Brønnøysundregistrene

ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer:	998 942 829
Organisasjonsform:	Aksjeselskap
Foretaksnavn:	KNOT SHUTTLE TANKERS AS
Forretningsadresse:	Smedasundet 40 5529 HAUGESUND

Regnskapsår

Årsregnskapets periode:	01.01.2021 - 31.12.2021

Konsern

Morselskap i konsern:	Ja
Konsernregnskap lagt ved:	Ja

Regnskapsregler

Regler for små foretak benyttet:	Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet:	Regnskapslovens alminnelige regler
Benyttet ved utarbeidelsen av årsregnskapet til konsernet:	-

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet:	Karl Gerhard Bråstein Dahl
Dato for fastsettelse av årsregnskapet:	10.03.2022

Grunnlag for avgivelse

År 2021: Årsregnskapet er elektronisk innlevert

År 2020: Tall er hentet fra elektronisk innlevert årsregnskap fra 2021

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 05.05.2023

Resultatregnskap

Beløp i: NOK	Note	2021	2020
RESULTATREGNSKAP			
Kostnader			
Administration	6	1 540 693	388 622
Sum kostnader		**1 540 693**	**388 622**
Driftsresultat		**-1 540 693**	**-388 622**
Finansinntekter og finanskostnader			
Financial income	4	734 014 369	644 574 400
Foreign exchange gain/loss		-23 914 879	12 978 957
Sum finansinntekter		**710 099 490**	**657 553 357**
Financial expenses	4	84 490 661	20 732 956
Sum finanskostnader		**84 490 661**	**20 732 956**
Netto finans		**625 608 829**	**636 820 401**
Ordinært resultat før skattekostnad		**624 068 136**	**636 431 779**
Taxes	10	3 875 694	
Ordinært resultat etter skattekostnad		**620 192 442**	**636 431 779**
Årsresultat		**620 192 442**	**636 431 779**
Årsresultat etter minoritetsinteresser		**620 192 442**	**636 431 779**
Totalresultat		**620 192 442**	**636 431 779**

Balanse

Beløp i: NOK	Note	2021	2020
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Utsatt skattefordel	10		
Finansielle anleggsmidler			
Investering i annet foretak i samme konsern	3	3 503 986 192	3 817 990 561
Sum finansielle anleggsmidler		**3 503 986 192**	**3 817 990 561**
Sum anleggsmidler		**3 503 986 192**	**3 817 990 561**
Omløpsmidler			
Varer			
Fordringer			
Receivables	7	1 311 942	30 786 496
Konsernfordringer		187 452 819	6 400 172
Sum fordringer		**188 764 761**	**37 186 669**
Bankinnskudd, kontanter og lignende			
Bank deposits	2	6 715 689	24 777 087
Sum bankinnskudd, kontanter og lignende		**6 715 689**	**24 777 087**
Sum omløpsmidler		**195 480 450**	**61 963 756**
SUM EIENDELER		**3 699 466 642**	**3 879 954 317**
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Share capital	5, 8, 11	606 000 000	606 000 000
Overkurs		1 721 793 239	1 912 001 500
Sum innskutt egenkapital		**2 327 793 239**	**2 518 001 500**

Balanse

Beløp i: NOK	Note	2021	2020
Opptjent egenkapital			
Other equity		611 954 691	636 431 779
Udekket tap	5		
Sum opptjent egenkapital		**611 954 691**	**636 431 779**
Sum egenkapital	5	**2 939 747 930**	**3 154 433 279**
Gjeld			
Langsiktig gjeld			
Utsatt skatt	10		
Other provisions	10		
Annen langsiktig gjeld			
Gjeld til kredittinstitusjoner	12	439 535 988	716 136 329
Langsiktig konserngjeld	7	132 544 500	
Other non-current liabilities	7		
Sum annen langsiktig gjeld		**572 080 488**	**716 136 329**
Sum langsiktig gjeld		**572 080 488**	**716 136 329**
Kortsiktig gjeld			
Leverandørgjeld	7	328 117	395 961
Tax payable	10	3 875 694	
Utbytte		174 429 500	
Kortsiktig konserngjeld		7 339 205	7 051 495
Other current liabilities		1 665 709	1 937 254
Sum kortsiktig gjeld		**187 638 224**	**9 384 709**
Sum gjeld		**759 718 712**	**725 521 038**
SUM EGENKAPITAL OG GJELD		**3 699 466 642**	**3 879 954 317**

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INDEX TO FINANCIAL STATEMENTS OF KNOT OFFSHORE PARTNERS LP

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of KNOT Offshore Partners LP (the Partnership) as of December 31, 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.

