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, 2021

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
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.

33,708,541 common units representing limited partner interests
3,541,666 Series A Convertible Preferred Units
588,945 Class B 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

KNOT Offshore Partners LP

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F for the year ended December 31, 2021 (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;
- 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;
- forecasts of KNOT Offshore Partners' ability to make or increase distributions on its common units and Class B Units representing limited partner interests ("Class B 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;
- the length and cost of drydocking;

- KNOT Offshore Partners’ future financial condition or results of operations and future revenues and expenses;
- the repayment of debt and settling of any interest rate swaps;
- KNOT Offshore Partners’ ability to make additional borrowings and to access debt and equity markets;
- planned capital expenditures and availability of capital resources to fund capital expenditures;
- KNOT Offshore Partners’ ability to maintain long-term relationships with major users of shuttle tonnage;
- KNOT Offshore Partners’ ability to leverage KNOT’s relationships and reputation in the shipping industry;
- KNOT Offshore Partners’ ability to 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 impact of the recent Russian invasion of Ukraine;
- the expected cost of, and KNOT Offshore Partners’ ability to, comply with governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by its charterers applicable to KNOT Offshore Partners’ business;
- availability of skilled labor, vessel crews and management, 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 capital expenditures;
- Marshall Islands economic substance requirements;
- 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

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.

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. Reserved

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 continue to pay the current distribution on our common units.
- The COVID-19 pandemic continues to affect 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, which may result in less cash available to unitholders.
- 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.
- 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 nine 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.
- Persistent low 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 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.
- 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 concerns 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.
- 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 or Class B 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.
- 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 Class B 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.
- 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 continue to pay the current distribution on our common units.

We may not have sufficient cash from operations to continue to pay the current 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 17, 2022, there were 3,541,666 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 and the utilization of our fleet;

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

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

- the level of capital expenditures we make, including for maintaining or replacing vessels, building new vessels, acquiring existing vessels and complying with regulations;
- the level of debt we will incur to maintain existing vessels or fund future acquisitions and the interest rate we will pay on that debt;
- 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 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.

The COVID-19 pandemic continues to affect the global economy and energy demand and may adversely affect our business.

The outbreak of the coronavirus ("COVID-19") continues to 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.

Although progress in vaccinations and signs of global economic recovery continue to cautiously increase optimism, 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.

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 a further outbreak onboard a time-chartered 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 time-chartered 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.

Announced delays in new capital expenditure by many oil majors in 2020 had a negative impact on the demand for shuttle tankers and, given the uncertainty around the continuation of the COVID-19 situation, this dampened demand could continue through at least the majority of 2022. This has affected the timing and number of new, offshore projects and overall oil production profiles in the short-term, which has impacted the demand and pricing for shuttle tankers. If this situation persists, 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 credit risk associated with individual charterers. Any extended period of idle time between charters or non-payment 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. 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 expects to refinance its long-term debt as it matures 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 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.

We must make substantial capital expenditures to maintain, over the long-term, the operating capacity of our fleet. Capital expenditures include 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.

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. 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 reduce the charter rates that we can receive. 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.

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, 2021, we had consolidated debt of approximately $974.6 million. We have the ability to incur additional debt. Please read "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources." Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired, or such financing may not be available on favorable terms;
- we will need a substantial portion of our cash flows to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

- our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally;
- our debt level may limit our flexibility in responding to changing business and economic conditions; and
- if we are unable to satisfy the restrictions included in any of our financing agreements or are otherwise in default under any of those agreements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to our unitholders, notwithstanding our stated cash distribution policy.

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

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

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

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

In addition, our financing agreements require us to comply with certain financial ratios and tests, including, among others, maintaining a minimum liquidity, maintaining positive working capital, ensuring that our earnings before interest, taxes, depreciation and amortization ("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

- 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 17, 2022, 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 nine 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 nine customers. For the year ended December 31, 2021, 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") and Repsol Sinopec Brasil, S.A. ("Repsol"), accounted for approximately 22%, 16%, 17%, 13% and 14%, respectively, of our revenues.

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 unitholders.

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 primarily 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, production volumes of oil in the areas in which we operate and demand for the crude oil carried. If a sustained period of reduced demand for 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 or unscheduled maintenance of existing fields;
- levels of demand for and production of oil, which, among other things, is affected by competition from alternative sources of energy, climate change regulations and policies, 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 and charter rates in the general tanker market.

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 and the price of those new vessels;
- 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.

Persistent, low oil prices may adversely affect our growth prospects and results of operations.

If there is a significant decline in oil prices that persists for a long period 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.

Any global financial or credit crisis or disruption may 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. 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 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. 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"), which took effect on January 1, 2021. 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.

The Trade Agreement does not incorporate the full scope of the services sector, and businesses such as banking and finance face a more uncertain future. The U.K. and E.U. put in place a separate memorandum of understanding in March 2021, creating a framework for dialogue between the U.K. and the E.U. on financial services regulation. 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. Any over-estimation of demand for vessels may result in an excess supply of 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 rates 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 charges 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.

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").

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. On June 30, 2021, we changed the useful life estimate of each of the vessels in our fleet from 25 years to 23 years due to prevailing longer term market trends, which increased the depreciation charge starting July 1, 2021. 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 concerns 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 were adopted at the June 2021 MEPC session and, the Energy Efficiency Existing Ship Index and Carbon Intensity Indicator measures 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. The recent Russian invasion of Ukraine, in addition to sanctions announced by President Biden and several European leaders against Russia and any forthcoming sanctions, may adversely impact our business. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and/or a termination of the charter and could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

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

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

- marine disasters;

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

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.

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 Ukraine and 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.

The recent Russian invasion of Ukraine may lead to further regional and international conflicts or armed action. It is possible that such conflict could disrupt supply chains and cause instability in the global economy. Additionally, the ongoing conflict could result in the imposition of further economic sanctions by the United States, the European Union and other nations against Russia. While much uncertainty remains regarding the global impact of the invasion, it is possible that an expansion of the conflict to other areas could adversely affect our business, financial condition, results of operation and cash flows. Furthermore, it is possible that third parties with whom we contract may be impacted by any such expansion of events in Russia and Ukraine, which could then adversely affect our operations.

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.

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 may be adversely affected. Furthermore, should there be an outbreak of COVID-19 on board, adequate crewing my 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. For example, sanctions announced by President Biden and several European nations against Russia and any forthcoming sanctions may adversely impact our business. 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. For example, Norway, the EU and the United Kingdom have recently expanded restrictive measures against Russia and certain Russian businesses and individuals. We believe that we are in compliance with all applicable sanctions and embargo laws and regulations imposed by the U.S., Norway, the United Kingdom, the United Nations and 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 high risk of 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.

Most recently, the Russian invasion of Ukraine has been accompanied by cyber-attacks against the Ukrainian government and other countries in the region. It is possible that these attacks could have collateral effects on additional critical infrastructure and financial institutions globally, which could adversely affect the Partnership's operations. It is difficult to assess the likelihood of such threat and any potential impact at this time.

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 or Class B Units.

Unlike the holders of common stock in a corporation, holders of common units have only limited voting rights on matters affecting our business. The Class B Units generally vote together with the common units as a single class. 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 and holders of Class B Units ("Class B 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 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 66⅔% of the outstanding common units and Class B Units, including any common units and Class B 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 (excluding Norwegian Resident Holders in the election of elected directors), 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 unitholders. Our general partner, its affiliates and persons who acquire common units or Class B 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 or Class B Units in the election of the elected directors. The common units and the Class B Units will be treated as two separate classes of partnership interests for purposes of the 4.9% limitation, which will apply separately to the holders of common units and to the holders of Class B 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, which may permit them to favor their own interests to the detriment of our unitholders.

As of March 17, 2022, KNOT owned 27.8% of our common units and all of our Class B Units, and owned and controlled our general partner, which owns a 1.83% general partner interest in us and 0.3% of our common units. Certain of our directors are directors of KNOT or its affiliates, and, as such, they have fiduciary duties to KNOT or its affiliates that may cause them to pursue business strategies that disproportionately benefit KNOT or its affiliates or which otherwise are not in the best interests of us or our unitholders. Conflicts of interest may arise between KNOT and its affiliates (including our general partner), on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner and its affiliates may favor their own interests over the interests of our unitholders. Please read "—Our partnership agreement limits our general partner's and our directors' fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner or our directors." These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our general partner or KNOT or its affiliates to pursue a business strategy that favors us or utilizes our assets, and KNOT's officers and directors have a fiduciary duty to make decisions in the best interests of the shareholders of KNOT, which may be contrary to our interests;

- our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. Specifically, our general partner is considered to be acting in its individual capacity if it exercises its call right, pre-emptive rights or registration rights, consents or withholds consent to any merger or consolidation of the Partnership, appoints any directors or votes for the election of any director, votes or refrains from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraws from the Partnership, transfers (to the extent permitted under our partnership agreement) or refrains from transferring its units or general partner interest or votes upon the dissolution of the Partnership;

- our general partner and our directors have limited their liabilities and reduced their fiduciary duties under the laws of the Marshall Islands, while also restricting the remedies available to our unitholders, and, as a result of purchasing common units, unitholders are treated as having agreed to the modified standard of fiduciary duties and to certain actions that may be taken by our general partner and our directors, all as set forth in our partnership agreement;

- our general partner is entitled to reimbursement of all reasonable costs incurred by it and its affiliates for our benefit;

- our partnership agreement does not restrict us from paying our general partner or its affiliates for any services rendered to us on terms that are fair and reasonable or entering into additional contractual arrangements with any of these entities on our behalf;

- our general partner may exercise its right to call and purchase our common units if it and its affiliates own more than 80.0% of our common units and Class B Units; and
- our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of its limited call right.

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

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

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

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

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

Our partnership agreement provides that our general partner delegates all its management activities in relation to us to our board of directors, and arrangements are in place such that any activities that would otherwise constitute regulated activities under the Financial Services and Markets Act 2000 (Regulated Activities Order) 2001 were they to be performed in the United Kingdom (and that would not fall within a suitable exemption) are performed outside of the United Kingdom.

However, there can be no assurance that this will not change (deliberately or otherwise) over time, and there is no current intention for our general partner, us or any of our subsidiaries to seek authorization from the Financial Conduct Authority in the United Kingdom, which would be required for any person to lawfully carry out such regulated activities in the United Kingdom.

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

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

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

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.

- 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 into common units or to receive cash in exchange for such interest based on the fair market value of such interest at the time. Any conversion of the general partner interest 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 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 or Class B 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 or Class B Units in the election of the elected directors.

- There are no restrictions in our partnership agreement on our ability to issue equity securities.

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

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

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

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

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

We have granted registration rights to KNOT and certain of its affiliates. These unitholders have the right, subject to some conditions, to require us to file registration statements covering any of our common or other equity securities owned by them or to include those securities in registration statements that we may file for ourselves or other unitholders. As of March 17, 2022, KNOT and our general partner owned 28.1% of the common units and all of the Class B Units. 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.

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

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

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

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

The Class B Units are a class of limited partner interests which are not entitled to receive cash distributions in any quarter unless common unitholders receive a distribution of at least $0.52 for such quarter (the “Distribution Threshold”). When common unitholders receive a quarterly distribution at least equal to the Distribution Threshold, then Class B unitholders will be entitled to receive the same distribution as common unitholders. For each quarter (starting with the quarter ended September 30, 2021) that the Partnership pays distributions on the common units that are at or above the Distribution Threshold, one-eighth of the Class B Units will be converted to common units on a one-for-one basis until such time as no further Class B Units exist. After the payment of the Partnership’s quarterly cash distributions on each of November 10, 2021 and February 10, 2022 with respect to the three months ended September 30, 2021 and December 31, 2021, respectively, 84,135 of the Class B Units converted to common units on a one-to-one basis.

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

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

The issuance of common units upon conversion of our Series A Preferred Units or Class B Units 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 and Class B 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 or Class B 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 cash available for distribution 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.

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 and Class B 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 17, 2022, KNOT and our general partner owned 29.2% of our common units and Class B 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, although the remainder of LIBOR publications 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.

Although we intend to agree an alternative, market acceptable, basis with the lenders under our credit facilities, and with the counterparties under our derivative instruments, to replace the applicable LIBOR rates with another reference rate in terms of rapidly developing marking practice being established by the Loan Markets Association (LMA) prior to any cessation of LIBOR there can be no assurance that we will be able to reach agreement on favorable terms or at all. We have an engagement plan, and we are actively engaging with our counterparties to reach agreement on an alternative basis. Any agreement on an alternative benchmark rate may however negatively impact the value of our credit facilities or derivative instruments, may expose us to additional financial, tax, legal, operational or other costs, or expose us to additional interest rate-related risks, such as different alternative reference rates.

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 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 March 12, 2019, the Council of the EU published a list of "non-cooperative jurisdictions" for tax purposes (the "2019 Conclusions"). In the 2019 Conclusions, the Republic of the Marshall Islands, among others, was placed by the EU on this list for failing to implement certain commitments previously made to the EU by the agreed deadline. The EU subsequently removed the Marshall Islands from the 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, and non-deductibility of costs. 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 certain 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 once again 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 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, as well as possibly interest and penalties, 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 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 may 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 generally will 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.

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.

On September 10, 2021, KNOT contributed to the Partnership all of KNOT's incentive distribution rights in exchange for the issuance by the Partnership to KNOT of 673,080 common units and 673,080 Class B Units, whereupon the incentive distribution rights were cancelled.

For more information regarding recent developments, please see "Item 5. Operating and Financial Review and Prospects—Significant Developments in 2021 and Early 2022."

As of March 17, 2022, 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, 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 $74.2 million per year, which is comprised of $64.6 million for replacing our current vessels at the end of their useful lives and $9.6 million for drydocking maintenance and classification surveys.

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, initially and wherever possible, under long-term charters. Our primary business objective is to generate stable cash flows and provide a sustainable quarterly distribution per unit to our unitholders. Where possible, our further objective is to grow our business through accretive acquisitions of shuttle tankers and by chartering those vessels pursuant to profitable charters with high quality customers. The vessels in our current fleet are chartered to Equinor, Transpetro, Repsol, Shell, Vår, Galp, ENI, PetroChina and KNOT, and our charters have an average remaining term of 2.0 years as of December 31, 2021.

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, 2021.

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 17, 2022, KNOT and our general partner owned our general partner interest, all our Class B Units and 28.1% 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 generate stable cash flows and provide a sustainable quarterly distribution per unit to our unitholders by executing the following strategies:

- ***Manage our fleet and deepen our customer relationships to continue to provide a stable base of cash flows.*** We target to at least maintain 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.

- ***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.

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

Shuttle Tanker Market

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

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

The advantages of shuttle tankers as compared to pipelines include:

- the use of shuttle tankers is a more flexible option than pipelines for the transportation of oil from the oil field to onshore terminals and provides destination flexibility for the customers;

- shuttle tankers provide a more flexible solution to declining production profiles and abandonment as a pipeline has a fixed capacity, whereas shuttle tanker capacity may be adjusted through reduced frequency of calls or reduced number of vessels serving a field;

- shuttle tanker operators may provide back-up capacity during times when existing transportation infrastructure is closed for maintenance or otherwise unavailable, which would enable uninterrupted production;

- shuttle tankers require less significant up-front investment than pipelines; and

- 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 17, 2022:

Shuttle Tanker	Capacity (dwt)	Built	Current Operating Region	Charter Type	Charterer	Term
Fortaleza Knutsen	106,316	2011	Brazil	Bareboat charter	Transpetro	2023
Recife Knutsen	105,928	2011	Brazil	Bareboat charter	Transpetro	2023
Bodil Knutsen	157,644	2011	Brazil	Time Charter	Knutsen Shuttle Tankers Pool AS	2022 (1)
Windsor Knutsen	162,362	2007	Brazil	Time Charter	PetroChina	2022 (2)
Carmen Knutsen	157,000	2013	Brazil	Time Charter	Repsol	2023 (3)
Hilda Knutsen	123,000	2013	North Sea	Time Charter	ENI	2022 (3)
Torill Knutsen	123,000	2013	North Sea	Time Charter	ENI	2022 (4)
Dan Cisne	59,000	2011	Brazil	Bareboat charter	Transpetro	2023
Dan Sabia	59,000	2012	Brazil	Bareboat charter	Transpetro	2024
Ingrid Knutsen	112,000	2013	North Sea	Time Charter	Vår	2024 (5)
Raquel Knutsen	152,000	2015	Brazil	Time Charter	Repsol	2025 (6)
Tordis Knutsen	156,000	2016	Brazil	Time Charter	Petrobras	2022 (7)
Vigdis Knutsen	156,000	2017	—	—	—	— (7)
Lena Knutsen	156,000	2017	Brazil	Time Charter	Shell	2022 (7)
Brasil Knutsen	154,000	2013	Brazil	Time Charter	Galp	2022 (8)
Anna Knutsen	152,000	2017	—	—	—	— (8)
Tove Knutsen	153,000	2020	Brazil	Time Charter	Equinor	2027 (9)

(1) The *Bodil Knutsen* is currently operating under a rolling charter contract with Knutsen Shuttle Tankers Pool AS, a subsidiary of KNOT. The charter currently expires in April 2022, with two one-month extensions at the charterer's option. The vessel will commence on a new time charter contract with Equinor in the fourth quarter of 2023 or the first quarter of 2024 for a fixed period, at the charterer's option, of either one year or two years, with options for the charterer to extend the charter, in either case, by two further one-year periods.

(2) Customer has the option to extend the charter by one one-year period and then one six-month period. The vessel will commence on a new time charter contract with Equinor in the fourth quarter of 2024 or the first quarter of 2025 for a fixed period, at the charterer's option, of either one year or two years, with options for the charterer to extend the charter, in either case, by two further one-year periods.

(3) Customer has the option to extend the charter for up to three one-year periods.

(4) Customer has the option to extend the charter for up to two one-year periods.

(5) Customer has the option to extend the charter for up to five one-year periods.

(6) Customer has the option to extend the charter for up to one three-year period and one two-year period.

(7) On December 8, 2020, the Partnership secured new three-year fixed charters 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.

(8) The charterer of the *Anna Knutsen*, Galp Sinopec, did not notify the Partnership by the due date of its intention to exercise its option to extend the time charter of the vessel and, as a consequence, the vessel was effectively redelivered to the Partnership on February 14, 2022 at the start of its mobilization trip to Europe for the vessel's planned drydock. On February 11, 2022 the Partnership agreed on the commercial terms for a new time charter contract for the *Anna Knutsen* with a major oil company to

commence in the second quarter of 2022 for a fixed period, at the charterer's option, of either (a) one year, with options for the charterer to extend the time charter by up to four further one-year periods, or (b) two years, with options for the charterer to extend the time charter by up to three further one-year periods.

(9) 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, 2021, Shell, ENI, Transpetro, Galp, and Repsol accounted for approximately 22%, 16%, 17%, 13% and 14%, respectively, of our revenues. Vår, PetroChina, Equinor and KNOT accounted for our remaining revenues.

Charters

We generate revenues by charging customers for the hire of our vessels and for services related to the loading, transportation, discharge 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 17, 2022, eleven 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 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, 2022, there were approximately 82 vessels in the global shuttle tanker fleet (including 12 newbuilds on order). Together KNOT and KNOP are the largest owners of shuttle tankers with 29 shuttle tankers (including 3 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 22 shuttle tankers (including 1 newbuild on order). American Eagle Tankers (AET) is the third largest owner of shuttle tankers with 17 vessels (including 5 newbuilds on order). Petrobras, which does not own vessels, employs a total of 23 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;
- 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.

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 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, the United Kingdom Maritime and Coast Guard Agency and EU authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S., the United Kingdom 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 MCL 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”), including the North Sea ECA and the Baltic Sea ECA, 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.

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. Brazil and Norway have ratified the BWM Convention. Although neither the United Kingdom nor the United States has ratified the BWM Convention yet, both jurisdictions are implementing ballast water management requirements. 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 *Recife Knutsen*, the *Dan Cisne*, the *Dan Sabia*, 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 *Windsor Knutsen and Carmen Knutsen*. 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 and United Kingdom 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 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.

Although the EU regulations will no longer directly apply in the United Kingdom as a consequence of Brexit, the "level playing field" provisions in the United Kingdom/EU Trade and Cooperation Agreement ("TCA") cover requires "non regression" in the level of environmental protection by the United Kingdom from the harmonized standards that were in effect in the EU on December 31, 2020. This means that the United Kingdom should not attempt to undo these standards, but under the TCA harmonization of standards is not required on a going forward basis. The TCA also includes a commitment for the EU and the United Kingdom to cooperate on trade-related aspects of climate change and to work with the IMO to achieve greenhouse gas emission reductions and promote low carbon technologies and sustainable transport. The United Kingdom has begun to take measures to put environmental regulations in place that would affect the shipping industry. In July 2019, the Department of Transport and the Maritime and Coast Guard Agency published Maritime 2050, a plan for the transition to zero emissions from shipping by 2050. On May 27, 2021, the Department of Transport published draft regulations that would amend the Merchant Shipping (Prevention of Air Pollution from Ships) Regulations 2008 to implement air quality measures to control sulphur and nitrogen oxide (SOx and NOx) emissions from ships, including setting the the maximum sulfur content of marine fuels used by ships at 0.5% and applying stricter NOx Tier III limit for new ships operating in the North Sea and English Channel. On February 7, 2022, the United Kingdom Department for Transport issued a call for feedback on the priorities to be addressed in its development of a long-term low carbon fuels strategy for the transport sector.

If more stringent requirements are put in effect in the future in the EU or the United Kingdom, 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, for those countries in the EU, 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 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 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.

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. Final regulations are expected in late 2022. 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.

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.

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 June 2021, the MEPC amendments to MARPOL Annex VI that enter into force on November 1, 2022 and 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 will be calculated in accordance with values established based on type and size category, which compares the vessels' energy efficiency to a baseline. A vessel is then required to meet a specific EEXI based on a required reduction factor expressed as a percentage relative to the EEDI baseline. Under the 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 requirements for EEXI and CII certification included in the MARPOL Annex VI amendments take effect January 1, 2023, which meant. the first annual reporting will be completed in 2023 and the first rating given in 2024. 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. Although it is no longer a part of the EU MRV regime, the United Kingdom retained in domestic law the EU regulation establishing the EU MRV, subject to amendments required for the make the regulation applicable in a United Kingdom-only context. Operators of ships over 5,000 gross tons using ports in the United Kingdom are expected to begin collecting emissions data for their ships commencing January 1, 2022 for the 2022 reporting period.

Any passage of climate control legislation or other regulatory initiatives by the IMO, the United States, the United Kingdom, 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 carry on business or conduct 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 are 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). Based upon the net tonnage of our current vessels and the applicable rate of taxation, our Norwegian subsidiaries are liable for approximately $265,213 of Norwegian tonnage tax for the year ended December 31, 2021. In addition, under the tonnage tax regime, net financial income (i.e. income not generated from operating vessels) is subject to the regular Norwegian 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.

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 an EU/European Economic Area ("EEA") flag. Whether there will be a flag requirement for any year is announced in September/October of that year. On September 22, 2021, it was announced that the flag requirement was applicable for the year ended December 31, 2021. Our Norwegian vessel-owning subsidiaries were compliant with the flag requirement in 2021.

