 (*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 the relevant GAAP, be classified as assets.

Working Capital means, on any date, Current Assets less Current Liabilities.

22.2 **Financial condition – each Borrower**

(a) **Free Liquidity – each Borrower**

Each Borrower shall at all times as long as it is owned by KNOT maintain a consolidated Free Liquidity equal to or greater than USD500,000.

22.3 **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**

KNOT (on a consolidated basis) shall at all times as long as it is a Guarantor under this Agreement maintain a consolidated Free Liquidity equal to or greater than the higher of:

- (i) USD25,000,000; and
- (ii) 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%.

22.4 **Financial condition – KNOP**

(a) **Working Capital**

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 28.2 (*KNOP and KNOT ST as replacement Guarantors*) 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 28.2 (*KNOP and KNOT ST as replacement Guarantors*) maintain a Free Liquidity equal to or greater than:

- (i) USD15,000,000; plus
- (ii) USD1,500,000 for each owned (directly or indirectly) vessel (up to a total of 8 vessels) with employment contracts with less than 12 months' remaining tenor (excluding options) being up to an additional Free Liquidity requirement of USD12,000,000 in aggregate; plus
- (iii) USD1,000,000 for each vessel in excess of 8 vessels owned (directly or indirectly) with employment contracts with less than 12 months' remaining tenor (excluding options) being up to a further additional Free Liquidity requirement of USD12,000,000 in aggregate, resulting in a potential maximum requirement of Free Liquidity of USD39,000,000 in total,

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 28.2 (*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 28.2 (*KNOP and KNOT ST as replacement Guarantors*) have a ratio of EBITDA to interest expense greater than 250%.

22.5 **Financial testing**

The financial covenants set out in Clause 22.2 (*Financial condition – each Borrower*), Clause 22.3

(*Financial condition – KNOT*) and Clause 22.4 (*Financial condition – KNOP*) shall be calculated on KNOT's or KNOP's (as the case may be) consolidated figures and in accordance with the relevant GAAP and tested (a) by reference to each of its financial statements delivered pursuant to Clause 21.2 (*Financial statements*) (whether audited or un-audited) and each Compliance Certificate delivered pursuant to Clause 21.3 (*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 (b) of Clause 21.5 (*Information: miscellaneous*), and presented to the Agent in form and substance satisfactory to the Agent.

22.6 **Financial covenants in other agreements**

Each Obligor undertakes to promptly notify the Agent if it becomes aware that an Obligor enters into any agreements and/or arrangements and/or adjustment of existing arrangements or agreements relating to Financial Indebtedness of a similar nature as the Facilities which would impose stricter financial covenants (excluding, for the avoidance of doubt, loan to value covenants) applicable to the Obligors as set out in this Clause 22 (*Financial covenants*) and, in such case, upon notice by the Agent to the Borrowers, such new and stricter covenants and/or ratios shall apply under this Agreement. This Clause 22.6 shall not apply to KNOP until KNOP has acceded to this Agreement as a Guarantor in accordance with 28.2 (*KNOP and KNOT ST as replacement Guarantors*).

23. **GENERAL UNDERTAKINGS**

23.1 **General**

The undertakings in this Clause 23 (*General undertakings*) remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents and/or the Hedging Agreements and/or any Commitment is in force.

23.2 **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.

23.3 **Negative pledge**

- (a) No Obligor shall create or permit to subsist any Security over any of the Security Assets.
- (b) No Borrower shall create or permit to subsist any Security over any of its assets (including, without limitation, any of its rights under the Charterparty relating to its Vessel) nor any factoring agreement to be registered with the Norwegian Registry of Movable Property (in Norwegian, *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 or KNOT ST.
- (d) No Borrower shall:
 - (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) Paragraphs (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 30 days overdue;

(iii) any Security entered into pursuant to any Finance Document or Hedging Agreement; and

(iv) Security consented to in writing by the Agent (acting upon instructions from the Lenders).

23.4 Disposals

(a) No Borrower shall 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) of a Vessel made as permitted under Clause 25.12 (*Chartering and employment*) or Clause 25.13 (*Restrictions on sale, chartering, etc.*);

(ii) of any other asset made in the ordinary course of trading of the disposing entity; or

(iii) of any assets made in exchange for other assets comparable or superior as to type, value and quality.

23.5 Merger

No Obligor shall enter into any amalgamation, demerger, merger or corporate reconstruction (other than an intra-group reorganisation which does not have a Material Adverse Effect).

23.6 Change of business

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.

23.7 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.

23.8 Title

The Obligors (as the case may be) shall hold legal title to and own the entire beneficial interest in the Security 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 23.3 (*Negative pledge*).

23.9 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.

23.10 Accounts

Each Borrower shall maintain the Account relating to it with the Account Bank and shall ensure that all Earnings are paid to the Borrower A Account or the Borrower B Account (as the case may be).

23.11 Hedging Agreements and other derivative transactions

- (a) No Borrower shall:
- (i) enter into any derivative transactions with any parties other than the Hedging Banks unless the Hedging Banks have received a reasonable opportunity, in writing, to provide competitive rates to that Borrower and the Hedging Banks (or any of them) cannot provide such competitive rates; nor
 - (ii) enter into any derivative transactions for any purpose other than hedging the interest rate in relation to a Loan to which the relevant Borrower's Vessel relates and/or for hedging that Borrower's currency exposure in relation to the daily operation of its Vessel.
- (b) In the event that a Borrower wishes to enter into a Hedging Agreement with a Hedging Bank, it shall first enter into a Hedging Master Agreement with that Hedging Bank (if has not already done so). Each Hedging Master Agreement shall be based on an ISDA master agreement and shall be in form and substance approved by the Hedging Banks and the Lenders. Accordingly, any Hedging Master Agreement entered into before the date of this Agreement shall be amended by the parties to it in a manner approved by the other Hedging Banks and the Lenders, and no Hedging Agreement shall be entered into under it until it has been so amended. The parties to a Hedging Master Agreement may not amend the material terms of that Hedging Master Agreement without the prior written consent of the other Hedging Banks and the Lenders.
- (c) No Borrower shall enter into a Hedging Agreement with any Hedging Bank, and the Hedging Banks undertake not to enter into a Hedging Agreement with any Borrower, unless the relevant Borrower has entered into the corresponding Hedging Agreement Security on or before the date of the Hedging Agreement.
- (d) Each Hedging Agreement shall be based on the Hedging Master Agreement made between the relevant Borrower and the relevant Hedging Bank and, subject to paragraph (e) below, shall otherwise be in such form and substance as the relevant Borrower and the relevant Hedging Bank may agree.
- (e) The aggregate notional amount of the transactions in respect of all Hedging Agreements relating to a Loan shall not exceed 100% of the amount of that Loan and, if at any time the aggregate notional amount of the transactions in respect of the Hedging Agreements relating to a Loan exceeds or, as a result of a repayment or prepayment, will exceed 100% of the amount of that Loan at that time, the relevant Borrower shall reduce the aggregate notional amount of those transactions by an amount and in a manner satisfactory to the Agent so that it no longer exceeds or will not exceed 100% of the amount of that Loan then outstanding or (as the case may be) that will be outstanding. Any such reduction in the aggregate notional amount of the Hedging Agreements relating to a Loan will be apportioned as between the transactions under those Hedging Agreements pro rata.
- (f) Neither a Hedging Bank nor a Borrower may terminate or close out any transactions in respect of any Hedging Agreement (in whole or in part) except:
- (i) in accordance with paragraph (e) above;
 - (ii) if an Illegality (as that term is defined in the relevant Hedging Master Agreement) has occurred;

- (iii) if the Loan to which the Hedging Agreement relates and all other amounts outstanding in relation to that Loan under the Finance Documents (other than the Hedging Agreements) have been unconditionally and irrevocably paid and discharged in full;
 - (iv) in the case of termination or closing out by a Hedging Bank, if the Agent serves notice under Clause 26.16 (*Acceleration*) in relation to the Loan to which the Hedging Agreement relates or, having served notice under Clause 26.16 (*Acceleration*), makes a demand for repayment of that Loan;
 - (v) in the case of any other termination or closing out by a Hedging Bank or a Borrower, with the consent of the other Hedging Banks and all the Lenders.
- (g) If a Hedging Bank or a Borrower terminates or closes out any transaction in respect of a Hedging Agreement (in whole or in part) in accordance with paragraphs (f)(ii) (in the case of a Hedging Bank only) or (f)(iv) above, it shall promptly notify the Agent of that termination or close out.
 - (h) If a Hedging Bank is entitled to terminate or close out any transaction in respect of a Hedging Agreement in the circumstances described in paragraph (f)(iv) above, such Hedging Bank shall promptly terminate or close out such transaction following a request to do so by the Agent.
 - (i) For the purposes of this Clause 23.11 (*Hedging Agreements And Other Derivative Transactions*), a Hedging Agreement made for the purpose of hedging a Borrower's currency exposure in relation to the daily operation of its Vessel is deemed to relate to the Loan by which that Vessel is financed.

23.12 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 share 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 in respect of any Loan in respect of which KNOT is then liable as Guarantor 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 (on a consolidated basis) equal to or exceeding USD35,000,000; and
 - (D) KNOT and each Borrower will be in compliance with the financial covenants under Clause 22 (*Financial covenants*) following the making, payment or declaration of the relevant dividend or other distribution.

- (c) KNOP 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 in respect of any Loan in respect of which KNOP is then liable as Guarantor 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 each Borrower will be in compliance with the financial covenants under Clause 22 (*Financial covenants*) following the making, payment or declaration of the relevant dividend or other distribution.
- (d) No Borrower shall, 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 in respect of any Loan in respect of which that Borrower is then liable as Borrower 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) that Borrower and the relevant Guarantor(s) will be in compliance with the financial covenants under Clause 22 (*Financial covenants*) following the making, payment or declaration of the relevant dividend or other distribution.

23.13 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.

23.14 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.

23.15 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.

23.16 Subordination

Each 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.

23.17 Indebtedness

No Borrower shall, without the prior written consent of the Agent, borrow any additional funds or enter into any transaction (including derivative transactions other than under a Hedging Agreement) that may result in the incurrence of any additional Financial Indebtedness (it being understood however that Intra-Group Indebtedness shall be allowed provided always that (a) no Default is then in existence or will occur from such disposition in respect of any Loan in respect of which that Borrower is then liable as Borrower, (b) after giving effect to such disposition, the Obligors will be in compliance with the financial covenants in Clause 22 (*Financial covenants*) and (c) Intra-Group Indebtedness shall be fully subordinated to the Facilities and any obligations under the Hedging Agreements).

23.18 Investments

No Borrower shall, without the prior written consent of the Lenders, make any further investments or acquisitions other than investments relating to the Vessels in the ordinary course of business.

23.19 Financial support

No Borrower shall make or grant any loans, guarantees or any other form of financial support, except financial support in the ordinary course of operation of the Vessels (it being understood however that Intra-Group Indebtedness shall be allowed provided always that (a) no Default is then in existence or will occur from such disposition in respect of any Loan in respect of which that Borrower is then liable as Borrower, (b) after giving effect to such disposition, the Obligors will be in compliance with the financial covenants in Clause 22 (*Financial covenants*) and (c) Intra-Group Indebtedness shall be fully subordinated to the Facilities and any obligations under the Hedging Agreements).

23.20 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 Vessels and their ownership, employment, operation, management and registration, including the ISM Code, the ISPS Code, all Environmental Laws, all Sanctions and the laws of each relevant Flag State;
- (b) obtain, comply with and do all that is necessary to maintain in full force and effect any Environmental Permits; and
- (c) without limiting paragraph (a) above, not employ a 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.

23.21 Sanctions

- (a) No Obligor shall (and each Obligor 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 each Obligor shall ensure that no other Relevant Person will) take any action or make any omission that results 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).
- (c) No Obligor shall (and each Obligor shall ensure that no other Relevant Person will);
- (i) use any Restricted Assets to discharge any liabilities under any Finance Document or Hedging Agreement; and/or
 - (ii) credit any Restricted Asset to any Account.

23.22 **Laws and regulations**

- (a) No Obligor 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 the public sector or any other individual or entity to make a buying or selling decision or illegally or improperly influencing any public official of present or prospective government, public sector customers or private sector customers of it in obtaining or retaining business or taking any other improper action favourable to it.
- (b) Each Obligor and each party acting on its behalf shall observe and abide with all applicable laws and regulations applicable to it including, amongst other things, SOLAS conventions or any applicable anti-bribery or anti-corruption laws, including the US Foreign Corrupt Practices Act or the UK Bribery Act 2010.

24. **VESSEL UNDERTAKINGS – PRE-DELIVERY**

24.1 **General**

The undertakings in this Clause 24 (*Vessel undertakings*) are granted by each Borrower in respect of the Vessel to be delivered to it and remain in force from the date of this Agreement and until (and including) the Delivery Date of the relevant Vessel.

24.2 **No variation, release, etc. of a Shipbuilding Contract**

No Borrower shall, without the prior written consent of the Majority Lenders, whether by a document, by conduct, by acquiescence or in any other way:

- (a) vary a Shipbuilding Contract in such manner as to affect the type or class of the relevant Vessel or in such manner as might reasonably be expected to diminish the value of that Vessel or materially (as determined by the Agent) alter its contractual delivery date;
- (b) vary a Shipbuilding Contract in such manner as might be expected to affect the relevant Refund Guarantee in any adverse way; or
- (c) release, waive, suspend, subordinate or permit to be lost or impaired any interest or right of any kind which that Borrower has at any time to, in or in connection with a Shipbuilding

Contract or in relation to any matter arising out of or in connection with that Shipbuilding Contract;

- (d) reject the relevant Vessel under a Shipbuilding Contract or rescind or terminate a Shipbuilding Contract or claim that a Shipbuilding Contract has been repudiated by the Shipyard or is frustrated for any reason whatsoever; or
- (e) consent (to the extent that any such consent is required) to any assignment or transfer by the Shipyard of any of its rights or obligations under a Shipbuilding Contract,

provided always that the novation of the Shipbuilding Contracts pursuant to the Shipbuilding Contract Novation Agreements shall not require the prior written consent of the Majority Lenders.

24.3 **No variation, release, etc. of a Refund Guarantee**

No Borrower shall, without the prior written consent of the Majority Lenders, whether by a document, by conduct, by acquiescence or in any other way:

- (a) agree to any amendment of or variation to a Refund Guarantee; or
- (b) release the Refund Guarantor from any of its duties and liabilities under a Refund Guarantee or waive any breach of any of the said duties and liabilities or consent to any such act or omission of the Refund Guarantor which would otherwise constitute such a breach,

provided always that the confirmation of the Refund Guarantees pursuant to the Refund Guarantee Confirmations shall not require the prior written consent of the Majority Lenders

24.4 **Provision of information relating to the Shipbuilding Contracts and Refund Guarantees**

Without prejudice to Clause 21.5 (*Information: miscellaneous*) each Borrower shall:

- (a) immediately inform the Agent if any breach of a Shipbuilding Contract or a Refund Guarantee occurs or a serious risk of such a breach arises and of any other event or matter affecting a Shipbuilding Contract or a Refund Guarantee;
- (b) provide the Agent, promptly after service, with copies of all notices served on or by a Borrower under or in connection with a Shipbuilding Contract or a Refund Guarantee; and
- (c) provide the Agent with any information which it requests about any interest or right of any kind which the Borrowers have at any time to, in or in connection with the Shipbuilding Contracts and/or the Refund Guarantees or in relation to any matter arising out of or in connection with the Shipbuilding Contracts and/or the Refund Guarantees, including the progress of the construction of the Vessels.

24.5 **No assignment, etc. of a Shipbuilding Contract or Refund Guarantee**

No Borrower shall assign, novate, transfer or dispose of any of its rights or obligations under the relevant Shipbuilding Contract or Refund Guarantee.

24.6 **Reports and inspections**

- (a) Each Borrower shall provide the Agent with status reports, in form and substance acceptable to the Agent, with regard to the progress of the construction work under each Shipbuilding Contract and to demonstrate that the delivery date of each Vessel will occur on or before its contractual delivery date under the relevant Shipbuilding Contract (as such date may be extended by any permissible delays under such Shipbuilding Contract). During the construction period under the Shipbuilding Contracts up until the actual delivery date such status reports shall be delivered to the Agent on the last day of each financial quarter.
- (b) The Borrowers shall upon request from the Agent arrange for the Agent, and/or any other persons appointed by the Agent, to inspect each Vessel during the construction period without interference of the construction of that Vessel.

25. VESSEL UNDERTAKINGS – POST-DELIVERY

25.1 General

The undertakings in this Clause 25 (*Vessel Undertakings – Post-Delivery*) are granted by each Borrower in respect of the Vessel owned by it and remain in force from the Delivery Date of the relevant Vessel and for so long as any amount is outstanding under the Finance Documents and the Hedging Agreements or any Commitment is in force.

25.2 Insurance – Vessels

- (a) The Borrowers shall maintain or ensure that each 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 each Vessel shall be at least equal to the higher of:
 - (i) the Market Value of that Vessel;
 - (ii) the amount which, when aggregated with the value of the corresponding insurances for the other Vessel (once both Vessels have been delivered), equals 120% of the Loans or (if the other Vessel has not yet been delivered or the Borrowers are not at that time jointly and severally liable for the Loans) the amount which equals 120% of the Loans relating to that Vessel,

whereof the hull and machinery insurance for a Vessel shall at all times cover at least 80% of the Market Value of that Vessel.

- (c) The Borrowers 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) The Borrower shall renew the Insurances before the relevant policies or contracts expire and shall promptly confirm, or procure that the approved insurance brokers, insurance companies, underwriters, war risks and protection and indemnity associations with which the renewal of Insurances are effected, promptly confirm, in writing to the Agent such renewal as and when the same occurs.
- (e) The Borrowers shall allow the Agent to take out (for the benefit of the Finance Parties and the Hedging Banks), a mortgagee's interest insurance and a mortgagee's interest - additional perils pollution insurance covering 120% of the outstanding Loans at any time. Such cover shall be taken out at the cost and expense of the Borrowers (if they are then jointly and severally liable for the Loans) or at the expense of the Borrower who owns the relevant Vessel (if the Borrowers are then severally liable for the Loans).
- (f) If any of the Insurances referred to in paragraph (a) above form part of a fleet cover, the Borrowers shall procure, except for protection & indemnity (where the Borrowers shall procure the issue of 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 any Vessel any premiums due in respect of other vessels or 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 vessels or units under such fleet cover or of premiums for such other insurances, and shall undertake to issue a separate policy in respect of a Vessel if and when so requested by the Agent.

- (g) The Borrowers shall procure that each 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 Borrowers will not make any material change to the insurances described under (a) above without the prior written consent of the Agent.
- (i) The Borrowers 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 of each Vessel and thereafter (if requested by the Agent or Lenders) upon each renewal of the Insurances referred to in paragraph (a) above. Such report shall be paid for by both Borrowers (if they are then jointly and severally liable for the Loans) or by the Borrower who owns the relevant Vessel (if the Borrowers are then severally liable for the Loans).

25.3 **Flag and registry**

Each Vessel shall be registered in an Approved Ship Registry. A Borrower may not move its Vessel to any other ship register without the prior written consent of the Majority Lenders.

25.4 **Classification and repairs**

Each Borrower shall, and shall procure that the relevant Manager shall, keep or shall procure that the relevant 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 the Classification Society, free of overdue material recommendations and qualifications;
- (b) so as to comply with the laws and regulations (statutory or otherwise) applicable to vessels registered in the Flag State of that Vessel or to vessels trading to any jurisdiction to which that Vessel may trade from time to time;
- (c) not, without the prior written consent of the Majority Lenders, change the Classification Society of a Vessel;
- (d) not, without the prior written consent of the Agent, bring a Vessel or allow a 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 USD3,000,000 (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 that 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 in respect of any Loan in respect of which that Borrower is then liable as Borrower, a Borrower may procure that its Vessel enters 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 a Vessel, nor any modification of, or part removal from, a Vessel in a way which would materially diminish her value;
- (f) procure that each 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
- (g) not permit a 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.

25.5 **Inspections and class records**

- (a) The Borrowers shall procure that the Agent's surveyor, at the Borrowers' cost, is permitted to inspect the condition of each Vessel twice a year provided always that such arrangement shall not interfere with the operation of that Vessel and subject to satisfactory indemnities approved by the P&I insurers. Such inspection cost shall be paid for by both Borrowers (if they are then jointly and severally liable for the Loans) or by the Borrower who owns the relevant Vessel (if the Borrowers are then severally liable for the Loans).
- (b) Each Borrower shall procure that, and shall procure that the Manager of its Vessel shall procure that, at any time after the occurrence of an Event of Default which is continuing in respect of any Loan in respect of which that Borrower is then liable as Borrower or otherwise with the prior consent of the relevant Borrower, the Agent is granted permission to:
 - (i) obtain information about each Vessel and her condition from the Classification Society and any relevant authorities;
 - (ii) have access to the records of each Vessel maintained by the Classification Society and such relevant authorities; and
 - (iii) otherwise communicate directly with the Classification Society and any other relevant authorities as if the Agent were the owner of that Vessel (for which purpose each Borrower shall issue such authorisations and instructions to, and use its best endeavours to obtain such acknowledgments and undertakings from, such authorities and bodies, each in such terms as the Agent may require).
- (c) The Borrowers 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 each Vessel.

25.6 **Surveys**

The Borrowers shall, and shall procure that the relevant Manager shall, submit to or cause each 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 each 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.

25.7 **Notification of certain events**

The Borrowers shall immediately notify the Agent of:

- (a) any accident to a Vessel involving repairs where the costs will or is likely to exceed USD3,000,000 (or the equivalent in any other currency);
- (b) any requirement or recommendation made by any insurer or the 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 a Vessel, its Earnings or its Insurances;
- (d) any occurrence as a result of which a 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 a Borrower or otherwise in connection with the Vessel.

25.8 **Operation of the Vessels**

- (a) The Borrowers shall procure that each 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 a Vessel.

- (b) The Borrowers 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 Vessels (all as adopted, amended or replaced from time to time), their ownership, operation and/or management or to the business of the Borrowers and each Manager and shall not employ a 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 Borrowers 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.

25.9 ISM Code compliance

The Borrowers shall:

- (a) procure that each Vessel remains subject to a SMS;
- (b) procure that a valid and current SMC is maintained for each 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 a 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 are 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.

25.10 Environmental compliance

The Borrowers 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 Vessels.

25.11 Arrest

The Borrowers 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 a Vessel, its Earnings or its Insurances;
- (b) all tolls, taxes, dues, fines, penalties and other amounts charged in respect of a Vessel, its Earnings or its Insurances; and
- (c) all other outgoings whatsoever in respect of a Vessel, its Earnings and its Insurances,

and forthwith (however not later than after 30 Business Days) upon receiving a notice of arrest of a Vessel, or its detention in exercise or purported exercise of any lien or claim, the Borrowers shall procure its release by providing bail or providing the provision of security or otherwise as the circumstances may require.

25.12 **Chartering and employment**

No Borrower shall enter into arrangements which provide an obligation to charter (or similar arrangement) in any tonnage.

25.13 **Restrictions on sale, chartering, etc.**

No Borrower shall, without the prior written consent of the Lenders:

- (a) sell or otherwise dispose of its Vessel, unless the Loans are prepaid in accordance with Clause 8.5 (*Mandatory prepayment - Total Loss or sale of the Vessel*) in connection therewith; or
- (b) terminate, cancel, materially amend or supplement the Charterparty or any other contract of employment entered into in respect of its Vessel, nor assign such Charterparty or other contract of employment to any other person, provided that no prior written consent shall be required in connection with amendments and supplements to the Charterparty or any other contract of employment in respect of its Vessel which are favourable to that Borrower, provided always that the relevant Borrower gives written notice to the Agent of such amendments and supplements as soon as reasonably practicably thereafter.

26. **EVENTS OF DEFAULT**

26.1 **General**

- (a) Each of the events or circumstances set out in Clause 26 (*Events of Default*) is an Event of Default (save for this Clause 26.1 and Clause 26.16 (*Acceleration*)).
- (b) If the Borrowers are jointly and severally liable for a Loan, any Event of Default which occurs shall be deemed to occur in respect of that Loan.
- (c) If the Borrowers are not jointly and severally liable for a Loan, an Event of Default shall be deemed to occur in respect of that Loan only if:
 - (i) in the case of Clause 26.2 (*Non-payment*), it relates to non-payment of an amount in relation to that Loan; or
 - (ii) in the case of Clause 26.3 (*Financial covenants, sanctions, etc.*) or Clause 26.4 (*Other obligations*), it relates to a breach or non-compliance by the Borrower liable for that Loan (the **relevant Borrower**) or by a Guarantor who has guaranteed the repayment of that Loan (a **relevant Guarantor**) or relates to the Vessel owned by the relevant Borrower (the **relevant Vessel**); or
 - (iii) in the case of Clause 26.5 (*Misrepresentation*), it relates to a misrepresentation by the relevant Borrower or a relevant Guarantor (a **relevant Obligor**); or
 - (iv) in the case of Clause 26.6 (*Cross default*), it relates to a cross-default in respect of a relevant Obligor; or
 - (v) in the case of Clause 26.7 (*Insolvency*), Clause 26.8 (*Insolvency proceedings*) or Clause 26.9 (*Creditors' process*), it relates to a relevant Obligor; or
 - (vi) in the case of Clause 26.10 (*Cessation of business*), it relates to a relevant Obligor; or
 - (vii) in the case of Clause 26.11 (*Unlawfulness*), it relates to a relevant Obligor or to Security over or in respect of the relevant Vessel or any other Security Asset relating to the relevant Vessel or the relevant Borrower (**relevant Security**); or

- (viii) in the case of Clause 26.12 (*Material adverse change*), it relates to a Material Adverse Effect in respect of a relevant Obligor or its Group or to any relevant Security or to a Finance Document or Hedging Agreement to which a relevant Obligor is party; or
- (ix) in the case of Clause 26.13 (*Repudiation, validity and cancellation/termination*), it relates to a relevant Obligor or to any Finance Document or Transaction Document to which a relevant Obligor is party; or
- (x) in the case of Clause 26.14 (*Insurances*) or Clause 26.15 (*The Vessels*), it relates to the relevant Vessel.

26.2 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 3 Business Days of its due date.

26.3 Financial covenants, sanctions, etc.

Any requirement of Clause 22 (*Financial covenants*), Clause 23.20 (*Compliance with laws etc.*), Clause 23.21 (*Sanctions*), Clause 25.2 (*Insurance – Vessels*), Clause 25.3 (*Flag and registry*) and Clause 25.4 (*Classification and repairs*) is not satisfied.