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	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

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Report of Independent Registered Public Accounting Firm

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

Opinion on 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

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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.

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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.

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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.

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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)

(U.S. Dollars in thousands)	Partners' Capital: Common Units	Partners' Capital: Class B Units	Partners' Capital: 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.

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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.

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(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.

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(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

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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

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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.

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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.

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(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.

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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.

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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 %

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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;

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- 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

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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.

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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

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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.

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The following table presents the realized and unrealized gains and losses that are recognized in earnings as net gain (loss) on derivative instruments for the years ended December 31, 2021, 2020 and 2019:

	Year Ended December 31,		
(U.S. Dollars in thousands)	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.

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The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- *Cash and cash equivalents and restricted cash:* The fair value of the Partnership's cash balances approximates the carrying amounts due to the current nature of the amounts. As of December 31, 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.

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(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:

(U.S. Dollars in thousands)	Carrying Value December 31, 2021	Fair Value Measurements at Reporting Date Using: Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	—

(U.S. Dollars in thousands)	Carrying Value December 31, 2020	Fair Value Measurements at Reporting Date Using: Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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.

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(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**

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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.

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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**

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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*.

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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.

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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.

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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.

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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

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

(U.S. Dollars in thousands)	As of December 31, 2021		As of December 31, 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		As of December 31, 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.

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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.

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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

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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.

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(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.

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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.

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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.

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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

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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**

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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.

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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.

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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.

KNOT Shuttle Tankers AS

Annual Report 2021

KNOT
Offshore Partners LP

KNOT SHUTTLE TANKERS AS

(the "Company")

DIRECTORS' REPORT 2021

KNOT Shuttle Tankers AS controls a modern fleet of specialised offshore loading dynamic positioning vessels. The Company is the holding company for several ship-owning subsidiaries and operates out of Haugesund, Norway. The Company is ultimately the subsidiary of KNOT Offshore Partners LP ("KNOP") controlling the Norwegian owned and tonnage taxed entities in the KNOP Group.

The Company's activities

The Company operates a modern fleet of specialised shuttle tankers on long-term contracts to first class charterers.

KNOT Management AS in Haugesund and KNOT Management Denmark A/S in Copenhagen is responsible for the operation of the vessels in accordance with separate management agreements with each of the ship owning companies or the charterers. The ship owning companies have no direct employees. The crew onboard the vessels are employed by the manager's or their subcontractors.

Our vessels transport oil from several oil fields in the Northern Europe and Brazil. The vessels operate in a demanding trade with frequent offshore loadings and subsequent port calls, requiring high quality operations.

Profit for the year

KNOT Shuttle Tankers AS accounting principle for shares is to value them according to the cost method.

The Company does not have own operation, and total operating income was NOK 0, and after operating expenses for the Company of NOK 1 540 693 (NOK 388 622 in 2020) this contributed to an operating result of minus NOK 1 540 693 (minus NOK 388 622 in 2020). Net financial gain summarizes to NOK 625 608 829 (NOK 636 820 401 in 2020). The financial gain includes NOK 604 234 446 in dividends from subsidiaries (NOK 641 396 250 in 2020). Ordinary result before tax amounted to NOK 596 747 323 (NOK 636 431 779 in 2020). Result of the year after tax amounted NOK 620 192 442 (NOK 636 431 779 in 2020). The Company is tonnage taxed in Norway and net financial items with tax adjustments is taxable. The tax calculations are further explained in the notes to the accounts.

The Board of Directors proposes that the result for the year is transferred to other equity. The Company have during 2021 paid out extraordinary dividend to the owner in the amount of NOK 660 448 292. In addition the company has paid out dividend amounting to NOK 174 429 500 in 2022.

The total liquidity position of the Company was NOK 6 715 689 as at 31.12.2021, NOK 24 777 087 as at 31.12.2020. Total short-term debt amounted to 24.7 % of total debt and liabilities at end of 2021 compared to 1.3 % at end of 2020.