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/EAA. 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

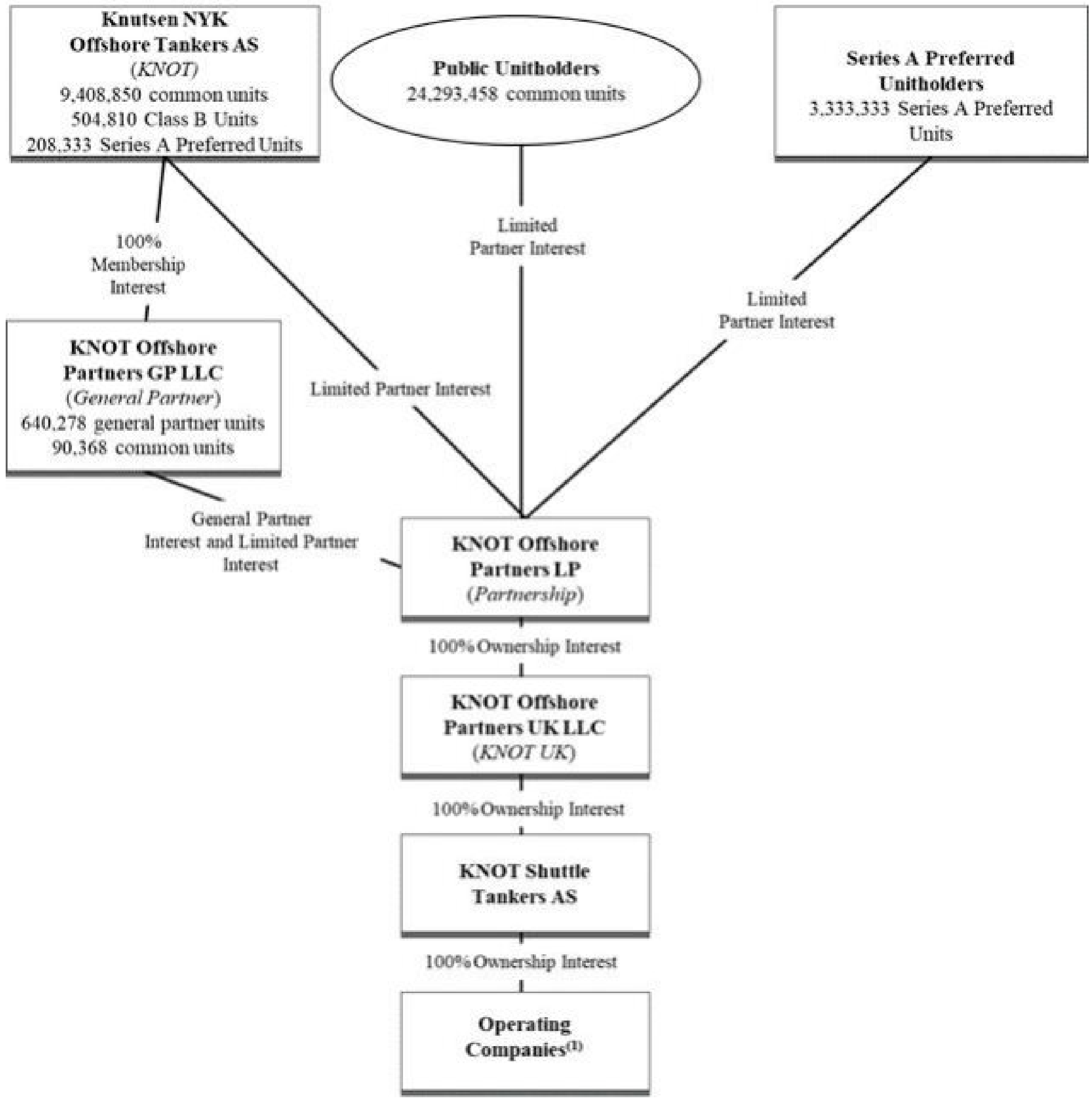
We directly employ one onshore employee and no seagoing employees. As of December 31, 2021, KNOT employed (directly and through ship managers) approximately 640 seagoing staff to serve on our vessels. KNOT and its affiliates may employ additional seagoing staff to assist us as we grow. KNOT, through 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 17, 2022.



(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, 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, 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 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. On September 10, 2021, KNOT contributed to the Partnership all of KNOT's incentive distribution rights in exchange for the issuance by the Partnership to KNOT of 673,080 common units and 673,080 Class B Units, whereupon the incentive distribution rights were cancelled. As of March 17, 2022, KNOT owned 27.8% of our common units, 208,333 Series A Preferred Units, 504,810 Class B Units and our general partner, and our general partner owned a 1.83% general partner interest in us and 0.3% of our common units.

Significant Developments in 2021 and Early 2022

$345 Million Loan Facility

On September 13, 2021 the Partnership's subsidiaries that own the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Anna Knutsen* and the *Brasil Knutsen* closed the refinancing of their existing bank debt by entering a new $345 million long-term senior secured credit facility. The credit facility is repayable in 20 consecutive quarterly installments, with a balloon payment of $220 million due at maturity in September 2026. The credit facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.05%. The credit facility is guaranteed by the Partnership and secured by mortgages on the vessels. The credit facility refinanced the previously existing term loans related to these five vessels which were due to mature between November 2021 and July 2022.

IDR Exchange

On September 7, 2021, the Partnership entered into an exchange agreement with its general partner and KNOT whereby KNOT contributed to the Partnership all of KNOT's incentive distribution rights ("IDRs") in exchange for the issuance by the Partnership to KNOT of 673,080 common units and 673,080 Class B Units, whereupon the IDRs were cancelled (the "IDR Exchange"). The IDR Exchange closed on September 10, 2021. The Class B Units are a class of limited partner interests which are not entitled to receive cash distributions in any quarter unless common unitholders receive a distribution of at least $0.52 for such quarter (the "Distribution Threshold"). When common unitholders receive a quarterly distribution at least equal to the Distribution Threshold, then Class B unitholders will be entitled to receive the same distribution as common unitholders.

For each quarter (starting with the quarter ended September 30, 2021) that the Partnership pays distributions on the common units that are at or above the Distribution Threshold, one-eighth of the Class B Units will be converted to common units on a one-for-one basis until such time as no further Class B Units exist. The Class B Units will generally vote together with the common units as a single class. After the payment of the Partnership's quarterly cash distributions on each of November 10, 2021 and February 10, 2022 with respect to the three months ended September 30, 2021 and December 31, 2021, respectively, 84,135 of the Class B Units converted to common units on a one-to-one basis. As of March 17, 2022, 504,810 Class B Units remain outstanding.

ATM Program

On August 26, 2021, the Partnership entered into a sales agreement with B. Riley Securities, Inc. (the "Agent"). Under the terms of the at the market sales agreement, the Partnership may offer and sell up to $100 million of common units (the "ATM program"), from time to time, through the Agent. The Partnership intends to use the net proceeds of any sales of offered units for general partnership purposes, which may include, among other things, the repayment of indebtedness or the funding of acquisitions or other capital expenditures.

From the commencement of the ATM program to November 3, 2021, the Partnership sold 41,940 common units under the program at an average gross sales price of $20.06 per unit and received net proceeds, after sales commissions, of $0.83 million. The Partnership paid an aggregate of $0.01 million in sales commissions to the Agent in connection with such sales. From November 4, 2021 until March 17, 2022, no additional common units were sold under the ATM program.

Series A Preferred Unit Conversion and Transfer

On May 27, 2021, Tortoise Direct Opportunities Fund LP, the previous holder of 416,667 of our Series A Preferred Units, sold 208,333 of its Series A Preferred Units to KNOT and converted 208,334 Series A Preferred Units to 215,292 common units based on a conversion rate of 1.0334.

Revolving Credit Facility

On June 30, 2021, the Partnership extended the maturity of its $25 million unsecured revolving credit facility with NTT Finance Corporation. The extended facility will mature in August 2023, 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.

Refinancing of Raquel Knutsen

On January 19, 2021, the Partnership through its wholly-owned subsidiary, Knutsen Shuttle Tankers 19 AS, which owned the *Raquel Knutsen*, closed a sale and leaseback agreement with a Japanese-based lessor for a lease period of ten years. The gross sales price was $94.3 million and a portion of the proceeds was used to repay the outstanding loan and cancelation 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.

Bodil Knutsen Charter

In November 2021 the *Bodil Knutsen* completed the installation of the majority of the volatile organic compound emissions ("VOC") recovery plant onboard the vessel and the vessel went back onhire on November 8, 2021. Although the Partnership initially funded the installation costs of approximately $7.3 million, included loss of hire (at a reduced rate) during the installation and costs related to the installation of the VOC recovery plant on the *Bodil Knutsen* are expected to be recoverable by the Partnership up to an agreed budget, with interest, from the VOC Industry Co-operation Norwegian Sector ("VOCIC Norway") over a seven-year period. A separate agreement is also in place that allows the Partnership to recover costs from VOCIC Norway related to the ongoing operation of the VOC plant onboard the vessel.

The *Bodil Knutsen* is currently operating under a rolling charter contract with Knutsen Shuttle Tankers Pool AS, a subsidiary of KNOT. The charter expires in April 2022, with two one-month extensions at the charterer's option. The vessel will commence on a new time charter contract with Equinor in the fourth quarter of 2023 or the first quarter of 2024 for a fixed period, at the charterer's option, of either one year or two years, with options for the charterer to extend the charter by two further one-year periods. The Partnership is still seeking short term to mid-term charter employment for the vessel and the time charter with KNOT can be terminated early should such an employment opportunity arise.

Windsor Knutsen Charter

In December 2020, the *Windsor Knutsen* reported a crack in its main engine block. As a result, the vessel was off-hire from December 12, 2020 to June 10, 2021 for repairs. After completing the repairs and subsequently performing a limited number of voyages as charterer's acceptance testing, on September 15, 2021, the *Windsor Knutsen* commenced on a one-year time charter contract with PetroChina with charterer's options to extend the charter by one one-year period and then one six-month period. The vessel is expected to operate in Brazil during this time.

The Partnership has entered into a new time charter contract for the *Windsor Knutsen* with Equinor to commence in the fourth quarter of 2024 or the first quarter of 2025. The new charter is for a fixed period, at the charterer's option, of either one year or two years, with options for the charterer to extend the charter, in either case, by two further one-year periods.

Anna Knutsen Charter

The *Anna Knutsen* was redelivered from the charterer on February 14, 2022 and started on its mobilization trip to Europe in order to complete her planned 5-year special survey drydocking. On February 11, 2022 the Partnership agreed on the commercial terms for a new time charter contract for the *Anna Knutsen* with a major oil company to commence in the second quarter of 2022 for a fixed period, at the charterer's option, of either (a) one year, with options for the charterer to extend the time charter by up to four further one-year periods, or (b) two years, with options for the charterer to extend the time charter by up to three further one-year periods.

Tordis Knutsen Charter

The *Tordis Knutsen* was redelivered from the charterer on November 26, 2021, and thereafter started on her mobilization trip to Europe for her planned 5-year special survey drydocking, The vessel completed this work and on February 23, 2022 the vessel commenced a new time charter contract with Petrobras for a fixed period of five months with an option for the charterer to extend the charter by one month.

Our Charters

We generate revenues by charging customers for the hire of our vessels and for services related to 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
Fortaleza Knutsen	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.
Recife Knutsen	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.
Bodil Knutsen	Delivered in February 2011. The *Bodil Knutsen* is currently operating under a rolling charter contract with Knutsen Shuttle Tankers Pool AS, a subsidiary of KNOT. The charter expires in April 2022, with two one-month extensions at the charterer's option. Included in the Partnership's initial fleet.
Windsor Knutsen	Delivered in May 2007. 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 *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 in December 2020. As a result, the vessel was off-hire from December 12, 2020 to June 10, 2021 for repairs. After completing the repairs and subsequently performing a limited number of voyages as charterer's acceptance testing, on September 15, 2021, the *Windsor Knutsen* commenced on a one-year time charter contract with PetroChina with charterer's options to extend the charter by one one-year period and then one six-month period. Included in the Partnership's initial fleet.
Carmen Knutsen	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.
Hilda Knutsen	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.
Torill Knutsen	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.
Dan Cisne	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.
Dan Sabia	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.
Ingrid Knutsen	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).
Raquel Knutsen	Delivered in March 2015 and commenced on long-term time charter with Repsol in June 2015. Acquired by the Partnership in December 2016.
Tordis Knutsen	Delivered in November 2016 and commenced on long term time charter with a subsidiary of Shell in January 2017. The vessel was redelivered from the charterer in November 2021 and commenced a five-month time charter with Petrobras in February 2022. Acquired by the Partnership in March 2017.
Vigdis Knutsen	Delivered in February 2017 and commenced on long-term time charter with a subsidiary of Shell in April 2017, which expired in March 2022. Acquired by the Partnership in June 2017.
Lena Knutsen	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.
Brasil Knutsen	Delivered in May 2013 and commenced on long-term time charter with Galp in June 2015. Acquired by the Partnership in December 2017.
Anna Knutsen	Delivered in March 2017 and commenced on long-term time charter with Galp, which expired in February 2022. On February 11, 2022 the Partnership agreed on the commercial terms for a new time charter contract for the *Anna Knutsen* with a major oil company to commence in the second quarter of 2022 for a fixed period, at the charterer's option, of either (a) one year, with options for the charterer to extend the time charter by up to four further one-year periods, or (b) two years, with options for the charterer to extend the time charter by up to three further one-year periods. Acquired by the Partnership in March 2018.
Tove Knutsen	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, 2022, the shuttle tanker market consisted of approximately 79 vessels (including 12 newbuilds on order) characterized by mid to 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 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 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.”

COVID-19

The outbreak of COVID-19 continues to affect global economic activity; however the Partnership has to date avoided any serious or sustained operational impacts, and there have been no effects on the Partnership’s contractual position. Steady progress in vaccinations and further signs of global economic recovery continue to cautiously increase optimism.

The Partnership’s focus remains on ensuring the health and safety of its employees and crew onboard while providing safe and reliable operations for its customers, and a large number of practical steps and changes have been made and taken towards this aim. While full or partial crew changes on all of the Partnership’s vessels have been continuing, the situation remains challenging for the maritime industry as a whole owing to travel restrictions and quarantine regulations that are ongoing in many countries.

Costs related to the movement of maritime personnel and vessel operational logistics, including repairs and maintenance, remain challenging. The Partnership remains vigilant to address any changes related to the health, safety and wellbeing of personnel, or to government restrictions and other matters potentially affecting operations. Other than 17 days of off-hire incurred as a result of a COVID-19 outbreak on the *Vigdis Knutsen* in July 2021 which was quickly contained with no serious ill-health caused to any persons affected, the Partnership has not had any material service interruptions on its time-chartered vessels as a result of COVID-19.

However, the potential impact of COVID-19 on the Partnership’s business, financial condition and results of operations remains uncertain.

The closure of, or restricted access to, ports and terminals and passenger air travel in regions affected by the virus may yet still lead to further operational impacts that could result in higher costs. It is possible that a further outbreak onboard a time-chartered 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 time-chartered 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.

Announced delays in new capital expenditure by many oil majors in 2020 had a negative impact on the demand for shuttle tankers and, given the uncertainty around the continuation of the COVID-19 situation, this dampened demand could continue through at least the majority of 2022. This has affected the timing and number of new, offshore projects and overall oil production profiles in the short-term, which has impacted the demand and pricing for shuttle tankers. If this situation persists 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. Notwithstanding these challenges, the Partnership remains confident in the mid to long term growth opportunities for the shuttle tanker market and that as economic activity begins to regain traction, the Partnership will be well-placed to capture new opportunities, particularly given an absence of speculative vessel ordering in the shuttle tanker sector.

Although the Partnership is exposed to credit risk associated with individual charterers, the Partnership believes that its charter contracts, all with subsidiaries of national oil companies and oil majors and KNOT, largely insulate the Partnership from this risk. In particular, charter hire is payable in advance and the services the Partnership performs are of a critical nature for the Partnership's customers. Notwithstanding, any extended period of non-payment or idle time between charters could adversely affect the Partnership's future liquidity, results of operations and cash flows. 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.

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 56%, 66% and 64% of the vessel operating expenses related to our vessels operating under time charters are denominated in U.S. Dollars and approximately 23%, 21% and 26% of such vessel operating expenses are denominated in Norwegian Kroner ("NOK"), for the years ended December 31, 2021, 2020 and 2019, 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 22% in 2019, 2020 and 2021.

- ***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 to Norwegian tonnage tax rather than ordinary corporate taxation and tonnage taxation is reflected in the consolidated financial statements and accompanying notes included in this Annual Report. Under the tonnage tax regime, tax is calculated based on the vessel's net tonnage (in thousands) according to its certificate, not on operating income, then multiplied by the days in operation and the applicable dayrate. Net financial income and expense remain taxable at the regular corporate income tax rate of 22%.

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 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 length and cost of drydocking;
- the effective and efficient technical management of our vessels;
- our ability to obtain and maintain major oil and gas company approvals and to satisfy their technical, health, safety and compliance standards;
- economic, regulatory, political and governmental conditions that affect the offshore marine transportation industry;
- 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.

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 23 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, 2021, 2020 and 2019, revenues from the following customers accounted for over 10% of our revenues:

	Year Ended December 31,					
(U.S. Dollars in thousands)	2021		2020		2019	
Eni Trading and Shipping S.p.A.	$ 43,823	16 %	$ 44,175	16 %	$ 44,610	16 %
Fronape International Company, a subsidiary of Petrobras Transporte S.A.	45,115	17 %	45,235	16 %	45,116	16 %
Repsol Sinopec Brasil, B.V., a subsidiary of Repsol Sinopec Brasil, S.A.	37,030	14 %	33,947	12 %	36,346	13 %
Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell	59,825	22 %	76,959	28 %	66,199	23 %
Galp Sinopec Brasil Services BV	35,622	13 %	35,684	13 %	35,541	13 %

A. Operating Results

Year Ended December 31, 2021 Compared with the Year Ended December 31, 2020

	Year Ended December 31,			
(U.S. Dollars in thousands)	2021	2020	Change	% Change
Time charter and bareboat revenues	$ 269,306	$ 278,581	$ (9,275)	(3)%
Loss of hire insurance recoveries	11,450	—	11,450	— %
Other income	373	641	(268)	(42)%
Vessel operating expenses	72,114	61,005	11,109	18 %
Depreciation	99,559	89,743	9,816	11 %
Impairment	29,421	—	29,421	— %
General and administrative expenses	6,461	5,392	1,069	20 %
Interest income	2	125	(123)	(98)%
Interest expense	28,065	31,645	(3,580)	(11)%
Other finance expense	1,011	705	306	43 %
Realized and unrealized gain (loss) on derivative instruments	9,960	(25,679)	35,639	(139)%
Net gain (loss) on foreign currency transactions	96	(57)	153	(268)%
Income tax benefit (expense)	(488)	(10)	(478)	4,780 %
Net income	**53,876**	**65,225**	**(11,349)**	**(17)%**

Time Charter and Bareboat Revenues. Time charter and bareboat revenues for the year ended December 31, 2021 were $269.3 million, a decrease of $9.3 million compared to $278.6 million for the year ended December 31, 2020. The decrease was principally due to (i) reduced time charter revenue from the *Windsor Knutsen* due to her off-hire in connection with repairs of her main engine block and her transitioning between charters, (ii) reduced earnings from the *Bodil Knutsen* related to her drydocking and VOC installation, together with a new time charter contract with Knutsen Shuttle Tankers Pool AS and (iii) decreased earnings from the *Tordis Knutsen* which both started its scheduled drydocking and had a technical fault on its azimuth thrusters in 2021. This decrease was partially offset by *Tove Knutsen* being included in results of operations from December 31, 2020 and increased earnings from the *Raquel Knutsen* due to her scheduled drydocking in 2020.

Loss of hire insurance recoveries: Loss of hire insurance recoveries for the year ended December 31, 2021 were $11.5 million compared to $nil for the year ended December 31, 2020. The loss of hire insurance recoveries for the year ended December 31, 2021 were related to the *Windsor Knutsen* in connection with repairs to her main engine block, the *Tove Knutsen* in connection with a leakage from its controllable pitch propeller and the *Tordis Knutsen* due to a technical fault on its azimuth thruster. As a result, the *Windsor Knutsen* was off-hire from December 12, 2020 to June 10, 2021, the *Tove Knutsen* was off-hire from March 1, 2021 to April 15, 2021 and the *Tordis Knutsen* was off-hire from July 17, 2021 to August 25, 2021. For the year ended December 31, 2021, the Partnership recorded $8.7 million in loss of hire recoveries with respect to the *Windsor Knutsen*, $1.5 million with respect to the *Tove Knutsen* and $1.2 million with respect to the *Tordis Knutsen.*

Other Income. Other income for the year ended December 31, 2021 was $0.4 million, a decrease of $0.2 million compared to $0.6 million for the year ended December 31, 2020. The decrease 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 in 2020. As a result, in 2020 the Partnership received $0.6 million for this extra voyage. The decrease was partially offset by a $0.3 million credit received from the *Norwegian Shipowners' Mutual War Risks Insurance Association* in the year ended December 31, 2021.

Vessel Operating Expenses. Vessel operating expenses for the year ended December 31, 2021 were $72.1 million, an increase of $11.1 million from $61.0 million in the year ended December 31, 2020. The increase was primarily due to the *Tove Knutsen* being including in the results of operations as of December 31, 2020, higher crew costs due to crew changes and travel restrictions related to COVID-19, and increased bunker consumption for the *Bodil Knutsen* and the *Tordis Knutsen* which started their scheduled drydocking and VOC installation (*Bodil Knutsen*) in 2021. This was partially offset by the *Raquel Knutsen's* bunker consumption in 2020 due to its scheduled drydocking.

Depreciation. Depreciation expense for the year ended December 31, 2021 was $99.6 million, an increase of $9.8 million from $89.7 million in the year ended December 31, 2020. The increase is mainly related to the change by the Partnership of the useful life estimate of each of the vessels in its fleet from 25 years to 23 years due to prevailing longer-term market trends, which increased the non-cash accounting depreciation charge starting July 1, 2021, and to the *Tove Knutsen* being included in the results of operations from December 31, 2020. This was partially offset by decreased depreciation for the *Windsor Knutsen* due to the impairment as described below.

Impairment. Impairment charges for the year ended December 31, 2021 were $29.4 million compared to $nil for the year ended December 31, 2020. The impairment charges for the year ended December 31, 2021 were related to the *Windsor Knutsen* principally as a result of the vessel's high carrying value which in turn arose due to the cost of both the purchase and the conversion of the vessel to a shuttle tanker from a conventional tanker.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2021 were $6.5 million, compared to $5.4 million for 2020. The increase is related to increased legal and administration fees in connection with the IDR Exchange and the ATM program, increased administration fee from KNOT Management in connection with the refinancing activities in 2021 and the *Tove Knutsen* being included in the results of operations as of December 31, 2020.

Interest Income. Interest income for the year ended December 31, 2021 was $2,000 compared to $0.1 million for the year ended December 31, 2020. The decrease was mainly due to lower interest on average for all bank accounts.

Interest Expense. Interest expense for the year ended December 31, 2021 was $28.1 million, a decrease of $3.6 million from $31.6 million for the year ended December 31, 2020. The decrease was mainly due to lower LIBOR on average and decreased leverage for the entire fleet. This was partially offset by increased interest expense for the credit facility related to the *Tove Knutsen* being included in the results of operations as of December 31, 2020 and increased interest expense for the *Raquel Knutsen* in connection with the sale and leaseback transaction in which both the financial obligation and interest rate increased.

Other Finance Expense. Other finance expense for the year ended December 31, 2021 was $1.0 million, an increase of $0.3 million from $0.7 million for the year ended December 31, 2020. Other finance expense is primarily related to bank fees and guarantee commissions.