26.4 Other obligations

- (a) An Obligor does not comply with any provision of the Finance Documents (other than those referred to in Clause 26.2 (*Non-payment*) and Clause 26.3 (*Financial covenants, sanctions, 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 10 Business Days of the earlier of (i) the Agent giving notice to the Borrowers and (ii) the Borrowers becoming aware of the failure to comply.

26.5 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.

26.6 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 26.6 (*Cross default*) if the aggregate amount

of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (a) to (d) above is less than USD8,000,000 (or its equivalent in any other currency or currencies).

26.7 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.

26.8 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 26.8 (*Insolvency proceedings*) shall not apply to any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within 30 days of commencement.

26.9 Creditors' process

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of an Obligor having an aggregate value of USD8,000,000 and is not discharged within 30 days.

26.10 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.

26.11 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.

26.12 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.

26.13 **Repudiation, validity and cancellation/termination**

- (a) An Obligor repudiates a Finance Document or a Transaction 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) A Shipbuilding Contract, Refund Guarantee or Charterparty is cancelled or terminated for any reason, or any party to a Shipbuilding Contract, Refund Guarantee or Charterparty is in breach of any payment obligation thereunder where such cancellation, termination or breach might reasonably be expected to have a Material Adverse Effect.
- (d) A Vessel is not accepted by the Charterer under the relevant Charterparty within the time period for such acceptance provided by such Charterparty.

26.14 **Insurances**

Any insurance policy taken out in respect of a Vessel is cancelled, revoked or lapses, or any insurance claim by a Borrower is repudiated following a Total Loss.

26.15 **The Vessels**

- (a) Class certification of a Vessel is withdrawn.
- (b) There is an instability affecting a Vessel's Flag State and that Vessel is not transferred to another Approved Ship Registry immediately upon request by the Agent.

26.16 **Acceleration**

On and at any time after the occurrence of an Event of Default which is continuing in respect of a Loan the Agent may, and shall if so directed by the Majority Lenders, by notice to the relevant Borrower (if it is severally liable for that Loan) or the Borrowers (if they are jointly and severally liable for that Loan):

- (a) (if a Relevant Event of Default has occurred), require payment of default interest on that Loan in accordance with Clause 9.3 (*Default Interest*);
- (b) cancel the Total Commitments relating to that Loan whereupon they shall immediately be cancelled;
- (c) declare that all or part of that Loan, together with accrued interest on it and all other amounts accrued or outstanding in relation to it 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 that Loan be payable on demand, whereupon it shall immediately become payable on demand by the Agent on the instructions of the Majority Lenders.

**SECTION 9
CHANGES TO PARTIES**

27. **CHANGES TO THE LENDERS**

27.1 **Transfers by the Lenders**

Subject to this Clause 27 (*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**).

27.2 **Conditions of transfer**

- (a) The consent of each 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 in respect of any Loan for which that Borrower is then liable as Borrower.

- (b) The consent of the Borrowers to a transfer must not be unreasonably withheld or delayed. A Borrower will be deemed to have given its consent 10 Business Days after the Existing Lender has requested it unless consent is expressly refused by such Borrower within that time.
- (c) A transfer will only be effective if the procedure set out in Clause 27.4 (*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 in accordance with Clause 27.8 (*Change of 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 13 (*Tax gross-up and indemnities*) or Clause 14 (*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.

27.3 **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:
 - (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 27 (*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.

27.4 Procedure for transfer

- (a) Subject to the conditions set out in Clause 27.2 (*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 27.7 (*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".

27.5 Copy of Transfer Certificate to the Borrowers

The Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate, send to the Borrowers a copy of that Transfer Certificate.

27.6 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 27 (*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.

27.7 **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 27.4 (*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):
 - (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 6 Months, on the next of the dates which falls at 6 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 27.7 (*Pro rata interest settlement*), have been payable to it on that date, but after deduction of the Accrued Amounts.
- (b) In this Clause 27.7 (*Pro rata interest settlement*) references to "Interest Period" shall be construed to include a reference to any other period for accrual of fees.

27.8 **Change of Facility Office**

Any Finance Party may at any time and from time to time change its Facility Office by giving notice to the Agent and that change shall be effective on the later of (a) the date specified in that notice and (b) the date of receipt by the Agent of that notice from that Finance Party. The Agent shall promptly notify the Borrowers and the other Finance Parties of any notice received by it pursuant to this Clause 27.8 (*Change of Facility Office*).

27.9 **Delegation**

Any Finance Party may at any time and from time to time delegate any one or more of its rights, powers and/or obligations under the Finance Documents to any person (provided that such Finance Party shall remain fully responsible for the exercise or performance of any rights, powers and/or obligations delegated by it).

27.10 Register

The Agent shall keep a register of all the Lenders for the time being with details of their respective Commitments and Facility Office and shall provide any other Party (at that Party's expense) with a copy of the register on request.

27.11 Assignments and transfers by the Hedging Banks

- (a) A Hedging Bank may not assign or transfer its rights or obligations under any Hedging Agreement other than with the consent of the Majority Lenders or in accordance with paragraph (b) below.
- (b) Where a Hedging Bank (a **Transferor Hedging Bank**) effects a transfer of all or any of its rights and obligations under a Hedging Agreement to any bank or financial institution (a **Transferee Hedging Bank**) in accordance with the provisions of that Hedging Agreement, it shall also be entitled to assign or transfer to the Transferee Hedging Bank a commensurate proportion of its rights and obligations as a Hedging Bank under this Agreement and the other Finance Documents, provided that:
 - (i) no such rights and obligations may be assigned or transferred to any person that is not a Lender or an Affiliate of a Lender, except with the consent of all the Lenders and the other Hedging Banks and the Borrowers; and
 - (ii) no assignment or transfer by a Hedging Bank of any of its rights or obligations under this Agreement and the other Finance Documents to a Transferee Hedging Bank that is not already a Party in the capacity of Hedging Bank shall be binding on, or effective in relation to, any other Party unless that Transferee Hedging Bank has acceded to this Agreement as a Party in such terms as the Agent and the Borrowers shall reasonably require.
- (c) Promptly after completion of any relevant assignment or transfer referred to in paragraph (b) above, the Transferor Hedging Bank and the Transferee Hedging Bank shall give notice in writing to the Agent and the Borrowers notifying them of that assignment or transfer.
- (d) The Borrowers undertake, at the cost and expense of the Transferor Hedging Bank, to do or to procure all such acts and things and to sign, execute and deliver or procure the signing, execution and delivery of all such instruments and documents as the Transferor Hedging Bank and/or the Transferee Hedging Bank may reasonably require for the purpose of perfecting any such assignment or transfer as mentioned in paragraph (b) above.

28. CHANGES TO THE OBLIGORS

28.1 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.

28.2 KNOP and KNOT ST as replacement Guarantors

- (a) KNOT shall have the option to sell its shares in a Borrower to KNOP or a Subsidiary of KNOP at any time from the Delivery Date of the Vessel to be delivered to that Borrower, subject to the terms and conditions set out in this Clause 28.2 (*KNOP 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 Borrowers have delivered to the Agent a duly completed and executed Accession Letter relating to the Drop Down; and
 - (v) the Agent has received all of the documents and other evidence listed in Part 4 (*KNOP and KNOT ST as replacement Guarantors*) of Schedule 3 (*Conditions Precedent And Subsequent*) in form and substance satisfactory to it.
- (c) On the first Drop Down Date:
- (i) KNOP and KNOT ST shall accede to this Agreement as Guarantors and become liable as Guarantors for the obligations of the Borrower(s) to which the Drop Down relates;
 - (ii) KNOT shall be released from its obligations under any Finance Document and each Hedging Agreement as a Guarantor for the obligations of the Borrower(s) to which the Drop Down relates;
 - (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 22.4 (*Financial condition – KNOP*) shall become applicable;
 - (v) in the event that the Drop Down on the first Drop Down Date relates to one Borrower only, the joint and several liability of the Borrowers shall cease until Drop Down has taken place for both Borrowers, as regulated by paragraph (c) of Clause 6.2 (*Limitations*); and
 - (vi) in the event that both Borrowers have been subject to a Drop Down on the first Drop Down Date, on the first Drop Down Date:
 - (A) KNOT shall cease to be a Party to this Agreement; and
 - (B) the financial covenants regulated by Clause 22.3 (*Financial condition – KNOT*) shall cease to apply.
- (d) On the second Drop Down Date (if there is more than one Drop Down Date):
- (i) KNOT shall be released from its obligations under any Finance Document and each Hedging Agreement as a Guarantor for the obligations of the Borrower to which the Drop Down relates and KNOT shall cease to be a Party to this Agreement;
 - (ii) the financial covenants regulated by Clause 22.3 (*Financial condition – KNOT*) shall cease to apply;
 - (iii) KNOP and KNOT ST shall become liable as Guarantors for the obligations of the Borrower to which the Drop Down relates; and
 - (iv) the joint and several liability of the Borrowers shall be reinstated in accordance with paragraph (c) of Clause 6.2 (*Limitations*).
- (e) The Agent shall notify the other Parties, substantially in the form set out in Schedule 10 (*Form of Drop Down Confirmation Letter*), promptly upon being satisfied in relation to a Drop Down that:
- (i) it has received (in form and substance satisfactory to it) all the documents and other evidence listed in paragraph (b) above in relation to the relevant Drop Down;

- (ii) KNOP and KNOT ST have acceded to this Agreement as Guarantors in relation to the obligations of the Borrower to which the Drop Down relates; and
- (iii) any required prepayment has been made in accordance with Clause 8.3 (*Mandatory prepayment - Drop Down*) in relation to the relevant Drop Down,

and the relevant Drop Down and the replacement of KNOT by KNOP and KNOT ST as Guarantors for the obligations of the Borrower to which the Drop Down relates shall become effective as of the date and time the Parties are notified in accordance with this paragraph (e).

- (f) 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 fully released from its obligations as a Guarantor under this Agreement.
- (g) During any period when KNOT is the Guarantor for one Borrower and KNOP and KNOT ST are Guarantors for the other Borrower, the Loan(s) relating to each Borrower shall be treated on a stand-alone basis. Accordingly, during such period:
 - (i) there shall be no joint liability between the obligations of one Borrower and/or its Guarantor (KNOT) on the one side and the other Borrower and/or its Guarantors (KNOP and KNOT ST) on the other side;
 - (ii) to the extent that any undertaking, covenant or representation under a Finance Document is expressed to be given or made by a Borrower or its Guarantor(s) in relation to any Obligor, any Loan, any Security Asset or any document, such undertaking, covenant or representation shall be deemed to be given or made only (as the case may be) in respect of:
 - (A) that Borrower and/or such Guarantor(s) and/or their Group;
 - (B) the Loan or Loans relating to that Borrower;
 - (C) the Vessel owned by that Borrower and/or or any other Security Asset relating to the relevant Vessel or that Borrower; and/or
 - (D) the Finance Documents, Hedging Agreements, Transaction Documents and/or any other relevant document to which that Borrower and/or such Guarantor is a party; and
 - (iii) no Event of Default shall occur in relation to the Loan(s) relating to one Borrower by reason only of an Event of Default having occurred in relation to the Loan(s) relating to the other Borrower, as more specifically described in Clause 26.1 (*General*) and Clause 26.16 (*Acceleration*).

SECTION 10 THE FINANCE PARTIES

29. **ROLE OF THE AGENT, THE BOOKRUNNER, THE MANDATED LEAD ARRANGER AND THE REFERENCE BANKS**

29.1 **Appointment of the Agent**

- (a) Each other Finance Party and each Hedging Bank appoints 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.

29.2 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 and all Hedging Banks if the relevant Finance Document stipulates the matter is an all Lender and all Hedging Bank decision;
 - (B) all Lenders if the relevant Finance Document stipulates the matter is an all Lender decision; and
 - (C) 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 and/or Hedging Bank or group of Lenders and/or Hedging Banks, from that Lender and/or Hedging Bank or group of Lenders and/or Hedging Banks) 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 and/or Hedging Bank or group of Lenders and/or Hedging Banks 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 and/or Hedging Bank or group of Lenders and/or Hedging Banks 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 and the Hedging Banks.
- (f) The Agent is not authorised to act on behalf of a Lender or Hedging Bank (without first obtaining that Party's consent) in any legal or arbitration proceedings relating to any Finance Document.

29.3 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 27.5 (*Copy of Transfer Certificate to the Borrowers*), 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).

29.4 **Letters of Quiet Enjoyment**

If a Letter of Quiet Enjoyment is required by the Charterer of a Vessel and the relevant Borrower is contractually obliged to procure the same, each of the Finance Parties authorises and instructs the Agent to execute, and perform its obligations under, such Letter of Quiet Enjoyment.

29.5 **Roles of the Bookrunner and the Mandated Lead Arranger**

Except as specifically provided in the Finance Documents, neither the Bookrunner nor the Mandated Lead Arranger has any obligations of any kind to any other Party under or in connection with any Finance Document.

29.6 **No fiduciary duties**

- (a) Nothing in any Finance Document constitutes the Agent or the Bookrunner or the Mandated Lead Arranger as a trustee or fiduciary of any other person.
- (b) Neither the Agent nor the Bookrunner nor the Mandated Lead Arranger shall be bound to account to any Lender or Hedging bank for any sum or the profit element of any sum received by it for its own account.

29.7 **Business with the Group**

The Agent, the Bookrunner 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.

29.8 **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, any Hedging Bank, any group of Lenders or any group of Hedging Banks 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 and the Hedging Banks) that:
 - (i) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 26.2 (*Non-payment*));
 - (ii) any right, power, authority or discretion vested in any Party or any group of Lenders or Hedging Banks has not been exercised; and
 - (iii) any notice or request made by the Borrowers (other than a 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 or Hedging Banks) 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 the Bookrunner nor the 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.

29.9 **Responsibility for documentation**

Neither the Agent nor the Bookrunner 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, the Bookrunner, the 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.

29.10 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.

29.11 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 Bookrunner 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 or Hedging Bank,

on behalf of any Lender or Hedging Bank and each Lender and Hedging Bank confirms to the Agent, the Bookrunner 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, the Bookrunner or the 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.

29.12 **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, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Agent, within 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).

29.13 **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 Borrowers.
- (b) Alternatively the Agent may resign by giving 30 days' notice to the other Finance Parties and the Borrowers, in which case the Majority Lenders (after consultation with the Borrowers) may appoint a successor Agent.
- (c) If the Majority Lenders have not appointed a successor Agent in accordance with paragraph (b) above within 20 days after notice of resignation was given, the retiring Agent (after consultation with the Borrowers) 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 29 (*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 Borrowers shall, within 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 15.3 (*Indemnity to the Agent*) and this Clause 29 (*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.

- (h) After consultation with the Borrowers, 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 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 13.6 (*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 13.6 (*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 Borrowers 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.

29.14 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.

29.15 Relationship with the Lenders

- (a) Subject to Clause 27.7 (*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 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 34.5 (*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 34.2 (*Addresses*) and paragraph (a)(iii) of Clause 34.5 (*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.

29.16 **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, the Bookrunner 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.

29.17 **Role of Reference Banks**

- (a) No Lender is under any obligation to act as a Reference Bank (either directly or through one of its Affiliates) and a Lender shall only be appointed as a Reference Bank if it has confirmed in writing to the Agent that it accepts such appointment.
- (b) No Reference Bank, once appointed, is under any obligation to provide a quotation or any other information to the Agent.
- (c) 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.
- (d) 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 (*Role of the Reference Banks*).

29.18 **Third party Reference Banks**

A Reference Bank which is not a Party may rely on Clause 29.17 (*Role of Reference Banks*), Clause 38.3 (*Other exceptions*) and Clause 42 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

29.19 **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 Borrowers) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

29.20 **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.

30. **CONDUCT OF BUSINESS BY THE FINANCE PARTIES**

No provision of this Agreement will:

- (a) interfere with the right of any Finance Party or 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.

31. **SHARING AMONG THE FINANCE PARTIES**

31.1 **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 32 (*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 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 32 (*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 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 32.5 (*Partial payments*).

31.2 **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 32.5 (*Partial payments*) towards the obligations of that Obligor to the Sharing Finance Parties.

31.3 **Recovering Finance Party's rights**

On a distribution by the Agent under Clause 31.2 (*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.

31.4 **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.

31.5 **Exceptions**

- (a) This Clause 31 (*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

32. **PAYMENT MECHANICS**

32.1 **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.

32.2 **Distributions by the Agent**

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 32.3 (*Distributions to an Obligor*), Clause 32.4 (*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 5 Business Days' notice.

32.3 **Distributions to an Obligor**

The Agent may (with the consent of the Obligor or in accordance with Clause 33 (*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.

32.4 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 Borrowers 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 Borrowers:
 - (i) the Agent shall notify the Borrowers of that Lender's identity and the Borrowers 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 Borrowers, 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.

32.5 Partial payments

- (a) If the Agent receives a payment from, or in respect of an amount owing by, a Borrower under the Finance Documents or Hedging Agreements that is insufficient to discharge all the amounts then due and payable by that Borrower under the Finance Documents and Hedging Agreements, the Agent shall apply that payment towards the obligations of that Borrower under the Finance Documents and Hedging Agreements in the following order:
 - (i) first, in or towards payment pro rata of any unpaid amount owing to the Agent by that Borrower or its Guarantor(s) under the Finance Documents;
 - (ii) secondly, in or towards the satisfaction of the amounts forming the balance of the Outstanding Indebtedness for which that Borrower is liable which are then due and payable, whether by reason of payment demanded or otherwise, pro rata between the Finance Parties.
- (b) Insofar as any amounts are paid to the Lenders under paragraph (a) above, such amounts shall be applied as between them in the following order:
 - (i) first, in or towards payment pro rata of any fees, costs and expenses due to the Lenders from the relevant Borrower or its Guarantor(s) but unpaid under the Finance Documents;
 - (ii) secondly, in or towards payment pro rata of any accrued interest due to the Lenders from the relevant Borrower or its Guarantor(s) but unpaid under this Agreement;
 - (iii) thirdly, in or towards payment pro rata of any principal due to the Lenders from the relevant Borrower or its Guarantor(s) but unpaid under this Agreement;
 - (iv) fourthly, in or towards payment pro rata of any other sum due to the Lenders from the relevant Borrower or its Guarantor(s) but unpaid under the Finance Documents.
- (c) The Agent shall, if so directed by the Lenders, vary the order set out in paragraph (b) above.

(d) Paragraphs (a) to (c) above will override any appropriation made by an Obligor.

32.6 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.

32.7 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.

32.8 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.

33. 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 33 (*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 33 (*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 in respect of any Loan, any resulting amount due to a Hedging Bank under a Hedging Agreement made in relation to that Loan or (as the case may be) in relation to the Vessel financed by that Loan is made to and/or through the Agent in accordance with Clause 32.1 (*Payments to the Agent*).

34. NOTICES

34.1 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.

34.2 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 A:

KNOT Shuttle Tankers 34 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
tuo@knotgroup.com
tya@knotgroup.com

- (b) in the case of Borrower B:

KNOT Shuttle Tankers 34 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
tuo@knotgroup.com
tya@knotgroup.com

- (c) in the case of KNOT:

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
oem@knotgroup.com
hho@knotgroup.com
kly@knutsenoas.com
tuo@knotgroup.com
tya@knotgroup.com

- (d) in the case of each Lender, each Hedging Bank or any other Obligor, that notified in writing to the Agent on or prior to the date on which it becomes a Party; and

- (e) in the case of the Agent:

MUFG Bank, Ltd.
25 Ropemaker Street
London
EC2Y 9AN
United Kingdom

E-mail: kazuhiro.sakamoto@uk.mufg.jp

or any substitute address or fax number or department or officer as a 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 5 Business Days' notice.

34.3 **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 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 34.2 (*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 Borrowers in accordance with this Clause will be deemed to have been made or delivered to each of the Obligors.
- (e) Any communication or document which becomes effective, in accordance with paragraphs (a) to (d) above, on a non-working day or after 5:00 p.m. in the place of receipt shall be deemed only to become effective at the opening of business hours on the next working day in the place of receipt.

34.4 **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 34.2 (*Addresses*) or changing its own address or fax number, the Agent shall notify the other Parties.

34.5 **Electronic communication**

- (a) Any communication to be made between any two Parties under or in connection with the Finance Documents may be made by electronic mail or other electronic means, if those two Parties:
 - (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 will be effective only when actually received in readable form and in the case of any electronic communication made by a Party to the Agent only if it is addressed in such a manner as the Agent shall specify for this purpose.
- (c) Any electronic communication which becomes effective, in accordance with paragraph (b) above, after 5:00 p.m. in the place in which the Party to whom the relevant communication is sent or made available has its address for the purpose of this Agreement shall be deemed

only to become effective at the opening of business hours on the next working day in the place of receipt.

34.6 **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.

35. **CALCULATIONS AND CERTIFICATES**

35.1 **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.

35.2 **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.

35.3 **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 or, in any case where the practice in the Relevant Interbank Market differs, in accordance with that market practice.

35.4 **Fraction**

Any fractional amount less than one cent arising as a result of any calculation of the interests or other amounts pursuant hereto shall be rounded down to zero.

36. **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.

37. **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.

38. **AMENDMENTS AND WAIVERS**

38.1 **Required consents**

- (a) Subject to Clause 38.2 (*All Lender matters*) and Clause 38.3 (*Other exceptions*), any term of the Finance Documents may be amended or waived only with the consent of the Majority

Lenders and the Obligor 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.

38.2 All Lender matters

Subject to Clause 38.4 (*Replacement of Screen Rate*) 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 in respect of any Tranche or any requirement that a cancellation of Commitments reduces the Commitments of the Lenders rateably under the Facilities;
- (e) any provision which expressly requires the consent of all the Lenders;
- (f) Clause 2.3 (*Finance Parties' and Hedging Banks' rights and obligations*), Clause 8.3 (*Mandatory prepayment - Drop Down*), Clause 8.4 (*Mandatory prepayment - illegality*), Clause 8.5 (*Mandatory prepayment - Total Loss or sale of a Vessel*), Clause 8.6 (*Mandatory prepayment - Market Value*), Clause 8.7 (*Mandatory prepayment - Change of Control or delisting of KNOP*), Clause 8.10 (*Application of prepayments*), Clause 20.26 (*Sanctions*), Clause 23.20 (*Compliance with laws, etc.*), Clause 23.21 (*Sanctions*), Clause 27 (*Changes to the Lenders*), Clause 28 (*Changes to the Obligor*), Clause 31 (*Sharing among the Finance Parties*), this Clause 38 (*Amendments and waivers*), Clause 45 (*Governing law*) or Clause 46.1 (*Jurisdiction of English courts*);
- (g) the nature or scope of the Guarantees;
- (h) release of any Security created by the Security Documents unless permitted under the Finance Documents;
- (i) a change to any Obligor, other than in accordance with Clause 28.2 (*KNOP and KNOT ST as replacement Guarantors*); or
- (j) any material change in a Guarantee or any of the Security Documents,

shall not be made without the prior consent of all the Lenders.

38.3 Other exceptions

An amendment or waiver which relates to the rights or obligations of the Agent, the Bookrunner, the 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, the Bookrunner, the Mandated Lead Arranger, that Reference Bank or that Hedging Bank, as the case may be.

38.4 Replacement of Screen Rate

- (a) Subject to Clause 38.3 (*Other exceptions*), if a Screen Rate Replacement Event has occurred, any amendment or waiver which relates to:
 - (i) providing for the use of a Replacement Benchmark; and
 - (ii) all or any of the following:

- (A) aligning any provision of any Finance Document to the use of that Replacement Benchmark;
- (B) enabling that Replacement Benchmark to be used for the calculation of interest under this Agreement (including, without limitation, any consequential changes required to enable that Replacement Benchmark to be used for the purposes of this Agreement);
- (C) implementing market conventions applicable to that Replacement Benchmark;
- (D) providing for appropriate fallback (and market disruption) provisions for that Replacement Benchmark; and/or
- (E) adjusting the pricing to reduce or eliminate, to the extent reasonably practicable, any transfer of economic value from one Party to another as a result of the application of that Replacement Benchmark (and if any adjustment or method for calculating any adjustment has been formally designated, nominated or recommended by the Relevant Nominating Body, the adjustment shall be determined on the basis of that designation, nomination or recommendation),

may be made with the consent of the Agent (acting on the instructions of the Majority Lenders) and the Borrowers.

- (b) If any Lender fails to respond to a request for an amendment or waiver described in paragraph (a) above within 20 Business Days (or such longer time period in relation to any request which the Borrowers and the Agent may agree) of that request being made:
 - (i) its Commitments shall not be included for the purpose of calculating the Total Commitments when ascertaining whether any relevant percentage of Total Commitments has been obtained to approve that request; and
 - (ii) its status as a Lender shall be disregarded for the purpose of ascertaining whether the agreement of any specified group of Lenders has been obtained to approve that request.

39. 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.

40. 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

41. 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 Vessels, the Finance Documents, the Transaction Documents, the Facilities, 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 Facilities and/or Commitments;
 - (vi) 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;
 - (vii) 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; or
 - (viii) 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 Facilities and for such purpose use the Obligors' logos and trademark in connection with such publication.

42. CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS

42.1 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 9.4 (*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.
- (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 42 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without prejudice to its obligations to make notifications under Clause 9.4 (*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.

42.2 **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 42.1 (*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 42 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

42.3 **No Event of Default**

No Event of Default will occur under Clause 26.4 (*Other obligations*) by reason only of an Obligor's failure to comply with this Clause 42 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

43. **"KNOW YOUR CUSTOMER" CHECKS**

43.1 **Information to be provided by Obligors**

If:

- (a) 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;

- (b) any change in the status of an Obligor or the composition of the shareholders of an Obligor after the date hereof;
- (c) 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
- (d) any internal requirements or routines of any of the Finance Parties,

obliges the Agent or any Finance Party (or, in the case of paragraph (c) 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 (c) 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 (c) 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.

43.2 **Information to be provided by Finance Parties**

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.

44. **CONTRACTUAL RECOGNITION OF BAIL-IN**

44.1 Notwithstanding any other term of any Finance Document or any other agreement, arrangement or understanding between the parties to a Finance Document, each Party acknowledges and accepts that any liability of any party to a Finance Document under or in connection with the Finance Documents may be subject to Bail-In Action by the relevant Resolution Authority and acknowledges and accepts to be bound by the effect of:

- (a) any Bail-In Action in relation to any such liability, including (without limitation):
 - (i) a reduction, in full or in part, in the principal amount, or outstanding amount due (including any accrued but unpaid interest) in respect of any such liability;
 - (ii) a conversion of all, or part of, any such liability into shares or other instruments of ownership that may be issued to, or conferred on, it; and
 - (iii) a cancellation of any such liability; and
- (b) a variation of any term of any Finance Document to the extent necessary to give effect to any Bail-In Action in relation to any such liability.