Total assets at year-end amounted to NOK 3 699 466 642, compared to NOK 3 879 954 317 in 2020. Equity-share as at 31.12.2021 was 79 % compared to 81 % as at 31.12.2020.

The Financial Statements have been prepared under the assumption of going concern, and the board of directors confirms that this assumption is in accordance with the Norwegian Accounting Act § 3-3.

Risk factors

The Group's result from the operational activities and vessels depends on the world-wide market for vessels within the shuttle tanker and crude oil tanker segments. Market conditions for shipping activities are typically volatile and, consequently, the result may vary considerably from year to year. The market in broad terms is dependent upon two factors: the supply of vessels and the overall growth in the world economy. The general supply of vessels is a combination of new buildings, demolition of older tonnage and legislation that limits the use of older vessels or new standards for vessels used in specific trades.

The company invest in new and modern vessels with long-term contract so secure earnings and reduce dependency to the oil price.

The Group has a combination of long and short terms fixed charter contracts where typically the larger investments have longer term employment significantly mitigating the earnings risk.

The Group has a high leverage as a result of the high financing capacity in the long-term contracts and such financing involves interest and currency risks. The board and management are well aware of the exposure to such financial risks and employ strategies and financial instruments in order to reduce such risks. The fleet is leased out on time charter contracts and bare-boat contracts to oil- and energy companies, reducing the risk for market volatility and credit risk. The majority of our income is denominated in USD whereas parts of the operating expenses are in European currencies resulting in some currency exposure. To reduce these risks, the Company from time to time employs hedging actively, commonly by forward contracts in relation to USD. The vessels are financed in USD which gives a natural hedge against freight income and second-hand market for vessels. The debt financing has variable interest rates, but a substantial part of the debt for the vessels on long-term charters are hedged with interest rates swaps.

Environment, safety, and quality control

Shipping is being subjected to ever-stricter environmental and safety requirements, and both the Company, and the managers, have joint objectives concerning high quality of the operation of the vessels. The Company's fleet consists of modern vessels of high technical standards where all of the vessels have double hull.

The Group and the managers place considerable emphasis on safety and quality control, and strict requirements are put on safety and the systems for operation of the vessels.

Safety and environmental compliance are our top operational priority. Our vessels are operated in a manner intended to protect the safety and health of our employees, the public and the environment. We actively manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions, and petroleum spills. We are also committed to reducing emissions and waste generation. We have established key performance indicators to facilitate regular monitoring of our operational performance. We set targets on an annual basis to drive continuous improvement, and we review performance indicators monthly to determine if remedial action is necessary to reach our targets. There are no indications that the Group pollutes the external environment significantly other than within the normal emissions for a tanker operation.

DNV GL, a Norwegian classification society, has approved KNOT's safety management system 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, and this system has been implemented on all our ships. 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.

Equal opportunity

The Group aims to be a workplace where there is no discrimination related to gender, ethnicity, religion, or disability.

The Group and the manager aim to avoid gender discrimination regarding salary, promotion and recruiting, which is included in the manager's policies. The managers have traditionally recruited from environments equally dominated by both men and women for its land-based activity, while there is a generally male dominated environment for applicants and recruitment of crew onboard the vessel. The members of the Board of Directors are all men. There have not been taken out any board of directors liability insurance.

Future developments

The Board of Directors has every reason to believe that Company and the subsidiaries will have a positive year in 2022.

Haugesund, March 10, 2022

Trygve Seglem
Chairman of the Board

Karl Gerhard Bråstein Dahl
Member of the Board

Takashi Domyo
Member of the Board

KNOT Shuttle Tankers AS

Profit & Loss Account

	Note	2021	2020
Operating Expenses			
Administration	6	1 540 693	388 622
Total Operating Expenses		1 540 693	388 622
Operating Result		-1 540 693	-388 622
Financial Income and Expenses			
Financial income	4	734 014 369	644 574 400
Foreign exchange gain/loss		-23 914 879	12 978 957
Financial expenses	4	-84 490 661	-20 732 956
Net Financial Items		625 608 829	636 820 401
Result before taxes		624 068 136	636 431 779
Taxes	10	-3 875 694	0
Result for the year		620 192 442	636 431 779