Realized and Unrealized Gain (Loss) on Derivative Instruments. Realized and unrealized gain on derivative instruments for the year ended December 31, 2021 was $10.0 million, compared to a loss of $25.7 million for the year ended December 31, 2020, as set forth in the table below:

(U.S. Dollars in thousands)	Year Ended December 31, 2021	Year Ended December 31, 2020	$ Change
Realized gain (loss):			
Interest rate swap contracts	$ (10,094)	$ (3,528)	$ (6,566)
Foreign exchange forward contracts	—	(109)	109
Total realized gain (loss):	(10,094)	(3,637)	(6,457)
Unrealized gain (loss):			
Interest rate swap contracts	20,054	(21,795)	41,849
Foreign exchange forward contracts	—	(247)	247
Total unrealized gain (loss):	20,054	(22,042)	42,096
Total realized and unrealized gain (loss) on deriviative instruments:	$ 9,960	$ (25,679)	$ 35,639

As of December 31, 2021, 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 was $462.3 million. All of the unrealized gain in the year ended December 31, 2021 is related to a mark-to-market gain on interest rate swaps.

Net Gain (Loss) on Foreign Currency Transactions. Net loss on foreign currency transactions for the year ended December 31, 2021 was $96,000, compared to a gain of $57,000 million for the year ended December 31, 2020.

Income Tax Benefit (Expense). Income tax expense for the year ended December 31, 2021 was $0.5 million compared to an income tax expense of $10,000 for the year ended December 31, 2020. The increase is a result of higher net financial income, which is taxed at the normal Norwegian corporate tax rate in 2021.

Net Income. As a result of the foregoing, we earned net income of $53.9 million for the year ended December 31, 2021 compared to net income of $65.2 million for the year ended December 31, 2020.

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

See "Item 5. Operating and Financial Review and Prospects—Operating Results—Year Ended December 31, 2020 Compared with the Year Ended December 31, 2019" in our Annual Report on Form 20-F for the year ended December 31, 2020 (our "2020 20-F") for a discussion of our results of operations for the year ended December 31, 2020 compared to the year ended December 31, 2019 and other financial information related to the year ended December 31, 2019.

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, including net proceeds from sales under the ATM program. 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 $51.5 million for drydocking and classification surveys for the thirteen vessels under time charters in our fleet as of December 31, 2021 between 2022 and 2026, with approximately $17.8 of this amount to be spent in the year ending December 31, 2022. As our fleet matures and expands, our drydocking expenses will likely increase. Ongoing costs for compliance with environmental regulations are primarily included as part of our drydocking and society classification survey costs or are a component of our vessel operating expenses. We are not aware of any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations. There will be further costs related to voyages to and from the drydocking yard that will depend on the distance from the vessel's ordinary trading area to the drydocking yard.

On August 26, 2021, the Partnership entered into a sales agreement with B. Riley Securities, Inc. (the "Agent"). Under the terms of the at the market sales agreement, the Partnership may offer and sell up to $100 million of common units (the "ATM program"), from time to time, through the Agent. The Partnership intends to use the net proceeds of any sales of offered units for general partnership purposes, which may include, among other things, the repayment of indebtedness or the funding of acquisitions or other capital expenditures.

From the commencement of the ATM program to December 31, 2021, the Partnership sold 41,940 common units under the program at an average gross sales price of $20.06 per unit and received net proceeds, after sales commissions, of $0.83 million. The Partnership paid an aggregate of $0.01 million in sales commissions to the Agent in connection with such sales. From January 1, 2022 until March 17, 2022, no additional common units were sold under the ATM program. Please read "—Borrowing Activities—Long-Term Debt".

The Multi-vessels Facility (as defined below) includes a $55 million revolving credit facility. 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.

In June 2021, KNOT Shuttle Tankers AS extended the maturity of its $25 million unsecured revolving credit facility with NTT Finance Corporation. The extended facility will mature in August 2023, bears interest at LIBOR plus a margin of 1.8% and has a commitment fee of 0.5% on the undrawn portion of the facility.

On 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.

As of December 31, 2021, the Partnership had available liquidity of $117.3 million, which consisted of cash and cash equivalents of $62.3 million and availability under the revolving credit facilities of $55.0 million. As of March 17, 2022, the revolving credit facilities had an aggregate undrawn capacity of $55.0 million.

As of December 31, 2021, the Partnership had $1,059.3 million in outstanding obligations, which include installments and interest on long-term debt, sale and leaseback commitments in respect of the *Raquel Knutsen*, interest commitments on interest rate swaps and operating lease commitments. Of the total outstanding obligations, $118.4 million matures during the year ending December 31, 2022 and $940.9 million matures after such date.

The consolidated financial statements have been prepared assuming that the Partnership will continue as a going concern. As of December 31, 2021, the Partnership's net current liabilities were $42.1 million. Included in current liabilities are $88.6 million of short term loan obligations that mature before December 31, 2022 and are therefore, presented as current debt.

The Partnership expects that its primary future sources of funds will be available cash, cash from operations, borrowings under any new loan agreements and the proceeds of any equity financings, including net proceeds from sales under the ATM program. 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 17, 2022, are sufficient to meet working capital requirements for its current business for at least the next twelve months.

At December 31, 2021, we did not have any off-balance sheet arrangements.

COVID-19 continues to impact global capital and bank credit markets, affecting access, timing and cost of capital. The responses of governments around the world in managing the impact of the virus have led to lower interest rates, monetary easing policies and often volatility in the prices of equities, bonds, commodities and their respective derivatives. In these continuing current market conditions, issuing new common equity could be a less viable and more expensive option for accessing liquidity. The Partnership does not have long term debt maturing before the third quarter of 2023. Should the Partnership be unable to obtain refinancing for this debt or other debt in the future, it 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.

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 $74.2 million per year, which is comprised of $64.6 million for replacing our current vessels at the end of their useful lives and $9.6 million for drydocking maintenance and classification surveys.

Cash Flows

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

	Year Ended December 31,		
(U.S. Dollars in thousands)	**2021**	**2020**	**2019**
Net cash provided by operating activities	$ 166,411	$ 169,241	$ 165,692
Net cash used in investing activities	(11,536)	(21,433)	—
Net cash used in financing activities	(145,147)	(139,260)	(163,848)
Effect of exchange rate changes on cash	(18)	510	(30)
Net increase in cash and cash equivalents	9,710	9,058	1,813
Cash and cash equivalents at the beginning of the period	52,583	43,525	41,712
Cash and cash equivalents at the end of the period	62,293	52,583	43,525

Year Ended December 31, 2021 Compared with the Year Ended December 31, 2020

Net Cash Provided by Operating Activities

Net cash provided by operating activities decreased by $2.8 million to $166.4 million for the year ended December 31, 2021 compared to $169.2 million for the year ended December 31, 2020. The decrease was primarily due to lower utilization and reduced time charter revenue for the fleet due to off-hire not covered by insurance, scheduled drydocking and VOCIC installation for the *Bodil Knutsen* in 2021, scheduled drydocking for the *Tordis Knutsen* and increased vessel operating expenses for the entire fleet due to crew changes and travel restrictions related to COVID-19. This was offset by the contribution from the *Tove Knutsen* which was included in the results of operations as of December 31, 2020, an increase in working capital elements and a decrease in paid interest during the year ended December 31, 2021.

Net Cash Used in Investing Activities

Net cash used in investing activities was $11.5 million for the year ended December 31, 2021 compared to $21.4 million for the year ended December 31, 2020. Net cash used in investing activities for the year ended December 31, 2021 is mainly related to installation of a Ballast Water Treatment System (BWTS) on the *Bodil Knutsen.* 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 $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, 2021 was $145.1 million and mainly related to the following:

- Proceeds of $345 million from the multi-vessel refinancing of the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Anna Knutsen* and the *Brasil Knutsen;*
- Proceeds of $94.3 million from the sale & leaseback transaction of the *Raquel Knutsen;* and
- Proceeds from the drawdown under one of the revolving credit facilities of $5 million;

This was offset by the following:

- Repayment of long-term debt of $505.8 million, of which $52.7 million was repaid in connection with the refinancing of the *Raquel Knutsen* facility and $322.1 million was repaid in connection with the refinancing of the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Anna Knutsen* and the *Brasil Knutsen* facilities;
- Payment of cash distributions to unitholders of $79.4 million, of which $6.9 million was distributions to Series A Preferred Units; and
- Payment of debt issuance costs of $5.2 million in connection with the refinancing of the *Raquel Knutsen,* the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Anna Knutsen* and the *Brasil Knutsen.*

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.

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

See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Cash Flows” in our 2020 20-F for a discussion of changes in our cash flows from 2020 to 2019 and other financial information related to 2019.

Borrowing Activities

Long-Term Debt. As of December 31, 2021 and 2020, our long-term debt consisted of the following:

(U.S. Dollars in thousands)	Vessel	December 31, 2021	December 31, 2020
$345 million loan facility	*Anna Knutsen, Tordis Knutsen, Vigdis Knutsen, Brasil Knutsen, Lena Knutsen*	$ 338,726	$ —
$320 million loan facility	*Windsor Knutsen, Bodil Knutsen, Carmen Knutsen, Fortaleza Knutsen, Recife Knutsen, Ingrid Knutsen*	222,133	252,245
$55 million revolving credit facility		—	34,279
Hilda loan facility	*Hilda Knutsen*	72,308	78,462
Torill loan facility	*Torill Knutsen*	75,000	81,667
$172.5 million loan facility	*Dan Cisne, Dan Sabia*	45,340	58,340
Raquel loan facility	*Raquel Knutsen*	—	52,725
Tordis loan facility	*Tordis Knutsen*	—	75,871
Vigdis loan facility	*Vigdis Knutsen*	—	77,136
Lena loan facility	*Lena Knutsen*	—	75,950
Brasil loan facility	*Brasil Knutsen*	—	50,997
Anna loan facility	*Anna Knutsen*	—	62,196
Tove loan facility	*Tove Knutsen*	81,883	86,250
$25 million revolving credit facility with NTT		25,000	25,000
$25 million revolving credit facility with Shinsei		25,000	25,000
Raquel Sale & Leaseback	*Raquel Knutsen*	89,206	—
Total long-term debt		**$ 974,596**	**$ 1,036,118**
Less: current installments		90,956	186,723
Less: unamortized deferred loan issuance costs		2,378	2,535
Current portion of long-term debt		**88,578**	**184,188**
Amounts due after one year		883,640	849,395
Less: unamortized deferred loan issuance costs		5,092	3,238
Long-term debt, less current installments, and unamortized deferred loan issuance costs		**$ 878,548**	**$ 846,157**

The Partnership's outstanding debt of $974.6 million as of December 31, 2021 is repayable as follows:

(U.S. Dollars in thousands)	Sale & Leaseback	Period repayment	Balloon repayment	Total
2022	$ 4,960	$ 85,996	$ —	$ 90,956
2023	5,177	79,768	225,906	310,851
2024	5,418	38,107	123,393	166,918
2025	5,640	28,372	65,506	99,518
2026 and thereafter	68,010	18,822	219,521	306,353
Total	$ 89,205	$ 251,065	$ 634,326	$ 974,596

As of December 31, 2021, 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.

$345 Million Term Loan Facility

In September 2021, the Partnership's subsidiaries which own the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Anna Knutsen* and the *Brasil Knutsen*, entered into a new $345 million senior secured credit facility in order to refinance their existing term loans (the "$345 Million Loan Facility"). The $345 Million Loan Facility consists of a term loan repayable in 20 consecutive quarterly installments, with a balloon payment of $220 million due at maturity in September 2026. The facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.05%. The facility is guaranteed by the Partnership and secured by mortgages on the five vessels.

The $345 Million Loan 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 $345 Million Loan 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 facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2021, the borrowers and the guarantors were in compliance with all covenants under this facility.

$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, 2021, 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 "Hilda Facility"). The Hilda Facility replaced the $117 million loan facility, which was due to be paid in full in August 2018. The 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 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, 2021, 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, 2021, 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, 2021, 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 cancelation 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"). The Tordis Facility was repayable in quarterly installments with a final balloon payment of $70.8 million due at maturity. The Tordis Facility bore interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility was secured by a vessel mortgage on the *Tordis Knutsen*. The *Tordis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Tordis Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors. In September 2021, the Tordis Facility was repaid in full using a portion of the proceeds of the $345 Million Loan 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 was repayable in quarterly installments with a final balloon payment of $70.8 million due at maturity. The Vigdis Facility bore interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility was secured by a vessel mortgage on the *Vigdis Knutsen*. The *Vigdis Knutsen,* assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Vigdis Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors. In September 2021, the Vigdis Facility was repaid in full using a portion of the proceeds of the $345 Million Loan 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 was repayable in quarterly installments with a final balloon payment of $68.6 million due at maturity. The Lena Facility bore interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility was secured by a vessel mortgage on the *Lena Knutsen*. The *Lena Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Lena Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors. In September 2021, the Lena Facility was repaid in full using a portion of the proceeds of the $345 Million Loan 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 was repayable in quarterly installments with a final balloon payment of $40.0 million due at maturity. The Brasil Facility bore interest at an annual rate equal to LIBOR plus a margin of 2.3%. The facility was secured by a vessel mortgage on the *Brasil Knutsen*. The *Brasil Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Brasil Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors. In September 2021, the Brasil Facility was repaid in full using a portion of the proceeds of the $345 Million Loan 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 was repayable in quarterly installments with a final balloon payment of $57.1 million due at maturity. The Anna 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 *Anna Knutsen*. The *Anna Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Anna Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors. In September 2021, the Anna Facility was repaid in full using a portion of the proceeds of the $345 Million Loan 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, 2021, the borrower and the guarantors were in compliance with all covenants under this facility.

$25 Million Revolving Credit Facility with NTT

In June 2021, KNOT Shuttle Tankers AS extended the maturity of its $25 million unsecured revolving credit facility with NTT Finance Corporation. The extended facility will mature in August 2023, 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. The commercial terms of the facility are unchanged from the facility entered into in June 2017 with NTT Finance Corporation.

$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, 2021 the Partnership's net exposure to floating interest rate fluctuations was approximately $360.8 million based on total interest-bearing contractual obligations of $974.6 million, less the *Raquel Knutsen* sale and leaseback facility of $89.2 million, less interest rate swaps of $462.3 million and less cash and cash equivalents of $62.3 million. Our interest rate swap contracts mature between September 2023 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%.

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. 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 23 years, commencing at the date the vessel was originally delivered from the shipyard. However, the actual life of a vessel may be different than the estimated useful life, with a shorter actual useful life resulting in an increase in the depreciation and potentially resulting in an impairment loss. The estimated useful life of our vessels takes into account design life, commercial considerations and regulatory restrictions. The carrying value of our vessels may not represent their market value at any point in time, because the market prices of second-hand vessels tend to fluctuate with changes in hire rates and the cost of newbuilds.

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

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

Judgments and Uncertainties. Our estimates of future cash flows involve assumptions about future hire rates, vessel utilization, operating expenses, drydocking expenditures, vessel residual values, the remaining estimated life of our vessels and discount rates. 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. 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 $1,598 million as of December 31, 2021.

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, 2021 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, 2021, we determined that the deferred tax assets are likely to not be realized, and the booked value was, therefore, zero.

Effect If Actual Results Differ from Assumptions. If we determined that we were able to realize a net deferred tax asset in the future, in excess of the net recorded amount, an adjustment to decrease the valuation allowance related to the deferred tax assets would typically increase our net income (or decrease our loss) in the period such determination was made. As of December 31, 2021 and 2020 we had a valuation allowance for deferred tax assets of $23.5 million and $20.9 million, respectively.

Recently Adopted Accounting Standards

There are no 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 Financial Accounting Standards Board ("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 continues to evaluate the impact of the guidance on the consolidated financial statements as well as the commercial implications for the transition away from LIBOR, in particular through discussions with lenders and other market participants

In August 2020, the FASB issued ASU 2020-06 *Debt—Debt with conversion and other options (subtopic 470-20) and Derivatives and Hedging—contracts in entity's own equity (subtopic 815-40): Accounting for convertible instruments and contracts in an entity's own equity* simplifies an issuer's accounting for convertible instruments and its application of the derivatives scope exception for contracts in its own equity. The new guidance eliminates two of the three models in ASC 470-20 that require separate accounting for embedded conversion features with respect to accounting for convertible instruments. Further the ASU simplifies the settlement assessment that entities are required to perform to determine whether a contract qualifies for equity classification. Entities are required to use the if-converted method for all convertible instruments in the diluted earnings per unit calculation and include the effect of potential share settlement for instruments that may be settled in cash or shares, except for certain liability-classified share-based payment awards. The new guidance does not materially impact the Partnership as the if-converted method is already being used in computing diluted earnings per unit

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

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, AB15 4YB, United Kingdom.

Name	Age	Position
Trygve Seglem	71	Chairman of the Board of Directors
Gary Chapman	47	Chief Executive Officer and Chief Financial Officer
Hans Petter Aas	76	Director, Chairman of the Audit Committee and Member of the Conflicts Committee
Edward A. Waryas, Jr.	74	Director, Chairman of the Conflicts Committee and Member of the Audit Committee
Andrew Beveridge	74	Director and Member of the Audit Committee
Richard Beyer	52	Director
Junya Omoto	52	Director
Simon Bird	62	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. Mr. Seglem served as president of the Norwegian Shipowners' Association from 2006 to 2008, is a Finnish Honorary Consult and serves as a member of the board of directors of Assuranceforeningen SKULD (Gjensidig) . Mr. Seglem began his career at Statoil at its inception and has been involved in the development of offshore loading tankers since 1975. In 1984, Mr. Seglem became the project director and a part owner, through TSSI, of the Knutsen Group. In September 2008, Mr. Seglem became the sole owner of the shuttle tanker operations of the Knutsen Companies. Mr. Seglem has a degree from Newcastle University in the United Kingdom.

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. and G2Ocean AS. 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. Mr. Waryas retired from his position as Vice President—Marine Business Development for Lloyd's Register North America, Inc. at the end of 2014 where he was responsible for marine business development, account management, marketing and product development in North America. Mr. Waryas is a past President of Windward Maritime LLC and during the 1990s was President of the Clay Marketing and Public Relations marine division as well as Director, Business Development for Newport News Shipbuilding and Vice President of the Tenneco Foreign Sales Corporation. Prior to this, Mr. Waryas served as a U.S. Coast Guard licensed engineer for Mobil Shipping & Transportation Company and at the time was also chairman of the bow-loading coordination committee that developed the offshore loading system for the Statfjord Field off the coast of Norway. 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. Mr. Beveridge 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 Slinsgby 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. Mr. Beyer has served as Deputy Director of KNOT since 2011 and has been a member of the board of directors of the Partnership's general partner and KNOT UK since 2013. Currently Mr. Beyer is Chief Operating Officer and Executive Vice President and General Counsel of NYK Group Europe Limited and is a Director of NYK Energy Transport (Atlantic) Limited, NYK Line's London based energy shipping business. Mr. Beyer joined NYK Line in 2007, initially advising its LNG and Offshore Business Groups in London and Tokyo before taking responsibility for the LNG chartering and business development team of NYK Energy Transport (Atlantic) Limited. From 2004 to 2007, Mr. Beyer was a Senior Legal Advisor to BP Shipping Limited, and prior to that he was a shipping finance specialist at London based international law firms Stephenson Harwood and Norton Rose. Mr. Beyer is an English qualified lawyer.

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 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, 2021, 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.

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, 2021, Mr. Chapman received $329,516 in total compensation. In addition, an accrual of $nil for 2021 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, 2021, each of our directors and our Chairman received aggregate compensation of $75,000. This amount is expected to increase to $95,000 for the year ending December 31, 2022. During the year ended 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. 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. Mr. Aas is designated as our Class IV elected director and will serve until our annual meeting of unitholders in 2025. At each annual meeting of unitholders, directors will be elected to succeed the class of director whose term has expired by a plurality of the votes of the common unitholders. Directors elected by our common unitholders will be nominated by our board of directors or by any limited partner or group of limited partners that holds at least 10% of the outstanding common units.

Each outstanding common unit is entitled to one vote on matters subject to a vote of common unitholders. The Class B Units generally vote together with the common units as a single class. 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 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 or Class B 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 and Class B Units in the election of the elected directors. The common units and the Class B Units will be treated as two separate classes of partnership interests for purposes of the 4.9% limitation, which will apply separately to the holders of common units and to the holders of Class B Units.

In addition, common unitholders and Class B 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 unitholders (subject to the limitation described above for 4.9% 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.

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, 2021, we directly employed one onshore employee and no seagoing employees. As of December 31, 2021, 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 17, 2022, there were no common units, Class B Units or Series A Preferred 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 17, 2022 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:

	Common Units Beneficially Owned	
Name of Beneficial Owner	**Number**	**Percent**
KNOT(1)	9,646,207	28.4 %
Offshore Merchant Partners Asset Yield Fund L.P.(2)	2,331,250	6.5 %
Invesco Ltd.(3)	1,776,804	5.3 %

(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 common units, Class B Units and Series A Preferred Units of the Partnership

beneficially held by KNOT and the 1.83% general partner interest held by the Partnership's general partner. Included in the number of common units beneficially owned are 231,124 common units, which represent the common units into which the 208,333 Series A Preferred Units beneficially owned were convertible at March 17, 2022, which common units are included in both the numerator and denominator in calculating the percentage beneficially owned. Common units issuable upon conversion of the Class B Units are not included in the number of common units beneficially owned.

(2) Offshore Merchant Partners Asset Yield Fund L.P. has shared voting and dispositive power as to 2,331,250 common units. Represents 2,331,250 common units into which the Series A Preferred Units owned by OMP AY Preferred Limited were convertible as of September 30, 2021, 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 January 20, 2022.

(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. The Class B Units generally vote together with the common units as a single class. 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 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 or Class B 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 or Class B Units in the election of the elected directors. The common units and the Class B Units will be treated as two separate classes of partnership interests for purposes of the 4.9% limitation, which will apply separately to the holders of common units and to the holders of Class B Units.

In addition, common unitholders and Class B 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 unitholders (subject to the limitation described above for 4.9% unitholders) in these elections.

As of March 17, 2022, we had 3,541,666 Series A Preferred Units issued and outstanding, of which 2,083,333 units, 1,250,000 units and 208,333 units are held by OMP AY Preferred Limited, Pierfront Capital Mezzanine Fund Pte. Ltd. and KNOT, 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.

As of March 17, 2022, we had 504,810 Class B Units outstanding, all of which were held by KNOT.

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 27.8% of our common units as of March 17, 2022.

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, 2019 are discussed below.