SECTION 13 GOVERNING LAW AND ENFORCEMENT

45. **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.

46. **ENFORCEMENT**

46.1 **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.

46.2 **Service of process**

- (a) Without prejudice to any other mode of service allowed under any relevant law, each Obligor:
 - (i) irrevocably appoints Knutsen OAS (UK) Limited, whose current registered office is at 3rd Floor, 11-12 St. James' Square, London, SW1Y 4LB, 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 PRE-DELIVERY FACILITY

| Name and Facility Office of Original Lender | Pre-Delivery Tranche A Commitment | Pre-Delivery Tranche B Commitment | Total Commitments to Pre-Delivery Facility |
|--|--|--|---|
| MUFG Bank, Ltd. 25 Ropemaker Street London EC2Y 9AN United Kingdom | USD11,294,248 | USD11,294,248 | USD22,588,496 |
| Mizuho Bank, Ltd. Mizuho House 30 Old Bailey London EC4M 7AU United Kingdom | USD21,250,000 | USD21,250,000 | USD42,500,000 |
| Sumitomo Mitsui Trust Bank, Limited (London Branch) 155 Bishopsgate London EC2M 3XU United Kingdom | USD9,955,752 | USD9,955,752 | USD19,911,504 |
| Totals: | USD42,500,000 | USD42,500,000 | USD85,000,000 |

THE POST DELIVERY FACILITY

| Name and Facility Office of Original Lender | Post-Delivery Tranche A Commitment | Post Delivery Tranche B Commitment | Total Commitments to Post-Delivery Facility |
|--|---|---|--|
| MUFG Bank, Ltd. 25 Ropemaker Street London EC2Y 9AN United Kingdom | USD25,525,000 | USD25,525,000 | USD51,050,000 |
| Mizuho Bank, Ltd. Mizuho House 30 Old Bailey London EC4M 7AU United Kingdom | USD48,025,000 | USD48,025,000 | USD96,050,000 |
| Sumitomo Mitsui Trust Bank, Limited (London Branch) 155 Bishopsgate London EC2M 3XU United Kingdom | USD22,500,000 | USD22,500,000 | USD45,000,000 |
| Totals | USD96,050,000 | USD96,050,000 | USD192,100,000 |

**SCHEDULE 2
THE ORIGINAL HEDGING BANKS**

| Name and of Original Lender | Facility Office |
|---|--|
| MUFG Securities EMEA plc | 25 Ropemaker Street London EC2Y 9AN United Kingdom |
| Mizuho Bank, Ltd. | Mizuho House 30 Old Bailey London EC4M 7AU United Kingdom |
| Sumitomo Mitsui Trust Bank, Limited (London Branch) | 155 Bishopsgate London EC2M 3XU United Kingdom |

**SCHEDULE 3
CONDITIONS PRECEDENT AND SUBSEQUENT**

**PART 1
General Conditions Precedent**

1. Obligors

- (a) Certified copies of the constitutional documents of each Obligor.
- (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, any 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 1 (*General Conditions Precedent*) of this Schedule 3 (*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) Each Fee Letter, duly acknowledged by the Borrowers.
- (c) The Borrower A Pre-Delivery Assignment Agreement.
- (d) A notice of assignment of Shipbuilding Contract A and the Shipyard's acknowledgement thereof.
- (e) A notice of assignment of Refund Guarantee A and the Refund Guarantor's acknowledgement thereof.
- (f) The Borrower B Pre-Delivery Assignment Agreement.
- (g) A notice of assignment of Shipbuilding Contract B and the Shipyard's acknowledgement thereof.

- (h) A notice of assignment of Refund Guarantee B and the Refund Guarantor's acknowledgement thereof.
- (i) The Borrower A Account Pledge.
- (j) A notice of pledge of Borrower A Account and the Account Bank's acknowledgement thereof.
- (k) The Borrower B Account Pledge.
- (l) A notice of pledge of Borrower B Account and the Account Bank's acknowledgement thereof.
- (m) The Borrower A Share Pledge together with any letters, transfers, certificates and other documents required to be delivered thereunder.
- (n) Evidence of perfection of the Borrower A Share Pledge.
- (o) The Borrower B Share Pledge together with any letters, transfers, certificates and other documents required to be delivered thereunder.
- (p) Evidence of perfection of the Borrower B Share Pledge.
- (q) The Borrower A Factoring Agreement.
- (r) A declaration of pledge in respect of the Borrower A Factoring Agreement.
- (s) Evidence that the Borrower A Factoring Agreement has been registered with its intended priority in the Registry of Moveable Property (in Norwegian, *Løsøreregisteret*).
- (t) The Borrower B Factoring Agreement.
- (u) A declaration of pledge in respect of the Borrower B Factoring Agreement.
- (v) Evidence that the Borrower B Factoring Agreement has been registered with its intended priority in the Registry of Moveable Property (in Norwegian, *Løsøreregisteret*).

(All such Finance Documents to be delivered in original).

5. **Transaction Documents**

- (a) A certified copy of the Shipbuilding Contract A together with, if then executed, a certified copy of the Shipbuilding Contract Novation Agreement relating to Vessel A.
- (b) A certified copy of the Shipbuilding Contract B together with, if then executed, a certified copy of the Shipbuilding Contract Novation Agreement relating to Vessel B.
- (c) The original (if issued in hard copy) or a certified copy (if issued electronically) of:
 - (i) the Refund Guarantee A; and
 - (ii) if then executed, the Refund Guarantee Confirmation relating to Vessel A.
- (d) The original (if issued in hard copy) or a copy (if issued electronically) of:
 - (i) the Refund Guarantee B; and
 - (ii) if then executed, the Refund Guarantee Confirmation relating to Vessel B.
- (e) A certified copy of the Charterparty A.
- (f) A certified copy of the Charterparty B.

6. **Other documents and evidence**

- (a) The Original Financial Statements of KNOT.
- (b) Evidence that the fees, costs and expenses then due from the Borrowers pursuant to Clause 12 (*Fees*) and Clause 17 (*Costs and expenses*) have been paid or will be paid by the first Utilisation Date.
- (c) If relevant, assurance that any withholding tax will be paid or application to tax authorities is or will be sent.
- (d) Evidence that any existing facilities will be cancelled and repaid in full prior to, or simultaneously with, the first drawdown under the Facilities, and that any securities related thereto are being released or cancelled.
- (e) Confirmation from the agents in England nominated by the relevant Obligors in the Finance Documents mentioned in paragraph 4 above for the acceptance of service of process that they consent to such nomination.
- (f) Any other document, authorisation, opinion or assurance requested by the Agent.

7. **Legal opinions**

The following documents to be received by the Agent latest on the Utilisation Date:

- (a) an English legal opinion from Holman Fenwick Willan LLP, legal advisers to the Agent in England, substantially in the form distributed to the Original Lenders prior to signing this Agreement;
- (b) a Norwegian 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;
- (c) if an Obligor is incorporated in a jurisdiction other than England or 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;
- (d) if any Security Asset is situated in a jurisdiction other than England or Norway, or any Finance Document is subject to any other choice of law than English or 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; 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 on or before the relevant Utilisation Date that the opinion in question will be issued substantially in the form distributed to the Original Lenders prior to that Utilisation Date within such period after that Utilisation Date as is acceptable to the Agent.

PART 2

Conditions Precedent to the Utilisation of each Loan under the Pre-Delivery Facility

1. **Documents relating to the relevant Vessel**

- (a) Evidence satisfactory to the Agent that the relevant milestone has been completed.

2. **Other documents and evidence**

- (a) A Utilisation Request.
- (b) An original Compliance Certificate confirming that the Borrowers and the Guarantors are in

compliance with the financial covenants as set out in Clause 22 (Financial covenants)

- (c) Evidence that the fees, costs and expenses then due from the Borrowers pursuant to Clause 12 (*Fees*) and Clause 17 (*Costs and expenses*) have been paid or will be paid by the relevant Utilisation Date.
- (d) Any other document, authorisation, opinion or assurance requested by the Agent.

PART 3

Conditions Precedent to the Utilisation of each Loan under the Post-Delivery Facility

1. Finance Documents

Each of the following Finance Documents related to that Loan:

- (a) The relevant Mortgage.
- (b) Evidence that the relevant Mortgage have been registered with its intended priority in the relevant Approved Ship Registry.
- (c) The relevant Post-Delivery Assignment Agreement.
- (d) A Notice of Assignment of Insurances and the insurers' acknowledgement thereof.
- (e) A Notice of Assignment of Earnings and the Charterer's acknowledgement thereof.
- (f) A Manager's Undertaking from each Manager.
- (g) The relevant Hedging Agreement Security.
- (h) Notices of assignment under the relevant Hedging Agreement Security addressed to each Hedging Bank which has entered into a Hedging Agreement with the relevant Borrower and each such Hedging Bank's acknowledgment thereof.

(All such Finance Documents to be delivered in original).

2. Other documents and evidence

- (a) The ISDA Novation Agreements.
- (b) The Hedging Agreements (if any).

3. Documents relating to the relevant 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 25.2 (*Insurance - Vessels*), 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 Post-Delivery 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.
- (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 class certificate related to the Vessel from the Classification Society, confirming that the Vessel is classed with the highest class in accordance with Clause 25.4 (*Classification and repairs*), free of extensions and overdue recommendations.
- (i) A copy of the current SMC.
- (j) A copy of the current ISSC.
- (k) Valuation certificates issued not earlier than 30 days before the Utilisation Date evidencing the Market Value of the Vessel.

4. **Legal opinions**

The following documents to be received by the Agent latest on the Utilisation Date:

- (a) an English legal opinion from Holman Fenwick Willan LLP, legal advisers to the Agent in England, substantially in the form distributed to the Original Lenders prior to the Utilisation Date;
- (b) a Norwegian legal opinion from Advokatfirmaet Schjødt AS, legal advisers to the Agent in Norway, substantially in the form distributed to the Original Lenders prior to the Utilisation Date;
- (c) if an Obligor is incorporated in a jurisdiction other than England or 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 the Utilisation Date;
- (d) if any Security Asset is situated in a jurisdiction other than England or Norway, or any Finance Document is subject to any other choice of law than English or 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 the Utilisation Date; 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 in the form distributed to the Original Lenders prior to the Utilisation Date,

or, in respect of any one or more of such legal opinions, confirmation satisfactory to the Agent on or before the relevant Utilisation Date that the opinion in question will be issued substantially in the form distributed to the Original Lenders prior to that Utilisation Date within such period after that Utilisation Date as is acceptable to the Agent.

5. **Other documents and evidence**

- (a) A complete and detailed breakdown of the Aggregate Project Cost.
- (b) A Utilisation Request.
- (c) An original Compliance Certificate confirming that the Borrowers and the Guarantors are in compliance with the financial covenants as set out in Clause 22 (*Financial covenants*).
- (d) Evidence that the fees, costs and expenses then due from the Borrowers pursuant to Clause 12 (*Fees*) and Clause 17 (*Costs and expenses*) have been paid or will be paid by the relevant Utilisation Date.

- (e) Any other document, authorisation, opinion or assurance requested by the Agent.

PART 4
Conditions Precedent to Drop Down

1. KNOP, KNOT ST and the relevant Subsidiary which will become the owner of a Borrower

- (a) Copies of the constitutional documents of KNOP, KNOT ST and the relevant Subsidiary which will become the owner of the relevant Borrower.
- (b) A copy of a resolution of the board of directors of KNOP, KNOT ST and the relevant Subsidiary which will become the owner of the relevant 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 resolutions referred to in paragraph (b) above.
- (d) A copy of a power of attorney of KNOP, KNOT ST and the relevant Subsidiary which will become the owner of the relevant Borrower (notarised and legalised if requested by the Agent).
- (e) A written confirmation in original from a director of KNOP, KNOT ST and the relevant Subsidiary which will become the owner of the relevant Borrower that each document provided by that Obligor under this paragraph 1 and paragraph 2 below of this Part 4 of this Schedule 3 (*Conditions precedent and subsequent*) are true copies of the originals.

2. 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.

3. Authorisations

All approvals, authorisations and consents required by any government or other authorities for KNOP and KNOT ST to enter into and perform their obligations under this Agreement and/or any of the Finance Documents to which it will become a party.

4. Finance Documents

- (a) An Accession Letter in relation to the relevant Drop Down.
- (b) A Share Pledge in respect of the relevant Borrower executed by KNOP (or a Subsidiary of KNOP).
- (c) Evidence of perfection of the relevant Share Pledge.

5. Other documents and evidence

- (a) Evidence (by way of a share purchase agreement or similar and an updated register of shareholders issued by the relevant Borrower) that all shares in the relevant Borrower have 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) Evidence that the mandatory prepayment amount payable in accordance with Clause 8.3 (*Mandatory prepayment – Drop Down*) has been paid or will be paid by the relevant Drop Down Date.
- (d) Any other documents as reasonably requested by the Agent.

6. **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 5
Conditions Subsequent

7. **Documents relating to the Vessels**

- (a) A copy of the protocol of delivery and acceptance under Charterparty A, within 5 days after the delivery date of Vessel A.
- (b) A copy of the protocol of delivery and acceptance under Charterparty B, within 5 days after the delivery date of Vessel B.
- (c) If not executed before the first Utilisation Date, certified copies of the Shipbuilding Contract Novation Agreements, within 5 days after the execution thereof by each party to them.
- (d) If not executed before the first Utilisation Date, the originals (if issued in hard copy) or certified copies (if issued electronically) of the Refund Guarantee Confirmations, within 5 days after the receipt thereof by the Borrowers.

**SCHEDULE 4
FORM OF UTILISATION REQUEST**

From: KNOT Shuttle Tankers 34 AS
KNOT Shuttle Tankers 35 AS

To: MUFG Bank, Ltd.

Dated: [•] 20[•]

Dear Sirs

KNOT Shuttle Tankers 34 AS and KNOT Shuttle Tankers 35 AS – USD192,100,000 Facility Agreement dated [•] 2019 (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 a Loan under the [Pre-Delivery][Post-Delivery] Tranche [A][B] on the following terms:

Proposed Utilisation Date: [•] (or, if that is not a Business Day, the next Business Day)

Amount: USD[•] or, if less, the Available Facility of the relevant Tranche

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 [applied first to repay Pre-Delivery Tranche [A][B] with the balance to be]¹ credited to [*account*].
5. This Utilisation Request is irrevocable.

Yours faithfully

.....
authorised signatory for
KNOT Shuttle Tankers 34 AS

.....
authorised signatory for
KNOT Shuttle Tankers 35 AS

¹ Include for utilisation in respect of the delivery instalments only

**SCHEDULE 5
FORM OF TRANSFER CERTIFICATE**

To: MUFG Bank, Ltd. as Agent

From: [*The Existing Lender*] (the **Existing Lender**) and [*The New Lender*] (the **New Lender**)

Dated: [•] 20[•]

KNOT Shuttle Tankers 34 AS and KNOT Shuttle Tankers 35 AS – USD192,100,000 Facility Agreement dated [•] 2019 (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 27.4 (*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 27.4 (*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 34.2 (*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 27.3 (*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 English law.
6. This Transfer Certificate has been entered into on the date stated at the beginning of this Transfer Certificate.

WARNING: This Transfer Certificate may not operate to transfer to the New Lender the Existing Lender's interest in some or all of the security created by the Security Documents. The Agent and the New Lender should check that all mortgage transfers, deeds of assignment and other documents necessary to transfer such security to it are signed by the Existing Lender and, where appropriate, registered.

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 6
FORM OF COMPLIANCE CERTIFICATE**

From: KNOT Shuttle Tankers 34 AS
KNOT Shuttle Tankers 35 AS
Knutsen NYK Offshore Tankers AS

To: MUFG Bank, Ltd. as Agent

Dated: [•] 20[•]

Dear Sirs

KNOT Shuttle Tankers 34 AS and KNOT Shuttle Tankers 35 AS – USD192,100,000 Facility Agreement dated [•] 2019 (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 34 AS

.....
authorised signatory for
KNOT Shuttle Tankers 35 AS

.....
authorised signatory for
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 7
FORM OF ACCESSION LETTER**

From: KNOT Shuttle Tankers 34 AS
KNOT Shuttle Tankers 35 AS
Knutsen NYK Offshore Tankers AS
KNOT Offshore Partners LP
KNOT Shuttle Tankers AS

To: MUFG Bank, Ltd. as Agent

Dated: [•] 20[•]

Dear Sirs

KNOT Shuttle Tankers 34 AS and KNOT Shuttle Tankers 35 AS – USD192,100,000 Facility Agreement dated [•] 2019 (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 bound by the terms of the Agreement as Guarantors pursuant to Clause 28.2 (*KNOP and KNOT ST as replacement Guarantors*) of the Agreement with respect to all amounts outstanding under the Post-Delivery Tranche [A][B]] and all Hedging Agreements, interest, fees, costs and expenses in connection with that Tranche.
3. KNOP's and KNOT ST's administrative details are as follows:
 - (a) in respect of KNOP:

Address:
Fax no.:
Attention:
 - (b) in respect of KNOT ST:

Address:
Fax no.:
Attention:
4. We confirm that the Repeating Representations are made by each of [KNOT]², KNOT Shuttle Tankers 34 AS, KNOT Shuttle Tankers 35 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 English law.
6. KNOP and KNOT ST have each appointed [•] as its process agent in respect of this Accession Letter and the other Finance Documents governed by English law to which they are respectively a party.
7. This Accession Letter is executed as deed.

² First Drop Down only

EXECUTION PAGES TO ACCESSION LETTER

EXECUTED as a DEED)
by **KNOT SHUTTLE TANKERS 34 AS**) **Signature in the name of the company**
a company incorporated in Norway) **KNOT SHUTTLE TANKERS 34 AS**
acting by)
)
who, in accordance with the laws of Norway,)
is acting under the authority of the company)
as authorised signatory)
in the presence of:)
)

.....
Authorised signatory

Signature of witness:

Name of witness:

Occupation of witness:

Address of witness:

EXECUTED as a DEED)
by **KNOT SHUTTLE TANKERS 35 AS**) **Signature in the name of the company**
a company incorporated in Norway) **KNOT SHUTTLE TANKERS 35 AS**
acting by)
)
who, in accordance with the laws of Norway,)
is acting under the authority of the company)
as authorised signatory)
in the presence of:)
)

.....
Authorised signatory

Signature of witness:

Name of witness:

Occupation of witness:

Address of witness:

EXECUTED as a DEED)
by **KNUTSEN NYK OFFSHORE TANKERS AS**)
a company incorporated in Norway)
acting by)
)
who, in accordance with the laws of Norway,)
is acting under the authority of the company)
as authorised signatory)
in the presence of:)
)

Signature in the name of the company
KNUTSEN NYK OFFSHORE TANKERS AS

.....

Authorised signatory

Signature of witness:

Name of witness:

Occupation of witness:

Address of witness:

EXECUTED as a DEED)
by **KNOT OFFSHORE PARTNERS LP**)
a company incorporated in Marshall)
Islands)
acting by)
)
who, in accordance with the laws of the)
Marshall Islands, is acting under the authority)
of the company as authorised signatory)
in the presence of:)
)

Signature in the name of the company
KNOT OFFSHORE PARTNERS LP

.....

Authorised signatory

Signature of witness:

Name of witness:

Occupation of witness:

Address of witness:

EXECUTED as a DEED)
by **KNOT SHUTTLE TANKERS AS**)
a company incorporated in Norway)
acting by)
)
who, in accordance with the laws of Norway,)
is acting under the authority of the company)
as authorised signatory)
in the presence of:)
)

Signature in the name of the company
KNOT SHUTTLE TANKERS AS

.....

Authorised signatory

Signature of witness:

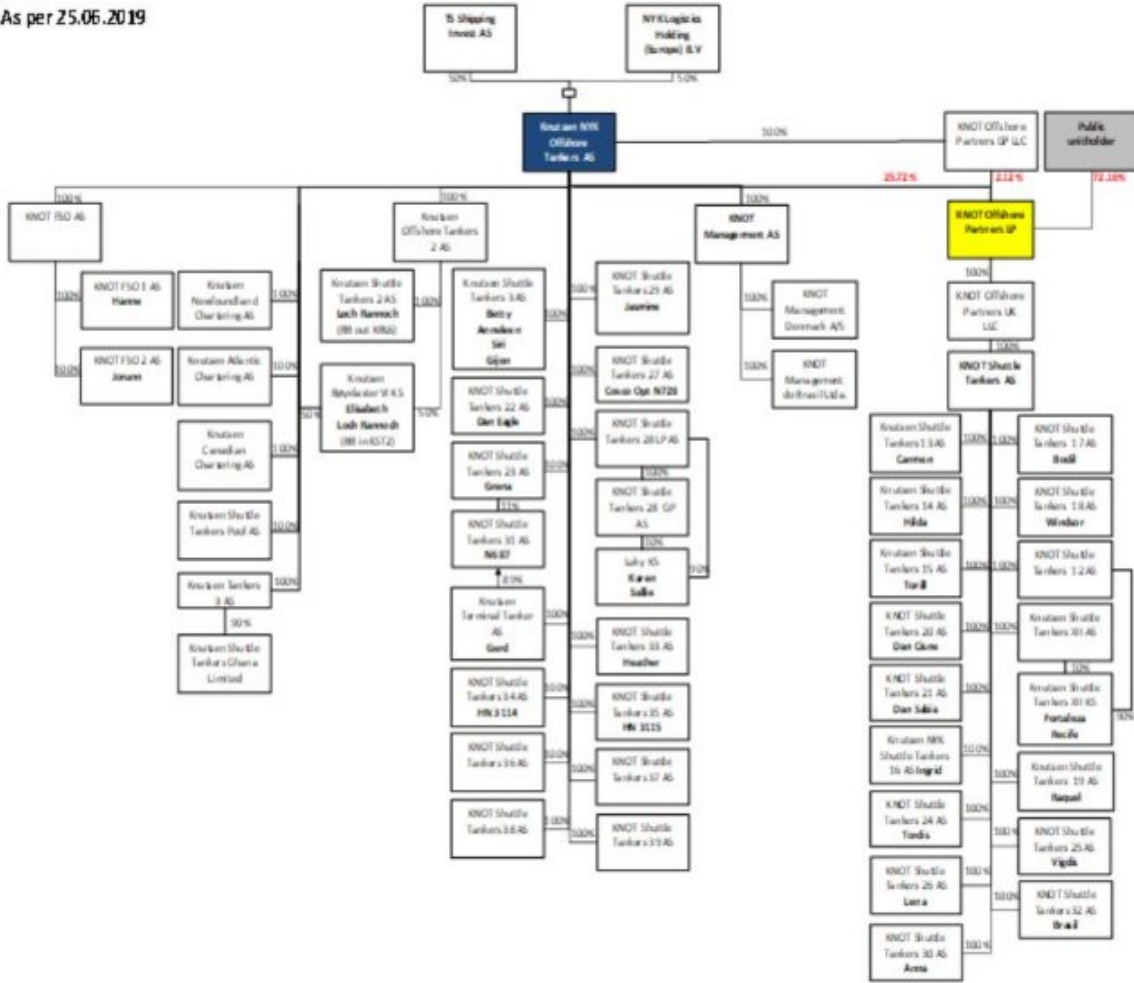
Name of witness:

Occupation of witness:

Address of witness:

SCHEDULE 8
STRUCTURE CHART

As per 25.06.2019



**SCHEDULE 9
REPAYMENT SCHEDULE**

| Repayment Date | Repayment Instalment (USD) | Remaining Balance (USD) |
|-----------------------|-----------------------------------|--------------------------------|
| | 96,050,000.00 | |
| First | 1,200,625.00 | 94,849,375.00 |
| Second | 1,200,625.00 | 93,648,750.00 |
| Third | 1,200,625.00 | 92,448,125.00 |
| Fourth | 1,200,625.00 | 91,247,500.00 |
| Fifth | 1,200,625.00 | 90,046,875.00 |
| Sixth | 1,200,625.00 | 88,846,250.00 |
| Seventh | 1,200,625.00 | 87,645,625.00 |
| Eighth | 1,200,625.00 | 86,445,000.00 |
| Ninth | 1,200,625.00 | 85,244,375.00 |
| Tenth | 1,200,625.00 | 84,043,750.00 |
| Eleventh | 1,200,625.00 | 82,843,125.00 |
| Twelfth | 1,200,625.00 | 81,642,500.00 |
| Thirteenth | 1,200,625.00 | 80,441,875.00 |
| Fourteenth | 1,200,625.00 | 79,241,250.00 |
| Fifteenth | 1,200,625.00 | 78,040,625.00 |
| Sixteenth | 1,200,625.00 | 76,840,000.00 |
| Seventeenth | 1,200,625.00 | 75,639,375.00 |
| Eighteenth | 1,200,625.00 | 74,438,750.00 |
| Nineteenth | 1,200,625.00 | 73,238,125.00 |
| Twentieth | 73,238,125.00 | 0 |

**SCHEDULE 10
FORM OF DROP DOWN CONFIRMATION LETTER**

From: MUFG Bank, Ltd. as Agent

To: KNOT Shuttle Tankers 34 AS
KNOT Shuttle Tankers 35 AS
Knutsen NYK Offshore Tankers AS
KNOT Offshore Partners LP
KNOT Shuttle Tankers AS
Finance Parties

Dated: [•] 20[•]

Dear Sirs

KNOT Shuttle Tankers 34 AS and KNOT Shuttle Tankers 35 AS – USD192,100,000 Facility Agreement dated [•] 2019 (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 in relation to Borrower [A][B].
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 in relation to the relevant Drop Down:
 - (a) all the documents and other evidence listed in paragraph (b) of Clause 28.2 (*KNOP and KNOT ST as replacement Guarantors*) of the Agreement (in form and substance satisfactory to us); and
 - (b) prepayment in accordance with Clause 8.3 (*Mandatory prepayment - Drop Down*),and consequently we confirm that:
 - (i) the Drop Down in relation to Borrower [A][B];
 - (ii) the accession of KNOP and KNOT ST as Guarantors in relation to the obligations of Borrower [A][B] under the Finance Documents and each Hedging Agreement entered into by Borrower [A][B]; and
 - (iii) the release of KNOT as Guarantor in relation to the obligations of Borrower [A][B] under the Finance Documents and each Hedging Agreement entered into by Borrower [A][B],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 Agreement.
4. This Drop Down Confirmation Letter is governed by English law.

Yours faithfully

.....
authorised signatory for
MUFG Bank, Ltd.

EXECUTION PAGES

Borrower A:

Signed by Øystein Emberland)
KNOT SHUTTLE TANKERS 34 AS)
acting by Attorney-in-fact)
)/s Øystein Emberland.....

Borrower B:

Signed by Øystein Emberland)
KNOT SHUTTLE TANKERS 35 AS)
acting by Attorney-in-fact)
)/s Øystein Emberland.....