KNOT Shuttle Tankers AS

Balance Sheet as of 31. December

Assets	**Note**	2021	2020
Non Current Assets			
Investments in other group companies	**3**	3 503 986 192	3 817 990 561
Total non Current Assets		3 503 986 192	3 817 990 561
Current Assets			
Receivables	**7**	1 311 942	30 786 496
Current receivables group		187 452 819	6 400 172
Bank deposits	**2**	6 715 689	24 777 087
Total Current Assets		195 480 450	61 963 756
TOTAL ASSETS		3 699 466 642	3 879 954 317

KNOT Shuttle Tankers AS

Balance Sheet as of 31. December

Shareholders Equity and Liabilities	**Note**	2021	2020
Equity			
Share capital	**5, 8, 11**	606 000 000	606 000 000
Share premium		1 721 793 239	1 912 001 500
Total capital paid-in		2 327 793 239	2 518 001 500
Other equity		611 954 691	636 431 779
Total Shareholders' Equity	*5*	2 939 747 930	3 154 433 279
Long Term Debt			
Liabilities to financial institutions	**12**	439 535 988	716 136 329
Long-term debt group	**7**	132 544 500	0
Total Long Term Debt		572 080 488	716 136 329
Current Liabilities			
Accounts payable	**7**	328 117	395 961
Tax payable	**10**	3 875 694	0
Current liabilities group		7 339 205	7 051 495
Dividends		174 429 500	0
Other current liabilities		1 665 709	1 937 254
Total Current Liabilities		187 638 224	9 384 709
Total liabilities		759 718 712	725 521 038
SHAREHOLDERS' EQUITY AND LIABILITIES		3 699 466 642	3 879 954 317

Haugesund, March 10, 2022
The board of KNOT Shuttle Tankers AS

Trygve Seglem
chairman of the board

Karl Gerhard Bråstein Dahl
member of the board

Takashi Domyo
member of the board

KNOT SHUTTLE TANKERS AS

CASH FLOW STATEMENT

	2021	2020
Cashflow from operations		
Total generated from operations 1)	699 301 480	620 602 001
Change in working capital	-151 629 770	-20 474 804
Net cashflow from operations	547 671 710	600 127 197
Cashflow from investments		
Net repaid investments from subsidiaries	250 670 712	-68 308 257
Net cashflow from investments	250 670 712	-68 308 257
Cashflow from financing		
Paid-out dividend	-660 448 292	-795 670 690
Instalments/drawings - mortgage debt	-283 493 028	283 497 651
Loans group companies/related parties	127 537 500	0
Net cashflow from financing	-816 403 820	-512 173 039
Net change in cashflow for the period	-18 061 398	19 645 901
+ Cash balance per 01.01	24 777 087	5 131 186
= Cash Balance per 31.12.	**6 715 689**	**24 777 087**

1) Generated from operations:

	2021	2020
The result for the period before taxes	624 068 136	636 431 779
+Amortized debt issuance cost	1 364 584	1 107 431
+Write-down subsidiaries	63 333 657	0
+ unrealized/realized profit/loss on foreign exchange mortgage debt	5 528 103	-16 937 210
+Unrealized/realized profit/loss on foreign exchange loans	5 007 000	0
= Total generated from operations	699 301 480	620 602 001

KNOT Shuttle Tankers AS

Notes to the Financial Statement 31.12.2021

1 Accounting Principles

The financial statement is prepared in accordance with the Norwegian Accounting Act and generally accepted accounting standards for small companies.

Tax

The company have elected to be taxed based on the Norwegian tonnage tax regime. In the tonnage tax regime the company pay a tonnage tax based on the weight of the owned vessels and taxable result is based on a taxable financial result. This means that the company's operating results is not taxable. The taxable financial result is based on the net financial items in the profit and loss account where only a portion of the foreign exchange gain is taxable and a portion of the foreign exchange loss and interest expenses is deductible. The portion is based on the amount of financial assets compared to total assets in the balance sheet. The company will also have to pay a calculated tax on the equity if the equity exceed 70% of total capital.
Tonnage tax is classified as an operating expense in the profit and loss statement.

The calculated tax expenses in the profit and loss statement includes both the payable tax for the period in addition to the change in deferred tax. Deferred tax is calculated based on the temporary differences between the balance sheet values in the accounts and the tax values in addition to the tax loss carried forward at the end of the financial year. Tax increasing and decreasing changes in temporary differences that can be reversed in the same period are offset and the net value is taken into the accounts

Interests in subsidiaries

Interests in subsidiaries are presented by the cost method. As a result, the company's share of income is not included in the Profit and Loss Account.