Omnibus Agreement

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

Noncompetition

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

(1) acquiring, owning, operating or chartering Non-Five-Year Vessels;

(2) acquiring one or more Five-Year Vessels if KNOT promptly offers to sell the vessel to us for the acquisition price plus any administrative costs (including re-flagging and reasonable legal costs) associated with the transfer to us at the time of the acquisition;

(3) putting a Non-Five-Year Vessel under charter for five or more years if KNOT offers to sell the vessel to us for fair market value (x) promptly after the time it becomes a Five-Year Vessel and (y) at each renewal or extension of that charter for five or more years;

(4) acquiring one or more Five-Year Vessels as part of the acquisition of a controlling interest in a business or package of assets and owning, operating or chartering those vessels; provided, however, that:

 (a) if less than a majority of the value of the business or assets acquired is attributable to Five-Year Vessels, as determined in good faith by KNOT’s board of directors, KNOT must offer to sell such vessels to us for their fair market value plus any additional tax or other similar costs that KNOT incurs in connection with the acquisition and the transfer of such vessels to us separate from the acquired business; and

 (b) if a majority or more of the value of the business or assets acquired is attributable to Five-Year Vessels, as determined in good faith by KNOT’s board of directors, KNOT must notify us of the proposed acquisition in advance. Not later than 30 days following receipt of such notice, we will notify KNOT if we wish to acquire such vessels in cooperation and simultaneously with KNOT acquiring the Non-Five-Year Vessels. If we do not notify KNOT of our intent to pursue the acquisition within 30 days, KNOT may proceed with the acquisition and then offer to sell such vessels to us as provided in paragraph (1)(a) above;

(5) acquiring up to a 9.9% equity ownership, voting or profit participation interest in any company, business or pool of assets;

(6) acquiring, owning, operating or chartering any Five-Year Vessel if we do not fulfill our obligation to purchase such vessel in accordance with the terms of any existing or future agreement;

(7) acquiring, owning, operating or chartering a Five-Year Vessel subject to the offers to us described in paragraphs (2), (3) and (4) above pending our determination whether to accept such offers and pending the closing of any offers we accept;

(8) providing ship management services relating to any vessel;

(9) owning or operating any Five-Year Vessel that KNOT owned as of April 15, 2013 and that was not part of our initial fleet as of such date; or

(10) acquiring, owning, operating or chartering a Five-Year Vessel if we have previously advised KNOT that we consent to such acquisition, ownership, operation or charter.

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

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.

IDR Exchange

On September 7, 2021, the Partnership entered into an exchange agreement with its general partner and KNOT whereby KNOT contributed to the Partnership all of KNOT's IDRs in exchange for the issuance by the Partnership to KNOT of 673,080 common units and 673,080 Class B Units, whereupon the IDRs were cancelled. The IDR Exchange closed on September 10, 2021. The Class B Units are a class of limited partner interests which are not entitled to receive cash distributions in any quarter unless common unitholders receive a distribution of at least the Distribution Threshold. When common unitholders receive a quarterly distribution at least equal to the Distribution Threshold, then Class B unitholders will be entitled to receive the same distribution as common unitholders.

For each quarter (starting with the quarter ended September 30, 2021) that the Partnership pays distributions on the common units that are at or above the Distribution Threshold, one-eighth of the Class B Units will be converted to common units on a one-for-one basis until such time as no further Class B Units exist. The Class B Units will generally vote together with the common units as a single class. After the payment of the Partnership's quarterly cash distributions on each of November 10, 2021 and February 10, 2022 with respect to the three months ended September 30, 2021 and December 31, 2021, respectively, 84,135 of the Class B Units converted to common units on a one-to-one basis. As of March 17, 2022, 504,810 Class B Units remain outstanding.

Bodil Knutsen Charter with Knutsen Shuttle Tankers Pool AS

The *Bodil Knutsen* is currently operating under a rolling charter contract with Knutsen Shuttle Tankers Pool AS, a subsidiary of KNOT. The charter expires in April 2022, and the charterer has two one-month extension options. The Partnership is still seeking short term to mid-term charter employment for the vessel and the time charter with KNOT can be terminated early should such an employment opportunity arise.

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. Under the time charter contract with Knutsen Shuttle Tankers Pool AS, the *Windsor Knutsen* operated on the same terms as its previous 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.

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.

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 $0.66 million per year for 2021 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 2022 has been set at $0.70 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.

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 2021 of $0.07 million for the *Recife Knutsen* and the *Fortaleza Knutsen* and an annual fee in 2021 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 2022 has been set at $0.08 million for the *Recife Knutsen* and the *Fortaleza Knutsen* and $0.04 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 the vessels 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 $0.3 million in total fees with respect to these arrangements for the year ended December 31, 2021.

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 22—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, 2021 and included in the consolidated financial statements. Please read Note 17—Related Party Transactions in the consolidated financial statements included in this Annual Report.

	Year Ended December 31, 2021 (U.S. Dollars in thousands)
Statement of Operations Data:	
Time charter and bareboat revenues:	$ 6,427
Operating expenses(1)	26,107
General and administrative expenses:	2,195
Total income (expenses)	$ (21,875)

(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 $0.2 million and $1.2 million, respectively, for the year ended December 31, 2021. In addition, included in trade accounts payable, trading balances due to KOAS were $0.8 million and trading balances due to KNOT were $0.8 million for the year ended December 31, 2021. Outstanding balances are settled on a monthly basis.

During the scheduled second renewal survey drydocking of the *Bodil Knutsen* a ballast water treatment system was installed on the vessel. Parts of the system were purchased from Knutsen Ballast Water AS, a subsidiary of TSSI, for $1.84 million.

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

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

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

Distributions to KNOT

We have declared and paid aggregate quarterly distributions of $22.3 million and $22.1 million to KNOT for each of the years ended December 31, 2021 and 2020, respectively.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

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

Legal Proceedings

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

Our Cash Distribution Policy

Rationale for Our Cash Distribution Policy

Our cash distribution policy reflects a judgment that our unitholders will be better served by our distributing our available cash (after deducting expenses, including 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 reserves).

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

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

- Our unitholders have no contractual or other legal right to receive distributions other than the obligation under our partnership agreement to distribute available cash on a quarterly basis, which is subject to the broad discretion of our board of directors to establish reserves and other limitations.

- We are subject to restrictions on distributions under our financing agreements. Our financing agreements contain material financial tests and covenants that must be satisfied in order to pay distributions. If we are unable to satisfy the restrictions included in any of our financing agreements or are otherwise in default under any of those agreements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to our unitholders, notwithstanding our stated cash distribution policy. These financial tests and covenants are described in this Annual Report in "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources."

- 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 17, 2022, there were 3,541,666 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.

During the year ended December 31, 2021, the aggregate amounts of cash distributions paid to common unitholders was $70.7 million.

Class B Units

The Class B Units are a new class of limited partner interests which are not entitled to receive cash distributions in any quarter unless common unitholders receive a distribution of at least $0.52 for such quarter (the "Distribution Threshold"). When common unitholders receive a quarterly distribution at least equal to the Distribution Threshold, then Class B unitholders will be entitled to receive the same distribution as common unitholders. For each quarter (starting with the quarter ended September 30, 2021) that the Partnership pays distributions on the common units that are equal to or above the Distribution Threshold, one-eighth of the Class B Units will be converted to common units on a one-for-one basis until such time as no further Class B Units exist. The Class B Units will generally vote together with the common units as a single class.

After the payment of the Partnership's quarterly cash distributions on each of November 10, 2021 and February 10, 2022 with respect to the three months ended September 30, 2021 and December 31, 2021, respectively, 84,135 of the Class B Units converted to common units on a one-to-one basis. As of March 17, 2022, 504,810 Class B Units remain outstanding.

During the year ended December 31, 2021, the aggregate amounts of cash distributions paid to the holder of Class B Units was $0.4 million.

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, 2021, the aggregate amount of cash distributions paid to the holders of the Series A Preferred Units was $7.0 million.

B. Significant Changes

Please read Note 23—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) Exchange Agreement, dated September 7, 2021, among KNOT Offshore Partners LP, KNOT Offshore Partners GP LLC and Knutsen NYK Offshore Tankers AS. Please read “Item 5. Operating and Financial Review and Prospects—Significant Developments in 2021 and Early 2022—IDR Exchange.”

(3) 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.”

(4) 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.

(5) 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.”

(6) 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.”

(7) 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.”

(8) 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.”

(9) 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.”

(10) 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."

(11) 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."

(12) 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."

(13) 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."

(14) 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."

(15) 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."

(16) 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."

(17) 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."

(18) 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."

(19) 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."

(20) 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."

(21) 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."

(22) 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. Please read "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—Tove Loan Facility."

(23) 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."

(24) 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."

(25) Term Loan Facility Agreement, dated August 25, 2021, among KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS, KNOT Shuttle Tankers 30 AS and KNOT Shuttle Tankers 32 AS, as borrowers, KNOT Shuttle Tankers AS and KNOT Offshore Partners LP, as guarantors, and the other parties thereto. Please read "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Borrowing Activities—Long-Term Debt—$345 Million Term Loan Facility"

(26) 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."

(27) 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.

(28) Registration Rights Agreement, dated February 2, 2017, among KNOT Offshore Partners LP and the Purchasers party thereto.

(29) 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.

(30) 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."

(31) At-the-Market Issuance Sales Agreement, dated August 26, 2021, by and among KNOT Offshore Partners LP, KNOT Offshore Partners GP LLC, KNOT Offshore Partners UK LLC, KNOT Shuttle Tankers AS and B. Riley Securities, Inc. Please read "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources."

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

U.S. Federal Income Tax Considerations

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 in a corporation. 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 (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 (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 carry on business or conduct 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 carry on business or conduct 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.

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, 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, 2021, we were party to interest rate swap contracts with a combined notional amount of approximately $462.3 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 September 2023 and August 2027. The notional amount and fair value of our interest rate swap contracts recognized as net derivative liabilities as of December 31, 2021 are as follows:

	December 31, 2021	
(U.S. Dollars in thousands)	**Notional Amount**	**Fair Value (liability)**
Interest rate swap contracts	$ 462,312	$ 9,999

As of December 31, 2021 the Partnership's net exposure to floating interest rate fluctuations was approximately $360.8 million based on total interest-bearing contractual obligations of $974.6 million, less the *Raquel Knutsen* sale and leaseback facility of $89.2 million, less interest rate swaps of $462.3 million and less cash and cash equivalents of $62.3 million. A 1% change in short-term interest rates would result in an increase or decrease to our interest expense of approximately $3.6 million on an annual basis as of December 31, 2021. 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, 2021, we had not entered into any foreign exchange forward contracts.

Concentration of Credit Risk

The market for our services is the offshore oil transportation industry, and our customers consist primarily of major oil and gas companies, independent oil and gas producers and government-owned oil companies. As of December 31, 2021 and 2020, nine and seven 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, 2021, 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, 2021.

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.

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, 2021.

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, 2021.

Attestation Report of the Registered Public Accounting Firm

The effectiveness of the Partnership's internal control over financial reporting as of December 31, 2021 has been audited by Ernst & Young AS, an independent registered public accounting firm, as stated in its report which appears on page F-4 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

The KNOT Offshore Partners LP Code of Business Conduct and Ethics 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 2021 was Ernst & Young AS (PCAOB ID: 1572) Oslo, Norway.

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 2021 and 2020.

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

	2021	2020
Audit Fees	$ 687,309	$ 648,034
Audit-Related Fees	—	—
Tax Fees	3,476	3,585
	$ 690,786	$ 651,618

Audit Fees

Audit fees for 2021 and 2020 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 2021 and 2020 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 2021 and 2020 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-46, together with the related reports of Ernst & Young AS, Independent Registered Public Accounting Firm thereon, are filed as part of this Annual Report:

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required, are inapplicable or have been disclosed in the notes to the consolidated financial statements and therefore have been omitted.

Item 19. Exhibits

The following exhibits are filed as part of this Annual Report:

Exhibit Number	Description
1.1	Certificate of Limited Partnership of KNOT Offshore Partners LP (incorporated by reference to Exhibit 3.1 to the registrant's Form F-1 Registration Statement (333-186947), filed on February 28, 2013)
1.2	Fourth Amended and Restated Agreement of Limited Partnership of KNOT Offshore Partners LP, dated as of September 10, 2021 (incorporated by reference to Exhibit 3.2 of the registrant's Report on Form 8-A/A filed on September 10, 2021)
2.1*	Description of Securities Registered under Section 12 of the Exchange Act
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	Exchange Agreement, dated September 7, 2021, among KNOT Offshore Partners LP, KNOT Offshore Partners GP LLC and Knutsen NYK Offshore Tankers AS (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on September 7, 2021)
4.3	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)
4.4	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)
4.5	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)
4.6	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)
4.7	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)
4.8	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)
4.9	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)
4.10	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)
4.11	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)

Exhibit Number	Description
4.12	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)
4.13	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)
4.14	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)
4.15	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 (incorporated by reference to Exhibit 4.22 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2020 filed on March 18, 2021)
4.16	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. (incorporated by reference to Exhibit 4.23 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2020 filed on March 18, 2021)
4.17	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 (incorporated by reference to Exhibit 4.24 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2020 filed on March 18, 2021)
4.18†	Bareboat Charter, dated December 30, 2020, between Knutsen Shuttle Tankers 19 AS and MI-DAS Line S.A. (incorporated by reference to Exhibit 4.25 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2020 filed on March 18, 2021)
4.19	Term Loan Facility Agreement, dated August 25, 2021, among KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS, KNOT Shuttle Tankers 30 AS and KNOT Shuttle Tankers 32 AS, as borrowers, KNOT Shuttle Tankers AS and KNOT Offshore Partners LP, as guarantors, and the other parties thereto (incorporated by reference to Exhibit 4.1 to the registrant's report on Form 6-K filed on December 2, 2021)
4.20	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)
4.21	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)
4.22	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)
4.23	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)
4.24	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)
4.25	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)

Exhibit Number	Description
4.26	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)
4.27	Share Purchase Agreement, dated December 15, 2020, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS (incorporated by reference to Exhibit 4.33 of the registrant's Annual Report on Form 20-F for fiscal year ended December 31, 2020 filed on March 18, 2021)
4.28	At-the-Market Issuance Sales Agreement, dated August 26, 2021, by and among KNOT Offshore Partners LP, KNOT Offshore Partners GP LLC, KNOT Offshore Partners UK LLC, KNOT Shuttle Tankers AS and B. Riley Securities, Inc. (incorporated by reference to Exhibit 1.1 to the registrant's report on Form 6-K filed on August 26, 2021)
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 17, 2022

INDEX TO FINANCIAL STATEMENTS OF KNOT OFFSHORE PARTNERS LP

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, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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 17, 2022 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 Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter 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 matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

	Vessel impairment
Description of the Matter	The carrying value of the Partnership's vessels was $1,598 million as of December 31, 2021. As explained in Notes 2(n) and 21 to the consolidated financial statements, the Partnership assesses vessels for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If impairment indicators are identified, the Partnership compares the undiscounted cash flows expected to be generated by that vessel to the carrying value (recoverability test). 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. During the year ended December 31, 2021, the Partnership recognized an impairment loss of $29.4 million to write down one vessel's carrying value to its estimated fair value. Auditing the Partnership's measurement of the impairment loss was complex due to the significant estimation uncertainty and judgement in forecasting the future cash flows of the vessels. Specifically, these cash flow estimates are sensitive to significant assumptions including the discount rate, 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, evaluated the design and tested the operating effectiveness of the controls over the Partnership's impairment assessment process, including controls over management's identification of impairment indicators and management's review of the significant assumptions described above. To audit the recoverability test, we performed procedures that included, among others, comparing the model and methodology used in the recoverability test against accounting guidance under ASC 360 and practices common in the industry. We tested the reasonableness of estimated daily charter rates by comparing them to recent tender activity and historical rate information. We tested the source information underlying the calculation as well as the mathematical accuracy of the model. We involved our valuation specialists to assist in developing a range of independent discount rate estimates and compared those to the discount rate selected by management. 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 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.

/s/ Ernst & Young AS

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

Oslo, Norway

March 17, 2022

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, 2021, 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, 2021, 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 2021 consolidated financial statements of the Partnership and our report dated March 17, 2022 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 17, 2022

KNOT OFFSHORE PARTNERS LP

Consolidated Statements of Operations

For the Years Ended December 31, 2021, 2020 and 2019

(U.S. Dollars in thousands, except per unit amounts)

	Year Ended December 31,		
	2021	2020	2019
Operating revenues: (Notes 2(e), 5 and 17)			
Time charter and bareboat revenues	$ 269,306	$ 278,581	$ 282,502
Loss of hire insurance recoveries (Notes 2(t) and 8)	11,450	—	—
Other income	373	641	59
Total revenues and other income (Notes 2(e), 5, 6, 7 and 17)	281,129	279,222	282,561
Operating expenses:			
Vessel operating expenses (Notes 2(e) and 17)	72,114	61,005	60,129
Depreciation (Note 13)	99,559	89,743	89,844
Impairment (Note 21)	29,421	—	—
General and administrative expenses	6,461	5,392	4,858
Total operating expenses	207,555	156,140	154,831
Operating income	73,574	123,082	127,730
Finance income (expense): (Notes 2(f) and 17)			
Interest income	2	125	865
Interest expense (Note 9(a))	(28,065)	(31,645)	(50,735)
Other finance expense (Note 9(b))	(1,011)	(705)	(845)
Realized and unrealized gain (loss) on derivative instruments (Note 10)	9,960	(25,679)	(17,797)
Net gain (loss) on foreign currency transactions	(96)	57	(252)
Total finance expense	(19,210)	(57,847)	(68,764)
Income before income taxes	54,364	65,235	58,966
Income tax benefit (expense) (Notes 2(r) and 16)	(488)	(10)	(9)
Net income	$ 53,876	$ 65,225	$ 58,957
Series A Preferred unitholders' interest in net income	$ 6,900	$ 7,200	$ 7,200
General Partner's interest in net income	862	1,072	956
Limited Partners' interest in net income	46,114	56,953	50,801
Earnings per unit (Basic): (Note 19)			
Common unit (basic)	$ 1.38	$ 1.74	$ 1.55
Class B units (basic)	$ 2.62	$ —	$ —
General Partner unit (basic)	$ 1.38	$ 1.74	$ 1.55
Earnings per unit (Diluted): (Note 19)			
Common unit (diluted)	$ 1.38	$ 1.74	$ 1.55
Class B units (diluted)	$ 2.62	$ —	$ —
General Partner unit (diluted)	$ 1.38	$ 1.74	$ 1.55

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, 2021, 2020 and 2019

(U.S. Dollars in thousands)

	Year Ended December 31,		
	2021	2020	2019
Net income	$ 53,876	$ 65,225	$ 58,957
Other comprehensive income, net of tax	—	—	—
Comprehensive income	$ 53,876	$ 65,225	$ 58,957

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

KNOT OFFSHORE PARTNERS LP

Consolidated Balance Sheets

As of December 31, 2021 and 2020

(U.S. Dollars in thousands)

	At December 31, 2021	At December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2(g) and 11)	$ 62,293	$ 52,583
Trade accounts receivable, less expected credit loss of $0 in 2021 and $0 in 2020 (Notes 2(h) and 12(a))	—	—
Amounts due from related parties (Note 17(c))	2,668	5,726
Inventories (Note 2(i))	3,306	2,652
Other current assets (Notes 2(j) and 12(b))	5,626	5,511
Total current assets	***73,893***	***66,472***
Long-term assets:		
Vessels, net of accumulated depreciation (Notes 2(k), 2(l), 2(m), 2(n), 13 and 17(e))	1,598,106	1,708,786
Right-of-use assets (Note 6)	2,742	1,490
Intangible assets, net (Notes 2(o) and 14(a))	75	681
Derivative assets (Notes 2(q), 10 and 11)	1,015	—
Accrued income	1,450	2,867
Total long term assets	***1,603,388***	***1,713,824***
Total assets	***$ 1,677,281***	***$ 1,780,296***
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable (Note 17(d))	$ 3,872	$ 3,848
Accrued expenses	6,429	5,380
Current portion of long-term debt (Notes 11 and 15)	88,578	184,188
Current lease liabilities (Note 6)	648	652
Current portion of derivative liabilities (Notes 2(q), 10 and 11)	6,754	10,695
Income taxes payable (Notes 2(r) and 16)	548	86
Current portion of contract liabilities (Notes 2(o) and 14(b))	1,518	1,518
Prepaid charter (Note 2(s))	6,186	5,424
Amount due to related parties (Note 17(c))	1,424	2,140
Total current liabilities	***115,957***	***213,931***
Long-term liabilities:		
Long-term debt (Notes 2(p), 11 and 15)	878,548	846,157
Lease liabilities (Note 6)	2,093	838
Derivative liabilities (Notes 2(q), 10 and 11)	4,260	19,358
Contract liabilities (Notes 2(o) and 14(b))	651	2,168
Deferred tax liabilities (Notes 2(r) and 16)	228	295
Deferred revenues	2,529	—
Total long-term liabilities	***888,309***	***868,816***
Total liabilities	***1,004,266***	***1,082,747***
Commitments and contingencies (Notes 2(t) and 18)		
Series A Convertible Preferred Units (Notes 19 and 20)	84,308	89,264
Equity:		
Partners' capital:		
Common unitholders: 33,708,541 and 32,694,094 units issued and outstanding at December 31, 2021 and 2020, respectively.	568,762	597,390
Class B unitholder: 588,945 and 0 units issued and outstanding at December 31, 2021 and 2020, respectively.	9,453	—
General partner interest: 640,278 and 615,117 units issued and outstanding at December 31, 2021 and 2020, respectively.	10,492	10,895
Total partners' capital	***588,707***	***608,285***
Total liabilities and equity	***$ 1,677,281***	$ ***1,780,296***

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, 2021, 2020 and 2019

(U.S. Dollars in thousands)

	Partners' Capital					
(U.S. Dollars in thousands)	Common Units	Class B Units	General Partner Units	Accumulated Other Comprehensive Income (Loss)	Total Partners' Capital	Series A Convertible Preferred Units
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**
Net income	45,466	648	862	—	46,976	6,900
Conversion of preferred units to common units	4,856	—	—	—	4,856	(4,856)
Net proceeds from issuance of General Partner units	—	—	451	—	451	—
IDR Exchange (1)	(10,079)	10,463	(384)	—	—	—
Net proceeds from ATM program	525	—	—	—	525	—
Conversion of Class B (one-eight) to common units (1)	1,308	(1,308)	—	—	—	—
Other comprehensive income	—	—	—	—	—	—
Cash distributions	(70,704)	(350)	(1,332)	—	(72,386)	(7,000)
Consolidated balance at December 31, 2021	**$ 568,762**	**$ 9,453**	**$ 10,492**	**$ —**	**$ 588,707**	**$ 84,308**

(1) On September 7, 2021, the Partnership entered into an exchange agreement with Knutsen NYK and the Partnership's general partner whereby Knutsen NYK contributed to the Partnership all of Knutsen NYK's IDRs, in exchange for the issuance by the Partnership to Knutsen NYK of 673,080 common units and 673,080 Class B Units, whereupon the IDRs were cancelled. As of December 31, 2021, 84,135 of the Class B Units had been converted to common units.