KNOT:

Signed by Øystein Emberland)
KNUTSEN NYK OFFSHORE TANKERS AS)
acting by Attorney-in-fact)
)/s Øystein Emberland.....

Original Lender, Bookrunner, Mandated Lead Arranger and Agent:

Signed by Koji Karasawa)
MUFG BANK, LTD.)
acting by Managing Director)
Head of Corporate Banking Department)
Japanese Corporate Banking Division)
(London))/s/ Koji Karasawa

Original Hedging Bank:

Signed by Prabhat Kumar)
MUFG SECURITIES EMEA PLC)
acting by Authorized Signatory)
)/s/ Prabhat Kumar

Original Lender and Original Hedging Bank:

Signed by)
MIZUHO BANK, LTD.)
acting by Shuichi IWANO, Managing Director)
Europe Corporate Banking Department No. 1)
London Branch)/s/ Shuichi Iwano.....

Original Lender and Original Hedging Bank:

Signed by Takashi Danjo)
SUMITOMO MITSUI TRUST BANK,)
LIMITED (LONDON BRANCH))
acting by Head of Ship and Aviation Finance)
)/s/ Takashi Danjo.....

ACCESSION LETTER

From: KNOT Shuttle Tankers 34 AS
 KNOT Shuttle Tankers 35 AS
 Knutsen NYK Offshore Tankers AS
 KNOT Offshore Partners LP
 KNOT Shuttle Tankers AS

To: MUFG Bank, Ltd. as Agent

Dated: December 2020

Dear Sirs

KNOT Shuttle Tankers 34 AS and KNOT Shuttle Tankers 35 AS – USD192,100,000 Facility Agreement dated 2 July 2019 (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 bound by the terms of the Agreement as Guarantors pursuant to Clause 28.2 (*KNOP and KNOT ST as replacement Guarantors*) of the Agreement with respect to all amounts outstanding under the Post-Delivery Tranche A and all Hedging Agreements, interest, fees, costs and expenses in connection with that Tranche.
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

E-mail: finance@knutsenoas.com
 oem@knotgroup.com
 hho@knotgroup.com
 kly@knutsenoas.com
 tuo@knotgroup.com
 tya@knotgroup.com

Attention: CFO/CEO
4. We confirm that:
 - (a) no Default is continuing or would result from the Drop Down;
 - (b) no Material Adverse Effect would result from the Drop Down;
 - (c) the Repeating Representations are made by each of KNOT, KNOT Shuttle Tankers 34 AS, KNOT Shuttle Tankers 35 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 English law.
6. KNOP and KNOT ST have each appointed Knutsen OAS (UK) Limited as its process agent in respect of this Accession Letter and the other Finance Documents governed by English law to which they are respectively a party.

7. This Accession Letter is executed as deed.

EXECUTION PAGES

EXECUTED as a DEED) Signature in the name of the company
by **KNOT SHUTTLE TANKERS 34 AS**) **KNOT SHUTTLE TANKERS 34 AS**
a company incorporated in Norway)
acting by Takahiro Yamauchi)
)
who, in accordance with the laws of Norway, is)
acting under the authority of the company as)
authorised signatory)
in the presence of:)
)
) /s/ Takahiro Yamauchi
) Authorised signatory

Signature of witness: /s/ Hermann H. Øverlie

Name of witness: Hermann H. Øverlie

Occupation of witness: VP Finance

Address of witness:
Ramsvollsvengen 15
5518 Haugesund Norway

EXECUTED as a DEED) Signature in the name of the company
by **KNOT SHUTTLE TANKERS 35 AS**) **KNOT SHUTTLE TANKERS 35 AS**
a company incorporated in Norway)
acting by Takahiro Yamauchi)
)
who, in accordance with the laws of Norway, is)
acting under the authority of the company as)
authorised signatory)
in the presence of:)
)
) /s/ Takahiro Yamauchi
) Authorised signatory

Signature of witness: /s/ Hermann H. Øverlie

Name of witness: Hermann H. Øverlie

Occupation of witness: VP Finance

Address of witness:
Ramsvollsvengen 15
5518 Haugesund Norway

EXECUTED as a DEED) Signature in the name of the company
by **KNUTSEN NYK OFFSHORE TANKERS**) **KNUTSEN NYK OFFSHORE TANKERS AS**
AS)
a company incorporated in Norway)
acting by Takahiro Yamauchi)
)
who, in accordance with the laws of Norway, is)
acting under the authority of the company as)
authorised signatory) /s/ Takahiro Yamauchi
in the presence of:) Authorised signatory

Signature of witness: /s/ Hermann H. Øverlie

Name of witness: Hermann H. Øverlie

Occupation of witness: VP Finance

Address of witness:
Ramsvollsvægen 15
5518 Haugesund Norway

EXECUTED as a DEED) Signature in the name of the company
by **KNOT OFFSHORE PARTNERS LP**) **KNOT OFFSHORE PARTNERS LP**
a company incorporated in the Marshall)
Islands)
acting by Trygve Seglem)
)
who, in accordance with the laws of the)
Marshall Islands, is acting under the authority)
of the company as authorised signatory)
in the presence of:) /s/ Trygve Seglem
Authorised signatory

Signature of witness: /s/ Hermann H. Øverlie

Name of witness: Hermann H. Øverlie

Occupation of witness: VP Finance

Address of witness:
Ramsvollsvægen 15
5518 Haugesund Norway

EXECUTED as a **DEED**
by **KNOT SHUTTLE TANKERS AS**
a company incorporated in Norway
acting by Takahiro Yamauchi

who, in accordance with the laws of Norway, is
acting under the authority of the company as
authorised signatory
in the presence of:

) Signature in the name of the company
) **KNOT SHUTTLE TANKERS AS**
)
)
)
)
)
) /s/ Takahiro Yamauchi
) Authorised signatory

Signature of witness: /s/ Hermann H. Øverlie

Name of witness: Hermann H. Øverlie

Occupation of witness: VP Finance

Address of witness:
Ramsvollsvengen 15
5518 Haugesund Norway

MEMORANDUM OF AGREEMENT

SALEFORM 2012

Norwegian Shipbrokers' Association's
Memorandum of Agreement for sale and purchase of ships

Dated: **30th December, 2020**

Knutsen Shuttle Tankers 19 AS (Name of sellers) **Performance to be Guaranteed by KNOT Offshore Partners LP as per performance guarantee**, hereinafter called the "Sellers", have agreed to sell, and

MI-DAS LINE S.A. (Name of buyers) **Performance to be Guaranteed by Doun Kisen Co. Ltd as per performance guarantee**, hereinafter called the "Buyers", have agreed to buy:

Name of vessel: **Raquel Knutsen**

IMO Number: **9685396**

Classification Society: **Det Norske Veritas**

Class Notation: **COSCO(ZHOUSHAN) Shipyard Co., Ltd. Zhoushan, Zhejiang, P.R.C**

Year of Build: **2015**

Builder/Yard: **+1A1, "tanker for oil ESP", PLUS,CSR, E0, DYNPOS-AUTR, ESV-DP(HIL), OPP-F, BOW LOADING,SPM, F-AMC,NAUT-AW,HELIDK-SH,T-MON,VCS-2,PSPC(B),BIS,BWT-T,CLEAN DESIGN,COMF V(3)C(3),CSA-FLS2,CCO**

Flag: **Malta**

Place of Registration: **Valletta**

GT/NT: **83,936/46,174**

hereinafter called the "Vessel", on the following terms and conditions:

Definitions

"Banking Days" are days on which banks are open both in the country of the currency stipulated for the Purchase Price in Clause 1 (Purchase Price) and in the place of closing stipulated in Clause 8 (Documentation) and **Tokyo, New York, Valletta and Oslo** (add additional jurisdictions as appropriate).

"Buyers' Nominated Flag State" means **Malta** (state flag state).

"Class" means the class notation referred to above.

"Classification Society" means the Society referred to above.

~~"Deposit" shall have the meaning given in Clause 2 (Deposit).~~

~~"Deposit Holder" means (state name and location of Deposit Holder) or, if left blank, the Sellers' Bank, which shall hold and release the Deposit in accordance with this Agreement.~~

"In writing" or "written" means a letter handed over from the Sellers to the Buyers or vice versa, a registered letter, email or telefax.

"Parties" means the Sellers and the Buyers.

"Purchase Price" means the price for the Vessel as stated in Clause 1 (Purchase Price).



"Sellers' Account" means **DNB Bank ASA, NO-0021 Oslo / SWIFT: DNBANOKKXXX / USD-Acc.: NO16 1250 0494 415** (state details of bank account) at the Sellers' Bank.

"Sellers' Bank" means **DNB Bank ASA, NO-0021 Oslo** (state name of bank, branch and details) or, if left blank, the bank notified by the Sellers to the Buyers for receipt of the balance of the Purchase Price.

"BBCP" means **Bareboat Charter Party dated on the same date as the MOA agreed between Knutsen Shuttle Tankers 19 AS and MIDAS LINE, S.A., together with any addenda thereto.**

"Charterer" means charterer as per BBCP dated on the same date as the MOA.

"Owner" means owner as per BBCP dated on the same date as the MOA.

1. Purchase Price

The Purchase Price is **USD94,300,000 (United States Dollars ninety four million three hundred thousand only)** (state currency and amount both in words and figures).

2. Deposit

As security for the correct fulfilment of this Agreement the Buyers shall lodge a deposit of _____% (_____ per cent) or, if left blank, 10% (ten per cent), of the Purchase Price (the "Deposit") in an interest bearing account for the Parties with the Deposit Holder within three (3) Banking Days after the date that:

(i) this Agreement has been signed by the Parties and exchanged in original or by e-mail or telefax; and

(ii) the Deposit Holder has confirmed in writing to the Parties that the account has been opened.

~~The Deposit shall be released in accordance with joint written instructions of the Parties. Interest, if any, shall be credited to the Buyers. Any fee charged for holding and releasing the Deposit shall be borne equally by the Parties. The Parties shall provide to the Deposit Holder all necessary documentation to open and maintain the account without delay.~~

3. Payment

On delivery of the Vessel, but not later than three (3) Banking Days after the date that Notice of Readiness has been given in accordance with Clause 5 (Time and place of delivery and notices):

~~(i) the Deposit shall be released to the Sellers; and~~

~~(ii) the balance of the Purchase Price and all other sums payable on delivery by the Buyers to the Sellers under this Agreement shall be remitted by the Buyers to the Sellers' Bank by an interbank swift message (SWIFT MT 103) not later than two (2) Banking Days prior to the expected date of delivery of the Vessel, accompanied by an interbank swift message (SWIFT MT 199) confirming that the Purchase Price is to be held by the Sellers' Bank on suspense (such SWIFT MT 199 to be agreed between the Buyers and the Sellers not less than five (5) Banking Days prior to expected date of delivery of the Vessel. The said Purchase Price shall be unconditionally released/paid to the Sellers by the Sellers' presentation to the Sellers' Bank of either an original or fax copy/pdf or photocopy of "Protocol of Delivery and Acceptance" in respect of the Vessel duly signed by both the Sellers' and the Buyers' authorized representatives only. paid in full free of bank charges to the Sellers' Account.~~

4. Inspection

(a)* ~~The Buyers have inspected and accepted the Vessel's classification records online and have waived physical . The Buyers have also inspected the Vessel at/in _____ (state place) on _____ (state date) and have accepted the Vessel following this inspection and the sale is outright and definite, subject only to the terms and conditions of this Agreement.~~

(b)* ~~The Buyers shall have the right to inspect to inspect the Vessel's classification records and declare whether same are accepted or not within N/A (state date/period).~~



~~The Sellers shall make the Vessel available for inspection at/in~~
~~date/period).~~

~~—(state place/range) within (state~~

~~The Buyers shall undertake the inspection without undue delay to the Vessel. Should the Buyers cause undue delay they shall compensate the Sellers for the losses thereby incurred.~~

~~The Buyers shall inspect the Vessel without opening up and without cost to the Sellers.~~

~~During the inspection, the Vessel's deck and engine log books shall be made available for examination by the Buyers.~~

~~The sale shall become outright and definite, subject only to the terms and conditions of this Agreement, provided that the Sellers receive written notice of acceptance of the Vessel from the Buyers within seventy-two (72) hours after completion of such inspection or after the date/last day of the period stated in Clause 4(b)(ii), whichever is earlier.~~

~~Should the Buyers fail to undertake the inspection as scheduled and/or notice of acceptance of the Vessel's classification records and/or of the Vessel not be received by the Sellers as aforesaid, the Deposit together with interest earned, if any, shall be released immediately to the Buyers, whereafter this Agreement shall be null and void.~~

*4(a) and 4(b) are alternatives; delete whichever is not applicable. In the absence of deletions, alternative 4(a) shall apply.

5. Time and place of delivery and notices

- (a) The Vessel shall be delivered and taken over ~~safely afloat at a safe and accessible berth or anchorage at/in~~ **worldwide in one safe port/anchorage or at sea in the Sellers' option** (state place/range) in the Sellers' option. **Delivery port to be free of any sales tax, duties whatsoever nature.**

Notice of Readiness shall not be tendered before: **1st December, 2020** (date)

Cancelling Date (see Clauses 5(c), 6 (a)(i), 6 (a)(iii) and 14): **25th January, 2021**

- (b) The Sellers shall keep the Buyers well informed of the Vessel's itinerary and shall provide the Buyers with twenty (20), ten (10), five (5) and three (3) days' notice of the date the Sellers intend to tender Notice of Readiness and of the intended place of delivery.

When the Vessel is at the place of delivery and physically ready for delivery in accordance with this Agreement, the Sellers shall give the Buyers a written Notice of Readiness for delivery.

- (c) If the Sellers anticipate that, notwithstanding the exercise of due diligence by them, the Vessel will not be ready for delivery by the Cancelling Date they may notify the Buyers in writing stating the date when they anticipate that the Vessel will be ready for delivery and proposing a new Cancelling Date. Upon receipt of such notification the Buyers shall have the option of either cancelling this Agreement in accordance with Clause 14 (Sellers' Default) within three (3) Banking Days of receipt of the notice or of accepting the new date as the new Cancelling Date. If the Buyers have not declared their option within three (3) Banking Days of receipt of the Sellers' notification or if the Buyers accept the new date, the date proposed in the Sellers' notification shall be deemed to be the new Cancelling Date and shall be substituted for the Cancelling Date stipulated in Clause 5(a).

If this Agreement is maintained with the new Cancelling Date all other terms and conditions hereof including those contained in Clauses 5(b) and 5(d) shall remain unaltered and in full force and effect.

- (d) Cancellation, failure to cancel or acceptance of the new Cancelling Date shall be entirely without prejudice to any claim for damages the Buyers may have under Clause 14 (Sellers' Default) for the Vessel not being ready by the original Cancelling Date.
- (e) Should the Vessel become an actual, constructive or compromised total loss before delivery the Deposit together with interest earned, if any, shall be released immediately to the Buyers whereafter this Agreement shall be null



and void.

6. Divers Inspection / Drydocking

(a)* (i) The Buyers shall have the option at their cost and expense to arrange for an underwater inspection by a diver approved by the Classification Society prior to the delivery of the Vessel. Such option shall be declared latest nine (9) days prior to the Vessel's intended date of readiness for delivery as notified by the Sellers pursuant to Clause 5(b) of this Agreement. The Sellers shall at their cost and expense make the Vessel available for such inspection. This inspection shall be carried out without undue delay and in the presence of a Classification Society surveyor arranged for by the Sellers and paid for by the Buyers. The Buyers' representative(s) shall have the right to be present at the diver's inspection as observer(s) only without interfering with the work or decisions of the Classification Society surveyor. The extent of the inspection and the conditions under which it is performed shall be to the satisfaction of the Classification Society. If the conditions at the place of delivery are unsuitable for such inspection, the Sellers shall at their cost and expense make the Vessel available at a suitable alternative place near to the delivery port, in which event the Cancelling Date shall be extended by the additional time required for such positioning and the subsequent re-positioning. The Sellers may not tender Notice of Readiness prior to completion of the underwater inspection.

(ii) If the rudder, propeller, bottom or other underwater parts below the deepest load line are found broken, damaged or defective so as to affect the Vessel's class, then (1) unless repairs can be carried out afloat to the satisfaction of the Classification Society, the Sellers shall arrange for the Vessel to be drydocked at their expense for inspection by the Classification Society of the Vessel's underwater parts below the deepest load line, the extent of the inspection being in accordance with the Classification Society's rules (2) such defects shall be made good by the Sellers at their cost and expense to the satisfaction of the Classification Society without condition/recommendation** and (3) the Sellers shall pay for the underwater inspection and the Classification Society's attendance.

Notwithstanding anything to the contrary in this Agreement, if the Classification Society do not require the aforementioned defects to be rectified before the next class drydocking survey, the Sellers shall be entitled to deliver the Vessel with these defects against a deduction from the Purchase Price of the estimated direct cost (of labour and materials) of carrying out the repairs to the satisfaction of the Classification Society, whereafter the Buyers shall have no further rights whatsoever in respect of the defects and/or repairs. The estimated direct cost of the repairs shall be the average of quotes for the repair work obtained from two reputable independent shipyards at or in the vicinity of the port of delivery, one to be obtained by each of the Parties within two (2) Banking Days from the date of the imposition of the condition/recommendation, unless the Parties agree otherwise. Should either of the Parties fail to obtain such a quote within the stipulated time then the quote duly obtained by the other Party shall be the sole basis for the estimate of the direct repair costs. The Sellers may not tender Notice of Readiness prior to such estimate having been established.

(iii) If the Vessel is to be drydocked pursuant to Clause 6(a)(ii) and no suitable dry docking facilities are available at the port of delivery, the Sellers shall take the Vessel to a port where suitable drydocking facilities are available, whether within or outside the delivery range as per Clause 5(a). Once drydocking has taken place the Sellers shall deliver the Vessel at a port within the delivery range as per Clause 5(a) which shall, for the purpose of this Clause, become the new port of delivery. In such event the Cancelling Date shall be extended by the additional time required for the drydocking and extra steaming, but limited to a maximum of fourteen (14) days.

(b)* The Sellers shall place the Vessel in drydock at the port of delivery for inspection by the Classification Society of the Vessel's underwater parts below the deepest load line, the extent of the inspection being in accordance with the Classification Society's rules. If the rudder, propeller, bottom or other underwater parts below the deepest load line are found broken, damaged or defective so as to affect the Vessel's class, such defects shall be made good at the Seller's cost and expense to the satisfaction of the Classification Society without condition/recommendation**. In such event the Sellers are also to pay for the costs and expenses in connection with putting the Vessel in and taking her out of drydock, including the drydock dues and the Classification Society's fees. The Sellers shall also pay for these costs and expenses if parts of the tailshaft system are condemned or found defective or broken so as to affect the Vessel's class. In all other cases, the Buyers shall pay the aforesaid costs and expenses, dues and fees.

(e) If the Vessel is drydocked pursuant to Clause 6 (a)(ii) or 6 (b) above:



~~(i) The Classification Society may require survey of the tailshaft system, the extent of the survey being to the satisfaction of the Classification surveyor. If such survey is not required by the Classification Society, the Buyers shall have the option to require the tailshaft to be drawn and surveyed by the Classification Society, the extent of the survey being in accordance with the Classification Society's rules for tailshaft survey and consistent with the current stage of the Vessel's survey cycle. The Buyers shall declare whether they require the tailshaft to be drawn and surveyed not later than by the completion of the inspection by the Classification Society. The drawing and refitting of the tailshaft shall be arranged by the Sellers. Should any parts of the tailshaft system be condemned or found defective so as to affect the Vessel's class, those parts shall be renewed or made good at the Sellers' cost and expense to the satisfaction of Classification Society without condition/recommendation**.~~

~~(ii) The costs and expenses relating to the survey of the tailshaft system shall be borne by the Buyers unless the Classification Society requires such survey to be carried out or if parts of the system are condemned or found defective or broken so as to affect the Vessel's class, in which case the Sellers shall pay these costs and expenses.~~

~~(iii) The Buyers' representative(s) shall have the right to be present in the drydock, as observer(s) only without interfering with the work or decisions of the Classification Society surveyor.~~

~~(iv) The Buyers shall have the right to have the underwater parts of the Vessel cleaned and painted at their risk, cost and expense without interfering with the Sellers' or the Classification Society surveyor's work, if any, and without affecting the Vessel's timely delivery. If, however, the Buyers' work in drydock is still in progress when the Sellers have completed the work which the Sellers are required to do, the additional docking time needed to complete the Buyers' work shall be for the Buyers' risk, cost and expense. In the event that the Buyers' work requires such additional time, the Sellers may upon completion of the Seller's work tender Notice of Readiness for delivery whilst the Vessel is still in drydock and, notwithstanding Clause 5(a), the Buyers shall be obliged to take delivery in accordance with Clause 3 (Payment), whether the Vessel is in drydock or not.~~

~~*6 (a) and 6 (b) are alternatives; delete whichever is not applicable. In the absence of deletions, alternative 6 (a) shall apply.~~

~~**Notes or memoranda, if any, in the surveyor's report which are accepted by the Classification Society without condition/recommendation are not to be taken into account.~~

7. Spares, bunkers and other items

~~The Sellers shall deliver the Vessel to the Buyers with everything belonging to her on board and on shore. All spare parts and spare equipment including spare tail end shaft(s) and/or spare propeller(s)/propeller blade(s), if any, belonging to the Vessel at the time of inspection used or unused, whether on board or not shall become the Buyers' property, but spares on order are excluded. Forwarding charges, if any, shall be for the Buyers' account. The sellers are not required to replace spare parts including spare tail end shaft(s) and spare propeller(s)/propeller blade(s) which are taken out of spare and used as replacement prior to delivery, but the replaced items shall be the property of the Buyers. Unused stores and provisions shall be included in the sale and be taken over by the Buyers without extra payment.~~

~~Library and forms exclusively for use in the Sellers' vessel(s) and captain's, officers' and crew's personal belongings including the slop chest are excluded from the sale without compensation, as well as the following additional items: (include list)~~

~~Items on board which are on hire or owned by third parties, listed as follows, are excluded from the sales without compensation: (include list)~~

~~Items on board at the time of inspection and delivery which are on hire or owned by third parties, not listed above, shall remain with the replaced or procured by the Sellers prior to delivery at their cost and expense. The Buyers shall take over remaining bunkers and unused lubricating and hydraulic oils and greases in storage tanks and unopened drums and pay either:~~

Any remaining bunkers and unused lubricating and hydraulic oils and greases in storage tanks and unopened drums and spare parts shall remain the property of the Sellers.

~~(a)** the actual net price (excluding bargaining expenses) as evidenced by invoices or vouchers; or~~



~~(b)* the current net market price (excluding barging expenses) at the port and date of delivery of the Vessel or, if unavailable, at the nearest bunkering port;~~

For the quantities taken over.

Payment under this Clause shall be made at the same time and place and in the same currency as the Purchase Price.

~~"inspection" in this clause 7, shall mean the Buyers' inspection according to clause 4(a) or 4(b) (Inspection), if applicable. If the Vessel is taken over without inspection, the date this Agreement shall be the relevant date.~~

~~*(a) and (b) are alternatives, delete whichever is not applicable. In the absence of deletions alternative (a) shall apply.~~

8. Documentation

The place of closing: **to be mutually agreed**

(a) In exchange for payment of the Purchase Price the Sellers shall provide the Buyers with the ~~following~~ delivery documents **that shall be listed in an addendum to this agreement, namely "Addendum No.1:list of delivery documents".:**

~~(i) Legal Bill(s) of Sale in a form recordable in the Buyers' Nominated Flag State, transferring title of the Vessel and stating that the Vessel is free from all mortgages, encumbrances and maritime liens or any other debts whatsoever, duly notarially attested and legalised or apostilled, as required by the Buyers' Nominated Flag State;~~

~~(ii) Evidence that all necessary corporate, shareholder and other action has been taken by the Sellers to authorise the execution, delivery and performance of this Agreement;~~

~~(iii) Power of Attorney of the Seller appointing one or more representatives to act on behalf of the Sellers in the performance of this Agreement, duly notarially attested and legalized or apostilled (as appropriate);~~

~~(iv) Certificate or Transcript of Registry issued by the competent authorities of the flag state on the date of delivery evidencing the Sellers' ownership of the Vessel and that the Vessel is free from registered encumbrances and mortgages, to be faxed or e-mailed by such authority to the closing meeting with the original to be sent to the Buyers as soon as possible after delivery of the Vessel;~~

~~(v) Declaration of Class or (depending on the Classification Society) a Class Maintenance Certificate issued within three (3) Banking Days prior to delivery confirming that the Vessel is in Class free of condition/recommendation;~~

~~(vi) Certificate of Deletion of the Vessel from the Vessel's registry or other official evidence of deletion appropriate to the Vessel's registry at the time of delivery, or, in the event that the registry does not as a matter of practice issue such documentation immediately, a written undertaking by the Seller to effect deletion from the Vessel's registry forthwith and provide a certificate or other official evidence of deletion to the Buyers promptly and latest within four (4) weeks the Purchase Price has been paid and the Vessel has been delivered;~~

~~(vii) A copy of the Vessel's Continuous Synopsis Record certifying the date on which the Vessel ceased to be registered with the Vessel's registry, or, in the event that the registry does not as a matter of practice issue such certificate immediately, a written undertaking from the Sellers to provide the copy of this certificate promptly upon it being issued together with evidence of submission by the Sellers of a duly executed Form 2 stating the date on which the Vessel shall cease to be registered with the Vessel's registry;~~

~~(viii) Commercial Invoice for the Vessel;~~

~~(ix) Commercial Invoice(s) for bunkers, lubricating and hydraulic oils and greases;~~

~~(x) A copy of the Sellers' letter to their satellite communication provider cancelling the Vessel's communications contract which is to be sent immediately after delivery of the Vessel;~~



~~(xi) Any additional document as may reasonably be required by the competent authorities of the Buyers' Nominated Flag State for the purpose of registering the Vessel, provided the Buyers notify the Sellers of any such documents as soon as possible after the date of this Agreement; and~~

~~(xii) The Sellers' letter of confirmation that to the best of their knowledge, the Vessel is not black listed by any nation or international organisation.~~

(b) At the time of delivery the Buyers shall provide the Sellers with: **the delivery documents that shall be listed in an addendum to this Agreement, namely "Addendum No.1: list of delivery documents"**.

~~(i) Evidence that all necessary corporate, shareholder and other action has been taken by the Buyers to authorise the execution, delivery and performance of this Arrangement; and~~

~~(ii) Power of Attorney of the Buyers appointing one or more representatives to act on behalf of the Buyers in the performance of this Agreement, duly notarially attested and legalised or apostilled (as appropriate).~~

(c) If any of the documents **referred to** listed in Sub clauses (a) and (b) above are not in the English language they shall be accompanied by an English translation by an authorised translator or certified by a lawyer qualified to practice in the country of the translated language.

~~(d) The Parties shall to the extent possible exchange copies, drafts or samples of the documents listed in sub clause (a) and sub clause (b) above for review and comment by the other party not later than (state number of days), or if left blank, nine (9) days prior to the Vessel's intended date of readiness for delivery as notified by the Sellers Pursuant to Clause 5(b) of this Agreement.~~

~~(e) Concurrent with the exchange of documents in sub clause (a) and sub clause (b) above, the Sellers shall also hand to the Buyers the Classification certificate(s) as well as all plans, drawings and manuals, (excluding ISM/ISPS manuals), which are on board the Vessel. Other certificates which are on board the Vessel shall also be handed over to the Buyers unless the Sellers are required to retain same, in which case the Buyers have the right to take copies.~~

~~(f) Other technical documentation which may be in the Sellers' possession shall promptly after delivery be forwarded to the Buyers at their expense, if they so request. The Sellers may keep the Vessel's log books but the Buyers have the right to take copies of same.~~

~~(g) The Parties shall sign and deliver to each other a Protocol of Delivery and Acceptance confirming the date and time of delivery of the Vessel from the Sellers to the Buyers.~~

9. Encumbrances

The Sellers warrant that the Vessel, at the time of delivery, is free from ~~all charters~~, encumbrances, mortgages and maritime liens or any other debts whatsoever, and is not subject to Port State or other administrative detentions. The Sellers hereby undertake to indemnify the Buyers against all consequences of claims made against the Vessel which have been incurred prior to the time of delivery.

10. Taxes, fees and expenses

Any taxes, fees and expenses in connection with the purchase and registration in the Buyers' Nominated Flag State shall be for the Buyers' account, whereas similar charges in connection with the closing of the Sellers' register shall be for the Sellers' account.

11. Condition on delivery

The Vessel with everything belonging to her shall be at the Sellers' risk and expense until she is delivered to the Buyers, but subject to the terms and conditions of this Agreement she shall be delivered and taken over as **is, where is at the delivery, notwithstanding any term or condition to the contrary in this Agreement.** ~~she was at the time of inspection, fair wear and tear excepted.~~

The Charterers shall maintain the Vessel pursuant to BCCP clause 10.



~~However, the Vessel shall be delivered free of cargo and free of stowaways with her Class maintained without condition/recommendation*, free of average damage affecting the Vessel's class, and with her classification certificates and national certificates, as well as all other certificates the Vessel had at the time of inspection, valid and unextended without condition/recommendation* by the Classification Society or the relevant authorities at the time of delivery.~~

~~"Inspection" in this clause 11, shall mean the Buyers' inspection according to Clause 4(a) or 4(b) (Inspection), if applicable. If the Vessel is taken over without inspection, the date of this Agreement shall be the relevant date.~~

~~*Notes and memoranda, if any, in the surveyor's report which are accepted by the Classification Society without condition/recommendation are not to be taken into account.~~

12. Name/markings

~~Upon delivery the Buyers undertake to change the name of the Vessel and alter funnel markings.~~

13. Buyers' default

~~Should the Deposit not be lodged in accordance with Clause 2 (Deposit), the Sellers have the right to cancel this Agreement, and they shall be entitled to claim compensation for their losses and for all expenses incurred together with interest.~~

~~Should the Purchase Price not be paid in accordance with Clause 3 (Payment), the Sellers have the right to cancel this Agreement, in which case the Deposit together with interest earned, if any, shall be released to the Sellers. If the Deposit does not cover their loss, the Sellers shall be entitled to claim further compensation for their losses and for all expenses incurred together with interest.~~

14. Sellers' default

~~Should the Sellers fail to give Notice of Readiness in accordance with Clause 5(b) or fail to be ready to validly complete a legal transfer by the Cancelling Date the Buyers shall have the option of cancelling this Agreement. If after Notice of Readiness has been given but before the Buyers have taken delivery, the Vessel ceases to be physically ready for delivery and is not made physically ready again by the Cancelling Date and new Notice of Readiness given, the Buyers shall retain their option to cancel. In the event that the Buyers elect to cancel this Agreement, the Deposit together with interest earned, if any, shall be released to them immediately.~~

~~Should the Sellers fail to give Notice of Readiness by the Cancelling Date or fail to be ready to validly complete a legal transfer as aforesaid they shall make due compensation to the Buyers for their loss and for all expenses together with interest if their failure is due to proven negligence and whether or not the Buyer cancel this Agreement.~~

15. Buyers' representatives

~~After this Agreement has been signed by the Parties and the Deposit has been lodged, the Buyers have the right to place two (2) representatives on board the Vessel at their sole risk and expense.~~

~~These representatives are on board for the purpose of familiarisation and in the capacity of observers only, and they shall not interfere in any respect with the operation of the Vessel. The Buyers and the Buyers' representative shall sign the Sellers' P&I Club's standard letter of indemnity prior to their embarkation.~~

16. Law and Arbitration

- (a)* This Agreement shall be governed by and construed in accordance with English law and any dispute arising out of or in connection with this Agreement shall be referred to arbitration in London in accordance with the Arbitration Act 1996 or any statutory modification or re-enactment thereof save to the extent necessary to give effect to the provisions of this Clause.

The arbitration shall be conducted in accordance with the London Maritime Arbitrators Association (LMAA) Terms current at the time when the arbitration proceedings are commenced.



The reference shall be to three arbitrators. A party wishing to refer a dispute to arbitration shall appoint its arbitrator and send notice of such appointment in writing to the other party requiring the other party to appoint its own arbitrator within fourteen (14) calendar days of that notice and stating that it will appoint its arbitrator as sole arbitrator unless the other party appoints its own arbitrator and gives notice that it has done so within the fourteen (14) days specified. If the other party does not appoint its own arbitrator and give notice that it has done so within the fourteen (14) days specified, the party referring a dispute to arbitration may, without the requirement of any further prior notice to the other party, appoint its arbitrator as sole arbitrator and shall advise the other party accordingly. The award of a sole arbitrator shall be binding on both Parties as if the sole arbitrator had been appointed by agreement.

In cases where neither the claim nor any counterclaim exceeds the sum of US\$100,000 the arbitration shall be conducted in accordance with the LMAA Small Claims Procedure current at the time when the arbitration proceedings are commenced.

- (b)* ~~This Agreement shall be governed by and construed in accordance with Title 9 of the United States Code and the substantive law (not including the choice of law rules) of the State of New York and any dispute arising out of or in connection with this Agreement shall be referred to three (3) persons at New York, one to be appointed by each of the parties hereto, and the third by the two so chosen; their decision or that of any two of them shall be final, and for the purposes of enforcing any award, judgment may be entered on an award by any court of competent jurisdiction. The proceedings shall be conducted in accordance with the rules of the Society of Maritime Arbitrators, Inc.~~

~~In cases where neither the claim nor any counterclaim exceeds the sum of US\$ 100,000 the arbitration shall be conducted in accordance with the Shortened Arbitration Procedure of the Society of Maritime Arbitrators, Inc.~~

- (e) This Agreement shall be governed by and construed in accordance with the laws of (state place) and any dispute arising out of or in connection with this Agreement shall be referred to arbitration at (state place), subject to the procedures applicable there.

*16(a), 16(b) and 16(c) are alternatives; delete whichever is not applicable. In the absence of deletions, alternative 16(a) shall apply.

17 Notices

All notices to be provided under this Agreement shall be in writing.

Contact details for recipients of notices are as follows:

For the Buyers: **MI-DAS LINE S.A., Panama : Vallarino Building, 3rd Floor, 52nd and Elvira Mendez Street, Panama City, Republic of Panama, c/o Doun Kisen Co., Ltd, 1307-8 Koh Goh Namikata-cho, Imabari-city, Ehime-pref, Japan**

Att: Mr. Takeomi Yagi / Tel: +81-898-41-7733, Fax: +81-898-41-6011, E-mail: sale-purchase@doun.co.jp

For the Sellers: **Øystein Emberland, Chief Financial Officer (CFO) / Knutsen NYK Offshore Tankers AS Smedasundet 40, P.O.Box 2017, 5504 Haugesund, Norway, Tel: +47 52 70 40 13, Cel: +47 95 20 05 14, E-mail: oem@knotgroup.com**

18. Entire Agreement

The written terms of this Agreement comprise the entire agreement between the Buyers and the Sellers in relation to the sale and purchase of the Vessel and supersede all previous agreements whether oral or written between the Parties in relation thereto.

Each of the Parties acknowledges that in entering into this Agreement it has not relied on and shall have no right or remedy in respect of any statement, representation, assurance or warranty (whether or not made negligently) other than as is expressly set out in this Agreement.

Any terms implied into this Agreement by any applicable statute or law are hereby excluded to the extent that such exclusion can legally be made. Nothing in this Clause shall limit or exclude any liability for fraud.



19. Confidentiality

This Agreement and all details contained therein are to be kept strictly private and confidential by the Parties.

20. ~~The Buyers (as the Owner) and the Sellers (as the Charterer) have entered into BBCP on the date of delivery of the Vessel, whereunder the Vessel is chartered to the Charterer as from delivery under this Agreement for such period and on such terms and conditions which are particularly described in the BBCP.~~ This agreement is subject to the parties entering into the Barecon 2001 on terms to be agreed. The Barecon 2001 for the chartering back of the Vessel shall form an integral part of this Agreement. Should the parties for any reason whatsoever not enter into the Barecon 2001, or if the said Barecon 2001 does not become effective or become null and void prior to delivery of the Vessel, this Agreement shall terminate and become null and void and neither party shall have any claims of whatsoever nature against the other in respect of this Agreement or otherwise.

For and on behalf of the Sellers

For and on behalf of the Buyers

\s\ Øystein Emberland

\s\ Genji Ohkouchi

Name: **Øystein Emberland**

Name: **Genji Ohkouchi**

Title: **Attorney-In-Fact**

Title: **President**

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ADDENDUM NO. 1
to the
MEMORANDUM OF AGREEMENT
Dated 30th December, 2020,
made between
Knutsen Shuttle Tankers 19 AS
and
MI-DAS LINE, S.A.
regarding
M/T "RAQUEL KNUTSEN"

THIS ADDENDUM is made on 14th of January, 2021, between **Knutsen Shuttle Tankers 19 AS** (the "Sellers") and **MI-DAS LINE, S.A.** (the "Buyers") to the memorandum of agreement dated 30th of December, 2020 (the "MOA") made between the Sellers and the Buyers regarding the motor tanker named "**RAQUEL KNUTSEN**" (the "Vessel") and built by COSCO (ZHOUSHAN) Shipyard co., Ltd. Zhoshan, Zhejiang, P.R.C. (the "Shipyard") under IMO No. 9685396.

WHEREAS the Sellers have sold the Vessel to the Buyers under the MOA and NOW THEREFORE it is hereby mutually agreed between the Sellers and the Buyers, that the definition of "Seller's Account" in the MoA shall be amended to read as follows:

"SMBC New York"

and;

the definition of "Seller's Account" shall be amended to read as follows:

means SMBC New York / SWIFT: SMBCUS33, Account: SMBCGB2L SMBC Bank International plc, Account 584354 at the Seller's Bank.



Further and in addition to the documents mentioned in Clause 8 of the MOA, the following documents shall be exchanged at the time of delivery:

- I. The Sellers shall provide the Buyers with the following documents upon or prior to the delivery of the Vessel to the Buyers:
 - 1. Certificate of Ownership and Non-Encumbrances from the competent authorities dated the day of delivery of the Vessel;
 - 2. Two (2) originals of the Protocol of Delivery and Acceptance under the MOA;
 - 3. One (1) certified true photocopy of the certificate of registration listing the Directors of the Company dated by the registry in which the company is incorporated dated not more than 20 (twenty) Banking Days prior to delivery;
 - 4. One (1) certified true copy of the Minutes of meeting of the Sellers' board of directors, confirming and recording (i) the approval and authorization of the sale of the Vessel to the Buyers, (ii) the execution of all documents in connection therewith, and (iii) the granting of a respective power of attorney;
 - 5. One (1) certified true photocopy of Sellers' Articles of Association (Originals are in Norwegian, will be an in house translation).
 - 6. One (1) original Power of Attorney of the Sellers, duly notarized, confirming the authority of the person(s) acting on behalf of the Sellers to sign and execute the Bill of Sale, the Protocol of Delivery and Acceptance and all other documents required in connection with the sale of the Vessel to the Buyers and generally to act on behalf of the Sellers in connection with the delivery of the Vessel



and the release of the deposit to be paid by the Buyers under the MOA;

7. Two (2) originals of a legal Bill of Sale in a British 10A Form warranting that the Vessel is free from all encumbrances, mortgages and maritime liens or any other debts or taxes or claims whatsoever, duly notarized (only if required by the Malta Ship Registry), pursuant to which ownership title to the Vessel is transferred from the Sellers to the Buyers;
8. Two (2) originals of a commercial invoice for the Vessel incorporating the particulars of the Vessel of the date of delivery to the Buyers, duly executed by the Sellers;
9. Any such additional documents as may reasonably be required by competent ship register or maritime authorities of the Nominated Flag State for the purpose of registration of the Vessel.

II. The Buyers shall provide the Sellers the following documents upon or prior to the delivery of the Vessel:

1. One (1) original Power of Attorney, duly notarized and legalized, confirming the authority of the person(s) to represent the Buyers in connection with the purchase and the delivery and acceptance of the Vessel, to sign and execute all documents required in connection with the purchase of the Vessel, to authorise the payment of the purchase price and all other amounts to be paid by the Buyers in accordance with the MOA, and generally to act on behalf of the Buyers in connection with the purchase and delivery of the Vessel;
2. One (1) certified true copy of the Minutes of meeting of the Buyers' board of directors, duly certified by the secretary or other authorised



authorization of the purchase of the Vessel, (ii) the execution of all documents in connection therewith, and (iii) the granting of a respective power of attorney;

3. One (1) certified true copy of Buyers' Articles of Incorporation certified as true copy by a Director of the Buyers, and certified true photocopy of Certificate of Good Standing showing the names of the Directors of the Buyers and not older than 30 (thirty) Banking Days prior to the date of Delivery of the Vessel.

Prior to delivery, and when requested by the Buyers, the Sellers shall authorise the vessel's Classification Society to confirm directly by fax to the maritime authorities of the Nominated Flag State certain matters concerning the Vessel's class and the validity of its safety certificates, in order to facilitate the Buyers with the Vessel's registration formalities.

All documents shall be in the English language or accompanied by translation into English.

Whenever apostilles are required, if any, pursuant to the terms of the MOA including any addenda thereto, the Parties shall accept electronic apostilles which have been issued in accordance with the Apostille Convention.

Drafts/copies of executed delivery documents to be forwarded to the opposite party by e-mail or fax in good time prior to delivery, as far as reasonably possible.



All other terms, conditions and exceptions of the MOA shall remain in full force and effect.

For the Sellers:

Knutsen Shuttle Tankers 19 AS

For the Buyers:

MI-DAS LINE, S.A.

\s\ Øystein Emberland

By: Øystein Emberland

Title: CFO/ATTORNEY-IN-FACT

\s\ Genji Ohkouchi

By: Genji Ohkouchi

Title: President



SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE THEY ARE BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED, AND THE TERMS HAVE BEEN MARKED AT THE APPROPRIATE PLACE WITH FIVE ASTERISKS (*****).



BARECON 2001

STANDARD BAREBOAT CHARTER

PART I

| | | |
|--|---|--|
| 1. Shipbroker Japan Shipping Services Co., Ltd. | 2. Place and date Haugesund, 30th December, 2020 | |
| 3. Owners/Place of business (Cl. 1) MI-DAS LINE, S.A. Vallarino Building 3rd Floor, 52nd and Elvira Mendez Street, Panama City, Republic of Panama Performance to be guaranteed by Doun Kisen Co. Ltd as per performance guarantee | 4. Bareboat Charterers/Place of business (Cl.1) Knutsen Shuttle Tankers 19 AS Smedasundet 40 Postbox 2017 N-5504 Haugesund, Norway Performance to be guaranteed by KNOT Offshore Partners LP as per performance guarantee | |
| 5. Vessel's name, call sign and flag (Cl. 1 and 3) Name: M.T. Raquel Knutsen Flag: Malta IMO: 9685396 | | |
| 6. Type of Vessel Crude oil/ Shuttle tanker | 7. GT/NT GT: 83,936 NT: 46,174 | |
| 8. When/Where built March 2015 COSCO(ZHOUSHAN) Shipyard Co., Ltd. Zhoushan, Zhejiang, P.R.C | 9. Total DWT (abt.) in metric tons on summer freeboard 152,208DWT | |
| 10. Classification Society (Cl. 3) DNV(Det Norske Veritas) | 11. Date of last special survey by the Vessel's classification society N/A | |
| 12. Further particulars of Vessel (also Indicate minimum number of months' validity of class certificates agreed acc. to Cl. 3) N/A | | |
| 13. Port or Place of delivery (Cl. 3) See Clause 32 | 14. Time for delivery (Cl. 4) See Clause 32 | 15. Cancelling date (Cl.5) See Clause 32 |
| 16. Port or Place of redelivery (Cl. 15) Worldwide always within Institute Warranty Limits(IWL) | 17. No. of months' validity of trading and class certificates upon redelivery (Cl. 15) Three (3) months, or less where part of customary renewal procedures | |
| 18. Running days' notice if other than stated in Cl. 4 See Clause 32 | 19. Frequency of dry-docking (Cl. 10(g)) As required by class | |
| 20. Trading limits (Cl. 6) Worldwide Trading always within Institute Warranty Limits (IWL).However, any country designated pursuant to any International (including United nations, or United States or European Union or member state of European Union or United Kingdom or Japan, Panama, Malta) or regulation imposing trade and economic sanctions, prohibitions or restrictions (which may be amended from time to time during the Charter Period), North Korea, Israel, and other countries sanctioned / boycotted / banned by UN or USA, Japan, Panama, Malta, to be excluded from trading. If the situation of the country(ies) or a country not including in trading is changed, both parties will discuss. War or warlike zone to be excluded. Charterers may breach IWL against payment of additional premium/expense prior to Charterers' written notice to the Owners. | | |
| 21. Charter period (Cl. 2) Ten (10) years from the time of delivery | 22. Charter hire (Cl. 11) ***** | |
| 23. New class and other safety requirements (state percentage of Vessel's insurance value acc. to Box 29)(Cl. 10(a)(ii)) See Clause 40 | | |



| | |
|---|--|
| 24. Rate of interest payable acc. to Cl. 11 (f) and, if applicable, acc. to PART IV 2.00% | 25. Currency and method of payment (Cl. 11) United States Dollars (see also clause 11) |
| 26. Place of payment; also state beneficiary and bank account (Cl. 11) MI-DAS LINE S.A. | 27. Bank guarantee/bond (sum and place) (Cl. 24) (optional) N/A |
| 28. Mortgage(s), if any (state whether 12(a) or (b) applies; if 12(b) applies state date of Financial Instrument and name of Mortgagee(s)/Place of business) (Cl. 12) See Clause 36 | 29. Insurance (hull and machinery and war risks) (state value acc. to Cl. 13(f) or, If applicable, acc. to Cl. 14(k)) (also state if Cl. 14 applies) See Clause 37 |
| 30. Additional insurance cover, if any, for Owners' account limited to (Cl. 13(b) or, if applicable, Cl. 14(g)) N/A | 31. Additional insurance cover, if any, for Charterers' account limited to (Cl. 13(b) or, if applicable, Cl. 14(g)) N/A |
| 32. Latent defects (only to be filled in if period other than stated in Cl. 3) N/A | 33. Brokerage commission and to whom payable (Cl. 27) N/A |
| 34. Grace period (state number of clear banking days) (Cl. 28) Three (3) banking days (as defined in clause 1) | 35. Dispute Resolution (state 30(a), 30(b) or 30(c); if 30(c) agreed Place of Arbitration must be stated (Cl. 30) (a) English law, London arbitration clause 30(a) |
| 36. War cancellation (indicate countries agreed) (Cl. 26(f)) N/A | |
| 37. Newbuilding Vessel (indicate with "yes" or "no" whether PART III applies) (optional) N/A | 38. Name and place of Builders (only to be filled in if PART III applies) N/A |
| 39. Vessel's yard Building No. (only to be filled in if PART III applies) N/A | 40. Date of Building Contract (only to be filled in if PART III applies) N/A |
| 41. Liquidated damages and costs shall accrue to (state party acc. to Cl. 1) a) N/A b) N/A c) N/A | |
| 42. Hire/Purchase agreement (indicate with "yes" or "no" whether PART IV applies) (optional) See Clause 39 | 43. Bareboat Charter Registry (indicate with "yes" or "no" whether PART V applies) (optional) No |
| 44. Flag and Country of the Bareboat Charter Registry (only to be filled in If PART V applies) N/A | 45. Country of the Underlying Registry (only to be filled in if PART V applies) N/A |
| 46. Number of additional clauses covering special provisions, if agreed Clause 32 to 47 | |

PREAMBLE - It is mutually agreed that this Contract shall be performed subject to the conditions contained in this Charter which shall include PART I and PART II. In the event of a conflict of conditions, the provisions of PART I shall prevail over those of PART II to the extent of such conflict but no further. It is further mutually agreed that PART III and/or PART IV and/or PART V shall only apply and only form part of this Charter if expressly agreed and stated in Boxes 37, 42 and 43. If PART III and/or PART IV and/or PART V apply, it is further agreed that in the event of a conflict of conditions, the provisions of PART I and PART II shall prevail over those of PART III and/or PART IV and/or PART V to the extent of such conflict but no further.



Signature (Owners)
MI-DAS LINE S.A., Panama

Signature (Charterers)
Knutsen Shuttle Tankers 19 AS

/s/ Genji Ohkouchi

Name : Genji Ohkouchi
Title : President

/s/ Øystein Emberland

Name : Øystein Emberland
Title : Attorney-In-Fact

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PART II
BARECON 2001 Standard Bareboat Charter

1. Definitions

In this Charter, the following terms shall have the meanings hereby assigned to them:

"The Owners" shall mean the party identified in Box 3.

"The Charterers" shall mean the party identified in Box 4.

"The Vessel" shall mean the vessel named in Box 5 and with particulars as stated in Boxes 6 to 12.

"The Charter" means this Bareboat Charter with Rider clauses and as later amended

"The Parties" jointly refers to both the Owners and the Charterers.

The MOA" refers to the Memorandum of Agreement agreed upon by the Owners as buyers and the Charterers as sellers, dated ~~XX XX~~30~~28~~th December, 20~~21~~2020

"The Sellers" refers to the sellers in the MOA

"Banking Days" are days on which banks are open in the United States of America (New York), Panama, Malta, Japan and ~~Switzerland~~Norway

"Buyers/Owners Guarantee" means performance guarantee as guaranteed by Doun Kisen Co. Ltd

"Charterers Guarantee" means performance guarantee as guaranteed by KNOT Offshore Partners LP.

"Financial Instrument" means the mortgage, deed of covenant or other such financial security instrument as annexed to this Charter and stated in Box 28.

2. Charter Period

In consideration of the hire detailed In Box 22, the Owners have agreed to let and the Charterers have agreed to hire the Vessel for the period stated in Box 21 ("The Charter Period").

3. Delivery See Clause 32

(not applicable when Part III applies, as indicated in Box 37)

- (a) ~~The Owners shall before and at the time of delivery exercise due diligence to make the Vessel seaworthy and in every respect ready in hull, machinery and equipment for service under this Charter.~~

~~The Vessel shall be delivered by the Owners and taken over by the Charterers at the port or place indicated in Box 13 in such ready safe berth as the Charterers may direct.~~

- (b) ~~The Vessel shall be properly documented on delivery in accordance with the laws of the flag state indicated in Box 5 and the requirements of the classification society stated in Box 10. The Vessel upon delivery shall have her survey cycles up to date and trading and class certificates valid for at least the number of months agreed in Box 12.~~

- (e) ~~The delivery of the Vessel by the Owners and the taking over of the Vessel by the Charterers shall constitute a full performance by the Owners of all the Owners' obligations under this Clause 3, and thereafter the Charterers shall not be entitled to make or assert any claim against the Owners on account of any conditions, representations or warranties expressed or implied with respect to the Vessel but the Owners shall be liable for the cost of but not the time for repairs or renewals occasioned by latent defects in the Vessel, her machinery or appurtenances, existing at the time of delivery under this Charter, provided such defects have manifested themselves within twelve (12) months after delivery unless otherwise provided in Box 32.~~

4. ~~Time for Delivery~~ (See also Clause 32)



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BARECON 2001 Standard Bareboat Charter

(not applicable when Part III applies, as indicated in Box 37)

The Vessel shall not be delivered before the date indicated in Box 14 without the Charterers' consent and the Owners shall exercise due diligence to deliver the Vessel not later than the date indicated in Box 15.

~~Unless otherwise agreed in Box 18, the Owners shall give the Charterers not less than thirty (30) running days' preliminary and not less than fourteen (14) running days' definite notice of the date on which the Vessel is expected to be ready for delivery. The Owners shall keep the charterers closely advised of possible changes in the vessel's position.~~

5. Cancelling

(not applicable when Part III applies, as indicated in Box 37)

- (a) ~~Should the Vessel not be delivered latest by the cancelling date indicated in Box 15, the Charterers shall have the option of cancelling this Charter by giving the Owners notice of cancellation within thirty six (36) running hours after the cancelling date stated in Box 15, failing which this Charter shall remain in full force and effect.~~
- (b) ~~If it appears that the Vessel will be delayed beyond the cancelling date, the Owners may, as soon as they are in a position to state with reasonable certainty the day on which the Vessel should be ready, give notice thereof to the Charterers asking whether they will exercise their option of cancelling, and the option must then be declared within one hundred and sixty eight (168) running hours of the receipt by the Charterers of such notice or within thirty six (36) running hours after the cancelling date, whichever is the earlier, if the Charterers do not then exercise their option of cancelling, the seventh day after the readiness date stated in the Owners' notice shall be substituted for the cancelling date indicated in Box 15 for the purpose of this Clause 5.~~
- (e) ~~Cancellation under this Clause 5 shall be without prejudice to any claim the Charterers may otherwise have on the Owners under this Charter.~~

6. Trading Restrictions

The Vessel shall be employed in lawful trades for the carriage of suitable lawful merchandise within the trading limits indicated in Box 20.

The Charterers undertake not to employ the Vessel or suffer the Vessel to be employed otherwise than in conformity with the terms of the contracts of insurance (including any warranties expressed or implied therein) without first obtaining the consent of the insurers to such employment and complying with such requirements as to extra premium or otherwise as the insurers may prescribe.

The Charterers also undertake not to employ the Vessel or suffer her employment in any trade or business which is forbidden by the law of any country to which the Vessel may sail or is otherwise illicit or in carrying illicit or prohibited goods or in any manner whatsoever which may render her liable to condemnation, destruction, seizure or confiscation.

Notwithstanding any other provisions contained in this Charter it is agreed that nuclear fuels or radioactive products or waste are specifically excluded from the cargo permitted to be loaded or carried under this Charter. This exclusion does not apply to radioisotopes used or Intended to be used for any industrial, commercial, agricultural, medical or scientific purposes provided the Owners' prior approval has been obtained to loading thereof.

7. Surveys on Delivery and Redelivery

(not applicable when Part III applies, as indicated in Box 37)

~~The Owners and Charterers shall each appoint surveys for the purpose of determining and agreeing in writing the condition of the Vessel at the time of delivery and redelivery hereunder. The Owners shall bear all expenses of the On hire Survey including loss of time, if any, and the Charterers shall bear all expenses of the Off hire Survey including loss of time, if any, at the daily equivalent to the rate of hire or pro rate thereof. The Condition of the Vessel on delivery to be as per delivery under the MoA Clause 11.~~



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8. Inspection

The Owners shall have the right ~~at any time~~ **once per year** after giving reasonable notice to the Charterers to inspect or survey the Vessel or instruct a duly authorised surveyor to carry out such survey on their behalf **always provided such inspection or survey does not delay or interfere with the normal operation of the Vessel:**

- (a) to ascertain the condition of the Vessel and satisfy themselves that the Vessel is being properly repaired and maintained. **Such notice to be made no late than 30 15 days prior to the Inspection or survey and the Charterers to keep the Owners well informed of Vessel's itinerary for inspection purpose.** The costs and fees for such inspection or survey shall be paid by the Owners unless the Vessel is found to require repairs or maintenance **to meet a condition required by Class or the Vessel's Flag State** ~~in order to achieve the condition so provided;~~
- (b) ~~in dry dock if the Charterers have not dry docked Her in accordance with Clause 10(g); The costs and fees for such inspection or survey shall be paid by the Charterers; and~~
- (c) ~~for any other commercial reason they consider necessary (provided it does not unduly interfere with the commercial operation of the Vessel). The costs and fees for such inspection and survey shall be paid by the Owners.~~

Unless the Vessel is required to be off-hire, All time used in respect of inspection, survey or repairs shall be for the Charterers' account and form part of the Charter Period.

The Charterers shall also permit the Owners to inspect the Vessel's log books whenever requested and shall whenever **reasonably** required by the Owners furnish them with full information regarding any casualties or other accidents or damage to the Vessel.

The Charterers shall submit following reports to the Owners: (i) Inspection report (annually) (ii) Annual audited Financial report as soon as the same become available, but in any event within 180 days after the end of its financial years.

9. Inventories, Oil and Stores

Unless the Charterers have exercised the purchase option, Aa complete inventory of the Vessel's entire equipment, outfit including spare parts, appliances and of all consumable stores on board the Vessel shall be made by the Charterers in conjunction with the Owners on redelivery of the Vessel. The Owners shall at the time of redelivery take over and pay for all bunkers, lubricating oil, unbroaded provisions, paints, ropes and other consumable stores (excluding spare parts) in the said Vessel at the last purchase price paid by the Charterers, evidenced and supporting vouchers, at the current market prices at the ports of redelivery. The Charterers shall not pay to the Owners at time of delivery for any bunkers, lubricating oil, provisions, paints, ropes and consumable stores which the Charterers have supplied to the Vessel at the Charterers' expense prior to delivery. The Charterers shall ensure that all spare parts listed in the inventory and used during the Charter Period are replaced at their expense prior to redelivery of the Vessel, unless the Charterers purchase the Vessel according to Clause 39. Furthermore, the Charterers shall ensure that all spare parts meet minimum requirements of class and shall remain onboard at time of redelivery unless Charterer purchase the Vessel according to Clause 39. A complete inventory of the Vessel's entire equipment, outfit including spare parts, appliances and of all consumable stores on board the Vessel shall be made by the Charterers in conjunction with the Owners on delivery and again on redelivery of the Vessel. The Charterers and the Owners, respectively, shall at the time of delivery and redelivery take over and pay for all bunkers, lubricating oil, unbroaded provisions, paints, ropes and other consumable stores (excluding spare parts) in the said Vessel at the then current market prices at the parts of delivery and redelivery, respectively. The Charterers shall ensure that all spare parts listed in the inventory and used during the Charter period are replaced at their expenses prior to redelivery of the Vessel.

10. Maintenance and Operation

- (a) (i) Maintenance and Repairs - During the Charter Period the Vessel shall be in the full possession and at the absolute disposal for all purposes of the Charterers and under their complete control in every respect. The Charterers shall maintain the Vessel, her machinery, boilers, appurtenances and spare parts in a good state of repair, in efficient operating condition and in accordance with good commercial maintenance practice and, ~~except as provided for in Clause 14(1), if applicable,~~ at their own expense they shall at all times keep the Vessel's



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Class fully up to date with the Classification Society indicated in Box 10 and maintain all other necessary certificates in force at all times.

(ii) New Class and Other Safety Requirements - ~~See Clause 40 In the event of any improvement, structural changes or new equipment becoming necessary for the continued operation of the Vessel by reason of new class requirements or by compulsory legislation (including but not limited to Ballast Water Treatment System, New Panama, Sox and Nox) the cost and time of compliance shall be for Charterers account. If those new equipment needs to be removed when the Vessel will be redelivered, the cost and time of removal shall be for Charterers account. Notwithstanding the foregoing, Charterers are allowed to make improvements to the Vessel provided cost of same to be for Charterers account subject to the prior written consent of the Owners.)~~ costing (excluding the Charterers' loss of time) more than the percentage stated in Box 23, or if Box 23 is left blank, 5 per cent of the Vessel's insurance value as stated in Box 29, then the terms as stated in Clause extent, if any, to which the rate of hire shall be varied and the ratio in which the cost of compliance shall be shared between the parties concerned in order to achieve a reasonable distribution thereof as between the Owners and the Charterers having regard, inter alia, to the length of the period remaining under this Charter shall, in the absence of agreement, be referred to the dispute resolution method agreed in Clause 30.

(iii) Financial Security - The Charterers shall maintain financial security or responsibility in respect of third party liabilities as required by any government, including federal, state or municipal or other division or authority thereof, to enable the Vessel, without penalty or charge, lawfully to enter, remain at, or leave any port, place, territorial or contiguous waters of any country, state or municipality in performance of this Charter without any delay. This obligation shall apply whether or not such requirements have been lawfully imposed by such government or division or authority thereof.

The Charterers shall make and maintain all arrangements by bond or otherwise as may be necessary to satisfy such requirements at the Charterers' sole expense and the Charterers shall indemnify the Owners against all consequences whatsoever (including loss of time) for any failure or inability to do so.

- (b) Operation of the Vessel - The Charterers shall at their own expense and by their own procurement man, victual, navigate, operate, supply, fuel and, whenever required, repair the Vessel during the Charter Period and they shall pay all charges and expenses of every kind and nature whatsoever incidental to their use and operation of the Vessel under this Charter, including annual flag state fees and any foreign general municipality and/or state taxes. The Master, officers and crew of the Vessel shall be the servants of the Charterers for all purposes whatsoever, even if for any reason appointed by the Owners.

Charterers shall comply with the regulations regarding officers and crew in force in the country of the Vessel's flag or any other applicable law.

- (c) The Charterers shall keep the Owners ~~and the mortgagee(s)~~ advised of the ~~intended employment~~, planned dry-docking and major repairs of the Vessel, as reasonably required.
- (d) Flag and Name of Vessel – ~~See Clauses 33 and 34 .During the Charter period, the Charterers shall have the liberty to paint the Vessel in their own colours, install and display their funnel insignia and fly their own house flag. The Charterers shall also have the liberty, with the Owners' consent, which shall not be unreasonably withheld, to change the flag and/or the name of the Vessel during the Charter Period. Painting and re-painting, instalment and re-instalment, registration and re-registration, if required by the Owners, shall be at the Charterers' expense and time.~~
- (e) Changes to the Vessel – ~~See Clause 40without prejudice to Clause 40 (if applicable) and~~ Subject to Clause 10(a)(ii), the Charterers shall make no structural changes in the Vessel or changes in the machinery, boilers, appurtenances or spare parts thereof without in each instance first securing the Owners' approval thereof, ~~not to be unreasonably withheld.~~ if the owners so agree, the Charterers shall, if the Owners so require, restore the Vessel to its former condition before the termination of this Charter, ~~See Clause 40.~~
- (f) Use of the Vessel's Outfit, Equipment and Appliances - ~~See Clause 40~~The Charterers shall have the use of all outfit, equipment, and appliances on board the Vessel at the time of delivery, provided the same or their substantial equivalent shall be returned to the Owners on redelivery in the same good order and condition as when received, ordinary wear and tear excepted. The Charterers shall from time to time during the Charter Period replace such items of equipment as shall be so damaged or worn as to be unfit for use. The Charterers



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are to procure that all repairs to or replacement of any damaged, worn or lost parts or equipment be effected in such manner (both as regards workmanship and quality of materials) as not to diminish the value of the Vessel. The Charterers have the right to fit additional equipment, ~~with Owners' prior consent not to be unreasonably withheld, at the Charterers' expense~~ at their expense and risk but the Charterers shall remove such equipment at the end of the period ~~unless Charterers purchase the Vessel upon redelivery~~ if requested by the Owners. Any equipment including radio equipment on hire on the Vessel at time of delivery shall be kept and maintained by the Charterers and the Charterers shall assume the obligations and liabilities of the Owners under any lease contracts in connection therewith and shall reimburse the Owners for all expenses incurred in connection therewith, also for any new equipment required in order to comply with radio regulations.

- (g) Periodical Dry-Docking - The Charterers shall dry-dock the Vessel and clean and paint her underwater parts whenever the same may be necessary, ~~but not less than once during the period stated in Box 19 required by the Classification Society or flag state, or, if Box 19 has been left blank, every sixty (60) calendar months after delivery or such other period as may be required by the Classification Society or flag state.~~

11. Hire

- (a) The Charterers shall pay hire due to the Owners punctually in accordance with the terms of this Charter in respect of which time shall be of the essence.
- (b) The Charterers shall pay to the Owners for the hire of the Vessel ~~a lump sum~~ monthly in advance in the amount indicated in Box 22 which shall be payable ~~not later than every thirty (30) running days~~ monthly in advance, the first lumpsum ~~lump sum~~ being payable on the date and hour of the Vessel's delivery to the Charterers. Hire shall be paid continuously throughout the Charter Period. **If hire payment date is National holiday in Japan, New York, Malta, and Switzerland Norway, hire to be paid one day prior to that date. Full amount of hire shall be available in Owner's nominated account on a monthly basis by the due date.**
- (c) Payment of hire shall be made in cash without discount **free of bank charges** in the currency and in the manner indicated in Box 25 and at the place mentioned in Box 26.
- (d) Final payment of hire, if for a period of less than ~~thirty (30) running days~~ **one month**, shall be calculated proportionally according to the number of days and hours remaining before redelivery or **purchase** and advance payment to be effected accordingly.
- (e) Should the Vessel be lost or missing, hire shall cease from the date and time when she was lost or last heard of. The date upon which the Vessel is to be treated as lost or missing shall be ten (10) days after the Vessel was last reported or when the Vessel is posted as missing by Lloyd's, whichever occurs first. Any hire paid in advance to be adjusted accordingly.
- (f) Any delay in payment of hire shall entitle the Owners to interest at the rate per annum as agreed in Box 24. ~~If Box 24 has not been filled in, the three months interbank offered rate in London (LIBOR or its successor) for the currency stated in Box 25, as quoted by the British Bankers' Association (BBA) on the date when the hire fell due, increased by 2 percent, shall apply.~~
- (g) Payment of interest due under sub-clause 11(f) shall be made within seven (7) **running banking** days of the date of the Owners' invoice specifying the amount payable or, in the absence of an invoice, at the time of the next hire payment date.
- (h) **Notwithstanding anything to the contrary contained herein, the Charterers shall make all payments under this Charter without any set-off or counter claim whatsoever and free and clear of any withholding or deduction for, or on account of, any present or future income, freight, stamp or other taxes, levies, imposts, duties, fees, charges, restrictions or conditions of any nature.**

12. Mortgage (See Clause 36)

(only to apply if Box 28 has been appropriately filled in)

- (a)* The Owners warrant that they have effected any not mortgage(s) of the Vessel and that they shall not effect any mortgage(s) without the prior consent of the Charterers, which shall not be unreasonably withheld.



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(b)* The Vessel chartered under this Charter is financed by a mortgage according to the Financial Instrument.

~~The Charterers undertake to comply, and provide such information and documents to enable the Owners to comply, with all such instructions or directions in regard to the employment, insurances, operation, repairs and maintenance of the Vessel as laid down in the Financial Instrument or as may be directed from time to time during the currency of the Charter by the mortgagee(s) in conformity with the Financial Instrument. The Charterers confirm that, for this purpose, they have acquainted themselves with all relevant terms, conditions and provisions of the Financial Instrument and agree to acknowledge this in writing in any form that may be required by the mortgagee(s). The Owners warrant that they have not effected any mortgage(s) other than stated in Box 28 and that they shall not agree to any amendment of the mortgage(s) referred to in Box 28 or effect any other mortgage(s) without the prior consent of the Charterers, which shall not be unreasonably withheld.~~

~~*(Optional, Clauses 12(a) and 12(b) are alternatives; indicate alternative agreed in Box 28).~~

13. Insurance and Repairs See Clause 37 and 42

(a) During the Charter Period the Vessel shall be kept insured by the Charterers at their expense against hull and machinery, war and Protection and Indemnity risks (and any risks against which it is compulsory to insure for the operation of the Vessel, including maintaining financial security in accordance with sub-clause 10(a)(iii)) ~~in such form as the Owners shall in writing approve, which approval shall not be unreasonably withheld.~~ Such insurances shall be arranged by the Charterers to protect the interests of both the Owners and the Charterers and the mortgagee(s) (if any), and the Charterers shall be at liberty to protect under such insurances the interests of any managers they may appoint. Insurance policies shall cover the Owners and the Charterers according to their respective interests.

Subject to the provisions of the Financial Instrument, if any, and the approval of the Owners and the insurers, the Charterers shall effect all insured repairs and shall undertake settlement and reimbursement from the insurers of all costs in connection with such repairs as well as insured charges, expenses and liabilities to the extent of coverage under the insurances herein provided for.

The Charterers also to remain responsible for and to effect repairs and settlement of costs and expenses incurred thereby in respect of all other repairs not covered by the insurances and/or not exceeding any possible franchise(s) or deductibles provided for in the insurances.

All time used for repairs under the provisions of sub-clause 13(a) and for repairs of latent defects ~~according to Clause 3(e) above,~~ including any deviation, shall be for the Charterers' account.

~~(b) If the conditions of the above insurances permit additional insurance to be placed by the parties, such cover shall be limited to the amount for each party set out in Box 30 and Box 31, respectively. The Owners or the Charterers as the case may be shall immediately furnish the other party with particulars of any additional insurance effected, including copies of any cover notes or policies and the written consent of the insurers of any such required insurance in any case where the consent of such insurers is necessary.~~

~~(e) The Charterers shall upon the request of the Owners, provide information and promptly execute such documents as may be required to enable the Owners to comply with the insurance provisions of the Financial Instrument.~~

~~(d) Subject to the provisions of the Financial Instrument, if any, should the Vessel become an actual, constructive, compromised or agreed total loss under the insurances required under sub-clause 13(a), all insurance payments for such loss shall be paid to the Owners who shall distribute and the moneys distributed between the Owners and the Charterers according to their respective interests in accordance with Clause 42.~~ The Charterers undertake to notify the Owners ~~and the mortgagee(s), if any,~~ of any occurrences in consequence of which the Vessel is likely to become a total loss as defined in this Clause.

(e) The Owners shall upon the request of the Charterers, promptly execute such documents as may be required to enable the Charterers to abandon the Vessel to insurers and claim a constructive total loss.

(f) For the purpose of insurance coverage against hull and machinery and war risks under the provisions of sub-clause 13(a), the value of the Vessel is the sum indicated in Box 29.



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14. Insurance, Repairs and Classification

(Optional, only to apply if expressly agreed and stated in Box 29, in which event Clause 13 shall be considered deleted).

- (a) ~~During the Charter Period the Vessel shall be kept insured by the Owners at their expense against hull and machinery and war risks under the form of policy or policies attached hereto. The Owners and/or insurers shall not have any right of recovery or subrogation against the Charterers on account of loss of or any damage to the Vessel or her machinery or appurtenances covered by such insurances, or on account of payments made to discharge claims against or liabilities of the Vessel or the Owners covered by such insurances. Insurance policies shall cover the Owners and the Charterers according to their respective interests.~~
- (b) ~~During the Charter Period the Vessel shall be kept insured by the Charterers at their expense against Protection and Indemnity risks (and any risks against which it is compulsory to insure for the operation of the Vessel, including maintaining financial security in accordance with sub-clause 10(a)(iii)) in such form as the Owners shall in writing approve which approval shall not be unreasonably withheld.~~
- (c) ~~In the event that any act or negligence of the Charterers shall vitiate any of the insurance herein provided, the Charterers shall pay to the Owners all losses and indemnify the Owners against all claims and demands which would otherwise have been covered by such insurance.~~
- (d) ~~The Charterers shall, subject to the approval of the Owners or Owners' Underwriters, effect all insured repairs, and the Charterers shall undertake settlement of all miscellaneous expenses in connection with such repairs as well as all insured charges, expenses and liabilities, to the extent of coverage under the insurances provided for under the provisions of sub-clause 14(a).~~
~~The Charterers to be secured reimbursement through the Owners' Underwriters for such expenditures upon presentation of accounts.~~
- (e) ~~The Charterers to remain responsible for and to effect repairs and settlement of costs and expenses incurred thereby in respect of all other repairs not covered by the insurances and/or not exceeding any possible franchise(s) or deductibles provided for in the insurances.~~
- (f) ~~All time used for repairs under the provisions of sub-clause 14(d) and 14(e) and for repairs of latent defects according to Clause 3 above, including any deviation, shall be for Charterers' account and shall form part of the Charter Period.~~
~~The Owners shall not be responsible for any expenses as are incident to the use and operation of the vessel for such time as may be required to make such repairs.~~
- (g) ~~If the conditions of the above insurances permit additional insurance to be placed by the parties such cover shall be limited to the amount for each party set out in Box 30 and Box 31, respectively. The Owners or the Charterers as the case may be shall immediately furnish the other party with particulars of any additional insurance effected, including copies of any cover notes or policies and the written consent of the insurers of any such required insurance in any case where the consent of such insurers is necessary.~~
- (h) ~~Should the Vessel become an actual, constructive, compromised or agreed total loss under the insurances required under sub-clause 14(a), all insurance payments for such loss shall be paid to the Owners, who shall distribute the moneys between themselves and the Charterers according to their respective interests.~~
- (i) ~~If the Vessel becomes an actual, constructive, compromised or agreed total loss under the insurances arranged by the Owners in accordance with sub-clause 14(a), this Charter shall terminate as of date of such loss.~~
- (j) ~~The Charterers shall upon the request of the Owners, promptly execute such documents as may be required to enable the Owners to abandon the Vessel to the insurers and claim a constructive total loss.~~
- (k) ~~For the purpose of insurance coverage against hull and machinery and war risks under the provisions of sub-clause 14(a), the value of the Vessel is the sum indicated in Box 29.~~



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- (4) ~~Notwithstanding anything contained in sub-clause 10(a), it is agreed that under the provisions of Clause 14, if applicable, the Owners shall keep the Vessel's Class fully up to date with the Classification Society indicated in Box 10 and maintain all other necessary certificates in force at all times.~~

15. Redelivery

At the expiration of the Charter Period **unless the Charterers have exercised their purchase option (See Clause 39)** the Vessel shall be redelivered by the Charterers to the Owners at a safe and ice-free port or place as indicated in Box 16, in such ready safe berth as the ~~Owners~~ **Charterers** may direct. The Charterers shall give the Owners not less than **sixty (60), thirty (30), twenty (20), ten (10) and seven (7)** running days' preliminary notice of expected date, range of ports of redelivery or port or place of redelivery and not less than fourteen (14), **five (5), three (3) and one (1)** running days' definite notice of expected date and port or place of redelivery.

Any changes thereafter in the Vessel's position shall be notified immediately to the Owners.

The Charterers warrant that they will not permit the Vessel to commence a voyage (including any preceding ballast voyage) which cannot reasonably be expected to be completed in time to allow redelivery of the Vessel within the Charter Period. Notwithstanding the above, should the Charterers fail to redeliver the Vessel within the Charter Period **due to the fault of the Charterers**, the Charterers shall pay the daily equivalent to the rate of hire stated in Box 22 plus 10 per cent or to the market rate, whichever is the higher, for the number of days by which the Charter Period is exceeded. All other terms, conditions and provisions of this Charter shall continue to apply,

Subject to the provisions of Clause 10, the Vessel shall be redelivered to the Owners in the same or as good structure, state, condition and class as that in which she was delivered, fair wear and tear not affecting class excepted.

The Vessel upon redelivery shall have her survey cycles up to date and trading and class certificates valid for at least the number of months agreed in Box 17 **if applicable**,

Unless Charterers exercise their option to purchase the Vessel, the Owners shall have the right at their expense but at Charterers' time to arrange an underwater inspection by a diver approved by the Classification Society no earlier than 45 days and no later 30 days prior to redelivery of the Vessel. This inspection shall take place at a convenient port at Charterers' option and shall be carried out without interference to the Vessel's normal operation. Should such underwater inspection reveal major condition that affect the Class of the Vessel and such Class items require immediate rectification in accordance with specific instruction from the Classification Society and the Class will not grant an extension, and whereby such repairs cannot be made to the Vessel without immediate dry-docking, then the Vessel shall be dry-docked as soon as possible by Charterers in order to repair such Class items to the Classification Society's satisfaction at Charterers' reasonable expense and time. Any expense or time related to other repairs carried out during such dry-docking by Owners and which are not the responsibility of Charterers under the Charter, shall be Owner's account. This clause 7 shall not apply if Charterers exercise their purchase option as set out in Clause 39.

16. Non-Lien

The Charterers will not suffer, nor permit to be continued, any lien or encumbrance incurred by them or their agents, which might have priority over the title and Interest of the Owners in the Vessel. The Charterers further agree to fasten to the Vessel in a conspicuous place and to keep so fastened during the Charter Period a notice reading as follows:

"This Vessel is the property of (name of Owners). It is under charter to (name of Charterers) and by the terms of the Charter Party neither the Charterers nor the Master have any right, power or authority to create, Incur or permit to be imposed on the Vessel any lien whatsoever,"

17. Indemnity

- (a) The Charterers shall indemnify the Owners, **in each case as properly documented and evidenced**, against any loss, damage or **documented and reasonable** expense incurred by the Owners arising out of or in relation to the operation of the Vessel by the Charterers, and against any lien of whatsoever nature arising out of an event



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occurring during the Charter Period. If the Vessel be arrested or otherwise detained by reason of claims or liens arising out of her operation hereunder by the Charterers, the Charterers shall at their own expense take all reasonable steps to secure that within a reasonable time the Vessel is released, including the provision of bail.

Without prejudice to the generality of the foregoing, the Charterers agree to indemnify the Owners against all consequences or liabilities arising from the Master, officers or agents signing Bills of Lading or other documents.

- (b) If the Vessel be arrested or otherwise detained by reason of a claim or claims against the Owners, the Owners shall at their own expense take all reasonable steps to secure that within a reasonable time the Vessel is released, including the provision of bail.

In such circumstances the Owners shall indemnify the Charterers against any loss, damage or **documented** expense incurred by the Charterers (including hire paid under this Charter) as a direct consequence of such arrest or detention.

- (c) **The Charterers shall Indemnify the Owners, in each case as properly documented and evidenced; against any and all liabilities, obligations, taxes- imposed on, or suffered by the Owners and relating to the operation of the Vessel and this Charter (excluding the taxed levied on the Owners by the competent tax authorities in its state of residence in relation to the Charter hire and (tax imposed on the overall net income of the Owners), losses, damages, penalties, fees, claims, actions, suits and cost (excluding loss of profit or business interruption expenses) of whatsoever kind and nature which may be incurred by the Charterers (whether during or after the Charter Period) or incurred by the Owners during the Charter Period only and in consequence of or in any way relating to or arising out of this Charter, the ownership, documentation, delivery, possession, use, operation, chartering, sub-chartering, condition, maintenance, or repair of the Vessel including without limitation, claims or penalties arising from any violation of the laws of any foreign country or political subdivision thereof; any claim as a result of latent or other defects in the Vessel, whether or not discoverable by the Charterer or the Owners and any claims for patent, trademark or copyright infringement in connection to this Charter or the Vessel, and any claims for injury or damages caused by pollution, leaking or spillage of cargo carried by the Vessel; and any claims by owners of cargo or other third parties arising in connection with any of the matters aforesaid.**
- (d) **It there arise any pollution event or incident by or on around the Vessel, in consequence of or in any way relating to or arising out of, including without limitation, any presence, emission, release or leak of any pollutant in Charterers shall promptly take all necessary actions and steps to prevent occurrence of any losses and/or damages to the Vessel and this parties lives and properties or occurrence of any violation of MARPOL or domestic law or regulation including OPA 90 or regulations adopting MARPOL as a result of which the Vessel is ordered not to leave by the coast guard or police or prosecutors or other judicial persons, and if any such losses and/or damages occur or any claim is made by any coast guard or police or prosecutors or other judicial persons for fine and other civil, criminal or administrative offence or made by any third party for liabilities against the Vessel or the Charterers or the Owners, then Charterers shall indemnify the Owners against the aforesaid loss or damages or claim by way of settlement with such third parties or payments to them in accordance with P&I insurers recommendation and approvals as far as with respect to such claims covered by P&I Insurance so that the Vessel, the Charterers and the Owners will entirely be discharged and released from such claim and remedied in respect of such losses, damages and claims.**
- (e) **The Charterers shall not be obliged to indemnify the Owners under this Charter to the extent any losses are caused by the gross negligence or wilful misconduct of the Owners.**

18. Lien

The Owners to have a lien upon all cargoes, sub-hires and sub-freights belonging or due to the Charterers or any sub-charterers and any Bill of Lading freight for all claims under this Charter, and the Charterers to have a lien on the Vessel for all moneys paid in advance and not earned.

19. Salvage

All salvage and towage performed by the Vessel shall be for the Charterers' benefit and the cost of repairing damage occasioned thereby shall be borne by the Charterers.