Related party transactions

The Company has undertaken several agreements and transactions with related parties in the Knutsen NYK Offshore Tankers Group and KNOT Offshore Partners Group. The level of fees are based on market terms and are in accordance with the arm's length principle. KNOT Management AS delivers services to the Company performed by corporate functions like management, legal, accounting and controlling, risk management and commercial management.

2 Bank deposits

The company doesn't have restricted cash per 31.12.

3 Investments in subsidiaries

In accounting the share is presented under the cost method. As a result, the company's share of income is not included in net income.

Shares in subsidiaries

Investments	Year - purchased	Owner- and voting share	Equity 31.12 NOK.	Last years result NOK	Book value
KNOT Shuttle Tankers 12 AS	2013	100%	118 613 208	118 449 475	91 112 566
Knutsen Shuttle Tankers XII AS	2013	100%	13 760 863	13 099 900	11 266 863
KNOT Shuttle Tankers 17 AS	2013	100%	455 426 390	-51 899 922	504 773 726
Knutsen Shuttle Tankers 13 AS	2013	100%	174 288 542	70 814 313	182 162 055
KNOT Shuttle Tankers 18 AS	2013	100%	297 735 434	-52 352 264	297 735 434
KNOT Shuttle Tankers 20 AS	2014	100%	237 835 288	35 349 468	217 885 530
Knutsen Shuttle Tankers 14 AS	2014	100%	86 670 680	68 434 140	79 257 587
Knutsen Shuttle Tankers 15 AS	2014	100%	96 207 158	72 063 003	95 268 123
KNOT Shuttle Tankers 21 AS	2015	100%	215 692 305	34 122 470	215 692 305
Knutsen NYK Shuttle Tankers 16 AS	2015	100%	241 736 605	56 031 324	207 448 891
Knutsen Shuttle Tankers 19 AS	2016	100%	35 158 233	28 016 636	69 418 939
KNOT Shuttle Tankers 24 AS	2017	100%	312 181 016	34 540 244	300 012 463
KNOT Shuttle Tankers 25 AS	2017	100%	294 866 414	55 238 333	285 921 755
KNOT Shuttle Tankers 26 AS	2017	100%	294 323 131	60 928 907	298 420 678
KNOT Shuttle Tankers 32 AS	2017	100%	148 236 644	38 905 825	200 646 293
KNOT Shuttle Tankers 30 AS	2018	100%	248 235 394	57 635 319	230 400 246
KNOT Shuttle Tankers 34 AS	2020	100%	183 396 654	26 464 220	216 562 739
Net book value subsidiaries in KNOT Shuttle Tankers AS					3 503 986 192

4 Financial Income and -Expenses

	2021	2020
Financial income:		
Dividend from subsidiaries	694 888 916	641 396 250
Other interest income	449	77 133
Guarantee income group	39 125 004	3 101 017
Total financial income	734 014 369	644 574 400

	2021	2020
Financial expenses:		
Interest expenses	15 079 415	18 301 368
Write-down subsidiaries	63 333 657	0
Other financial expenses	209 181	94 063
Guarantee expenses group	0	2 337 525
Interest expenses group	5 868 408	0
Total financial expenses	84 490 661	20 732 956

5 Equity

Specification of the equity per 31.12

	Share capital	Share premium	Other equity	Total equity
Equity 1.1	606 000 000	1 912 001 500	636 431 779	3 154 433 279
Result of the year	0	0	620 192 442	620 192 442
Paid-out dividend in 2022	0	0	-174 429 500	-174 429 500
Dividend	0	-190 208 262	-470 240 030	-660 448 292
Equity 31.12.	606 000 000	1 721 793 239	611 954 691	2 939 747 930

6 Remuneration

The company have not paid salary or any other remuneration, nor given any loan or guarantees to any leading person or board members during the year.