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

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KNOT OFFSHORE PARTNERS LP

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2021, 2020 and 2019

(U.S. Dollars in thousands)

(U.S. Dollars in thousands)	Year Ended December 31, 2021	2020	2019
OPERATING ACTIVITIES			
Net income	$ 53,876	$ 65,225	$ 58,957
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	99,559	89,743	89,844
Impairment	29,421	—	—
Amortization of contract intangibles / liabilities	(912)	(912)	(912)
Amortization of deferred debt issuance cost	3,519	2,503	2,617
Drydocking expenditure	(4,235)	(2,724)	(252)
Income tax expense	488	10	9
Income taxes paid	(83)	(87)	(132)
Interest expense	24,546	29,141	48,117
Interest paid	(25,103)	(30,985)	(49,037)
Unrealized (gain) loss on derivative instruments	(20,054)	22,042	18,676
Unrealized (gain) loss on foreign currency transactions	13	(507)	44
Changes in operating assets and liabilities			
Decrease (increase) in amounts due from related parties	3,058	(3,039)	(1,547)
Decrease (increase) in inventories	(653)	(225)	152
Decrease (increase) in other current assets	(117)	(1,865)	(912)
Decrease (increase) in accrued revenue	1,418	1,108	(168)
Increase (decrease) in trade accounts payable	18	700	(2,100)
Increase (decrease) in accrued expenses	1,605	(15)	1,073
Increase (decrease) prepaid revenue	763	(1,469)	1,121
Increase (decrease) in amounts due to related parties	(716)	597	142
Net cash provided by operating activities	**166,411**	**169,241**	**165,692**
INVESTING ACTIVITIES			
Additions to vessel and equipment	(11,536)	(339)	—
Acquisition of *Tove Knutsen* (net of cash acquired)	—	(21,094)	—
Net cash provided by (used in) investing activities	**(11,536)**	**(21,433)**	**—**
FINANCING ACTIVITIES			
Proceeds from long-term debt (Note 15)	444,300	33,000	—
Repayment of long-term debt (Note 15)	(505,822)	(92,834)	(84,534)
Payment of debt issuance cost	(5,215)	(90)	21
Cash distribution	(79,386)	(79,336)	(79,336)
Net proceeds from issuance of General Partner units	451	—	—
Net proceeds from public offering	525	—	—
Net cash used in financing activities	**(145,147)**	**(139,260)**	**(163,848)**
Effect of exchange rate changes on cash	(18)	510	(30)
Net increase (decrease) in cash and cash equivalents	9,710	9,058	1,813
Cash and cash equivalents at the beginning of the period	52,583	43,525	41,712
Cash and cash equivalents at the end of the period	**$ 62,293**	**$ 52,583**	**$ 43,525**

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, 2021, 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 charter contracts to charterers, with expiration dates between 2022 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.

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 17, 2022, 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.

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 22- 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 17—Related Party Transactions.

(f) Financial Income (Expense)

Other finance expense includes external bank fees and commitment fees paid on undrawn revolving credit facility.

(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, 2021 and 2020.

The Partnership does not have any off-balance-sheet credit exposure related to its customers.

(i) Inventories

Inventories, which are comprised of lubricating oils and, for vessels not operating on time charter or bareboat charter, also bunkers, 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.

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:

	Useful Life
Hull	23 years
Anchor-handling, loading and unloading equipment	23 years
Main/auxiliary engine	23 years
Thruster, dynamic positioning systems, cranes and other equipment	23 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.

Historically, the useful life of the Partnership's vessels and equipment was assessed as 25 years commencing from the date the vessel and equipment were delivered from the shipyard. As of June 30, 2021, the Partnership considered factors related to the ongoing use of the vessels and equipment, gradual shifts in market conditions and other long-term factors associated with the global oil and maritime transportation industries and based on this has reassessed the useful life as being 23 years.

This change in estimate was applied prospectively from July 1, 2021 and impacted the entire fleet of shuttle tanker vessels. The change in estimate resulted in an increase in depreciation and amortization expense and a net loss of $5.67 million, or $0.17 per basic and diluted common unit, for the year ended December 31, 2021.

(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. See Note 21—Impairment of Long-Lived Assets

(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.

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— *Tordis Knutsen*	4.8 years
Above market time charter— *Vigdis Knutsen*	4.9 years
Unfavorable contractual rights— *Fortaleza Knutsen*	12 years
Unfavorable contractual rights— *Recife Knutsen*	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 and expired in December 2021. 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 and expires in March 2022.

The unfavorable contractual rights for charters associated with *Foraleza 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.

(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, tax is based on the tonnage of the vessel, and not operating income. Net financial income and expense remain taxable as ordinary income at the regular corporate income tax rate. 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 16—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 18—Commitments and Contingencies.

Insurance claims for property damage for recoveries up to the amount of loss recognized are recorded when the claims submitted to insurance carriers are probable of recovery. Claims for property damage in excess of the loss recognized and for loss of hire are considered gain contingencies, which are generally recognized when the proceeds are received.

(u) Fair Value Measurements

The Partnership utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Partnership determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- *Level 1 Inputs:* Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

- *Level 2 Inputs:* Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- *Level 3 Inputs:* Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(v) Recently Adopted Accounting Standards

There are no recent accounting standards 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 Financial Accounting Standards Board ("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 continues to evaluate the impact of the guidance on the consolidated financial statements as well as the commercial implications for the transition away from LIBOR, in particular through discussions with lenders and other market participants.

In August 2020, the FASB issued ASU 2020-06 *Debt—Debt with conversion and other options (subtopic 470-20) and Derivatives and Hedging—contracts in entity's own equity (subtopic 815-40): Accounting for convertible instruments and contracts in an entity's own equity* simplifies an issuer's accounting for convertible instruments and its application of the derivatives scope exception for contracts in its own equity. The new guidance eliminates two of the three models in ASC 470-20 that require separate accounting for embedded conversion features with respect to accounting for convertible instruments. Further the ASU simplifies the settlement assessment that entities are required to perform to determine whether a contract qualifies for equity classification. Entities are required to use the if-converted method for all convertible instruments in the diluted earnings per unit calculation and include the effect of potential share settlement for instruments that may be settled in cash or shares, except for certain liability-classified share-based payment awards. The new guidance does not materially impact the Partnership as the if-converted method is already being used in computing diluted earnings per unit.

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

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 entitled KNOT to increasing percentages of the cash the Partnership distributed in excess of $0.43125 per unit per quarter.

(iii) The Partnership issued 349,694 general partner units to the General Partner representing a 2.0% general partner interest in the Partnership.

Initial Public Offering

(iv) In connection with the IPO, the Partnership issued and sold to the public, through the underwriters, 8,567,500 common units (including 1,117,500 common units sold pursuant to the full exercise of the underwriters' option to purchase additional units), representing a 49.0% limited partner interest in the Partnership. The price per common unit in the IPO was $21.00. The Partnership received gross proceeds of approximately $179.9 million in connection with the IPO. Expenses relating to the IPO, including, among other things, incremental costs directly attributable to the IPO, were deferred and charged against the gross proceeds of the IPO, whereas other costs were expensed as incurred. The net proceeds of the IPO (approximately $160.7 million, after deducting underwriting discounts, commissions and structuring fees and offering expenses payable by the Partnership) were used by the Partnership to make a cash distribution to KNOT of approximately $21.95 million (which equals net proceeds from the underwriters' option exercised in full after deducting the underwriting discounts and commissions), to repay approximately $118.9 million of outstanding debt and pre-fund approximately $3.0 million of the Partnership's one-time entrance tax into the Norwegian tonnage tax regime. The remainder of the net proceeds was made available for general partnership purposes.

Agreements

In connection with the IPO, at or prior to the closing of the IPO, the Partnership entered into several agreements, including:

- An Administrative Services Agreement with KNOT UK, pursuant to which:
  - KNOT UK agreed to provide to the Partnership administrative services; and
  - KNOT UK is permitted to subcontract certain of the administrative services provided under the administrative services agreement to Knutsen OAS (UK) Ltd. ("KOAS UK") and Knutsen OAS Shipping AS ("KOAS"), both wholly owned subsidiaries of TS Shipping Invest AS ("TSSI");
- Amended Technical Management Agreements with KNOT Management AS ("KNOT Management"), a wholly owned subsidiary of KNOT, that govern the crew, technical and commercial management of the vessels in the fleet;
- 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 original *Bodil Knutsen* and *Windsor Knutsen* charters for a period of five years following the closing date of the IPO.

4) Subsidiaries

The following table lists the Partnership's subsidiaries and their purpose as of December 31, 2021.

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 *Bodil Knutsen*
KNOT Shuttle Tankers 18 AS	Norway	Owner of the *Windsor Knutsen*
Knutsen Shuttle Tankers XII KS	Norway	Owner of the *Fortaleza Knutsen* and the *Recife Knutsen*
Knutsen Shuttle Tankers XII AS	Norway	General partner of Knutsen Shuttle Tankers XII KS
Knutsen Shuttle Tankers 13 AS	Norway	Owner of the *Carmen Knutsen*
Knutsen Shuttle Tankers 14 AS	Norway	Owner of the *Hilda Knutsen*
Knutsen Shuttle Tankers 15 AS	Norway	Owner of the *Torill Knutsen*
KNOT Shuttle Tankers 20 AS	Norway	Owner of the *Dan Cisne*
KNOT Shuttle Tankers 21 AS	Norway	Owner of the *Dan Sabia*
Knutsen NYK Shuttle Tankers 16 AS	Norway	Owner of the *Ingrid Knutsen*
Knutsen Shuttle Tankers 19 AS	Norway	Owner of the *Raquel Knutsen*
KNOT Shuttle Tankers 24 AS	Norway	Owner of the *Tordis Knutsen*
KNOT Shuttle Tankers 25 AS	Norway	Owner of the *Vigdis Knutsen*
KNOT Shuttle Tankers 26 AS	Norway	Owner of the *Lena Knutsen*
KNOT Shuttle Tankers 32 AS	Norway	Owner of the *Brasil Knutsen*
KNOT Shuttle Tankers 30 AS	Norway	Owner of the *Anna Knutsen*
KNOT Shuttle Tankers 34 AS	Norway	Owner of the *Tove Knutsen*

5) Significant Risks and Uncertainties Including Business and Credit Concentrations

Each of the Vessels is currently employed under fixed rate charters, except for *Anna Knutsen* and *Vigdis Knutsen*. The Partnership's operational results are dependent on the worldwide market for shuttle tankers and the ability of the Partnership to timely enter into customer 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, 2021, 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 trade receivables during the years ended December 31, 2021, 2020 and 2019.

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, 2021, 2020 and 2019. All of these customers are subsidiaries of major international oil companies.

	Year Ended December 31,					
(U.S. Dollars in thousands)	**2021**		**2020**		**2019**	
Eni Trading and Shipping S.p.A.	$ 43,823	16 %	$ 44,175	16 %	$ 44,610	16 %
Fronape International Company, a subsidiary of Petrobras Transporte S.A.	45,115	17 %	45,235	16 %	45,116	16 %
Repsol Sinopec Brasil, B.V., a subsidiary of Repsol Sinopec Brasil, S.A.	37,030	14 %	33,947	12 %	36,346	13 %
Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell	59,825	22 %	76,959	28 %	66,199	23 %
Galp Sinopec Brasil Services BV	35,622	13 %	35,684	13 %	35,541	13 %

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, 2021, 2020 and 2019:

	Year Ended December 31,		
(U.S. Dollars in thousands)	2021	2020	2019
Time charter revenues (service element included)	$ 224,191	$ 233,346	$ 237,387
Bareboat revenues	45,115	45,235	45,115
Other revenues (loss of hire insurance recoveries and other income)	11,823	641	59
Total revenues	$ 281,129	$ 279,222	$ 282,561

See Note 2(l)—Right-of-use assets and lease liabilities.

As of December 31, 2021, 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):

(U.S. Dollars in thousands)	
2022	$ 198,385
2023	99,805
2024	102,560
2025	94,803
2026	51,088
2027 and thereafter	13,672
Total	$ 560,313

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, 2021 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 rolling charter contract with Knutsen Shuttle Tankers Pool AS, a subsidiary of KNOT, which currently expires in April 2022, with options of the charterer to extend until June 2022. The vessel will commence on a new time charter contract with Equinor in the fourth quarter of 2023 or the first quarter of 2024. The new charter is for a fixed period, at the charterer's option, of either one year or two years with options for the charterer to extend the charter, in either case, by two further one-year periods;

- the *Windsor Knutsen*, a conventional oil tanker built in 2007 and retrofitted to a shuttle tanker in 2011 that is currently operating under a time charter that expires in September 2022 with PetroChina, with options to extend until March 2024. The vessel will commence on a new time charter contract with Equinor in the fourth quarter of 2024 or the first quarter of 2025. The new charter is for a fixed period, at the charterer's option, of either one year or two years, with options for the charterer to extend the charter, in either case, by two further one-year periods;

- 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 July 2022, with Petrobras with an option for charterer to extend the charter by one month. 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 and was operating under a time charter that expired in March 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 September 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 September 2022 with Galp Sinopec Brazil Services B.V. ("Galp"), with options to extend until September 2028;

- The *Anna Knutsen*, a shuttle tanker built in 2017. On February 11, 2022 the Partnership agreed on the commercial terms for a new time charter contract for the *Anna Knutsen* with a major oil company to commence in the second quarter of 2022 for a fixed period, at the charterer's option, of either (a) one year, with options for the charterer to extend the time charter by up to four further one-year periods, or (b) two years, with options for the charterer to extend the time charter by up to three further one-year periods; and

- The *Tove Knutsen*, a shuttle tanker built in 2020 that is currently operating under a time charter that expires in October 2027 with Equinor, with options to extend until October 2040.

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. As of December 31, 2021, the right-of-use asset and lease liability for operating leases was $2.7 million and are presented as separate line items on the balance sheets. The operating lease cost and corresponding cash flow effect for 2021 was $0.7 million. As of December 31, 2021, the weighted average discount rate for the operating leases for the portfolio was 2.3% and was determined using the expected incremental borrowing rate for a loan facility of similar term. As of December 31, 2021, the weighted average remaining lease terms are 4.1 years.

A maturity analysis of the Partnership's lease liabilities from leased-in equipment as of December 31, 2021 is as follows:

(U.S. Dollars in thousands)	
2022	$ 703
2023	703
2024	703
2025	703
2026	59
2027 and thereafter	—
Total	$ 2,871
Less imputed interest	130
Carrying value of operating lease liabilities	$ 2,741

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, 2021, 2020 and 2019, 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

Windsor Knutsen

In December 2020, the *Windsor Knutsen* reported a crack in its main engine block.As a result, the Vessel was off-hire from December 12, 2020 to June 10, 2021 for repairs. Under the Partnership's loss of hire policies, its insurer will pay the Partnership the hire rate agreed in respect of each vessel for each day, in excess of 14 deductible days, for the time that a vessel is out of service as a result of damage, for a maximum of 180 days. For the year ended December 31, 2021, the Partnership received $8.7 million for loss of hire proceeds which were recorded as a component of total revenues since day rates are recovered under the terms of the policy.

In addition, as of December 31, 2021, the Partnership had claimed and received payments of $4.1 million (net of deductible amounts) for hull and machinery recoveries.

Tove Knutsen

In March 2021, the *Tove Knutsen* reported a leakage from its controllable pitch propeller. As a result, the Vessel was off-hire from March 1, 2021 to April 15, 2021 for repairs. For the year ended December 31, 2021, the Partnership received $1.5 million for loss of hire proceeds which were recorded as a component of total revenues since day rates are recovered under the terms of the policy.

In addition, as of December 31, 2021, the Partnership had claimed $0.1 million (net of deductible amounts) for hull and machinery recoveries. As of December 31, 2021, the Partnership had not received payment for this claim, resulting in an open insurance claim of $0.1 million.

Bodil Knutsen

In April 2021, the *Bodil Knutsen* reported damage on the azimuth thruster. As a result, the Vessel was off-hire from April 17, 2021 to April 29, 2021 for repairs. As of December 31, 2021, the Partnership had claimed and received payments of $0.1 million (net of deductible amounts) for hull and machinery recoveries.

Tordis Knutsen

In July 2021, the *Tordis Knutsen* reported a damage on the Automatic Voltage Regulator (AVR) for one azimuth thruster. As a result, the Vessel was off-hire from July 19, 2021 to August 25, 2021 for repairs. As of December 31, 2021, the Partnership had claimed and received payments of $1.2 million (net of deductible amounts) for hull and machinery recoveries.

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, 2021, 2020 and 2019:

	Year Ended December 31,		
(U.S. Dollars in thousands)	2021	2020	2019
Interest expense	$ 24,546	$ 29,142	$ 48,118
Amortization of debt issuance cost and fair value of debt assumed	3,519	2,503	2,617
Total interest cost	$ 28,065	$ 31,645	$ 50,735

(b) Other Finance Expense

The following table presents the components of other finance expense for the years ended December 31, 2021, 2020 and 2019:

	Year Ended December 31,		
(U.S. Dollars in thousands)	2021	2020	2019
Bank fees, charges	$ 463	$ 441	$ 597
Commitment fees	548	264	248
Total other finance expense	$ 1,011	$ 705	$ 845

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.

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 has 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, 2021 and 2020, 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 $462.3 million and $516.2 million, respectively. As of December 31, 2021 and 2020 the carrying amount of the interest rate swaps contracts was a net liability of $10.0 million and a net liability of $30.1 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.

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, 2021, 2020 and 2019:

(U.S. Dollars in thousands)	Year Ended December 31, 2021	2020	2019
Realized gain (loss):			
Interest rate swap contracts	$ (10,094)	$ (3,528)	$ 3,812
Foreign exchange forward contracts	—	(109)	(2,933)
Total realized gain (loss):	(10,094)	(3,637)	879
Unrealized gain (loss):			
Interest rate swap contracts	20,054	(21,795)	(20,663)
Foreign exchange forward contracts	—	(247)	1,987
Total unrealized gain (loss):	20,054	(22,042)	(18,676)
Total realized and unrealized gain (loss) on derivative instruments:	$ 9,960	$ (25,679)	$ (17,797)

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 assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2021 and December 31, 2020. 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.

	December 31, 2021		December 31, 2020	
(U.S. Dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 62,293	$ 62,293	$ 52,583	$ 52,583
Non-current derivative assets:				
Interest rate swap contracts	1,015	1,015	—	—
Financial liabilities:				
Current derivative liabilities:				
Interest rate swap contracts	6,754	6,754	10,695	10,695
Non-current derivative liabilities:				
Interest rate swap contracts	4,260	4,260	19,358	19,358
Long-term debt, current and non-current	974,596	974,596	1,036,118	1,036,118

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 $7.5 million and $5.8 million as of December 31, 2021 and 2020, respectively. The carrying value of trade accounts receivable, trade accounts payable and receivables/payables to owners and affiliates approximate their fair value.

The fair values of the financial instruments shown in the above table as of December 31, 2021 and 2020 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, 2021 and 2020 there is no restricted cash.

- *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 3.4 years and 4.3 years, as of December 31, 2021 and 2020, respectively), (2) the notional amount of the swap contract (ranging from $5.2 million to $37.5 million as of December 31, 2021 and ranging from $7.0 million to $40.1 million as of December 31, 2020), 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, 2021 and rates ranging from 0.71% to 2.90% for the contracts as of December 31, 2020).

- *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.

(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, 2021 and December 31, 2020:

		Fair Value Measurements at Reporting Date Using		
(U.S. Dollars in thousands)	**Carrying Value December 31, 2021**	**Quoted Price in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets:				
Cash and cash equivalents	$ 62,293	$ 62,293	$ —	$ —
Non-current derivative assets:				
Interest rate swap contracts	1,015	—	1,015	—
Financial liabilities:				
Current derivative liabilities:				
Interest rate swap contracts	6,754	—	6,754	—
Non-current derivative liabilities:				
Interest rate swap contracts	4,260	—	4,260	—
Long-term debt, current and non-current	974,596	—	974,596	—

		Fair Value Measurements at Reporting Date Using		
(U.S. Dollars in thousands)	**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)**
Financial assets:				
Cash and cash equivalents	$ 52,583	$ 52,583	$ —	$ —
Financial liabilities:				
Current derivative liabilities:				
Interest rate swap contracts	10,695	—	10,695	—
Non-current derivative liabilities:				
Interest rate swap contracts	19,358	—	19,358	—
Long-term debt, current and non-current	1,036,118	—	1,036,118	—

The Partnership's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1 and Level 2 as of December 31, 2021 and December 31, 2020.

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, 2021 and 2020, there were no trade receivables and no provision for expected credit loss.

(b) Other Current Assets

Other current assets consist of the following:

(U.S. Dollars in thousands)	At December 31, 2021	At December 31, 2020
Insurance claims for recoveries	$ 124	$ —
Refund of value added tax	1,805	1,429
Prepaid expenses	1,158	1,050
Other receivables	2,540	3,032
Total other current assets	$ 5,627	$ 5,511

13) Vessels and Equipment

As of December 31, 2021 and 2020, Vessels with a book value of $1,598 million and $1,709 million, respectively, are pledged as security for the Partnership's long-term debt. See Note 15—Long-Term Debt.

(U.S. Dollars in thousands)	Vessels & equipment	Accumulated depreciation	Accumulated impairment	Net Vessels
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 year	—	(89,743)	—	(89,743)
Vessels, December 31, 2020	**$ 2,250,053**	**$ (541,267)**	**$ —**	**$ 1,708,786**
Additions (1)	14,065	—	—	14,065
Drydock costs	4,235	—	—	4,235
Disposals	(2,641)	2,641	—	—
Depreciation and impairment for the period (2)	—	(99,559)	(29,421)	(128,980)
Vessels, December 31, 2021	**$ 2,265,712**	**$ (638,185)**	**$ (29,421)**	**$ 1,598,106**

(1) During the scheduled second renewal survey drydocking of the *Bodil Knutsen* a ballast water treatment system was installed on the vessel. A Volatile Organic Compounds (VOC) recovery system was installed on the *Bodil Knutsen* during the fourth quarter of 2021.

(2) The carrying value of the *Windsor Knutsen* was written down to its estimated fair value as of June 30, 2021. See Note 21—Impairment of Long-Lived Assets.

Drydocking activity for the years ended December 31, 2021 and 2020 is summarized as follows:

(U.S. Dollars in thousands)	At December 31, 2021	At December 31, 2020
Balance at the beginning of the year	$ 17,106	$ 18,523
Costs incurred for dry docking	4,235	2,724
Costs allocated to drydocking as part of acquistion of asset	—	3,040
Drydock amortization	(7,883)	(7,181)
Balance at the end of the year	**$ 13,458**	**$ 17,106**

14) Intangible Assets and Contract Liabilities

(a) Intangible Assets

(U.S. Dollars in thousands)	Above market time charter *Tordis Knutsen*	Above market time charter *Vigdis Knutsen*	Total intangibles
Intangibles, December 31, 2019	**$ 608**	**$ 678**	$ **1,286**
Additions	—	—	—
Amortization for the year	(303)	(302)	(605)
Intangibles, December 31, 2020	**$ 305**	**$ 376**	**$ 681**
Additions	—	—	—
Amortization for the period	(305)	(301)	(606)
Intangibles, December 31, 2021	**$ —**	**$ 75**	**$ 75**

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, 2021 is as follows:

(U.S. Dollars in thousands)	
2022	75
Total	$ 75

(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.

(U.S. Dollars in thousands)	Balance of December 31, 2021	Amortization for the year ended December 31, 2021	Balance of December 31, 2020	Amortization for the year ended December 31, 2020	Balance of December 31, 2019
Contract liabilities:					
Unfavourable contract rights	$ (2,169)	$ 1,517	$ (3,686)	$ 1,517	$ (5,203)
Total amortization income		$ 1,517		$ 1,517	

Accumulated amortization for contract liabilities was $16.0 million and $14.5 million as of December 31, 2021 and 2020, respectively.