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20. Wreck Removal

In the event of the Vessel becoming a wreck or obstruction to navigation the Charterers shall indemnify the Owners against any sums whatsoever which the Owners shall become liable to pay and shall pay in consequence of the Vessel becoming a wreck or obstruction to navigation.

21. General Average

The Owners shall not contribute to General Average.

22. Assignment, Sub-Charter and Sale See also Clause 35

- (a) The Charterers shall not assign this Charter nor sub-charter the Vessel on a bareboat basis except with the prior consent in writing of the Owners, which shall not be unreasonably withheld, and subject to such terms and conditions as the Owners shall approve.
- (b) The Owners shall not sell the Vessel during the currency of this Charter except with the prior written consent of the Charterers, which shall not be unreasonably withheld ~~or delayed, and subject to the buyer accepting an assignment of this Charter~~ See also Clause 35.

22. Contracts of Carriage

- (a)* The Charterers are to procure that all documents issued during the Charter Period evidencing the terms and conditions agreed in respect of carriage of goods shall contain a paramount clause incorporating any legislation relating to carrier's liability for cargo compulsorily applicable in the trade; if no such legislation exists, the documents shall incorporate the Hague Rules or the Hague-Visby Rules. The documents shall also contain the New Jason Clause and the Both-to-Blame Collision Clause.
- ~~(b)* The Charterers are to procure that all passenger tickets issued during the Charter Period for the carriage of passengers and their luggage under this Charter shall contain a paramount clause incorporating any legislation relating to carrier's liability for passengers and their luggage compulsorily applicable in the trade; if no such legislation exists, the passenger tickets shall incorporate the Athens Convention Relating to the Carriage of Passengers and their Luggage by Sea, 1974, and any protocol thereto.~~

*Delete as applicable.

24. Bank Guarantee

~~(Optional, only to apply if Box 27 filled in)~~

~~The Charterers undertake to furnish, before delivery of the Vessel, a first class bank guarantee or bond in the sum and at the place as indicated in Box 27 as guarantee for full performance of their obligations under this Charter.~~

25. Requisition/Acquisition

- (a) In the event of the Requisition for Hire of the Vessel by any governmental or other competent authority (hereinafter referred to as "Requisition for Hire") irrespective of the date during the Charter Period when "Requisition for Hire" may occur and irrespective of the length thereof and whether or not it be for an indefinite or a limited period of time, and irrespective of whether it may or will remain in force for the remainder of the Charter Period, this Charter shall not be deemed thereby or thereupon to be frustrated or otherwise terminated and the Charterers shall continue to pay the stipulated hire in the manner provided by this Charter until the time when the Charter would have terminated pursuant to any of the provisions hereof always provided however that in the event of "Requisition for Hire" any Requisition Hire or compensation received or receivable by the Owners shall be payable to the Charterers during the remainder of the Charter Period or the period of the "Requisition for Hire" whichever be the shorter.
- (b) In the event of the Owners being deprived of their ownership in the Vessel by any Compulsory Acquisition of the Vessel or requisition for title by any governmental or other competent authority (hereinafter referred to as



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"Compulsory Acquisition"), then, irrespective of the date during the Charter Period when "Compulsory Acquisition" may occur, this Charter shall be deemed terminated as of the date of such "Compulsory Acquisition". In such event Charter Hire to be considered as earned and to be paid up to the date and time of such "Compulsory Acquisition". **However, In that case, the Charterers and the Owners shall firstly discuss the situation and agree the alternative method mutually in good faith prior to such termination.**

26. War

- (a) For the purpose of this Clause, the words "War Risks" shall Include any war (whether actual or threatened), act of war, civil war, hostilities, revolution, rebellion, civil commotion, warlike operations, the laying of mines (whether actual or reported), acts of piracy, acts of terrorists, acts of hostility or malicious damage, blockades (whether imposed against all vessels or imposed selectively against vessels of certain flags or ownership, or against certain cargoes or crews or otherwise howsoever), by any person, body, terrorist or political group, or the Government of any state whatsoever, which may be dangerous or are likely to be or to become dangerous to the Vessel, her cargo, crew or other persons on board the Vessel.
- (b) The Vessel, unless the written consent of the Owners be first obtained, shall not continue to or go through any port, place, area or zone (whether of land or sea), or any waterway or canal, where it reasonably appears that the Vessel, her cargo, crew or other persons on board the Vessel, in the reasonable judgement of the ~~Owners~~ **Charterers**, may be, or are likely to be, exposed to War Risks. Should the Vessel be within any such place as aforesaid, which only becomes dangerous, or is likely to be or to become dangerous, after her entry into it, the Owners shall have the right to require the Vessel to leave such area, **however the Owners are not entitled to require so if a proper risk assessment has been conducted and provided insurance / additional insurances cover Is variable In the open Insurance market and Is obtained by the Charterers.**
- (c) The Vessel shall not load contraband cargo, or to pass through any blockade, whether such blockade be imposed on all vessels, or is imposed selectively In any way whatsoever against vessels of certain flags or ownership, or against certain cargoes or crews or otherwise howsoever, or to proceed to an area where she shall be subject, or is likely to be subject to a belligerent's right of search and/or confiscation.
- (d) If the insurers of the war risks insurance, when Clause 14 is applicable, should require payment of premiums and/or calls because, pursuant to the Charterers' orders, the Vessel is within, or is due to enter and remain within, any area or areas which are specified by such insurers as being subject to additional premiums because of War Risks, then such premiums and/or calls shall be reimbursed by the Charterers to the Owners at the same time as the next payment of hire is due.
- (e) The Charterers shall have the liberty:
 - (i) to comply with all orders, directions, recommendations or advice as to departure, arrival, routes, sailing in convoy, ports of call, stoppages, destinations, discharge of cargo, delivery, or in any other way whatsoever, which are given by the Government of the Nation under whose flag the Vessel sails, or any other Government, body or group whatsoever acting with the power to compel compliance with their orders or directions;
 - (ii) to comply with the orders, directions or recommendations of any war risks underwriters who have the authority to give the same under the terms of the war risks Insurance;
 - (iii) to comply with the terms of any resolution of the Security Council of the United Nations, any directives of the European Community, the effective orders of any other Supranational body which has the right to issue and give the same, and with national laws aimed at enforcing the same to which the Owners are subject, and to obey the orders and directions of those who are charged with their enforcement.
- (f) In the event of outbreak of war (whether there be a declaration of war or not)
 - (i) between any two or more of the following countries: the United States of America; Russia; the United Kingdom; France; and the People's Republic of China,



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(ii) between any two or more of the countries stated in Box 36, both the Owners and the Charterers shall have the right to cancel this Charter **subject to mutual agreement**, whereupon the Charterers shall redeliver the Vessel to the Owners in accordance with Clause 15, if the Vessel has cargo on board after discharge thereof at destination, or if debarred under this Clause from reaching or entering it at a near, open and safe port as directed by the ~~Owners Charterers~~, or if the Vessel has no cargo on board, at the port at which the Vessel then is or if at sea at a near, open and safe port ~~as directed by the Owners~~ **decided by mutual consultation between the Owners and the Charterers**. In all cases hire shall continue to be paid in accordance with Clause 11 and except as aforesaid all other provisions of this Charter shall apply until redelivery. **However, neither party shall be entitled to terminate this Charter Party on account of minor and/or local war like operations or economic warfare anywhere, which will not interfere with the Vessel's trades.**

27. Commission

~~The Owners to pay a commission at the rate indicated in Box 33 to the Brokers named in Box 33 on any hire paid under the Charter. If no rate is indicated in Box 33, the commission to be paid by the Owners shall cover the actual expenses of the Brokers and a reasonable fee for their work.~~

~~If the full hire is not paid owing to breach of the Charter by either of the parties the party liable therefor shall indemnify the Brokers against their loss of commission.~~

~~Should the parties agree to cancel the Charter, the Owners shall indemnify the Brokers against any loss of commission but in such case the commission shall not exceed the brokerage on one year's hire.~~

28. Termination

(a) Charterers' Default

The Owners shall be entitled to withdraw the Vessel from the service of the Charterers and terminate the Charter with immediate effect by written notice to the Charterers if:

(i) the Charterers fail to pay hire in accordance with Clause 11. However, where there is a failure to make punctual payment of hire due to oversight, negligence, errors or omissions on the part of the Charterers or their bankers, the Owners shall give the Charterers written notice of the number of clear banking days stated in Box 34 (as recognised at the agreed place of payment) in which to rectify the failure, and when so rectified within such number of days following the Owners' notice, the payment shall stand as regular and punctual.

Failure by the Charterers to pay hire within the number of days stated in Box 34 of their receiving the Owners' notice as provided herein, shall entitle the Owners to withdraw the Vessel from the service of the Charterers and terminate the Charter without further notice. **If the Owners lawfully terminate the Charter under this clause 28 (a)(i), the Owners shall have the right to proceed to sell the Vessel i) as soon as practicable but in any event not earlier than 14 days of the termination ii) as the sale price reasonably obtainable in the market at such time and after consultation with the Charterers as to the appropriate market sale price for the Vessel. Any shortfall between the sale price for the Vessel and the remaining Outstanding BBC Principal Balance set out in Schedule A "Outstanding BBC Principal Balance" as attached to this Barecon for the date of sale (minus any amount of hire received by the Owners from the commencement of the year in which such sale occurs) is to be compensated by the Charterers within five (5) banking days from the demand by the Owners;**

(ii) the Charterers fail to comply with the requirements of:

- (1) Clause 6 (Trading Restrictions)
- (2) Clause 13(a) (Insurance and Repairs)

provided that the Owners shall ~~have the option~~, by written notice to the Charterers, ~~to~~ give the Charterers ~~a specified number of~~ **21 banking days** grace within which to rectify the failure without prejudice to the Owners' right to withdraw and terminate under this Clause if the Charterers fail to comply with such notice;



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(iii) the Charterers fail to rectify any failure to comply with the requirements of sub-clause 10(a)(i) (Maintenance and Repairs) ~~as soon as practically possible~~ **within 21 banking days** after the Owners have requested them in writing so to do ~~and in any event so that the Vessel's insurance cover is not prejudiced.~~

(b) Owners' Default

If the Owners shall by any act or omission be in breach of their obligations under this Charter to the extent that the Charterers are deprived of the use of the Vessel and such breach continues for a period of ~~fourteen~~ **twenty one (21) banking days** after written notice thereof has been given by the Charterers to the Owners, the Charterers shall be entitled to terminate this Charter with immediate effect by written notice to the Owners.

(c) Loss of Vessel **See also Clause 42**

This Charter shall be deemed to be terminated if the Vessel becomes a total loss or is declared as a constructive or compromised or arranged total loss. For the purpose of this sub-clause, the Vessel shall not be deemed to be lost unless she has either become an actual total loss or agreement has been reached with her underwriters in respect of her constructive, compromised or arranged total loss or if such agreement with her underwriters is not reached it is adjudged by a competent tribunal that a constructive loss of the Vessel has occurred.

(d) Either party shall be entitled to terminate this Charter with immediate effect by written notice to the other party in the event of an order being made or resolution passed for the winding up, dissolution, liquidation or bankruptcy of the other party (otherwise than for the purpose of reconstruction or amalgamation) or if a receiver is appointed, or if it suspends payment, ceases to carry on business or makes any special arrangement or composition with its creditors.

(e) The termination of this Charter shall be without prejudice to all rights accrued due between the parties prior to the date of termination and to any claim that either party might have, **provided that in the circumstances set out in clause 28(a)(i) the Owners' claim shall be limited to the amounts specified in the final sentence of clause 28(a)(i) being the Outstanding BBC Principal Balance as per Schedule A attached.**

29. Repossession

In the event of the termination of this Charter in accordance with the applicable provisions of Clause 28, the Owners shall have the right to repossess the Vessel from the Charterers at her current or next port of call, or at a port or place convenient to them without hindrance or interference by the Charterers, courts or local authorities. Pending physical repossession of the Vessel in accordance with this Clause 29, the Charterers shall hold the Vessel as gratuitous bailee only to the Owners. The Owners shall arrange for an authorised representative to board the Vessel as soon as reasonably practicable following the termination of the Charter. The Vessel shall be deemed to be repossessed by the Owners from the Charterers upon the boarding of the Vessel by the Owners' representative. All arrangements and expenses relating to the settling of wages, disembarkation and repatriation of the Charterers' Master, officers and crew shall be the sole responsibility of the Charterers.

30. Dispute Resolution

a)* This Contract shall be governed by and construed in accordance with English law and any dispute arising out of or in connection with this Contract shall be referred to arbitration in London in accordance with the Arbitration Act 1996 or any statutory modification or re-enactment thereof save to the extent necessary to give effect to the provisions of this Clause.

The arbitration shall be conducted in accordance with the London Maritime Arbitrators Association (LMAA) Terms current at the time when the arbitration proceedings are commenced.

The reference shall be to three arbitrators, A party wishing to refer a dispute to arbitration shall appoint its arbitrator and send notice of such appointment in writing to the other party requiring the other party to appoint its own arbitrator within 14 calendar days of that notice and stating that it will appoint its arbitrator as sole arbitrator unless the other party appoints its own arbitrator and gives notice that it has done so within the 14



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days specified. If the other party does not appoint its own arbitrator and give notice that it has done so within the 14 days specified, the party referring a dispute to arbitration may, without the requirement of any further prior notice to the other party, appoint its arbitrator as sole arbitrator and shall advise the other party accordingly. The award of a sole arbitrator shall be binding on both parties as if he had been appointed by agreement.

Nothing herein shall prevent the parties agreeing in writing to vary these provisions to provide for the appointment of a sole arbitrator.

In cases where neither the claim nor any counterclaim exceeds the sum of US\$50,000 (or such other sum as the parties may agree) the arbitration shall be conducted in accordance with the LMAA Small Claims Procedure current at the time when the arbitration proceedings are commenced.

(b)* ~~This Contract shall be governed by and construed in accordance with Title 9 of the United States Code and the Maritime Law of the United States and any dispute arising out of or in connection with this Contract shall be referred to three persons at New York, one to be appointed by each of the parties hereto, and the third by the two so chosen; their decision or that of any two of them shall be final, and for the purposes of enforcing any award, judgement may be entered on an award by any court of competent jurisdiction. The proceedings shall be conducted in accordance with the rules of the Society of Maritime Arbitrators, Inc.~~

~~In cases where neither the claim nor any counterclaim exceeds the sum of US\$50,000 (or such other sum as the parties may agree) the arbitration shall be conducted in accordance with the Shortened Arbitration Procedure of the Society of Maritime Arbitrators, Inc. current at the time when the arbitration proceedings are commenced.~~

(e)* ~~This Contract shall be governed by and construed in accordance with the laws of the place mutually agreed by the parties and any dispute arising out of or in connection with this Contract shall be referred to arbitration at a mutually agreed place, subject to the procedures applicable there.~~

(d) Notwithstanding (a), (b) or (c) above, the parties may agree at any time to refer to mediation any difference and/or dispute arising out of or in connection with this Contract.

In the case of a dispute in respect of which arbitration has been commenced under (a), (b) or (c) above, the following shall apply:

(i) Either party may at any time and from time to time elect to refer the dispute or part of the dispute to mediation by service on the other party of a written notice (the "Mediation Notice") calling on the other party to agree to mediation.

(ii) The other party shall thereupon within 14 calendar days of receipt of the Mediation Notice confirm that they agree to mediation, in which case the parties shall thereafter agree a mediator within a further 14 calendar days, failing which on the application of either party a mediator will be appointed promptly by the Arbitration Tribunal ("the Tribunal") or such person as the Tribunal may designate for that purpose. The mediation shall be conducted in such place and in accordance with such procedure and on such terms as the parties may agree or, in the event of disagreement, as may be set by the mediator.

(iii) If the other party does not agree to mediate, that fact may be brought to the attention of the Tribunal and may be taken into account by the Tribunal when allocating the costs of the arbitration as between the parties.

(iv) The mediation shall not affect the right of either party to seek such relief or take such steps as it considers necessary to protect its interest.

(v) Either party may advise the Tribunal that they have agreed to mediation. The arbitration procedure shall continue during the conduct of the mediation but the Tribunal may take the mediation timetable into account when setting the timetable for steps in the arbitration.

(vi) Unless otherwise agreed or specified in the mediation terms, each party shall bear its own costs incurred in the mediation and the parties shall share equally the mediator's costs and expenses.



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(vii) The mediation process shall be without prejudice and confidential and no information or documents disclosed during it shall be revealed to the Tribunal except to the extent that they are disclosable under the law and procedure governing the arbitration.

(Note: The parties should be aware that the mediation process may not necessarily interrupt time limits.)

(e) ~~If Box 35 in Part I is not appropriately filled in, sub-clause 30(a) of this Clause shall apply. Sub-clause 30(d) shall apply in all cases.~~

*Sub-clauses 30(a), 30(b) and 30(c) are alternatives; Indicate alternative agreed in Box 35.

31. Notices

- (a) Any notice to be given by either party to the other party shall be in writing and may be sent by ~~fax, telex,~~ **e-mail** or registered or recorded mail or by personal service.
- (b) The address of the Parties for service of such communication shall be as stated in Boxes 3 and 4 respectively.

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First published in 1974 as BARECON A and B. Amalgamated and revised in 1989. Revised 2001.



PART III
PROVISIONS TO APPLY FOR NEWBUILDING VESSELS ONLY

(Optional, only to apply if expressly agreed and stated in Box 37)

1. Specifications and Building Contract

- (a) ~~The Vessel shall be constructed in accordance with the Building Contract (hereafter called "the Building Contract") as annexed to this Charter, made between the Builders and the Owners and in accordance with the specifications and plans annexed thereto, such Building Contract, specifications and plans having been counter signed as approved by the Charterers.~~
- (b) ~~No change shall be made in the Building Contract or in the specifications or plans of the Vessel as approved by the Charterers as aforesaid, without the Charterers' consent.~~
- (c) ~~The Charterers shall have the right to send their representative to the Builders' Yard to inspect the Vessel during the course of her construction to satisfy themselves that construction is in accordance with such approved specifications and plans as referred to under sub-clause (a) of this Clause.~~
- (d) ~~The Vessel shall be built in accordance with the Building Contract and shall be of the description set out therein. Subject to the provisions of sub-clause 2(c)(ii) hereunder, the Charterers shall be bound to accept the Vessel from the Owners, completed and constructed in accordance with the Building Contract, on the date of delivery by the Builders. The Charterers undertake that having accepted the Vessel they will not thereafter raise any claims against the Owners in respect of the Vessel's performance or specification or defects, if any.~~

~~Nevertheless, in respect of any repairs, replacements or defects which appear within the first 12 months from delivery by the Builders, the Owners shall endeavour to compel the Builders to repair, replace or remedy any defects or to recover from the Builders any expenditure incurred in carrying out such repairs, replacements or remedies.~~

~~However, the Owners' liability to the Charterers shall be limited to the extent the Owners have a valid claim against the Builders under the guarantee clause of the Building Contract (a copy whereof has been supplied to the Charterers). The Charterers shall be bound to accept such sums as the Owners are reasonably able to recover under this Clause and shall make no further claim on the Owners for the difference between the amount(s) so recovered and the actual expenditure on repairs, replacement or remedying defects or for any loss of time incurred.~~

~~Any liquidated damages for physical defects or deficiencies shall accrue to the account of the party stated in Box 41(a) or if not filled in shall be shared equally between the parties.~~

~~The costs of pursuing a claim or claims against the Builders under this Clause (including any liability to the Builders) shall be borne by the party stated in Box 41(b) or if not filled in shall be shared equally between the parties.~~

2. Time and Place of Delivery

- (a) ~~Subject to the Vessel having completed her acceptance trials including trials of cargo equipment in accordance with the Building Contract and specifications to the satisfaction of the Charterers, the Owners shall give and the Charterers shall take delivery of the Vessel afloat when ready for delivery and properly documented at the Builders' Yard or some other safe and readily accessible dock, wharf or place as may be agreed between the parties hereto and the Builders. Under the Building Contract the Builders have estimated that the Vessel will be ready for delivery to the Owners as therein provided but the delivery date for the purpose of this Charter shall be the date when the Vessel is in fact ready for delivery by the Builders after completion of trials whether that be before or after as indicated in the Building Contract. The Charterers shall not be entitled to refuse acceptance of delivery of the Vessel and upon and after such acceptance, subject to Clause 1(d), the Charterers shall not be entitled to make any claim against the Owners in respect of any conditions, representations or warranties, whether express or implied, as to the seaworthiness of the Vessel or in respect of delay in delivery.~~
- (b) ~~If for any reason other than a default by the Owners under the Building Contract, the Builders become entitled under that Contract not to deliver the Vessel to the Owners, the Owners shall upon giving to the Charterers written notice of Builders becoming so entitled, be excused from giving delivery of the Vessel to the Charterers and upon receipt of such notice by the Charterers this Charter shall cease to have effect.~~



- (e) ~~If for any reason the Owners become entitled under the Building Contract to reject the Vessel the Owners shall, before exercising such right of rejection, consult the Charterers and thereupon~~
- (i) ~~if the Charterers do not wish to take delivery of the Vessel they shall inform the Owners within seven (7) running days by notice in writing and upon receipt by the Owners of such notice this Charter shall cease to have effect; or~~
- (ii) ~~if the Charterers wish to take delivery of the Vessel they may by notice in writing within seven (7) running days require the Owners to negotiate with the Builders as to the terms on which delivery should be taken and/or refrain from exercising their right to rejection and upon receipt of such notice the Owners shall commence such negotiations and/or take delivery of the Vessel from the Builders and deliver her to the Charterers;~~
- (iii) ~~in no circumstances shall the Charterers be entitled to reject the Vessel unless the Owners are able to reject the Vessel from the Builders;~~
- (iv) ~~if this Charter terminates under sub-clause (b) or (e) of this Clause, the Owners shall thereafter not be liable to the Charterers for any claim under or arising out of this Charter or its termination.~~
- (d) ~~Any liquidated damages for delay in delivery under the Building Contract and any costs incurred in pursuing a claim therefor shall accrue to the account of the party stated in Box 41(e) or if not filled in shall be shared equally between the parties.~~

3. Guarantee Works

~~If not otherwise agreed, the Owners authorise the Charterers to arrange for the guarantee works to be performed in accordance with the building contract terms, and hire to continue during the period of guarantee works. The Charterers have to advise the Owners about the performance to the extent the Owners may request.~~

4. Name of Vessel

~~The name of the Vessel shall be mutually agreed between the Owners and the Charterers and the Vessel shall be painted in the colours, display the funnel insignia and fly the house flag as required by the Charterers.~~

5. Survey on Redelivery

~~The Owners and the Charterers shall appoint surveyors for the purpose of determining and agreeing in writing the condition of the Vessel at the time of redelivery.~~

~~Without prejudice to Clause 15 (Part II), the Charterers shall bear all survey expenses and all other costs, if any, including the cost of docking and undocking, if required, as well as all repair costs incurred. The Charterers shall also bear all loss of time spent in connection with any docking and undocking as well as repairs, which shall be paid at the rate of hire per day or pro rata.~~



PART IV

HIRE/PURCHASE AGREEMENT

(Optional, only to apply if expressly agreed and stated in Box 42)

~~On expiration of this Charter and provided the Charterers have fulfilled their obligations according to Part I and II as well as Part III, if applicable, it is agreed, that on payment of the final payment of hire as per Clause 11 the Charterers have purchased the Vessel with everything belonging to her and the Vessel is fully paid for.~~

~~In the following paragraphs the Owners are referred to as the Sellers and the Charterers as the Buyers.~~

~~The Vessel shall be delivered by the Sellers and taken over by the Buyers on expiration of the Charter.~~

~~The Sellers guarantee that the Vessel, at the time of delivery, is free from all encumbrances and maritime liens or any debts whatsoever other than those arising from anything done or not done by the Buyers or any existing mortgage agreed not to be paid off by the time of delivery. Should any claims, which have been incurred prior to the time of delivery be made against the Vessel, the Sellers hereby undertake to indemnify the Buyers against all consequences of such claims to the extent it can be proved that the Sellers are responsible for such claims. Any taxes, notarial, consular and other charges and expenses connected with the purchase and registration under Buyer's flag, shall be for Buyers' account. Any taxes, consular and other charges and expenses connected with closing of the Sellers' register, shall be for Sellers' account.~~

~~In exchange for payment of the last month's hire instalment the Sellers shall furnish the Buyers with a Bill of Sale duly attested and legalized, together with a certificate setting out the registered encumbrances, if any. On delivery of the Vessel the Sellers shall provide for deletion of the Vessel from the Ship's Register and deliver a certificate of deletion to the Buyers.~~

~~The Sellers shall, at the time of delivery, hand to the Buyers all classification certificates (for hull, engines, anchors, chains, etc.), as well as all plans which may be in Sellers' possession.~~

~~The Wireless Installation and Nautical Instruments, unless on hire, shall be included in the sale without any extra payment.~~

~~The Vessel with everything belonging to her shall be at Sellers' risk and expense until she is delivered to the Buyers, subject to the conditions of this Contract and the Vessel with everything belonging to her shall be delivered and taken over as she is at the time of delivery, after which the Sellers shall have no responsibility for possible faults or deficiencies of any description.~~

~~The Buyers undertake to pay for the repatriation of the Master, officers and other personnel if appointed by the Sellers to the port where the Vessel entered the Bareboat Charter as per Clause 3 (Part II) or to pay the equivalent cost for their journey to any other place.~~

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PART V

PROVISIONS TO APPLY FOR VESSELS REGISTERED IN A BAREBOAT CHARTER REGISTRY

(Optional, only to apply if expressly agreed and stated in Box 43)

1.—Definitions

For the purpose of this PART V, the following terms shall have the meanings hereby assigned to them:

“The Bareboat Charter Registry” shall mean the registry of the State whose flag the Vessel will fly and in which the Charterers are registered as the bareboat charterers during the period of the Bareboat Charter.

“The Underlying Registry” shall mean the registry of the state in which the Owners of the Vessel are registered as Owners and to which jurisdiction and control of the Vessel will revert upon termination of the Bareboat Charter Registration.

2.—Mortgage

~~The Vessel chartered under this Charter is financed by a mortgage and the provisions of Clause 12(b) (Part II) shall apply.~~

3.—Termination of Charter by Default

~~If the Vessel chartered under this Charter is registered in a Bareboat Charter Registry as stated in Box 44, and if the Owners shall default in the payment of any amounts due under the mortgage(s) specified in Box 28, the Charterers shall, if so required by the mortgagee, direct the Owners to re-register the Vessel in the Underlying Registry as shown in Box 45.~~

~~In the event of the Vessel being deleted from the Bareboat Charter Registry as stated in Box 44, due to a default by the Owners in the payment of any amounts due under the mortgage(s), the Charterers shall have the right to terminate this Charter forthwith and without prejudice to any other claim they may have against the Owners under this Charter.~~

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32. MOA and Delivery

The Vessel shall be delivered from the Owners to the Charterers, and delivery shall take place on the place, date and hour at which the Vessel is delivered to, and taken over by, the Owners pursuant to the MoA.

In the event the Vessel is not delivered to and taken over by the Owners pursuant to the MoA for any reason whatsoever, this Charter shall terminate and be considered as null and void between the parties, and neither of the parties shall be liable towards, or be entitled to make any claims of whatsoever nature against the other Party hereunder. Provided the Vessel has been delivered to the Owners in accordance with the terms of the MOA, the Charterers shall not be entitled to refuse terms of acceptance of delivery of the Vessel under this Charter.

The condition of the Vessel upon delivery shall be identical to that in which the Vessel is delivered to the Owners pursuant to the MoA. Upon and after delivery of the Vessel, the Owners shall have no liability whatsoever for any fault or deficiency in their description of the Vessel or for any defeats in the Vessel regardless of whether such defect were apparent or latent at the time of delivery and the Charterers shall not be entitled to make any claim against the Owners in respect of any conditions, representations or warranties whether express or implied as to the condition for the Vessel or the seaworthiness of the Vessel.

In the event that the Owners, as the Buyers in the MOA, exercise their right of cancellation of the MOA under and pursuant to any provisions therein specially permitting the Owners, to do so, then this Charter shall be terminated without any further liability between the Parties under this Charter.

33. Flag and Name

The Charterers shall, subject only to prior notification to the relevant authorities of the jurisdiction in which for the time being the Vessel is registered, be entitled from time to time to change the name of the Vessel. During the Charter period, the Charterers shall have the liberty to paint the Vessel in their own colors, install and display their funnel insignia and fly their own house flag. Painting and installment shall be at Charterers' expenses and time including the cost incurred by the Owners.

The Owners shall have no right to change the name and the flag of the Vessel during the Charter Period.

34. Flag State and Class

The Vessel shall upon the Delivery Date and during the Charter be registered in the name of the Owners under the Maltese flag at Charterers' expense. The Owners shall have no right either to transfer the flag of the Vessel from Maltese flag to any other registry or to require the Charterers to transfer the Vessel's classification society.

The Charterers shall, at any time after the Delivery Date and at the Charterers' expense, have the right to transfer the Vessel's classification society from Det Norske Veritas to any other classification society being a member of the International Association of Classification Societies.

Furthermore, in the event that the Charterers need to change the flag of the Vessel, the Charterers can change the flag to a flag acceptable to the Owners (acting reasonably) and with the Owners' consent (such consent not to be unreasonably withheld or delayed), provided however that any expenses (including, but not limited to, legal charges in respect of relevant finance documents for the Mortgagee relating to the flag change) shall be for the Charterers' account.

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35. Transfer of Ownership

The Owners undertake that there will be no change in the legal or beneficial ownership of the Owners nor the Guarantor during the duration of the Charter without Charterers prior written approval, which is not to be unreasonably withheld or delayed.

Any change in the legal ownership of the Charterers without the Owners' prior written approval, which not to be unreasonably withheld or delayed, shall entitle the Owners to terminate the Charter with immediate effect however intragroup restructuring is allowed provided the charterer is a, directly or indirectly, wholly owned or a controlled subsidiary of KNOT Offshore Partners L.P.

36. Mortgage and Assignment

Excepting that the Owners shall be entitled to assign their rights, title and interest in and to this Charter by way of security to the The Iyo Bank, Ltd. (the Mortgagee), neither Party shall assign its right or obligations or any part thereof to any third parties without the written consent of the other.

The Owners have the right to register a first priority mortgage on the Vessel in favor of the Mortgagee securing a loan under the relevant loan agreement (the "**Loan Agreement**") under standard mortgage and security documentation but on the basis that the Owners undertake to procure from the Mortgagee a letter of quiet enjoyment in a form and substance satisfactory to the Charterers (the Letter of Quiet Enjoyment). Such loan amount and-mortgage amount shall never exceed the Outstanding BBC Principal Balance as per Schedule A as attached.

The Charterers agree to sign an acknowledgement of the Owners' charter hire assignment (in form and substance satisfactory to the Charterers acting reasonably) or any other comparable document reasonably required by the Mortgagee, in favor of the Mortgagee (on the basis that this does not impose any greater liability to the Charterers than the liabilities they have under this Charter).

37. Insurance

For Hull insurance purposes, the insured amount shall be an amount determined by the Charterers but shall from Delivery Date not be less than 110% of the Outstanding BBC Principal Balance (as set out in schedule A) at any time.

In respect of partial losses, any payment by Underwriters not exceeding USD 3,000,000 shall be paid directly to the Charterers who shall apply the same to effect the repairs in respect of which payment is made. Any moneys in excess of USD 3,000,000 payable under such insurance other than Total Loss shall be paid to the Charterers subject to the prior written consent of the Owners or the Owners' bank but such consent shall not be unreasonably withheld or delayed. Such consent to be granted if the Owners are satisfied (acting reasonably) that all damage resulting from the partial loss will be made good and repaired and all liabilities in respect of repairing such damage will be discharged. If the Charterers or the Vessel's insurers request the Owners consent or authority to the insurers making payment to a ship repairer on account of repairs being made to the Vessel as a result of it suffering such a partial loss, then, the Owners shall not unreasonably withheld or delay giving such consent or authority. In the absence of such prior written consent the money shall be paid to the Owners or the Owners' bank. In case of repair work being expected within a range of USD 3,000,000 to USD 10,000,000, the Charters will inform the Owners of details in a timely manner

The Charterers shall upon the request of the Owners provide such information as may be reasonably requested by the Owners in relation to the insurances of the Vessel.

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SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE THEY ARE BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED, AND THE TERMS HAVE BEEN MARKED AT THE APPROPRIATE PLACE WITH FIVE ASTERISKS (*****).

ADDITIONAL CLAUSES TO M/V "RAQUEL KNUITSEN" BAREBOAT CHARTER PARTY DATED 30TH DECEMBER, 2020

The Charters shall, not later than the Delivery Date, either take out and effect or procure that the Charterers take out and effect the following insurance at the Charters' expense on and in respect of the Vessel and shall, throughout the Charter Period, maintain the said insurances effective with such reputable insurer or insurers at the Charterers' own expense.

- (a) Hull and Machinery insurance shall be taken out and maintained to be effective in the joint names of both the Charterers and the Owners as co-assured with the insurers against such fire and usual marine risks; and
- (b) P&I Club insurance shall be effected by an entry or entries of the Vessel with or in any P&I Club to protect and indemnify the Owners as co-assured and the Vessel against all P&I risks (including, but not limited to, pollution spillage and leakage risks).

38. Optional Periods

There are no options to extend the Charter.

39. Purchase of the Vessel by the Charterers

- (a) The Charterers (or their guaranteed nominee) may exercise their purchase option (each purchase option of the Vessel set out herein being referred to as the "**Purchase Option**") to purchase the Vessel from the Owners at the end of the Charter Period, for a purchase price of *****.
- (b) If any event of default under the Loan Agreement (an "**Event of Default**") occurs and is continuing under the Loan Agreement, the Owner shall notify the Charterer in writing that an Event of Default has occurred (such notice being called the "**EoD Notice**") and within one (1) months after receipt of the EoD Notice, the Charterer shall have the option to purchase the Vessel at the purchase option price of the outstanding bareboat charter balance indicated against the relevant time set out in in the "Outstanding BBC Principal Balance as per Schedule A attached hereto, (initially being USD 94,300,000 on delivery date and ending with ***** at the end of the bareboat charter after 120 months), to be settled within six (6) months or any longer period accepted by the Mortgagee in writing (each purchase price set out in this paragraph (a) and (b) being called the "**Purchase Option Price**") on a strictly "as is where is" basis. The Charterers shall pay such Purchase Option Price in cash to the Owners upon transfer of title to the Vessel pursuant to the Sale Contract under clause (c) below.
- (c) A separate sale and purchase contract (the "**Sale Contract**") shall be agreed and executed between the Charterers (or the buyer nominated by the Charterers), the Mortgagee in case of (b) above) and the Owners as seller on standard Norwegian Saleform 2012 terms.
- (d) Notwithstanding the provisions of Clause 44(b) any Sale Contract shall include the following provisions:

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- (i) the Owners guarantee that the Vessel, at the time of delivery, is free from all charters, encumbrances, mortgages, maritime liens or other debts or liabilities whatsoever. Should any claims which have been incurred prior to the time of delivery be made against the Vessel, the Owners shall indemnify the buyer against all consequences of such claims;
- (ii) the Owners shall furnish the buyer with documentation requested by the buyer including but not limited to:
 - a. evidence of the authorisation and capacity for the Owners to sell the Vessel and enter into all documentation in connection with such sale including but not limited to resolutions of the shareholders of the Owners, resolutions of the board of directors of the Owners and any power of attorney under which the Owners' representatives sign any of the delivery documents (in each case notarised and apostilled or legalised), original certificates of good standing in respect of the Owners and certified true copies of the certificate of incorporation and articles of association (or equivalent) of the Owner;
 - b. documentation validly transferring title to the Vessel to the buyer;
 - c. any documentation required for the registration of the Vessel on the buyer's chosen flag under the name of the buyer;
 - d. evidence that the Vessel is free from all registered encumbrances and has been (or will be shortly after delivery) deleted from its current Flag State registry;
 - e. evidence that the Vessel has class maintained status with the Classification Society;
 - f. documentation usually provided by a seller to a buyer in a second hand vessel sale and purchase transaction including but not limited to letters undertaking the vessel is not boycotted or blacklisted by any nation or organisation, undertakings to deliver deletion certificates and closed CSR forms within four (4) weeks of the delivery if not provided at delivery and commercial invoices for the Vessel and all other items purchased by the buyer at delivery; and
 - g. all classification, technical and other documents in the possession of the Owners in relation to the Vessel;
- (iii) any taxes, notarial, consular and other charges and expenses connected with the purchase and registration under buyer's flag shall be for buyer's account. Any taxes, consular and other charges and expenses connected with closing of the Vessels current flag, shall be for sellers' account; and
- (iv) all spares, bunkers and lubricants oils on board and on order shall be included in the Purchase Option Price.

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- (e) If following the expiry of the Charter Period, the Owners from its act or omission fails to transfer title to the Vessel to the Charterers, the Owners shall within 10 days of the Charterers' written demand:
 - (i) pay to the Charterers the amount by which the fair market value of the Vessel (as determined by a broker appointed by the Charterers) exceeds the Purchase Option Price; and
 - (ii) keep the Charterers indemnified for all documented losses and expenses incurred by the Charterers due to the failure to transfer title.

40. Improvements and Additions

The Charterers shall maintain, equip and operate the Vessel so as to comply in all mutual respects with the provisions of all laws and regulations of the Vessels flag country and of any other country or jurisdiction within which the vessel may operate.

The Charterers shall have the right to fit additional equipment to the Vessel and to make one or more improvements and additions to the Vessel at their expense and risk.

The Charterers shall also have the right to make structural or non-severable improvements and additions to the Vessel at their own cost, expense and risk provided that such improvements and additions shall not, or be reasonably likely to, diminish the market value of the Vessel or prejudice its marketability, in either case, in a material way.

With reference to the above second and third paragraphs, in the event that the Charterers fit additional equipment and/or make improvement, the Charterers shall give notice to the Owners of its details in order to secure Owners approval thereof which not to be unreasonable withheld or delayed before completion of such fitting and/or improvement.

In the event of any structural changes to the Vessel or installation of new equipment becoming necessary for the continued operation of the Vessel by reason of new class requirements or by compulsory legislation, such as but not limited to Ballast Water Treatment System, the cost of measures needed for compliance shall be for the Charterers' account

41. Quiet Enjoyment

- (a) As long as the Charter is in full force and effect and no default has occurred thereunder which entitle the Owner to lawfully terminate the Charter and withdraw the Vessel from service under the Charter, Owners agree and undertake that during the period of the Charter they will not interfere with the quiet use, possession and enjoyment of the Vessel by the Charterers and, if required, their sub-charterers.
- (b) The Owners shall ensure that on entering into any Financial Instrument, the prospective Mortgagee of the Vessel provides the Charterers and, if required, their sub-charterers, with a Letter of Quiet Enjoyment in accordance with the terms of Clause 36, always provided that such quiet enjoyment letters shall be in a form and substance satisfactory to the Charterer, sub-charterer (if it requires) and Mortgagee and the Charterers undertake to use reasonable efforts to avoid the requirement for quiet enjoyment letters. In addition to the provisions of Clause 36, the Quiet Enjoyment Letter will confirm that to the extent that the Charterers have paid to the Owners the Outstanding BBC Principal Balance as per Schedule A attached hereto,

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payable on such date, the Mortgagee will immediately release and discharge the mortgages and all Financial Instrument.

42. Total Loss Proceeds

Upon the occurrence of a total loss of the type referred to in clause 13(d) of this Charter all insurance proceeds in respect of that loss shall be paid to the Mortgagee to apply towards the Outstanding BBC Principal Balance as per Schedule A attached hereto or if such amount is fully repaid, to the Owners who shall apply such proceeds, as follows;

- (a) Firstly, in payment of all the Owners' and Charterers' reasonable, properly incurred and documented costs incidental to the collection of the total loss proceeds;
- (b) Secondly, in retention by the Owners of all amounts of outstanding hire and interest due and owing to the Owners by the Charterers under this Charter at such time;
- (c) Thirdly, in retention by the Owners of an amount equal to the Outstanding BBC Principal Balance of the Owners at the relevant time of receipt of the total loss proceeds; and
- (d) Fourthly, any balance shall be promptly paid by the Owners to the Charterers.

For the purpose of this clause, Outstanding BBC Principal Balance means, at any relevant date, the amount set out in appendix 1 attached to this Charter during the period in which the date of receipt of the total loss proceeds occurs.

43. Familiarization

In the event that the Charterers have not exercised their purchase option and Charter Period expires, the Owners shall have the right to place two representatives onboard the Vessel prior to redelivery once the Charterers have given their thirty (30) days preliminary notice.

44. Extra Payments

In addition to above payments, the following costs are payable by the Charterers:

- (a) Any fees and expenses for flag registration of the Vessel in Malta and deletion of the flag registration of the Vessel in Malta.
- (b) Annual flag maintenance fees including tonnage tax of Malta are the Charterers account.
- (c) all other documentation and works required due to flag and ownership change, including change of DOC/SMC/ISSC/MLC/CLC, class certificates, change of country name on hull, change of radio and navigational aids registration, Annual Tonnage Tax of the flag country throughout the Charter period shall be for the Charterers' time and cost including agent fees. In case of a change of Ownership after delivery under this Charter for Owners matter or reason, these costs to be for Owners' account.

45. Representations and Warranties

Each Party represents and warrants to the other Party that:

- (a) it is duly incorporated and validly existing and in good standing under the laws of its place of incorporation;
- (b) it has the corporate capacity, and has taken all corporate action and obtained all consents

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necessary for it, to execute and to comply with this Charter;

- (c) all the consents referred to in paragraph (b) above remain in force and nothing has occurred which makes any of them liable to revocation;
- (d) this Charter constitutes legal, valid and binding obligations enforceable against it in accordance with its terms;
- (e) The execution by it of this Charter and its compliance with this Charter will not involve or lead to a contravention of;
 - (i) any law or regulation;
 - (ii) its constitutional documents; or
 - (iii) any material contractual or other material obligation or material restriction which is binding on it or any of its assets.

46. General

- (a) The terms and conditions of this Charter shall not be varied otherwise than by an instrument in writing executed by or on behalf of the Owners and the Charterers.
- (b) If, at any time, any provision of this Charter 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 under the law of that jurisdiction nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired,
- (c) This Charter 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 Charter.
- (d) This Charter constitutes the entire agreement between the Parties and supersedes and extinguishes all previous agreements, promises, assurances, warranties, representations and understandings between them, whether written or oral, relating to its subject matter.
- (e) A person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Charter.

47. Best Endeavour Clause

In the event of detrimental or unexpected considerable changes in the tax-laws, grossly and negatively effecting either the Owner and/or Charterer in the Ownership/Bareboat-chartering of the Vessel under this particular charter, both Owner and Charterer will with best endeavor and effort, be willing to sit down and discuss solutions that could remedy the situation. This would constitute no legal obligation on either part but be based on mutual respect and understanding of possible unexpected hardship endured by either party and to seek alternatives if both parties mutually give their consent.

*** End ***

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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 34 AS

SHARE PURCHASE AGREEMENT

This agreement (this "**Agreement**") is entered into on the [15] December 2020 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 34 AS, company registration no. 921 065 698, 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 30,000;
- c) The Company is the owner of the MT "Tove Knutsen", having IMO No. 9868376 (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 Appendix 3;
 - c) **Accounts Date** means 31 December 2019;
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- d) **Agreement** shall have the meaning ascribed to such term in the preamble to this Agreement;
- e) **Business** means the current business of the Company, being to own the Vessel, and charter the same under the Charter;
- f) **Business Day** means a day on which banks are open for general banking business in Norway;
- g) **Buyer** shall have the meaning ascribed to such term in the preamble to this Agreement;
- h) **Buyer Indemnitees** shall have the meaning ascribed to such term in Clause 12.1;
- i) **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 31 December, 2020, the Capitalized Fees will be USD 769,297.
- j) **Charter** means the time charterparty dated 26 September 2018, as amended, entered into between the Company as owner and the Charterer as charterer in respect of the Vessel;
- k) **Charterer** means Equinor Shipping Inc.;
- l) **Closing** shall have the meaning ascribed to such term in Clause 5.1;
- m) **Closing Date** means the date when the Closing actually takes place according to Clause 5.1;
- n) **Companies Act** means the Norwegian Limited Liability Companies Act of 1997
- o) **Company** means KNOT Shuttle Tankers 34 AS, Norwegian organization no.: 921 065 698;
- p) **Encumbrance** means any mortgage, charge, pledge, lien, option or other security interest or restriction of any kind;
- q) **Facility Prepayment Amount**

means the amount of the Tove Facility to be prepaid by the Company on Closing, calculated in accordance with the terms of the Tove Facility, being USD 6,889,194 (see Appendix 1 for calculation provided that Closing occurs on 31 December 2020), plus accumulated interest.
- r) **Governmental Authority** means any domestic or foreign government, including federal, provincial, state, municipal, county or regional government or
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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;

- s) **Indemnified Party** shall have the meaning ascribed to such term in Clause 12.3;
 - t) **Indemnifying Party** shall have the meaning ascribed to such term in Clause 12.3;
 - u) **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;
 - v) **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;
 - w) **Material Agreement** shall have the meaning ascribed to such term in Clause 8.11;
 - x) **Party** shall have the meaning ascribed to such term in the preamble to this Agreement;
 - y) **Parties** shall have the meaning ascribed to such term in the preamble to this Agreement;
 - z) **Partnership** means KNOT Offshore Partners LP, a Marshall Islands limited partnership;
 - aa) **Purchase Price** shall have the meaning ascribed to such term in Clause 0;
 - bb) **Purchase Price Adjustments**
shall have the meaning ascribed to such term in Clause 5.4;
 - cc) **Seller** shall have the meaning ascribed to such term in the preamble to this Agreement;
 - dd) **Seller Indemnities** shall have the meaning ascribed to such term in Clause 12.2;
 - ee) **Shares** shall have the meaning ascribed to such term in Clause 1;
 - ff) **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 29 May 2019 and with MUFG Securities EMEA plc in connection with Novation Agreement dated 19 May 2020 among the Company as Transferee, Knutsen NYK Offshore Tanker AS as Transferor and MUFG Securities EMEA plc as Remaining Party, and the Schedule thereto, each relating to the Tove Facility;
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- gg) **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 113,540 in favour of the Seller to cover the hedging margin compared to the rate at which the Swap Agreements were entered into. As of 30 November, 2020 the Swap Balance (being the balance under swaps entered into with MUFG Securities EMEA plc was USD 3,740,617 ex accrued interest (against the Company);
- hh) **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
- ii) **Third-Party Claim** shall have the meaning ascribed to such term in Clause 12.3; and
- jj) **Tove Facility** means the USD 192,100,000 Term Loan Facility in respect of the Vessel and the sister vessel MT Synnøve Knutsen, dated 2 July 2019, and made between (i) the Company and KNOT Shuttle Tankers 35 AS as joint and several borrowers, (ii) the Seller as original guarantor (iii) the financial institutions listed in Schedule 1 thereto as lenders, (iv) MUFG Bank, Ltd. as mandated lead arranger and bookrunner, (v) the financial institutions listed in Schedule 2 thereto as hedging banks and (vi) MUFG Bank, Ltd. as agent;
- 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 Tove 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 117,800,000, less USD 93,139,194 of outstanding principal under the Tove Facility (including the Facility Prepayment Amount) at Closing, plus the Capitalized Fees in the amount of USD 769,297 (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 25,430,103 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 31 December, 2020 at 23:59 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 Tove Facility and the Capitalized Fees.

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 31 December 2020 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 0; 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 8.8b), of this Agreement as of 23:59 hours CET on the Closing Date; and
-

(ii) the Swap Balance;
(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) 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;
- 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, and the Facility Prepayment Amount, 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 Tove Facility as "Guarantor" for the debt thereunder pertaining to the Vessel (only) by way of an "Accession Letter" set out therein, and that the Shares are pledged as contemplated by the Tove Facility, and procure that relevant conditions precedent under the Tove 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 Tove Facility with respect to outstanding amounts relating to the Vessel; 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 Tove Facility 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 Tove 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 Tove Facility, 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 Tove 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 Tove Facility in respect of the Vessel is USD 94,318,171 where the next instalments of USD 1,178,977 is due 16. December, 2020. Hence, the amount for which the Company will be responsible at the time of Closing is USD 93,139,194 (provided Closing takes place on 31 December, 2020) including the Facility Prepayment Amount which the Company will be responsible to prepay immediately following Closing;
- b) As of 30 November 2020, the non-interest bearing inter-company balance between the Company (as borrower) and KNOT Management AS (as lender) was NOK 2,224,615.

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 26 September 2018 between the Company and KNOT Management AS pursuant to the Agreement on Termination of the Commercial Management Agreement dated [15] December 2020;
- 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 Tove Facility 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 Tove 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 Norway, 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 Appendix 2 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 Tove Facility 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 Tove Facility or the Swap Agreements, as applicable, in respect of such default;
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- 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 Tove 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;
- 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;
- 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 AMA Capital Partners LLC dated X December 2020 will be divided equally between the Buyer and the Seller.
- c) Legal fees to Norwegian and UK legal counsel 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 Appendices 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 Appendices 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

KNOT Shuttle Tankers AS

By: /s/ Trygve Seglem

By: /s/ Øystein Emberland

Name: Trygve Seglem

Name: Øystein Emberland

Title: CEO

Title: Attorney-in-fact

FACILITY PREPAYMENT AMOUNT

Mandatory prepayment – Dropdown clause 8.3

Outstanding amount at closing date USD 93,139,194

New outstanding amount after closing
to fulfill requirements of 75% market value
vessel Tove Knutsen (average broker value
USD 115,000,000) USD 86,250,000

Facility Prepayment Amount USD 6,889,194

On the Facility Prepayment Amount there will be added accrued interest, which will be calculated on closing date, estimated amount are around \$2,500.

INSURANCES

Insurance Policies (all quoted values are USD)

Hull & Machinery

| | |
|------------------|---------------------------------------|
| Hull | Insured Value: \$110,000,000 |
| | Policy Renewal: 01.11.2020-31.10.2021 |
| Hull Interest | Insured Value: \$27,500,000 |
| | Policy Renewal: 01.11.2020-31.10.2021 |
| Freight Interest | Insured Value: \$27,500,000 |
| | Policy Renewal: 01.11.2020-31.10.2021 |

P&I Insurance

| | |
|-----------------|-----------------------|
| Gross Tonnage: | 84666 |
| Policy Renewal: | 28.09.2020-20.02.2021 |

War Risk

| | |
|-----------------|-----------------------|
| Insured Value: | \$165,000,000 |
| Policy Renewal: | 28.09.2020-31.12.2020 |

Hull & Machinery

| | |
|--------|--|
| 15,0% | Aon London Broking Center Allianz |
| 10% | Allianz Global Corporate & Speciality SE, London |
| 5% | Lloyds Syndicate 1036 COF |
| 4,0% | Aon London Broking Center Arch |
| 4% | Arch Insurance Comp. (Europe) Ltd. |
| 3,0% | Aon London Broking Center BRT 2987 |
| 3% | Lloyds Syndicate 2987 BRT |
| 1,5% | Aon London Broking Center CGM 2488 |
| 1,5% | Lloyds Syndicate 2488 CGM |
| 5,0% | Aon London Broking Center CUL 3010 |
| 5% | Lloyds Syndicate 3010 CUL |
| 3,5% | Aon London Broking Center SCOR |
| 3,5% | SCOR UK Company Limited |
| 7,5% | Aon London Broking Center Swiss Re |
| 7,5% | Swiss Re International SE, UK Branch |
| 8,5% | Aon London Broking Center XLC 2003 |
| 8,5% | Lloyds Syndicate 2003 XLC |
| 7,5% | Codan Forsikring NUF |
| 7,5% | Gard AS, as agents only for Gard M&E Ltd |
| 7,5% | Norwegian Hull Club |
| 4,5% | The Swedish Club |
| 25,0% | Tokio Marine & Nichido Fire Insurance Co., Ltd. |
| 100,0% | Total |

ACCOUNTS

[Separate attachment]

SUBSIDIARIES OF KNOT OFFSHORE PARTNERS LP

| Subsidiary | Jurisdiction of Formation |
|-----------------------------------|----------------------------------|
| 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 |
| KNOT Shuttle Tankers 34 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(A) OR RULE 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Gary Chapman, 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 me 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: March 18, 2021

KNOT OFFSHORE PARTNERS LP

By: /s/ Gary Chapman
Name: Gary Chapman
Title: Principal Executive Officer
and Principal Financial Officer

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements and the related Prospectuses:

- (1) Registration Statement (Form F-3 No. 333-227942) of KNOT Offshore Partners LP, and
- (2) Registration Statement (Form F-3 No. 333-248518) of KNOT Offshore Partners LP;

of our reports dated March 18, 2021, with respect to the consolidated financial statements of KNOT Offshore Partners LP and the effectiveness of internal control over financial reporting of KNOT Offshore Partners LP included in this Annual Report (Form 20-F) of KNOT Offshore Partners LP for the year ended December 31, 2020.

/s/ Ernst & Young AS

Oslo, Norway

March 18, 2021