Auditor's fee (excl. VAT):	2021	2020
Auditing	10 994	30 746
Other assurance services	0	0
Tax services	0	0
	10 994	30 746

7 Balances with related parties

	2021	2020
Accounts payable		
KNOT Management AS	328 117	385 330
Knutsen OAS Shipping AS	0	218
	328 117	385 548

Long-term debt group		2021	2020
KNOT Shuttle Tankers AS	USD	15 000 000	0

Knutsen Shuttle Tankers 19 AS has lent out USD 15 million of the proceeds from the sale-lease back transaction to the owner, KNOT Shuttle Tankers AS. The intergroup loan shall fall due and be payable as one instalment on the final maturity date, 1 December 2029. The rate of interest during its term shall be the rate per annum determined by the lender to be the aggregate of 3 month LIBOR and margin of 2.125 per cent. The loan is booked at the exchange rate at the balance sheet date.

	2021	2020
Receivables		
Knutsen OAS Shipping AS	293	0
Knutsen NYK Offshore Tankers AS	384 064	30 705 006
KNOT Shuttle Tankers 31 AS	860 600	0
	1 244 957	30 705 006

The receivable from Knutsen NYK Offshore Tankers AS in 2020 is related to the purchase of KNOT Shuttle Tankers 34 A and was paid in February 2021.

8 Shares Owned by Board Members and Affiliates

Trygve Seglem controls TS Shipping Invest AS, which owns 50 % of the company Knutsen NYK Offshore Tankers AS, which controls 30,47% of KNOT Offshore Partners LP.

KNOT Shuttle Tankers AS is controlled 100% by KNOT Offshore Partners LP. Accounting for the Group can be obtained from the webside, http://knotoffshorepartners.com/.

9 Employees

The company has no employees and thereby no pension liabilities (under the new OTP regulation). KNOT Management AS manages the Company in accordance with a separate managment agreement.

10 Tax

The company is taxed based on the shipping tax regime. This means that companies are not taxed on the basis of its operating results. There are however ordinary tax of 22% on the company's net financial income.

Temporary differences relating to financial items are assesed when calculating deferred tax / benefit, which is 22% of net temporary differences. The accounting treatment follows the general valuation rules for capitalization.

Specification on the temporary differences:

	31-12-21	Change	31-12-20
Loss carried forward	0	16 458 433	-16 458 433
USD debt	0	0	0
Temporary differences	0	16 458 433	-16 458 433
Calculated deferred tax	0	3 620 855	-3 620 855
Deferred tax	0	0	0

Tax cost	2021	2020
Financial Results	688 942 486	636 820 401
Received dividend	-694 888 916	-641 396 250
Deductable financial items	0	-136 554
Non-deductible interest / taxable interest	19 103 826	17 385 854
Foreign exchange gain/loss, not taxable	20 917 829	-12 703 920
Tax base prior losses carried forward	34 075 226	-30 469
Changes in temporary differences	-16 458 433	30 469
Base for tax payable	17 616 793	0
Tax payable	3 875 694	0
Change deferred tax	0	0
Tax costs calculated	**3 875 694**	**0**

11 Share capital

Share capital consists of

	Number of shares	Face value (NOK)	Balance post
Ordinary shares	3 000	202 000	606 000 000

The shareholders of the company are per 31.12.

	Ordinary shares	Ownership %	Voting share
KNOT Offshore Partners UK LLC	3 000	100%	100%

12 Mortgage Debt

31-12-21	USD	Historical rate	Rate as at 31.12.	NOK
Unsecured USD revolver facility	50 000 000	8,2573	8,8363	441 814 999
Deferred debt issuance				-2 279 011
				439 535 988
Current portion:				
USD-loan	0			0
Deferred debt issuance				-1 338 675
				-1 338 675

31-12-20	USD	Historical rate	Rate as at 31.12.	NOK
Unsecured USD revolver facility	84 278 861	8,2573	8,5375	719 530 772
Deferred debt issuance				-3 394 443
				716 136 329
Current portion:				
USD-loan	0			0
Deferred debt issuance				-1 301 451
				-1 301 451

The USDNOK exchange rate at the year-end was 8,8363 (8,5375 in 31.12.2020).

The estimated outstanding debt per 2026 is USD 50 million.