The amortization of contract liabilities that is classified under time charter and bareboat revenues for the next five years is expected to be as follows:

(U.S. Dollars in thousands)	
2022	$ 1,517
2023	652
2024	—
2025	—
2026	—
2027	—
Total	$ 2,169

15) Long-Term Debt

Long-term debt as of December 31, 2021 and 2020, consisted of the following:

(U.S. Dollars in thousands)	Vessel	December 31, 2021	December 31, 2020
$345 million loan facility	*Anna Knutsen, Tordis Knutsen, Vigdis Knutsen, Brasil Knutsen, Lena Knutsen*	$ 338,726	$ —
$320 million loan facility	*Windsor Knutsen, Bodil Knutsen, Carmen Knutsen, Fortaleza Knutsen, Recife Knutsen, Ingrid Knutsen*	222,133	252,245
$55 million revolving credit facility		—	34,279
Hilda loan facility	*Hilda Knutsen*	72,308	78,462
Torill loan facility	*Torill Knutsen*	75,000	81,667
$172.5 million loan facility	*Dan Cisne, Dan Sabia*	45,340	58,340
Raquel loan facility	*Raquel Knutsen*	—	52,725
Tordis loan facility	*Tordis Knutsen*	—	75,871
Vigdis loan facility	*Vigdis Knutsen*	—	77,136
Lena loan facility	*Lena Knutsen*	—	75,950
Brasil loan facility	*Brasil Knutsen*	—	50,997
Anna loan facility	*Anna Knutsen*	—	62,196
Tove loan facility	*Tove Knutsen*	81,883	86,250
$25 million revolving credit facility with NTT		25,000	25,000
$25 million revolving credit facility with Shinsei		25,000	25,000
Raquel Sale & Leaseback	*Raquel Knutsen*	89,206	—
Total long-term debt		**$ 974,596**	**$ 1,036,118**
Less: current installments		90,956	186,723
Less: unamortized deferred loan issuance costs		2,378	2,535
Current portion of long-term debt		**88,578**	**184,188**
Amounts due after one year		883,640	849,395
Less: unamortized deferred loan issuance costs		5,092	3,238
Long-term debt, less current installments, and unamortized deferred loan issuance costs		**$ 878,548**	**$ 846,157**

The Partnership's outstanding debt of $974.6 million as of December 31, 2021 is repayable as follows :

(U.S. Dollars in thousands)	Sale & Leaseback	Period repayment	Balloon repayment	Total
2022	$ 4,960	$ 85,996	$ —	$ 90,956
2023	5,177	79,768	225,906	310,851
2024	5,418	38,107	123,393	166,918
2025	5,640	28,372	65,506	99,518
2026 and thereafter	68,010	18,822	219,521	306,353
Total	$ 89,205	$ 251,065	$ 634,326	$ 974,596

As of December 31, 2021, the interest rates on the Partnership's loan agreements were LIBOR plus a fixed margin ranging from 1.75% to 2.4%.

$345 Million Term Loan Facility

In September 2021, the Partnership's subsidiaries which own the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Anna Knutsen* and the *Brasil Knutsen*, entered into a new $345 million senior secured credit facility in order to refinance their existing term loans (the "$345 Million Loan Facility"). The $345 Million Loan Facility consists of a term loan repayable in 20 consecutive quarterly installments, with a balloon payment of $220 million due at maturity in September 2026. The facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.05%. The facility is guaranteed by the Partnership and secured by mortgages on the five vessels.

The $345 Million Loan 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 $345 Million Loan 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 facility, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2021, the borrowers and the guarantors were in compliance with all covenants under this facility.

$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, 2021, 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 "Hilda Facility"). The Hilda Facility replaced the $117 million loan facility, which was due to be paid in full in August 2018. The 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 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, 2021, 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, 2021, 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, 2021, the borrowers and the guarantor 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, 2021, the borrower and the guarantors were in compliance with all covenants under this facility.

$25 Million Revolving Credit Facility with NTT

In June 2021, KNOT Shuttle Tankers AS extended the maturity of its $25 million unsecured revolving credit facility with NTT Finance Corporation. The extended facility will mature in August 2023, 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. The commercial terms of the facility are unchanged from the facility entered into in June 2017 with NTT Finance Corporation.

$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.

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 cancelation 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.

16) Income Taxes

(a) Components of Current and Deferred Tax Expense

All of the income from continuing operations before income taxes was taxable in Norway for the years ended December 31, 2021, 2020 and 2019. Our Norwegian subsidiaries are subject to Norwegian tonnage tax rather than ordinary corporate taxation. Under the tonnage tax regime, tax is payable based on the tonnage of the vessel, not on operating income, and is included within operating expenses. Net financial income and expense remain taxable as ordinary income at the regular corporate income tax rate of 22% and is recorded as an income tax expense. The amount of tonnage tax included in operating expenses for each of the years ended December 31, 2021, 2020 and 2019 was $0.3 million, $0.2 million and $0.2 million respectively. See Note 2(r)—Income Taxes. The activities taxable in the UK relate 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, 2021, 2020 and 2019 are as follows:

	Year Ended December 31,		
(U.S. Dollars in thousands)	2021	2020	2019
Current tax benefit (expense)	$ (488)	$ (10)	$ (9)
Deferred tax benefit (expense)	—	—	—
Income tax benefit (expense)	$ (488)	$ (10)	$ (9)

(b) Taxation

Income taxes attributable to income from continuing operations was an income tax expense of $488,000 for the year ended December 31, 2021, 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 differed from the amounts computed by applying the Norwegian and the UK ordinary income tax rate of 22% and 19% in 2021, 22% and 19% in 2020, and 22% and 20% in 2019, to tonnage tax and pretax net income, respectively, as a result of the following:

(U.S. Dollars in thousands)	2021	2020	2019
Income tax benefit (expense) within Norway	$ (479)	$ —	$ —
Income tax benefit (expense) within UK	(9)	(10)	(9)
Income tax benefit (expense)	$ (488)	$ (10)	$ (9)
Effective tax rate	(1)%	0 %	0 %

(c) Components of Deferred Tax Assets and Liabilities

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2021 and 2020 are presented below:

	As of December 31,	
(U.S. Dollars in thousands)	2021	2020
Deferred tax assets:		
Financial derivatives	$ —	$ —
Financial loss carry forwards for tonnage tax	23,485	20,863
Total deferred tax asset	23,485	20,863
Less valuation allowance	(23,485)	(20,863)
Net deferred tax asset	—	—
Deferred tax liabilities:		
Entrance tax	228	295
Total deferred tax liabilities	228	295
	$ 228	$ 295

The net deferred tax liability is classified in the consolidated balance sheets as follows:

(U.S. Dollars in thousands)	As of December 31, 2021	2020
Current deferred tax asset	$ —	$ —
Non-current deferred tax liabilities	228	295
Net deferred tax liabilities	$ 228	$ 295

Changes in the net deferred tax liabilities at December 31, 2021 and 2020 are presented below:

(U.S. Dollars in thousands)	As of December 31, 2021	2020
Net deferred tax liabilities at January 1,	$ 295	$ 357
Change in temporary differences	(58)	(72)
Translation differences	(9)	10
Net deferred tax liabilities at December 31,	$ 228	$ 295

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 be realized. The valuation allowances were $23.5 million and $20.9 million as of December 31, 2021 and 2020, 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, 2021, 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, 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 was approximately $0.4 million due to paid entrance tax, change in tax rate and translation effects. At December 31, 2021 the entrance tax had declined to approximately $0.3 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 2021 and 2020, and the deferred tax liabilities, also mainly related to the entrance tax, are calculated based on a tax rate of 22% for 2021 and 2020. Income tax expense within the UK of $8,997 and $10,233 for 2021 and 2020, respectively, was calculated by multiplying the tax basis with the UK tax rate of 19% in 2021 and 2020.

As of December 31, 2021, the total income taxes payable are estimated to be $0.6 million and consist primarily of net financial income and expense taxable in Norway at the normal corporate income tax rate, payable Norwegian entrance tax and ordinary UK corporation tax. As of December 31, 2020, the total income taxes payable were estimated to be $0.1 million and consisted of payable Norwegian entrance tax and ordinary UK corporation tax.

As of December 31, 2021, approximately $0.06 million of the estimated entrance tax of $0.29 million is estimated to be payable in the first and second quarter of 2022 and is presented as income taxes payable, while $0.23 million is presented as non-current deferred taxes payable. As of December 31, 2020, approximately $0.08 million of the estimated entrance tax of $0.38 million was estimated to be payable in the first and second quarter of 2021 and was presented as income taxes payable, while $0.30 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. The Partnership had no unrecognized tax benefits as of December 31, 2021 and 2020. During the years ended December 31, 2021 and 2020, the Partnership did not incur any interest or penalties on its tax returns.

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.

17) 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.

The amounts of such costs and expenses included in the consolidated statements of operations for the years ended December 31, 2021, 2020 and 2019 are as follows:

(U.S. Dollars in thousands)	Year Ended December 31, 2021	2020	2019
Statements of operations:			
Time charter and bareboat revenues:			
Time charter income from KNOT (1)	$ 6,427	$ 4,883	$ 15,910
Operating expenses:			
Vessel operating expenses (2)	16,812	14,693	14,489
Technical and operational management fee from KNOT to Vessels (3)	8,429	7,342	6,954
Operating expenses from other related parties (4)	866	515	487
General and administrative expenses:			
Administration fee from KNOT Management (5)	1,277	1,131	1,280
Administration fee from KOAS (5)	780	654	663
Administration fee from KOAS UK (5)	80	118	116
Administration and management fee from KNOT (6)	58	49	170
Total income (expenses)	**$ (21,875)**	**$ (19,619)**	**$ (8,249)**

(U.S. Dollars in thousands)	At December 31, 2021	At December 31, 2020	At December 31, 2019
Balance Sheet:			
Vessels:			
Drydocking supervision fee from KNOT (7)	$ 134	$ 47	$ —
Equipment purchased from KOAS (8)	1,840	—	—
Total	$ 1,974	$ 47	$ —

(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, a subsidiary of KNOT, on the same terms as the existing time charter contract with Shell. After completing its drydock in the second quarter of 2021, the *Bodil Knutsen* has operated under a time charter with Knutsen Shuttle Tankers Pool AS. The charter expires in April 2022, with two one-month extensions at the charterer's option.

(2) *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.

(3) *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 crewing, purchasing, maintenance and other operational service. In addition, there is also a charge for 24-hour emergency response services provided by KNOT Management for all vessels managed by KNOT Management.

(4) *Operating expenses from other related parties*: Simsea Real Operations AS, a company jointly owned by the Partnership's Chairman of the Board, Trygve Seglem, and by other third-party 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.

(5) *Administration fee from KNOT Management, Knutsen OAS Shipping AS ("KOAS") and Knutsen OAS (UK) Ltd. ("KOAS UK")*: Administration costs include 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.

(6) *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.

(7) *Drydocking supervision fee from KNOT and KOAS*: KNOT and KOAS provide supervision and hire out service personnel during drydocking of the vessels. The fee is calculated as a daily fixed fee.

(8) During the scheduled second renewal survey drydocking of the *Bodil Knutsen* a ballast water treatment system was installed on the vessel. Parts of the system were purchased from Knutsen Ballast Water AS, a subsidiary of TSSI, for $1.84 million.

(b) 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 17(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.

(c) Amounts Due from and Due to Related Parties

Balances with related parties consisted of the following:

(U.S. Dollars in thousands)	At December 31, 2021	At December 31, 2020
Balance Sheet:		
Trading balances due from KOAS	$ 290	$ 170
Trading balances due from KNOT and affiliates (1)	2,378	5,556
Amount due from related parties	$ 2,668	$ 5,726
Trading balances due to KOAS	$ 1,205	$ 1,596
Trading balances due to KNOT and affiliates	219	544
Amount due to related parties	$ 1,424	$ 2,140

(1) 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, the company that owns and operates the *Tove Knutsen.* Trading balances due from KNOT and affiliates as of December 31, 2020 includes the post-closing settlement amount of $3.6 million related to the acquisition of the *Tove Knutsen*.

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.

(d) Trade accounts payables and other currents 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:

(U.S. Dollars in thousands)	At December 31, 2021	At December 31, 2020
Balance Sheet:		
Trading balances due to KOAS	$ 813	$ 1,304
Trading balances due to KNOT and affiliates	783	902
Trade accounts payables to related parties	$ 1,596	$ 2,206

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:

(U.S. Dollars in thousands)	At December 31, 2021	At December 31, 2020
Balance Sheet:		
Trading balances due from KOAS	$ 687	$ 1,697
Trading balances due from KNOT and affiliates	543	450
Other current assets from related parties	$ 1,230	$ 2,147

(e) Acquisitions from KNOT

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 (the "Board") and the Conflicts Committee of the Board approved the purchase price for the transaction described above. The Conflicts Committee retained a financial advisor to assist with its evaluation of each of the transaction. See Note 22—Acquisitions.

18) Commitments and Contingencies

Assets Pledged

As of December 31, 2021 and 2020, Vessels with a book value of $1,598 million and $1,709 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 15—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, 2021, 2020 and 2019.

From time to time, the Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position, results of operations or cash flows.

Insurance

The Partnership maintains insurance on all the Vessels to insure against marine and war risks, which include damage to or total loss of the Vessels, subject to deductible amounts that average $0.15 million per Vessel, and loss of hire.

Under the loss of hire policies, the insurer will pay a compensation for the lost hire rate agreed in respect of each Vessel for each day, in excess of 14 deductible days, for the time that the Vessel is out of service as a result of damage, for a maximum of 180 days. In addition, the Partnership maintains protection and indemnity insurance, which covers third-party legal liabilities arising in connection with the Vessels' activities, including, among other things, the injury or death of third-party persons, loss or damage to cargo, claims arising from collisions with other vessels and other damage to other third-party property, including pollution arising from oil or other substances. This insurance is unlimited, except for pollution, which is limited to $1 billion per vessel per incident. The protection and indemnity insurance is maintained through a protection and indemnity association, and as a member of the association, the Partnership may be required to pay amounts above budgeted premiums if the member claims exceed association reserves, subject to certain reinsured amounts. If the Partnership experiences multiple claims each with individual deductibles, losses due to risks that are not insured or claims for insured risks that are not paid, it could have a material adverse effect on the Partnership's results of operations and financial condition.

Windsor Knutsen

In December 2020, the *Windsor Knutsen* reported a crack in its main engine block. As a result, the Vessel was off-hire from December 12, 2020 to June 10, 2021 for repairs. Under the Partnership's loss of hire policies, its insurer will pay the Partnership the hire rate agreed in respect of each vessel for each day, in excess of 14 deductible days, for the time that a vessel is out of service as a result of damage, for a maximum of 180 days. For the year ended December 31, 2021, the Partnership received $8.7 million for loss of hire proceeds which were recorded as a component of total revenues since day rates are recovered under the terms of the policy.

In addition, as of December 31, 2021, the Partnership had claimed and received payments of $4.1 million (net of deductible amounts) for hull and machinery recoveries.

Tove Knutsen

In March 2021, the *Tove Knutsen* reported a leakage from its controllable pitch propeller. As a result, the Vessel was off-hire from March 1, 2021 to April 15, 2021 for repairs. For the year ended December 31, 2021, the Partnership received $1.5 million for loss of hire proceeds which were recorded as a component of total revenues since day rates are recovered under the terms of the policy.

In addition, as of December 31, 2021, the Partnership had claimed $0.1 million (net of deductible amounts) for hull and machinery recoveries. As of December 31, 2021, the Partnership has not received payment for this claim, resulting in an open insurance claim of $0.1 million.

Bodil Knutsen

In April 2021, the *Bodil Knutsen* reported damage on the azimuth thruster. As a result, the Vessel was off-hire from April 17, 2021 to April 29, 2021 for repairs. As of December 31, 2021, the Partnership had claimed and received payments of $0.1 million (net of deductible amounts) for hull and machinery recoveries.

Tordis Knutsen

In July 2021, the *Tordis Knutsen* reported a damage on the Automatic Voltage Regulator (AVR) for one azimuth thruster. As a result, the Vessel was off-hire from July 19, 2021 to August 25, 2021 for repairs. As of December 31, 2021, the Partnership had claimed and received payments of $1.2 million (net of deductible amounts) for hull and machinery recoveries.

19) Earnings per Unit and Cash Distributions

The calculations of basic and diluted earnings per unit (1) are presented below:

(U.S. Dollars in thousands, except per unit data)	Year Ended December 31, 2021	2020	2019
Net income	$ 53,876	$ 65,225	$ 58,957
Less: Series A Preferred unitholders' interest in net income	6,900	7,200	7,200
Net income attributable to the unitholders of KNOT Offshore Partners LP	46,976	58,025	51,757
Less: Distributions (2)	72,520	72,136	72,136
Under (over) distributed earnings	(25,544)	(14,111)	(20,379)
Under (over) distributed earnings attributable to:			
Common unitholders (3)	(24,927)	(13,851)	(20,003)
Class B unitholders	(147)	—	—
General Partner	(470)	(261)	(376)
Weighted average units outstanding (basic) (in thousands):			
Common unitholders	33,050	32,694	32,694
Class B unitholders	195	—	—
General Partner	623	615	615
Weighted average units outstanding (diluted) (in thousands):			
Common unitholders (4)	37,064	32,694	32,694
Class B unitholders	195	—	—
General Partner	623	615	615
Earnings per unit (basic)			
Common unitholders	$ 1.38	$ 1.74	$ 1.55
Class B unitholders	2.62	—	—
General Partner	1.38	1.74	1.55
Earnings per unit (diluted):			
Common unitholders (4)	$ 1.38	$ 1.74	$ 1.55
Class B unitholders	2.62	—	—
General Partner	1.38	1.74	1.55
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's partnership agreement (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 year ended December 31, 2021 of $2.1 million and for the years ended December 31, 2020 and 2019 of $2.8 million, respectively.

(3) This includes the net income that was attributable to the IDR holder. The net income that was attributable to IDRs for the year ended December 31, 2021 was $2.1 million and for the years ended December 31, 2020 and 2019 was $2.8 million, respectively.

(4) Diluted weighted average units outstanding and earnings per unit diluted for the years ended December 2021, 2021 and 2019 does not reflect any potential common units relating to the convertible preferred units since the assumed issuance of any additional units would be anti-dilutive.

(5) Refers to cash distributions declared and paid during the period.

(6) Refers to cash distributions declared and paid subsequent to December 31.

On May 27, 2021, Tortoise Direct Opportunities Fund LP, the holder of 416,677 of the Partnership's Series A Preferred Units, sold 208,333 of its Series A Preferred Units to KNOT and converted 208,334 Series A Preferred Units to 215,292 common units based on a conversion rate of 1.0334.

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

The Series A Preferred Units are generally convertible, at the option of the holders of the Series A Preferred Units, into common units at the applicable conversion rate. The conversion rate will be subject to adjustment under certain circumstances. In addition, the conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to $24.00 (the "Issue Price") divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro-forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Issue Price divided by (ii) the book value per common unit on February 2, 2017. In addition, the Partnership may redeem the Series A Preferred Units at any time until February 2, 2027 at the redemption price specified in the Partnership Agreement, provided, however, that upon notice from the Partnership to the holders of Series A Preferred Units of its intent to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the applicable conversion rate.

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

The Series A Preferred Units have voting rights that are identical to the voting rights of the common units and Class B Units, except they do not have any right to nominate, appoint or elect any of the directors of the Board, except whenever distributions payable on the Series A Preferred Units have not been declared and paid for four consecutive quarters (a "Trigger Event"). Upon a Trigger Event, holders of Series A Preferred Units, together with the holders of any other series of preferred units upon which like rights have been conferred and are exercisable, may replace one of the members of the Board appointed by the General Partner with a person nominated by such holders, such nominee to serve until all accrued and unpaid distributions on the preferred units have been paid. The Series A Preferred Units are entitled to vote with the common units and Class B 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.

On September 7, 2021, the Partnership entered into an exchange agreement with its general partner and KNOT whereby KNOT contributed to the Partnership all of KNOT's IDRs in exchange for the issuance by the Partnership to KNOT of 673,080 common units and 673,080 Class B Units, whereupon the IDRs were cancelled (the "IDR Exchange"). The IDR Exchange closed on September 10, 2021. The Class B Units are a new class of limited partner interests which are not entitled to receive cash distributions in any quarter unless common unitholders receive a distribution of at least $0.52 for such quarter (the "Distribution Threshold"). When common unitholders receive a quarterly distribution at least equal to the Distribution Threshold, then Class B unitholders will be entitled to receive the same distribution as common unitholders.

For each quarter (starting with the quarter ended September 30, 2021) that the Partnership pays distributions on the common units that are at or above the Distribution Threshold, one-eighth of the Class B Units will be converted to common units on a one-for-one basis until such time as no further Class B Units exist. The Class B Units will generally vote together with the common units as a single class. After the payment of the Partnership's quarterly cash distribution on November 10, 2021 with respect to the third quarter, 84,135 of the Class B Units converted to common units on a one-to-one basis.

After the payment of the Partnership's quarterly cash distribution on February 10, 2022 with respect to the quarter ended December 31, 2021, 84,135 of the Class B Units converted to common units on a one-to-one basis.

As of December 31, 2021, 72.1% of the Partnership's total number of common units outstanding representing limited partner interests were held by the public (in the form of 24,293,458 common units) and 27.7% of such units were held directly by KNOT (in the form of 9,324,715 common units). In addition, KNOT, through its ownership of the General Partner, held a 1.83% general partner interest (in the form of 640,278 general partner units) and a 0.3% limited partner interest (in the form of 90,368 common units). As of December 31, 2021, KNOT also held 208,333 Series A Preferred Units and 588,945 Class B 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 3,541,666 Series A Preferred Units and 588,945 Class B Units as of December 31, 2021. 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 and Class B 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 and Class B Units if the effect would be anti-dilutive.

The General Partner's, Class B unitholders' 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 Board to provide for the proper conduct of the Partnership's business, including reserves for future capital expenditures, anticipated credit needs and capital requirements and any accumulated distributions on, or redemptions of, the Series A Preferred Units. 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.

20) Unit Activity

The following table shows the movement in number of common units, Class B Units, general partner units and Series A Preferred Units from December 31, 2019 until December 31, 2021:

(in units)	Common Units	Class B Units	General Partner Units	Series A Convertible Preferred Units
December 31, 2020	**32,694,094**	**—**	**615,117**	**3,750,000**
May 27, 2021: Conversion of Series A Preferred Units	215,292	—	—	(208,334)
September 10, 2021: IDR elimination	673,080	673,080	—	—
September 10, 2021: Issue of General Partner Units	—	—	25,161	—
October 25, 2021: ATM program issue of common units	10,902	—	—	—
October 26, 2021: ATM program issue of common units	31,038	—	—	—
November 10, 2021: Quarterly conversion of Class B Units	84,135	(84,135)	—	—
December 31, 2021	**33,708,541**	**588,945**	**640,278**	**3,541,666**

On May 27, 2021 Tortoise Direct Opportunities Fund LP, the holder of 416,677 of the Partnership's Series A Preferred Units sold 208,333 of its Series A Preferred Units to KNOT and converted 208,334 Series A Preferred Units to 215,292 common units based on a Series A conversion rate of 1.0334.

On September 7, 2021, the Partnership entered into an exchange agreement with KNOT and the Partnership's general partner whereby KNOT contributed to the Partnership all of KNOT's IDRs, in exchange for the issuance by the Partnership to KNOT of 673,080 common units and 673,080 Class B Units, whereupon the IDRs were cancelled. The IDR Exchange closed on September 10, 2021.

On September 10, 2021, the Partnership's general partner contributed $0.45 million to the Partnership in exchange for the issuance of 25,161 general partner units in order to maintain its 1.83% general partner interest in the Partnership in connection with the IDR Exchange.

In October 2021, the Partnership sold 41,940 common units under the ATM Program at an average gross sales price of $20.06 per unit and received net proceeds, after sale commissions, of $0.83 million. The Partnership paid an aggregate of $0.01 million in sales commissions to the Agent in connection with such sales.

On November 10, 2021, 84,135 Class B units were converted to common units on a one-to-one basis pursuant to the Partnership's partnership agreement.

21) Impairment of Long-Lived Assets

The carrying value of the Partnership's fleet is regularly assessed as events or changes in circumstances may indicate that a vessel's net carrying value exceeds the net undiscounted cash flows expected to be generated over its remaining useful life, and in such situation the carrying amount of the vessel is reduced to its estimated fair value. The Partnership considers factors related to vessel age, expected residual value, ongoing use of the vessels and equipment, shifts in market conditions and other impacting factors associated with the global oil and maritime transportation industries.

This exercise in the second quarter of 2021 resulted in an impairment in respect of the *Windsor Knutsen* principally as a result of the vessel's high carrying value which in turn arose due to the cost of both the purchase and the conversion of the vessel to a shuttle tanker from a conventional tanker. The carrying value of the *Windsor Knutsen* was written down to its estimated fair value, using a discounted cash flow valuation. Our estimates of future cash flows involve assumptions about future hire rates, vessel utilization, operating expenses, drydocking expenditures, vessel residual values, the remaining estimated life of our vessels and discount rates. The Partnership's consolidated statement of operations for the year ended December 31, 2021 includes a $29.4 million impairment charge related to this vessel. The impairment of the *Windsor Knutsen* is included in the Partnership's only segment, the shuttle tanker segment.

22) Acquisitions

During the year ended December 31, 2020, the Partnership acquired from KNOT equity interests in one subsidiary which owns and operates the *Tove Knutsen.*

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.

The board of directors of the Partnership and the Conflicts Committee approved the purchase price for the transaction. The Conflicts Committee retained a financial advisor to assist with its evaluation of the transaction. 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 as of December 31, 2020 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 the acquisition has been allocated to the identifiable assets acquired. The details of the transaction are as follows:

(U.S. Dollars in thousands)	**Final Tove Knutsen December 31, 2020**
Purchase consideration (1)	$ 21,898
Less: Fair value of net assets acquired:	
Vessels and equipment (2)	117,978
Cash	804
Inventories	136
Derivatives assets (liabilities)	(3,537)
Others current assets	270
Amounts due from related parties	—
Long-term debt	(93,139)
Long-term debt from related parties	—
Deferred debt issuance costs	769
Trade accounts payable	(430)
Accrued expenses	(622)
Amounts due to related parties	(331)
Total purchase consideration	21,898
Difference between the purchase price and fair value of net assets acquired	$ —

(1) The purchase consideration comprises the following:

(U.S. Dollars in thousands)	**Final Tove Knutsen December 31, 2020**
Cash consideration paid to KNOT (from KNOP)	$ 25,430
Purchase price adjustments	(3,596)
Acquisition-related costs	64
Purchase price	$ 21,898

(2) Vessel and equipment includes allocation to dry docking (in thousands) of $3,040.

23) Subsequent Events

The Partnership has evaluated subsequent events from the balance sheet date through March 17, 2022, 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 10, 2022, the Partnership paid a quarterly cash distribution of $0.52 per common unit and Class B unit with respect to the quarter ended December 31, 2021 to all common and Class B unitholders of record on January 28, 2022. On February 10, 2022, the Partnership paid a cash distribution to holders of Series A Preferred Units with respect to the quarter ended December 31, 2021 in an aggregate amount equal to $1.7 million.

After the payment of the Partnership's quarterly cash distribution with respect to the quarter ended December 31, 2021, 84,135 of the Class B Units converted to common units on a one-to-one basis.

The *Tordis Knutsen* was redelivered from the charterer on November 26, 2021, and thereafter started on her mobilization trip to Europe for her planned 5-year special survey drydocking, The vessel completed this work and on February 23, 2022 the vessel commenced a new time charter contract with Petrobras for a fixed period of five months with an option for the charterer to extend the charter by one month

The *Anna Knutsen* was redelivered from the charterer on February 14, 2022 and started on its mobilization trip to Europe in order to complete her planned 5-year special survey drydocking. On February 11, 2022, the Partnership agreed on the commercial terms for a new time charter contract for the *Anna Knutsen* with a major oil company to commence in the second quarter of 2022 for a fixed period, at the charterer's option, of either (a) one year, with options for the charterer to extend the time charter by up to four further one-year periods, or (b) two years, with options for the charterer to extend the time charter by up to three further one-year periods.

The *Vigdis Knutsen* was redelivered by the charterer on March 5, 2022 and started her mobilization trip to Europe for her planned 5-year special survey drydocking.

Although the Partnership has not experienced any direct impacts on its business from the Russian invasion of Ukraine, some of its vessels' crew members are Russian or Ukrainian nationals. The Partnership continues to monitor this situation closely, and is mindful that there may be restrictions or logistical challenges in employing both nationalities in the near future. The invasion may also lead to further regional and international conflicts or armed action and it is possible that such conflicts could disrupt supply chains and cause instability in the global economy.

Exhibit 2.1

Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934

KNOT Offshore Partners LP has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "KNOP".

The following description of the common units of KNOT Offshore Partners LP does not purport to be complete and is subject to, and qualified in its entirety by reference to, the complete text of the Fourth Amended and Restated Agreement of Limited Partnership (referred to herein as our "partnership agreement"), a copy of which is filed as Exhibit 3.2 to our Report on Form 8-A/A filed on September 10, 2021, and which is incorporated by reference herein. As used herein, "the partnership," "we," "our," "us" or similar terms refer, depending upon the context, to KNOT Offshore Partners LP and/or any one or more of its subsidiaries.

DESCRIPTION OF OUR COMMON UNITS

General

Our common units represent limited partner interests in us. The holders of our Series A Convertible Preferred Units (our "Series A Preferred Units"), the holder of our Class B Units (our "Class B Units") and the holders of our common units are holders of separate classes of limited partner interests in us. The holders of common units are entitled to participate in partnership distributions and exercise the rights and privileges available to limited partners under our partnership agreement. Please read the sections entitled "Our Partnership Agreement" and "Cash Distributions" below.

Voting Rights

Each holder of common units is entitled to one vote for each unit on all matters submitted to a vote of the common unitholders, subject to any limitations contained in our partnership agreement. See "Our Partnership Agreement—Voting Rights" below.

Cash Distributions; Liquidation

The holders of our common units are entitled to receive, to the extent permitted by law, such distributions as may from time to time be declared by our board of directors. Upon any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, the holders of our common units are entitled to receive distributions of our assets, after we have satisfied or made provision for our debts and other obligations and for payment to the holders any class or series of limited partner interests (including the Series A Preferred Units) having preferential rights to receive distributions of our assets. See "Our Partnership Agreement" and "Cash Distributions" below.

Transfer Agent and Registrar

The transfer agent and registrar for our common units is American Stock Transfer & Trust Company, LLC.

OUR PARTNERSHIP AGREEMENT

Organization and Duration

We were organized on February 21, 2013 under the Marshall Islands Limited Partnership Act (the "Marshall Islands Act") and have perpetual existence.

Purpose

Our purpose under the partnership agreement is to engage in any business activities that may lawfully be engaged in by a limited partnership pursuant to the Marshall Islands Act.

Although our board of directors has the ability to cause us to engage in activities other than the provision of marine transportation services, it has no current plans to do so and may decline to do so free of any fiduciary duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interests of us or our limited partners. Our general partner has irrevocably delegated to our board of directors the authority to oversee and direct our operations, management and policies on an exclusive basis.

Cash Distributions

Our partnership agreement specifies the manner in which we make cash distributions to holders of our common units and other partnership interests, including to the holders of our Series A Preferred Units and our Class B Units, as well as to our general partner in respect of its general partner interest. For a description of these cash distribution provisions, please read "Cash Distributions."

Capital Contributions

No holder of common units, Class B Units or Series A Preferred Units is obligated to make additional capital contributions, except as described below under "—Limited Liability." For a discussion of our general partner's right to contribute capital to maintain its general partner interest if we issue additional units, please read "—Issuance of Additional Interests."

Transfer of Common Units, Class B Units and Series A Preferred Units

By transfer of common units, Class B Units or Series A Preferred Units in accordance with our partnership agreement, each transferee of common units, Class B Units or Series A Preferred Units will be admitted as a limited partner with respect to the common units, Class B Units or Series A Preferred Units transferred when such transfer and admission is reflected in our books and records. Each transferee:

(1) represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;
(2) automatically agrees to be bound by the terms and conditions of, and is deemed to have executed, our partnership agreement; and
(3) gives the consents and approvals contained in our partnership agreement.

A transferee will become a substituted limited partner of our partnership for the transferred common units, Class B Units or Series A Preferred Units automatically upon the recording of the transfer on our books and records.

We may, at our discretion, treat the nominee holder of a common unit, Class B Unit or Series A Preferred Unit as the absolute owner. In that case, the beneficial holder's rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units, Class B Units and Series A Preferred Units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a limited partner in our partnership for the transferred units.

Until a unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

Voting Rights

Unlike the holders of common stock in a corporation, holders of common units have only limited voting rights on matters affecting our business. The Class B Units generally vote together with the common units as a single class. 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 and holders of Class B Units ("Class B 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 serve for four-year terms. Our general partner in its sole discretion appoints the remaining three directors and sets the terms for which those directors serve. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting our unitholders' ability to influence the manner or direction of management. Unitholders have no right to elect our general partner, and our general partner may not be removed except by a vote of the holders of at least 66 2/3% of the outstanding common units and Class B Units, including any common units and Class B 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 all persons (including individuals, entities, partnerships, trusts and estates) that are residents of Norway for purposes of the Norwegian Tax Act ("Norwegian Resident Holders") are not eligible to vote in the election of elected directors. No holder of Series A Preferred Units that is a

Norwegian Resident Holder is eligible to vote on any matter. Further, if any person or group owns beneficially more than 4.9% of any class of units then outstanding (excluding Norwegian Resident Holders in the election of elected directors), 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 unitholders. Our general partner, its affiliates and persons who acquire common units or Class B 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 or Class B Units in the election of the elected directors. The common units and the Class B Units will be treated as two separate classes of partnership interests for purposes of the 4.9% limitation, which will apply separately to the holders of common units and to the holders of Class B Units.

The Series A Preferred Units have voting rights that are identical to the voting rights of the common units and Class B Units, except they do not have any right to nominate, appoint or elect any of our directors, except whenever distributions payable on the Series A Preferred Units have not been declared and paid for four consecutive quarters (a "Trigger Event"). Upon a Trigger Event, holders of Series A Preferred Units, together with the holders of any other series of preferred units upon which like rights have been conferred and are exercisable, will have the right to replace one of the members of our board 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. Please read "—Board of Directors." The Series A Preferred Units shall be entitled to vote with the common units and Class B Units as a single class so that the Series A Preferred Units shall be entitled to one vote for each common unit into which the Series A Preferred Units are then convertible. 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 together with the common units and Class B Units.

The following is a summary of the unitholder vote required for the approval of the matters specified below. Matters that require the approval of a "unit majority" require the approval of a majority of the common units (which include the Series A Preferred Units voting on an as-converted basis) and Class B Units voting as a single class. All references herein to voting of the common units shall include voting of the Class B Units and the Series A Preferred Units together with the common units as a single class on an as-converted basis, other than, in the case of the Series A Preferred Units, references to voting for the election of the elected directors.

In voting their common units, Class B Units or Series A Preferred Units, our general partner and its affiliates have no fiduciary duty or obligation whatsoever to us or our unitholders, including any duty to act in good faith or in the best interests of us and our unitholders.

Action	**Unitholder Approval Required**
Issuance of additional common units or other limited partner interests	No common unitholder or Class B Unitholder approval required; general partner approval required for all issuances not reasonably expected to be accretive within

	12 months of issuance or which would otherwise have a material adverse impact on our general partner or its interest in the partnership. We will have the right to issue securities that with respect to distributions on such securities or distributions upon liquidation of the partnership rank pari passu with the Series A Preferred Units (“parity securities”), provided that the aggregate amount of the Series A Preferred Units and the parity securities pro-forma for such issuance, does not exceed 33.33% of the book value of the sum of our then outstanding aggregate amount of parity securities and junior securities (including common units and Class B Units). The consent of at least 67% of the holders of Series A Preferred Units will be necessary for us to issue (i) any securities that with respect to distributions on such securities or distributions upon liquidation of the partnership rank senior to the Series A Preferred Units (“senior securities”) and (ii) any parity securities in excess of such pro-forma book value. In addition, the consent of at least 67% of the holders of Series A Preferred Units will be necessary for us to incur or assume additional indebtedness that would result in our total consolidated indebtedness exceeding 70% of our total capitalization.
Amendment of our partnership agreement	Certain amendments may be made by our board of directors without the approval of our unitholders. Other amendments generally require the approval of a unit majority. Any amendment that (i) adversely affects the rights, preferences and privileges of the Series A Preferred Units or (ii) amends or modifies any of the terms of the Series A Preferred Units requires the approval of at least 67% of the Series A Preferred Units, voting separately as a class.
Merger of our partnership or the sale of all or substantially all of our assets	Unit majority and approval of our general partner and our board of directors.
Dissolution of our partnership	Unit majority and approval of our general partner and our board of directors.
Reconstitution of our partnership upon dissolution	Unit majority.
Election of four of the seven members of our board of directors	A plurality of the votes of the holders of the common units and Class B Units.
Withdrawal of our general partner	Under most circumstances, the approval of a majority of our common units and Class B Units, excluding common units and Class B Units held by our general partner and its

	affiliates, is required for the withdrawal of our general partner prior to March 31, 2023 in a manner which would cause a dissolution of our partnership.
Removal of our general partner	Not less than 66 2/3% of our outstanding common units and Class B Units, voting as a single class, including common units and Class B Units held by our general partner and its affiliates.
Transfer of the general partner interest in us	Our general partner may transfer all, but not less than all, of its general partner interest in us without a vote of our common unitholders or other limited partners to an affiliate or another person in connection with its merger or consolidation with or into, or sale of all or substantially all of its assets to such person. The approval of a majority of our common units and Class B Units, excluding common units and Class B Units held by our general partner and its affiliates, is required in other circumstances for a transfer of the general partner interest to a third party prior to March 31, 2023.
Transfer of ownership interests in our general partner	No approval required at any time.

Applicable Law; Forum, Venue and Jurisdiction

Our partnership agreement is governed by Marshall Islands law. Our partnership agreement requires that any claims, suits, actions or proceedings:

- arising out of or relating in any way to the partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of the 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, the limited partners or us);
- brought in a derivative manner on our behalf;
- 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 the limited partners;
- asserting a claim arising pursuant to any provision of the Marshall Islands Act; and
- asserting a claim governed by the internal affairs doctrine;

shall be exclusively brought in the Court of Chancery of the State of Delaware, unless otherwise provided for by Marshall Islands law, regardless of whether such claims, suits, actions or proceedings arise under laws relating to contract, tort, fraud or otherwise, are based on common law, statutory, equitable, legal or other grounds, or are derivative or direct claims. By purchasing a common unit, Class B Unit or Series A Preferred Unit, a limited partner is irrevocably consenting to these limitations and provisions regarding claims, suits, actions or proceedings and submitting to the exclusive jurisdiction of the Court of Chancery of the State of Delaware, unless otherwise provided for by Marshall Islands law, in connection with any such claims, suits, actions or proceedings; however, a court could rule that such provisions are inapplicable or unenforceable.

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Marshall Islands Act and that the limited partner otherwise acts in conformity with the provisions of our partnership agreement, the limited partner's liability under the Marshall Islands Act is limited, subject to possible exceptions, to the amount of capital the limited partner is obligated to contribute to us for the limited partner's units plus the limited partner's share of any undistributed profits and assets. If it were determined, however, that the right, or exercise of the right, by our limited partners as a group:

- to remove or replace our general partner;
- to elect four of our seven directors;
- to approve some amendments to our partnership agreement; or
- to take other action under our partnership agreement;

constituted "participation in the control" of our business for the purposes of the Marshall Islands Act, then our limited partners could be held personally liable for our obligations under the laws of the Marshall Islands, to the same extent as our general partner. This liability would extend to persons who transact business with us and reasonably believe, based on the limited partner's conduct, that the limited partner is a general partner. Neither our partnership agreement nor the Marshall Islands Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of our general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Marshall Islands case law.

Under the Marshall Islands Act, a limited partnership may not make a distribution to a partner if, after giving effect to the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the limited partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Marshall Islands Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds that liability. The Marshall Islands Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Marshall Islands Act shall be liable to the limited partnership for the amount of the distribution for three years. Under the Marshall Islands Act, an assignee of partnership interests who becomes a limited partner of a limited partnership is liable for the obligations of the assignor to make contributions to the limited partnership, except the assignee is not obligated for liabilities unknown to the assignee at the time the assignee became a limited partner and that could not be ascertained from the partnership agreement.

Maintenance of limited liability may require compliance with legal requirements in the jurisdictions in which our subsidiaries conduct business, which may include qualifying to do business in those jurisdictions. Limitations on the liability of limited partners for the obligations of a limited partner have not been clearly established in many jurisdictions. If, by virtue of our ownership or control of operating subsidiaries or otherwise, it were determined that we were conducting business in any jurisdiction without compliance with the applicable limited partnership or limited liability company statute, or that the right or exercise of the right by our limited partners as a group to remove or replace our general partner, to approve some amendments to our partnership agreement, or to take other action under our partnership agreement constituted "participation in the control" of our business for purposes of the statutes of any relevant jurisdiction, then our limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as our general partner under the circumstances. We intend to operate in a manner that our board of directors considers reasonable and necessary or appropriate to preserve the limited liability of our limited partners.

Issuance of Additional Securities

Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and rights to buy partnership securities for the consideration and on the terms and conditions determined by our board of directors, without the approval of our unitholders, other than the limited approval rights of the holders of the Series A Preferred Units with regard to the issuance of parity securities and senior securities described above under "—Voting Rights." Our general partner will be required to approve all issuances of additional partnership interests that are not reasonably expected to be accretive within 12 months of issuance or which would otherwise have a material adverse impact on the general partner or its interest in us.

In accordance with Marshall Islands law and the provisions of our partnership agreement, we may also issue additional partnership securities interests that, as determined by our board of directors, have special voting or other rights to which our common units, Class B Units or Series A Preferred Units are not entitled.

Upon issuance of certain additional partnership securities (other than the issuance of partnership interests upon conversion of outstanding partnership interests), our general partner will have the right, but not the obligation, to make additional capital contributions to the extent necessary to maintain its general partner interest in us at the same percentage level as before the issuance. Our general partner's interest in us will thus be reduced if we issue certain additional partnership securities and our general partner does not elect to maintain its general partner interest. Our general partner's interest does not entitle it to receive any portion of distributions made in respect of the Series A Preferred Units and our general partner's interest will not be affected by the issuance of any additional preferred units. Our general partner and its affiliates also have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units or other equity securities whenever, and on the same terms that, we issue those securities to persons other than our general partner and its affiliates, to the extent necessary to maintain its and its affiliates' percentage interest in us, including its interest represented by common units and Class B Units, that existed immediately prior to each issuance. Other holders of common units or other partnership securities do not have similar preemptive rights to acquire additional common units or other partnership securities.

Tax Status

The Partnership has elected to be treated as a corporation for U.S. federal income tax purposes.

Amendment of Our Partnership Agreement

General

Amendments to our partnership agreement may be proposed only by or with the consent of our board of directors. However, our board of directors has no duty or obligation to propose any amendment and may decline to do so free of any fiduciary duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interests of us or our limited partners. In order to adopt a proposed amendment, other than the amendments discussed below, approval of our board of directors is required, as well as written approval of the holders of the number of units required to approve the amendment or call a meeting of our limited partners to consider and vote upon the proposed amendment. In addition, holders of Series A Preferred Units must approve certain amendments as described under "—Voting Rights." Except as we describe below, or as otherwise set forth in the partnership agreement, an amendment must be approved by a "unit majority."

Prohibited Amendments

No amendment may be made that would:

(1) increase the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class or series of limited partner interests so affected;

(2) increase the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to our general partner or any of its affiliates without the consent of our general partner, which may be given or withheld at its option;

(3) change the term of our partnership;

(4) provide that our partnership is not dissolved upon an election to dissolve our partnership by our general partner that is approved by the holders of a unit majority; or

(5) give any person the right to dissolve our partnership other than the right of our general partner and our board of directors to dissolve our partnership with the approval of the holders of a unit majority.

The provision of our partnership agreement preventing the amendments having the effects described in clauses (1) through (5) above can be amended upon the approval of the holders of at least 90% of the outstanding units voting together as a single class (including units owned by our general partner and its affiliates).

No Unitholder Approval

Our board of directors may generally make amendments to our partnership agreement without the approval of any limited partner to reflect:

(1) a change in our name or the location of our principal place of business, registered agent or registered office;

(2) the admission, substitution, withdrawal or removal of partners in accordance with our partnership agreement;

(3) a change that our board of directors determines to be necessary or appropriate for us to qualify or to continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability under the Marshall Islands Act;

(4) an amendment that is necessary, upon the advice of our counsel, to prevent us or our officers or directors or our general partner or their or its agents, or trustees from in any manner being subjected to the provisions of the U.S. Investment Company Act of 1940, the U.S. Investment Advisors Act of 1940, or plan asset regulations adopted under the U.S. Employee Retirement Income Security Act of 1974, whether or not substantially similar to plan asset regulations currently applied or proposed;

(5) an amendment that our board of directors determines to be necessary or appropriate for the authorization of additional partnership securities (subject to the limited approval rights of holders of Series A Preferred Units described above under "—Voting Rights") or rights to acquire partnership interests, including any amendment that our board of directors determines is necessary or appropriate in connection with any amendment expressly permitted in our partnership agreement to be made by our board of directors acting alone;

(6) an amendment effected, necessitated, or contemplated by a merger agreement that has been approved under the terms of our partnership agreement;

(7) any amendment that our board of directors determines to be necessary or appropriate for the formation by us of, or our investment in, any corporation, partnership or other entity, as otherwise permitted by our partnership agreement;

(8) a change in our fiscal year or taxable year and related changes;

(9) certain mergers or conveyances as set forth in our partnership agreement; or

(10) any other amendments substantially similar to any of the matters described in (1) through (9) above.

In addition, our board of directors may make amendments to our partnership agreement without the approval of any limited partner (subject to the limited approval rights of holders of Series A Preferred Units described under "—Voting Rights") or our general partner if our board of directors determines that those amendments:

(1) do not adversely affect our limited partners (or any particular class or series of limited partners) in any material respect;

(2) are necessary or appropriate to satisfy any requirements, conditions, or guidelines contained in any opinion, directive, order, ruling or regulation of any Marshall Islands authority;

(3) are necessary or appropriate to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline or requirement of any securities exchange on which our limited partner interests are or will be listed for trading;

(4) are necessary or appropriate for any action taken by our board of directors relating to splits or combinations of our limited partner interests under the provisions of our partnership agreement; or

(5) are required to effect the intent of the provisions of our partnership agreement or are otherwise contemplated by our partnership agreement.

Opinion of Counsel and Unitholder Approval

Our board of directors will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to our limited partners if one of the amendments described above under "—No Unitholder Approval" should occur. No other amendments to our partnership agreement will become effective without the approval of holders of at least 90% of our outstanding units voting as a single class unless we obtain an opinion of counsel to the effect that the amendment will not affect the limited liability under applicable law of any of our limited partners.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or privileges of any type or class or series of outstanding in relation to other classes or series of limited partner interests requires the approval of at least a majority of the type or class or series of units so affected, *provided, however*, that any amendment that (i) adversely affects the rights, preferences and privileges of the Series A Preferred Units or (ii) amends or modifies any of the terms of the Series A Preferred Units requires the approval of at least 67% of the Series A Preferred Units. Any amendment that reduces the voting percentage required to take any action must be approved by the affirmative vote of limited partners whose aggregate outstanding interests constitute not less than the voting requirement sought to be reduced.

Merger, Sale or Other Disposition of Assets

A merger or consolidation of us requires the approval of our board of directors and the prior consent of our general partner and the approval of holders representing a unit majority. However, to the fullest extent permitted by law, our board of directors and our general partner will have no duty or obligation to consent to any merger or consolidation and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners; provided, however, that our board of directors and general partner owe a contractual duty of good faith and fair dealing to holders of the Series A Preferred Units pursuant to our partnership agreement. In addition, our partnership agreement generally prohibits our board of directors without the prior approval of our general partner and, without approval of a unit majority, from causing us to, among other things, sell, exchange, or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other combination, or approving on our behalf the sale, exchange or other disposition of all or substantially all of the assets of our subsidiaries taken as a whole. Our board of directors may, however, mortgage, pledge, hypothecate, or grant a security interest in all or substantially all of our assets without unitholder approval. Our general partner and our board of directors may also determine to sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances without unitholder approval.

If conditions specified in our partnership agreement are satisfied, our board of directors with the consent of our general partner may convert us or any of our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey some or all of our assets to, a newly formed entity if the primary purpose of that conversion, merger or conveyance is to effect a change in our legal form into another limited liability entity and the governing instruments of the new entity provide the limited partners and our board of directors with substantially the same or greater rights and no greater obligations as are contained in our partnership agreement.

Our unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable law in the event of a conversion, merger or consolidation, a sale of substantially all of our assets, or any other transaction or event.

Termination and Dissolution

We will continue as a limited partnership until terminated under our partnership agreement. We will dissolve upon:

(1) the election of our general partner and our board of directors to dissolve us, if approved by the holders of units representing a unit majority;

(2) at any time there are no limited partners, unless the partnership is continued without dissolution in accordance with the Marshall Islands Act;

(3) the entry of a decree of judicial dissolution of us; or

(4) the withdrawal or removal of our general partner or any other event that results in its ceasing to be our general partner other than by reason of a transfer of its general partner interest in accordance with our partnership agreement or withdrawal or removal following approval and admission of a successor.

Upon a dissolution under clause (4), the holders of a unit majority may also elect, within specific time limitations, to continue our business on the same terms and conditions described in our partnership agreement by appointing as general partner an entity approved by the holders of a unit majority, subject to our receipt of an opinion of counsel to the effect that the action would not result in the loss of limited liability of any limited partner.

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are continued as a new limited partnership, the liquidator authorized to wind up our affairs will, acting with all of the powers of our board of directors that are necessary or appropriate, liquidate our assets and apply the proceeds of the liquidation as described in our partnership agreement. In the event of any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, holders of the Series A Preferred Units will have the right to receive an amount equal to the liquidation preference of $24.00 per unit, plus any Series

A Unpaid Cash Distributions (as defined in the partnership agreement) plus an amount equal to all accumulated and unpaid distributions thereon to the date of payment, whether or not declared, before any payments are made to holders of our common units, Class B Units or any other securities ranking junior to the Series A Preferred Units with respect to payments of distributions and amounts payable upon any liquidation, dissolution or winding up. The liquidator may defer liquidation or distribution of our assets for a reasonable period or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to our partners.

Withdrawal or Removal of Our General Partner

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to March 31, 2023 without obtaining the approval of the holders of at least a majority of our outstanding common units and Class B Units, excluding common units and Class B Units held by our general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability. On or after March 31, 2023, our general partner may withdraw as general partner without first obtaining approval of any common unitholder or Class B Unitholder by giving 90 days' written notice, and that withdrawal will not constitute a violation of our partnership agreement. Notwithstanding the information above, our general partner may withdraw without unitholder approval upon 90 days' notice to our limited partners if at least 50% of our outstanding units are held or controlled by one person and its affiliates other than our general partner and its affiliates. In addition, our partnership agreement permits our general partner in some instances to sell or otherwise transfer all of its general partner interest in us without the approval of the unitholders. Please read "—Transfer of General Partner Interest."

Upon withdrawal of our general partner under any circumstances, other than as a result of a transfer by our general partner of all or a part of its general partner interest in us, the holders of a majority of our outstanding common units and Class B Units may select a successor to that withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability cannot be obtained, we will be dissolved, wound up and liquidated, unless within a specified period of time after that withdrawal, the holders of a unit majority agree in writing to continue our business and to appoint a successor general partner. Please read "—Termination and Dissolution."

Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than 66 2/3% of our outstanding common units and Class B Units, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability. Any removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of our outstanding common units and Class B Units. The ownership of more than 33 1/3% of our outstanding common units and Class B Units by our general partner and its affiliates would give them the practical ability to prevent our general partner's removal.

Our partnership agreement also provides that if our general partner is removed as our general partner under circumstances where cause does not exist and units held by our general partner and its affiliates are not voted in favor of that removal, our general partner will have the right to convert its general partner interest into common units or to receive cash in exchange for such interest based on the fair market value of such interest at the time.

In the event of removal of our general partner under circumstances where cause exists or withdrawal of our general partner where that withdrawal violates our partnership agreement, a successor general partner will have the option to purchase the general partner interest owned by the departing general partner for a cash payment equal to the fair market value of the general partner interest. Under all other circumstances where our general partner withdraws or is removed by our limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partner interest for its fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. Or, if the departing general partner and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner's general partner interest will automatically convert into common units equal to the fair market value of such interest as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, any employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Interest

Except for the transfer by our general partner of all, but not less than all, of its general partner interest in us to:

- an affiliate of our general partner (other than an individual); or
- another entity as part of the merger or consolidation of our general partner with or into another entity or the transfer by our general partner of all or substantially all of its assets to another entity;

our general partner may not transfer all or any part of its general partner interest in us to another person prior to March 31, 2023 without the approval of the holders of at least a majority of our outstanding common units and Class B Units, excluding units held by our general partner and its affiliates. As a condition of this transfer, the transferee must, among other things, assume the rights and duties of our general partner, agree to be bound by the provisions of our partnership agreement and furnish an opinion of counsel regarding limited liability.

Our general partner and its affiliates may at any time transfer units to one or more persons, without limited partner approval.

Transfer of Ownership Interests in General Partner

At any time, the members of our general partner may sell or transfer all or part of their respective membership interests in our general partner to an affiliate or a third party without the approval of our unitholders.

Change of Management Provisions

Our partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove KNOT Offshore Partners GP LLC as our general partner or otherwise change management. If any person or group other than our general partner and its affiliates acquires beneficial ownership of 4.9% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units in excess of 4.9% of all such units. Our general partner, its affiliates and persons who acquired common units or Class B Units with the prior approval of our board of directors will not be subject to this 4.9% limitation except with respect to voting their common units or Class B Units in the election of elected directors. The 4.9% limitation 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 together with the common units and Class B Units.

Our partnership agreement also provides that if our general partner is removed under circumstances where cause does not exist and units held by our general partner and its affiliates are not voted in favor of that removal, our general partner will have the right to convert its general partner interest into common units or to receive cash in exchange for that interest.

Limited Call Right

If at any time our general partner and its affiliates hold more than 80% of the then-issued and outstanding partnership interests of any class, except for the Series A Preferred Units, our general partner will have the right, which it may assign in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the remaining partnership interests of the class held by unaffiliated persons as of a record date to be selected by our general partner, on at least 10 but not more than 60 days' written notice at a price equal to the greater of (x) the average of the daily closing prices of the partnership interests of such class over the 20 trading days preceding the date three days before notice of exercise of the call right is first mailed and (y) the highest price paid by our general partner or any of its affiliates for partnership interests of such class during the 90-day period preceding the date such notice is first mailed. Our general partner is not obligated to obtain a fairness opinion regarding the value of the units to be repurchased by it upon the exercise of this limited call right and has no fiduciary duty in determining whether to exercise this limited call right.

As a result of our general partner's right to purchase outstanding partnership interests, a holder of partnership securities (except for the Series A Preferred Units) may have the holder's partnership interests purchased at an undesirable time or price.

Board of Directors

Under our partnership agreement, our general partner has irrevocably delegated to our board of directors the authority to oversee and direct our operations, policies and management on an exclusive basis, and such delegation will be binding on any successor general partner of the partnership. Our board of directors consists of seven members, three of whom are appointed by our general partner in its sole discretion and four of whom are elected by our common unitholders and Class B Unitholders.

Our board of directors nominates individuals to stand for election as elected board members on a staggered basis at an annual meeting of our limited partners. In addition, any limited partner or group of limited partners that holds beneficially 10% or more of the aggregate outstanding common units and Class B Units is entitled to nominate one or more individuals to stand for election as elected board members at the annual meeting by providing written notice to our board of directors not more than 120 days nor less than 90 days prior to the meeting. However, if the date of the annual meeting is not publicly announced by us at least 100 days prior to the date of the meeting, the notice must be delivered to our board of directors not later than ten days following the public announcement of the meeting date. The notice must set forth:

- the name and address of the limited partner or limited partners making the nomination or nominations;
- the number of common units and Class B Units beneficially owned by the limited partner or limited partners;
- the information regarding the nominee(s) proposed by the limited partner or limited partners as required to be included in a proxy statement relating to the solicitation of proxies for the election of directors filed pursuant to the proxy rules of the Securities and Exchange Commission;
- the written consent of the nominee(s) to serve as a member of our board of directors if so elected; and
- a certification that the nominee(s) qualify as elected board members.

Upon a Trigger Event (as defined under "—Voting Rights" above), the holders of Series A Preferred Units (together with holders of all other classes or series of preferred units upon which like voting rights have been conferred and are exercisable) will have the right to replace one of the members of our board of directors appointed by our general partner with a member nominated by such holders (the "Holders' Nominee"), such nominee to serve until the payment of all accrued and unpaid distributions in respect of the preferred units has been made. Unless our general partner consents, the Holders' Nominee cannot be a resident of Norway for purposes of the Norwegian

Tax Act. Upon payment of all accrued and unpaid distributions then outstanding in respect of the preferred units, the Holders' Nominee will agree to resign from the board, effective immediately, unless and until a subsequent Trigger Event, if any, occurs. Subject to the preceding sentence, any Holders' Nominee may be removed at any time without cause only by the holders of 67% of the Series A Preferred Units and the holders of any other series of preferred units upon which such rights have been conferred and are exercisable, voting together as a class. If any Holders' Nominee is removed, resigns or is otherwise unable to serve as a member of the board of directors, the holders of a majority of the outstanding Series A Preferred Units and, if applicable, any other preferred units, voting together as a class, shall appoint an individual to fill the vacancy.

Subject to the rights of the holders of the Series A Preferred Units with regard to the Holders' Nominee, our general partner may remove an appointed board member with or without cause at any time. "Cause" generally means a court's finding a person liable for actual fraud or willful misconduct in his or its capacity as a director. Any and all of the board members may be removed at any time for cause by the affirmative vote of a majority of the other board members. Any and all of the board members appointed by our general partner may be removed for cause at a properly called meeting of the limited partners by a majority vote of the outstanding units, voting as a single class. If any appointed board member is removed, resigns or is otherwise unable to serve as a board member, our general partner may fill the vacancy other than with respect to a Holders' Nominee. Any and all of the board members elected by the common unitholders and Class B Unitholders may be removed for cause at a properly called meeting of the limited partners by a majority vote of the outstanding common units and Class B Units. If any elected board member is removed, resigns or is otherwise unable to serve as a board member, the vacancy may be filled by a majority of the other elected board members then serving.

Meetings; Voting

Except as described below regarding a person or group owning more than 4.9% of any class of units then outstanding, unitholders who are record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited.

We will 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. Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting if consents in writing describing the action so taken are signed by holders of the number of units necessary to authorize or take that action at a meeting. Meetings of the unitholders may be called by our board of directors or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of 33 1/3% of the outstanding units of the class or classes for which a meeting has been called, represented in person or by proxy, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage.

The Series A Preferred Units have voting rights that are identical to the voting rights of our common units and Class B Units, except they will not have any right to nominate, appoint or elect any of our directors, except when a Trigger Event has occurred. The Series A Preferred Units are entitled to vote with the common units and Class B Units as a single class on an "as converted basis" so that the Series A Preferred Units will be entitled to one vote for each common unit into which the Series A Preferred Units are then convertible. For additional information concerning voting rights of the common units, Class B Units and the Series A Preferred Units, please read "—Voting Rights."

Each record holder of a unit may vote according to the holder's percentage interest in us, although additional limited partner interests having special voting rights could be issued. However, to preserve our ability to claim an exemption from U.S. federal income tax under Section 883 of the Code, if at any time any person or group acquires, in the aggregate, beneficial ownership of more than 4.9% of all units then outstanding (excluding units held by Norwegian Resident Holders in the election of the elected directors as discussed below), that person or group will lose voting rights on all of its units in excess of 4.9% of all such units and those units in excess of 4.9% may not be voted on any matter and will not be 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. Our general partner, its affiliates and persons who acquired common units and Class B Units with the prior approval of our board of directors will not be subject to this 4.9% limitation except with respect to voting their common units and Class B Units in the election of the elected directors. The 4.9% limitation 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 together with the common units and Class B Units. The common units and the Class B Units will be treated as two separate classes of partnership interests for purposes of the 4.9% limitation, which will apply separately to the holders of common units and to the holders of Class B Units. Units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise.

In addition, (i) common unitholders and Class B Unitholders that are Norwegian Resident Holders will not be eligible to vote in the election of the elected directors and (ii) holders of Series A Preferred Units that are Norwegian Resident Holders will not be eligible to vote.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of units under the partnership agreement will be delivered to the record holder by us or by the transfer agent.

Status as Limited Partner

Except as described above under "—Limited Liability," our common units, Class B Units and Series A Preferred Units will be fully paid, and our unitholders will not be required to make additional contributions. By transfer of common units, Class B Units or Series A Preferred Units in accordance with our partnership agreement, each transferee of common units, Class B Units and Series A Preferred Units shall be admitted as a limited partner with respect to the common units, Class B Units or Series A Preferred Units transferred when such transfer and admission is reflected in our books and records.

Indemnification

Under our partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

(1) our general partner;
(2) any departing general partner;
(3) any person who is or was an affiliate of our general partner or any departing general partner;
(4) any person who is or was an officer, director, member, fiduciary or trustee of any entity described in (1), (2) or (3) above;
(5) any person who is or was serving as a director, officer, member, fiduciary or trustee of another person at the request of our board of directors, our general partner or any departing general partner;
(6) our officers;
(7) any person designated by our board of directors; and
(8) the members of our board of directors.

Any indemnification under these provisions will only be out of our assets. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

Reimbursement of Expenses

Our partnership agreement requires us to reimburse the members of our board of directors for their out-of-pocket costs and expenses incurred in the course of their service to us. Our partnership agreement also requires us to reimburse our general partner for all expenses it incurs or payments it makes on our behalf and all other expenses allocable to us or otherwise incurred by our general partner in connection with operating our business. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf, and expenses allocated to us or our general partner by our board of directors.

Books and Reports

We are required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. For tax and fiscal reporting purposes, our fiscal year is the calendar year.

We will furnish or make available to record holders of our common units, Class B Units and Series A Preferred Units, within 120 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent registered public accounting firm. Except for our fourth quarter, we also will furnish or make available summary financial information within 90 days after the close of each quarter.

Right to Inspect Our Books and Records

Our partnership agreement provides that a limited partner can, for a purpose reasonably related to the limited partner's interest as a limited partner, upon reasonable demand and at the limited partner's own expense, have furnished to the limited partner:

(1) a current list of the name and last known address of each partner;
(2) information as to the amount of cash, and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each became a partner;
(3) copies of our partnership agreement, the certificate of limited partnership of our partnership and related amendments;
(4) information regarding the status of our business and financial position; and
(5) any other information regarding our affairs as is just and reasonable.

Our board of directors may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which our board of directors believes in good faith is not in our best interests or that we are required by law or by agreements with third parties to keep confidential.

Registration Rights

Under our partnership agreement, we have agreed to register for resale under the Securities Act and applicable state securities laws any common units or other partnership interests proposed to be sold by our general partner or any of its affiliates or their assignees if an exemption from the registration requirements is not otherwise available or advisable. These registration rights continue for two years following any withdrawal or removal of KNOT Offshore Partners GP LLC as our general partner. We are obligated to pay all expenses incidental to the registration, excluding underwriting discounts and commissions. In connection with these registration rights, we will not be required to pay any damages or penalties related to any delay or failure to file a registration statement or to cause a registration statement to become effective. We have also entered into a registration rights agreement with the purchasers of the Series A Preferred Units pursuant to which we agreed to use commercially reasonable efforts to file a traditional shelf registration statement registering resales of the common units underlying the Series A Preferred Units and to have such registration statement declared effective by the Securities and Exchange Commission. In certain circumstances, the holders of the Series A Preferred Units will have piggyback registration rights on offerings initiated by other holders of common units, and will have rights to request an underwritten offering.

CASH DISTRIBUTIONS

Distribution of Available Cash

General

Within approximately 45 days after the end of each quarter, we distribute all of our available cash to common unitholders and Class B Unitholders of record on the applicable record date, concurrently with any distributions made related to the general partner interest.

Available Cash

Available cash generally means, for each fiscal quarter, all cash on hand at the end of the quarter (including our proportionate share of cash on hand of certain subsidiaries we do not wholly own):

- *less* the amount of cash reserves (including our proportionate share of cash reserves of certain subsidiaries we do not wholly own) established by our board of directors and our subsidiaries to:
  - provide for the proper conduct of our business (including reserves for future capital expenditures and for our anticipated credit needs);
  - comply with applicable law, any debt instruments, or other agreements;
  - provide funds to pay quarterly distributions on, and to make any redemption payments relating to, the Series A Preferred Units; or
  - provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters;
- *plus all* cash on hand (including our proportionate share of cash on hand of certain subsidiaries we do not wholly own) on the date of determination of available cash for the quarter resulting from (1) working capital borrowings made after the end of the quarter and (2) cash distributions received after the end of the quarter from any equity interest in any person (other than a subsidiary of us), which distributions are paid by such person in respect of operations conducted by such person during such quarter. Working capital borrowings are generally borrowings that are made under our credit agreements and in all cases are used solely for working capital purposes or to pay distributions to partners.

Class B Units

For each quarter (starting with the quarter ending September 30, 2021) that the Partnership pays distributions on the common units that are equal to or above $0.52 per common unit (the "Distribution Threshold"), one-eighth of the Class B Units will be converted to common units on a one-for-one basis until such time as no further Class B Units exist. The period prior to such time is referred to herein as the "Class B Pre-Conversion Period".

Series A Preferred Units

Our Series A Preferred Units rank senior to our common units and Class B Units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up. Our Series A Preferred Units have a liquidation preference of $24.00 per unit, plus any Series A Unpaid Cash Distributions, plus all accrued but unpaid distributions on such Series A Preferred Unit with respect to the quarter in which the liquidation occurs to the date fixed for the payment of any amount upon liquidation. Our 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 our board of directors.

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 applicable conversion rate. The conversion rate will be subject to adjustment under certain circumstances. In addition, the conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to $24.00 (the "Issue Price") divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro-forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Issue Price divided by (ii) the book value per common unit on February 2, 2017. In addition, the Partnership may redeem the Series A Preferred Units at any time until February 2, 2027 at the redemption price specified in our partnership agreement, provided, however, that upon notice from us to the holders of Series A Preferred Units of our intent to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the applicable conversion rate.

Upon a change of control of the Partnership, the holders of Series A Preferred Units will have the right to require cash redemption at 100% of the Issue Price. In addition, the holders of Series A Preferred Units will have the right to cause the Partnership to redeem the Series A Preferred Units on February 2, 2027 in, at the option of the Partnership, (i) cash at a price equal to 70% of the Issue Price or (ii) common units such that each Series A Preferred Unit receives common units worth 80% of the Issue Price (based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of 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) plus any accrued and unpaid distributions. In addition, subject to certain conditions, we have the right to convert the Series A Preferred Units into common units at the applicable conversion rate if the aggregate market value (calculated as set forth in the partnership agreement) of the common units into which the outstanding Series A Preferred Units are convertible, based on the applicable conversion rate, is greater than 130% of the aggregate Issue Price of the outstanding Series A Preferred Units.

For additional information about our Series A Preferred Units, please read our Current Reports on Form 6-K filed with the Securities and Exchange Commission on February 2, 2017, May 17, 2017 and June 30, 2017 and our partnership agreement.

Distributions of Available Cash

We make distributions of available cash for any quarter in the following manner during the Class B Pre-Conversion Period:

- first, 98.17% to all common unitholders, pro rata, and 1.83% to our general partner, until there has been distributed in respect of each outstanding common unit an amount equal to the Distribution Threshold for that quarter;
- second, 98.17% to all Class B Unitholders, pro rata, and 1.83% to our general partner, until there has been distributed in respect of each outstanding Class B Unit an amount equal to the Distribution Threshold for that quarter; and
- thereafter, 98.17% to all unitholders holding common units and Class B Units, pro rata, and 1.83% to our general partner.

After the Class B Pre-Conversion Period, we will make distributions of available cash for any quarter 98.17% to all common unitholders, pro rata, and 1.83% to our general partner.

The percentage interests set forth above assume that our general partner maintains its current 1.83% general partner interest and that we do not issue additional classes of equity securities.

General Partner Interest

Our partnership agreement initially provided that our general partner was entitled to 2.0% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its general partner interest if we issue additional units. Our general partner's general partner interest, and the percentage of our cash distributions to which it is entitled, is proportionately reduced if we issue additional units (other than Series A Preferred Units) and our general partner does not contribute a proportionate amount of capital to us in order to maintain its general partner interest. As of the date hereof, our general partner's general partner interest had been reduced to 1.83%.

Distributions of Cash Upon Liquidation

If we dissolve in accordance with our partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. Neither the sale of all or substantially all of our property or business, nor the consolidation or merger of us with or into any other entity, individually or in a series of transactions, will be deemed a liquidation. We will apply any proceeds of liquidation available for distribution to our general and limited partners in the manner set forth below.

First, holders of our Series A Preferred Units will have the right to receive the liquidation preference of $24.00 per unit, plus any Series A unpaid cash distributions, plus all accrued but unpaid distributions on such Series A Preferred Units with respect to the quarter in which the liquidation occurs to the date fixed for the payment of any amount upon liquidation.

After such Series A Preferred Unit distributions, we will distribute any remaining proceeds:

- first, to the common unitholders, pro rata, an amount equal to the Cumulative Common Unit Arrearage (as defined in the partnership agreement) of the common units, if any; and
- thereafter, (i) 1.83% to our general partner and (ii) 98.17% to all common unitholders and holders of Class B Units, pro rata.

The immediately preceding two paragraphs are based on the assumption that our general partner maintains its current 1.83% general partner interest and that we do not issue additional classes of equity securities.

Exhibit 8.1

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

Exhibit 12.1

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 17, 2022

KNOT OFFSHORE PARTNERS LP

By: /s/ Gary Chapman
Name: Gary Chapman
Title: Principal Executive Officer and Principal Financial Officer

Exhibit 13.1

CERTIFICATION PURSUANT TO
18 U.S.C. 1350

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of KNOT Offshore Partners LP, a Marshall Islands limited partnership (the "***Partnership***"), certifies, to such officer's knowledge, that:

The annual report on Form 20-F for the year ended December 31, 2021 of the Partnership (the "***Report***") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: March 17, 2022

KNOT OFFSHORE PARTNERS LP

By:	/s/ Gary Chapman
Name:	Gary Chapman
Title:	Principal Executive Officer and Principal Financial Officer

Exhibit 15.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form F-3 No. 333-248518) of KNOT Offshore Partners LP and in the related Prospectus of our reports dated March 17, 2022, 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) for the year ended December 31, 2021.

/s/ Ernst & Young AS

Oslo, Norway

March 17, 2022