EY
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Statsautoriserte revisorer
Ernst & Young AS

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www.ey.no
Medlemmer av Den norske Revisorforening

To the Shareholders' Meeting of KNOT Shuttle Tankers AS

INDEPENDENT AUDITOR`S REPORT

Opinion

We have audited the financial statements of KNOT Shuttle Tankers AS (the company) which comprise the balance sheet as at December 31, 2021, the statement of income and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion

- the financial statements comply with applicable statutory requirements, and
- the financial statements present fairly in all material respects the financial position of the Company as at December 31, 2021 and (of) its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company as required by laws and regulations and the International Ethics Standards Board for Accountants' Code of International Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Other information consists of the information included in the annual report other than the financial statements and our auditor's report thereon. Management (the board of directors) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the information in the Board of Directors' report and for the other information presented with the financial statements. The purpose is to consider if there is materially inconsistency between the information in the Board of Directors' report and the other information presented with the financial statements and the financial statements or our knowledge obtained in the audit, or the information in the Board of Directors' report and for the other information presented with the financial statements otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management for the Financial Statements

The management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

Oslo, 10 March 2022
Ernst & Young AS

Johan Lid Nordby
State Authorised Public Accountant
(This document is signed electronically)

PENNEO

The signatures in this document are legally binding. The document is signed using Penneo™ secure digital signature. The identity of the signers has been recorded, and are listed below.

"By my signature I confirm all dates and content in this document."

Johan Nordby
Statsautorisert revisor
On behalf of: Ernst & Young AS
Serial number: 9578-5997-4-729076
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2022-03-10 11:11:36 UTC

bank ID

Penneo document key: 21BVS-P4227-J5VI6-TDIE0-KCWZC-LC4M8

Skattedirektoratet

Saksbehandler
Torstein Kinden Helleland

Telefon
22078139

Deres dato
25.01.2013

Deres referanse

Vår dato
30.01.2013

Vår referanse
2013/72130

KNUTSEN OAS SHIPPING AS
Postboks 2017
5504 HAUGESUND

Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk

Det vises til deres brev av 25. januar 2013 og telefonsamtale i sakens anledning. Det søkes om dispensasjon fra kravet om å utarbeide årsregnskap og årsberetning på norsk språk på vegne av;

Knutsen EOR Solutions AS	**org. nr. 999 332 676**
Knutsen Shuttle Tankers 19 AS	**org. nr. 999 274 323**
Knutsen Shuttle Tankers Invest AS	**org. nr. 999 250 793**
KNOT Shuttle Tankers 17 AS	**org. nr. 998 942 969**
KNOT Shuttle Tankers 18 AS	**org. nr. 998 943 035**
KNOT Shuttle Tankers AS	**org. nr. 998 942 829**

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering de overnevnte selskaper dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen forutsetter at engelsk språk benyttes i stedet ved utarbeidelsen, og at øvrige opplysninger som vedtaket baserer seg på, heller ikke endres vesentlig.

Bakgrunn
Knutsen EOR Solutions AS er eid 100 % av TS Shipping Invest AS. De øvrige selskapene er eid 50 % av TS Shipping Invest AS og 50 % av NYK Logistics Holding (Europe) B.V. som er hjemmehørende i Nederland. TS Shipping Invest AS fikk i vedtak (2010/867030) av 2. juni 2010 dispensasjon fra kravet om utarbeidelse av årsregnskap og årsberetning på norsk språk. Det er også gitt tillatelse til datter selskaper og selskaper som er eid 50 % av TS Shipping Invest AS og 50 % av NYK Logistics Holding (Europe) B.V. Selskapene driver virksomhet innen shippingbransjen som er en global bransje hvor engelsk primært benyttes ved kommunikasjon med omverden. Selskapene benytter også engelsk som arbeidsspråk internt. Brukerne av regnskapene er hovedsakelig aksjonærer, banker samt interessegrupper tilknyttet driften. Styrene i selskapene har medlemmer som ikke er norskspråklige. De norske versjonene av årsregnskapet utarbeides kun for å tilfredsstille regnskapsloven.

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22 17 08 60

Skattedirektoratets vurdering
Etter regnskapsloven § 3-4 tredje ledd skal "*årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk.*"

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

> *"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."*

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *"informative regnskaper for ulike grupper av regnskapsbrukere"*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har Skattedirektoratet lagt vekt på at tilsvarende selskaper i konsernet er innvilget dispensasjon. Eierkretsen er begrenset. Selskapene opererer i en global bransje hvor engelsk primært benyttes. Arbeidsspråk er også engelsk. Videre er det vektlagt at styrene i selskapene har medlemmer som ikke er norskspråklige.

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad
Rune Tystad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland