



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2022 - GENERELL INFORMASJON

### Enheten

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

### Regnskapsår

Årsregnskapets periode:	01.01.2022 - 31.12.2022
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### Konsern

Mørselskap 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:	17.03.2023

### Grunnlag for avgivelse

År 2022: Årsregnskapet er elektronisk innlevert
År 2021: Tall er hentet fra elektronisk innlevert årsregnskap fra 2022

*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, 05.05.2024



### Resultatregnskap

Beløp i: NOK	Note	2022	2021
<b>RESULTATREGNSKAP</b>			
<b>Kostnader</b>			
Administration	1	894 213	1 540 693
<b>Sum kostnader</b>		<b>894 213</b>	<b>1 540 693</b>
<b>Driftsresultat</b>		<b>-894 213</b>	<b>-1 540 693</b>
<b>Finansinntekter og finanskostnader</b>			
Financial income	2	255 004 817	734 014 369
Foreign exchange gain/loss		-57 778 741	-23 914 879
<b>Sum finansinntekter</b>		<b>197 226 076</b>	<b>710 099 490</b>
Financial expenses	2	-11 093 577	84 490 661
<b>Sum finanskostnader</b>		<b>-11 093 577</b>	<b>84 490 661</b>
<b>Netto finans</b>		<b>208 319 653</b>	<b>625 608 829</b>
<b>Ordinært resultat før skattekostnad</b>		<b>207 425 440</b>	<b>624 068 136</b>
Taxes	3	8 980 170	3 875 694
<b>Ordinært resultat etter skattekostnad</b>		<b>198 445 270</b>	<b>620 192 442</b>
<b>Årsresultat</b>		<b>198 445 270</b>	<b>620 192 442</b>
<b>Årsresultat etter minoritetsinteresser</b>		<b>198 445 270</b>	<b>620 192 442</b>
<b>Totalresultat</b>		<b>198 445 270</b>	<b>620 192 442</b>



## Balanse

Beløp i: NOK	Note	2022	2021
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
Utsatt skattefordel	3		
<b>Finansielle anleggsmidler</b>			
Investering i annet foretak i samme konsern	4	3 852 072 361	3 503 986 192
<b>Sum finansielle anleggsmidler</b>		<b>3 852 072 361</b>	<b>3 503 986 192</b>
<b>Sum anleggsmidler</b>		<b>3 852 072 361</b>	<b>3 503 986 192</b>
<b>Omløpsmidler</b>			
<b>Varer</b>			
<b>Fordringer</b>			
Receivables	9	67 671	1 311 942
Konsernfordringer		135 648 868	187 452 819
<b>Sum fordringer</b>		<b>135 716 539</b>	<b>188 764 761</b>
<b>Bankinnskudd, kontanter og lignende</b>			
Bank deposits	5	80 885 845	6 715 689
<b>Sum bankinnskudd, kontanter og lignende</b>		<b>80 885 845</b>	<b>6 715 689</b>
<b>Sum omløpsmidler</b>		<b>216 602 384</b>	<b>195 480 450</b>
<b>SUM EIENDELER</b>		<b>4 068 674 745</b>	<b>3 699 466 642</b>
<b>BALANSE - EGENKAPITAL OG GJELD</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Share capital		606 000 000	606 000 000
Overkurs		1 696 082 680	1 721 793 239
<b>Sum innskutt egenkapital</b>		<b>2 302 082 680</b>	<b>2 327 793 239</b>



## Balanse

Beløp i: NOK	Note	2022	2021
<b>Opptjent egenkapital</b>			
Other equity		198 445 270	611 954 691
Udekket tap	6		
<b>Sum opptjent egenkapital</b>		<b>198 445 270</b>	<b>611 954 691</b>
<b>Sum egenkapital</b>	6, 7	<b>2 500 527 950</b>	<b>2 939 747 930</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			
Utsatt skatt	3	2 577 659	
<b>Sum avsetninger for forpliktelser</b>		<b>2 577 659</b>	
<b>Annen langsiktig gjeld</b>			
Gjeld til kredittinstitusjoner	8	1 039 231 034	439 535 988
Langsiktig konserngjeld	8	479 479 440	132 544 500
<b>Sum annen langsiktig gjeld</b>		<b>1 518 710 474</b>	<b>572 080 488</b>
<b>Sum langsiktig gjeld</b>		<b>1 521 288 133</b>	<b>572 080 488</b>
<b>Kortsiktig gjeld</b>			
Leverandørgjeld	9	316 973	328 117
Tax payable	3	6 402 502	3 875 694
Utbytte			174 429 500
Kortsiktig konserngjeld		31 926 057	7 339 205
Other current liabilities		8 213 130	1 665 709
<b>Sum kortsiktig gjeld</b>		<b>46 858 662</b>	<b>187 638 224</b>
<b>Sum gjeld</b>		<b>1 568 146 795</b>	<b>759 718 712</b>
<b>SUM EGENKAPITAL OG GJELD</b>		<b>4 068 674 745</b>	<b>3 699 466 642</b>



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**KNOT OFFSHORE PARTNERS LP**  
**Consolidated Statements of Changes in Partners' Capital**  
**For the Years Ended December 31, 2022, 2021 and 2020**

(U.S. Dollars in thousands)

<i>(U.S. Dollars in thousands)</i>	Partners' Capital			Accumulated Other Comprehensive Income (Loss)	Total Partners' Capital	Series A Convertible Preferred Units
	Common Units	Class B Units	General Partner Units			
<b>Consolidated balance at December 31, 2019</b>	<b>\$ 611,241</b>	<b>\$ —</b>	<b>\$ 11,155</b>	<b>\$ —</b>	<b>\$ 622,396</b>	<b>\$ 89,264</b>
Net income	56,953	—	1,072	—	58,025	7,200
Other comprehensive income	—	—	—	—	—	—
Cash distributions	(70,804)	—	(1,332)	—	(72,136)	(7,200)
<b>Consolidated balance at December 31, 2020</b>	<b>\$ 597,390</b>	<b>\$ —</b>	<b>\$ 10,895</b>	<b>\$ —</b>	<b>\$ 608,285</b>	<b>\$ 89,264</b>
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	(10,079)	10,463	(384)	—	—	—
Net proceeds from ATM program	525	—	—	—	525	—
Conversion of Class B units to common units (1)	1,308	(1,308)	—	—	—	—
Other comprehensive income	—	—	—	—	—	—
Cash distributions	(70,704)	(350)	(1,332)	—	(72,386)	(7,000)
<b>Consolidated balance at December 31, 2021</b>	<b>\$ 568,762</b>	<b>\$ 9,453</b>	<b>\$ 10,492</b>	<b>\$ —</b>	<b>\$ 588,707</b>	<b>\$ 84,308</b>
Net income	50,297	619	951	—	51,867	6,800
Conversion of Class B units to common units (1)	5,238	(5,238)	—	—	—	—
Other comprehensive income	—	—	—	—	—	—
Cash distributions	(70,375)	(963)	(1,332)	—	(72,670)	(6,800)
<b>Consolidated balance at December 31, 2022</b>	<b>\$ 553,922</b>	<b>\$ 3,871</b>	<b>\$ 10,111</b>	<b>\$ —</b>	<b>\$ 567,904</b>	<b>\$ 84,308</b>

(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. As of December 31, 2022, an additional 336,540 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, 2022, 2021 and 2020**  
**(U.S. Dollars in thousands)**

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2022	2021	2020
<b>OPERATING ACTIVITIES</b>			
Net income(1)	\$ 58,667	\$ 53,876	\$ 65,225
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	107,419	99,559	89,743
Impairment	—	29,421	—
Amortization of contract intangibles / liabilities	(1,442)	(912)	(912)
Amortization of deferred debt issuance cost	2,692	3,519	2,503
Drydocking expenditure	(17,614)	(4,235)	(2,724)
Income tax expense	875	488	10
Income taxes paid	(422)	(83)	(87)
Unrealized (gain) loss on derivative instruments	(38,490)	(20,054)	22,042
Unrealized (gain) loss on foreign currency transactions	49	13	(507)
Changes in operating assets and liabilities:			
Decrease (increase) in amounts due from related parties	723	3,058	(3,039)
Decrease (increase) in inventories	(2,163)	(653)	(225)
Decrease (increase) in other current assets	(9,689)	(117)	(1,865)
Decrease (increase) in accrued revenue	1,450	1,418	1,108
Increase (decrease) in trade accounts payable	251	18	700
Increase (decrease) in accrued expenses	3,528	1,048	(1,859)
Increase (decrease) prepaid charter	(4,682)	763	(1,469)
Increase (decrease) in amounts due to related parties	(210)	(716)	597
<b>Net cash provided by operating activities</b>	<b>100,942</b>	<b>166,411</b>	<b>169,241</b>
<b>INVESTING ACTIVITIES</b>			
Additions to vessel and equipment	(3,309)	(11,536)	(339)
Acquisition of <i>Synnøve Knutsen</i> (net of cash acquired)	(32,205)	—	—
Acquisition of <i>Tove Knutsen</i> (net of cash acquired)	—	—	(21,094)
<b>Net cash used in investing activities</b>	<b>(35,514)</b>	<b>(11,536)</b>	<b>(21,433)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from long-term debt (Note 17)	167,000	444,300	33,000
Repayment of long-term debt (Note 17)	(166,609)	(505,822)	(92,834)
Payment of debt issuance cost	(889)	(5,215)	(90)
Cash distributions	(79,470)	(79,386)	(79,336)
Net proceeds from issuance of General Partner units	—	451	—
Net proceeds from public offering	—	525	—
<b>Net cash used in financing activities</b>	<b>(79,968)</b>	<b>(145,147)</b>	<b>(139,260)</b>
Effect of exchange rate changes on cash	(174)	(18)	510
Net increase (decrease) in cash and cash equivalents	(14,714)	9,710	9,058
Cash and cash equivalents at the beginning of the period	62,293	52,583	43,525
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 47,579</b>	<b>\$ 62,293</b>	<b>\$ 52,583</b>

(1) Included in net income is interest paid amounting to \$37.3 million, \$25.1 million and \$31.0 million for the years ended December 31, 2022, 2021 and 2020, respectively.

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, 2022, the Partnership had a fleet of eighteen 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*, the *Tove Knutsen* and the *Symmøve 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 2023 and 2027. Please see Note 6—Operating Leases.

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

On July 1, 2022, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT Shuttle Tankers 35 AS, the company that owns the *Symmøve Knutsen*, from KNOT. The acquisition of the *Symmøve Knutsen* was accounted for as an acquisition of an asset. As a result, the Partnership has recorded the results of operations of the *Symmøve Knutsen* in its consolidated statement of operations from July 1, 2022. See Note 23—Acquisitions.

The Partnership expects that its primary future sources of funds will be available cash, cash from operations, borrowings under any new loan agreements and the proceeds of any debt or equity financings, including net proceeds from sales under its ATM program. The Partnership believes that these sources of funds (assuming the current rates earned from existing charters) will be sufficient to cover operational cash outflows, working capital requirements and ongoing obligations under the Partnership’s lease obligations and financing commitments to pay loan interest and make scheduled loan repayments and to make distributions on its outstanding units assuming the Partnership is able to timely refinance its maturing credit facilities on similar terms as its existing facilities. Accordingly, as of March 30, 2023, the Partnership believes that its current resources are sufficient to meet working capital requirements and other cash requirements for its current business for at least the next twelve months. See Note 17—Long-Term Debt.

##### **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 23—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 lease element is accounted for as an operating lease on a straight-line basis over the term of the charter, while the non-lease service element consisting of the operation of the vessel is recognized over time as the services are delivered. Revenue from time charters 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. 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 on a load-to-discharge basis.

In connection with the installation of the volatile organic compound emissions ("VOC") control equipment on the *Bodil Knutsen*, the Partnership is receiving a grant to compensate for expenses incurred in relation to the retrofit of the vessel, the installation of the equipment and maintenance and operation of the unit. These grants or contributions are recorded as deferred revenue when they are received. The deferred revenue is recognized as other income over the useful life of the related asset.

Voyage expenses are all expenses unique to a particular voyage, including commissions to third parties, 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 commissions, 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 19—Related Party Transactions.

### **(f) Financial Income (Expense)**

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



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### ***(g) Cash and Cash Equivalents***

The Partnership considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

### ***(h) Trade Accounts Receivable***

Accounts receivable are recorded at the invoiced amount and do not bear interest. Time charter and bareboat charter contracts require customers to pay in advance of the period of hire. 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, 2022 and 2021.

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.



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Depreciation on vessels and equipment is calculated on a straight-line basis over the asset's estimated useful life, less an estimated residual value, as follows:

	<u>Useful Life</u>
Hull	23 years
Anchor-handling, loading and unloading equipment	23 years
Main/auxiliary engine	23 years
Thruster, dynamic positioning systems, cranes and other equipment	23 years
Drydock costs	2.5 – 5 years

A Vessel is depreciated to its estimated residual value, which is calculated based on the weight of the ship and estimated steel price. Any cost related to the disposal is deducted from the residual value.

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

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

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

### ***(m) Capitalized Interest***

Interest expense incurred on the Partnership's debt during the construction of the Vessels exceeding one year is capitalized during the construction period.

### ***(n) Impairment of Long-Lived Assets***

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

### ***(o) Intangibles***

Intangible assets represent contractual rights for charters obtained in connection with business and asset acquisitions that have favorable contractual terms relative to market as of the acquisition dates. Contract liabilities represent contractual rights obtained in connection with business acquisitions that have unfavorable contractual terms relative to market as of the acquisition dates. The favorable and unfavorable contract rights have definite lives and are amortized to revenues over the period of the related contracts. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount exceeds the estimated fair value of the asset.



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

<u>Intangible category</u>	<u>Amortization Period</u>
Above market time charter— <i>Tordis Knutsen</i>	4.8 years
Above market time charter— <i>Vigdís Knutsen</i>	4.9 years
Unfavorable contractual rights— <i>Fortaleza Knutsen</i>	12 years
Unfavorable contractual rights— <i>Recife Knutsen</i>	12 years

The intangible for the above market value of the time charter contract associated with the *Tordis Knutsen* was 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 which expired in December 2021. The intangible for the above market value of the time charter contract associated with the *Vigdís Knutsen* was 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 which expired in March 2022.

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 expire 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



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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 18—Income Taxes.

The Partnership accounts for deferred income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Partnership's assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

Recognition of uncertain tax positions is dependent upon whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements based on U.S. GAAP guidance. The Partnership recognizes interest and penalties related to uncertain tax positions in income tax expense.

### **(s) Prepaid Charter**

Under terms of the time charters and bareboat charters, the customer pays for the month's charter the first day of each month that is recorded as prepaid charter revenues.

### **(t) Commitments, Contingencies and Insurance Proceeds**

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. See Note 20—Commitments and Contingencies.

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

### **(u) Fair Value Measurements**

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

- *Level 1 Inputs:* Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- *Level 2 Inputs:* Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- *Level 3 Inputs:* Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.



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### **(v) Recently Adopted Accounting Standards**

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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* that 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 EPS 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 did not materially impact the Partnership.

### **(w) New Accounting Standards Not Yet Adopted**

In March 2020, the FASB issued ASU 2020-04 *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The update provides temporary optional expedients and exceptions to the guidance in US GAAP on contract modifications and hedge accounting, to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. For all types of hedging relationships, the guidance allows an entity to change the reference rate and other critical terms related to reference rate reform without having to de-designate the relationship.

The objective of the guidance in Topic 848 is to provide temporary relief during the transition period. The FASB included a sunset provision within Topic 848 based on expectations of when the LIBOR would cease being published. At the time that Update 2020-04 was issued, the UK Financial Conduct Authority ("FCA") had established its intent that it would no longer be necessary to persuade, or compel, banks to submit to LIBOR after December 31, 2021. As a result, the sunset provision was set for December 31, 2022 – 12 months after the expected cessation date of all currencies and tenors of LIBOR. In March 2021, the FCA announced that the intended cessation date of the overnight 1-, 3-, 6-, and 12-months tenors of USD LIBOR would be June 30, 2023, which is beyond the current sunset date of Topic 848. Because of the current relief in Topic 848 may not cover a period of time during which a significant number of modifications may take place, the amendments in Update 2022-06 defer the sunset date of Topic 848 from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848.

Although the Partnership does not apply hedge accounting, the Partnership has debt and interest rate swap contracts that reference LIBOR. The Partnership has determined that the reference rate reforms will primarily impact its floating rate debt facilities and the interest rate derivatives to which it is a party. For existing contracts, the Partnership is currently having discussions with its lending banks and the counterparties to the Partnership's interest rate swap contracts to ensure that its contracts are renegotiated in time for the LIBOR discontinuation date of June 30, 2023. It is the Partnership's view, that the Partnership will transition to the alternative reference rate, the Secured Overnight Financing Rate ("SOFR"), in accordance with the LIBOR discontinuation date. As of December 31, 2022, the Partnership has not made any contract modifications to replace the reference rate in any of its agreements and concluded that there was no impact to its consolidated financial statements.

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



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charters, inventory and long-term debt. This was accounted for as a capital contribution by KNOT to the Partnership.

### *Recapitalization of the Partnership*

- (ii) The Partnership issued to KNOT 8,567,500 subordinated units, representing a 49.0% limited partner interest in the Partnership, and 100% of the incentive distribution rights ("IDRs"), which entitled KNOT to increasing percentages of the cash the Partnership distributed in excess of \$0.43125 per unit per quarter.
- (iii) The Partnership issued 349,694 general partner units to the General Partner representing a 2.0% general partner interest in the Partnership.

### *Initial Public Offering*

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

### *Agreements*

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

- An Administrative Services Agreement with KNOT UK, pursuant to which:
  - KNOT UK agreed to provide to the Partnership administrative services; and
  - KNOT UK is permitted to subcontract certain of the administrative services provided under the administrative services agreement to Knutsen OAS (UK) Ltd. ("KOAS UK") and Knutsen OAS Shipping AS ("KOAS"), both wholly owned subsidiaries of TS Shipping Invest AS ("TSSIT");
- 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;



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- The Partnership's option to purchase the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen* and the *Raquel Knutsen* from KNOT;
- Certain rights of first offer on shuttle tankers operating under charters of five or more years;
- The provision of certain indemnities to the Partnership by KNOT; and
- KNOT's guarantee of the payment of the hire rate under the original *Bodil Knutsen* and *Windsor Knutsen* charters for a period of five years following the closing date of the IPO.

## 4) Subsidiaries

The following table lists the Partnership's subsidiaries and their purpose as of December 31, 2022.

<u>Company Name</u>	<u>Jurisdiction of Formation</u>	<u>Purpose</u>
KNOT Offshore Partners UK LLC	Marshall Islands	Holding Company
KNOT Shuttle Tankers AS	Norway	Holding Company
KNOT Shuttle Tankers 12 AS	Norway	Majority owner of Knutsen Shuttle Tankers XII KS
KNOT Shuttle Tankers 17 AS	Norway	Owner of the <i>Bodil Knutsen</i>
KNOT Shuttle Tankers 18 AS	Norway	Owner of the <i>Windsor Knutsen</i>
Knutsen Shuttle Tankers XII KS	Norway	Owner of the <i>Fortaleza Knutsen</i> and the <i>Recife Knutsen</i>
Knutsen Shuttle Tankers XII AS	Norway	General partner of Knutsen Shuttle Tankers XII KS
Knutsen Shuttle Tankers 13 AS	Norway	Owner of the <i>Carmen Knutsen</i>
Knutsen Shuttle Tankers 14 AS	Norway	Owner of the <i>Hilda Knutsen</i>
Knutsen Shuttle Tankers 15 AS	Norway	Owner of the <i>Torill Knutsen</i>
KNOT Shuttle Tankers 20 AS	Norway	Owner of the <i>Dan Cisne</i>
KNOT Shuttle Tankers 21 AS	Norway	Owner of the <i>Dan Sabia</i>
Knutsen NYK Shuttle Tankers 16 AS	Norway	Owner of the <i>Ingrid Knutsen</i>
Knutsen Shuttle Tankers 19 AS	Norway	Owner of the <i>Raquel Knutsen</i>
KNOT Shuttle Tankers 24 AS	Norway	Owner of the <i>Tordis Knutsen</i>
KNOT Shuttle Tankers 25 AS	Norway	Owner of the <i>Vigdís Knutsen</i>
KNOT Shuttle Tankers 26 AS	Norway	Owner of the <i>Lena Knutsen</i>
KNOT Shuttle Tankers 32 AS	Norway	Owner of the <i>Brasil Knutsen</i>
KNOT Shuttle Tankers 30 AS	Norway	Owner of the <i>Anna Knutsen</i>
KNOT Shuttle Tankers 34 AS	Norway	Owner of the <i>Tove Knutsen</i>
KNOT Shuttle Tankers 35 AS	Norway	Owner of the <i>Synnøve Knutsen</i>

## 5) Significant Risks and Uncertainties Including Business and Credit Concentrations

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 vessels and 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, 2022, 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, 2022, 2021 and 2020.



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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, 2022, 2021 and 2020. All of these customers are subsidiaries of major international oil companies.

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,					
	2022		2021		2020	
Eni Trading and Shipping S.p.A.	\$ 36,256	14 %	\$ 43,823	16 %	\$ 44,175	16 %
Fronape International Company, a subsidiary of Petrobras Transporte S.A.	45,975	17 %	45,115	17 %	45,235	16 %
Repsol Sinopec Brasil, B.V., a subsidiary of Repsol Sinopec Brasil, S.A.	37,571	14 %	37,030	14 %	33,947	12 %
Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell	12,546	5 %	59,825	22 %	76,959	28 %
Galp Sinopec Brasil Services BV	\$ 16,621	6 %	\$ 35,622	13 %	\$ 35,684	13 %

The Partnership has financial assets that expose it to credit risk arising from possible default by a counterparty. The Partnership considers its counterparties to be creditworthy banking and financial institutions and does not expect any significant loss to result from non-performance by such counterparties. The maximum loss due to credit risk that the Partnership would incur if counterparties failed completely to perform would be the carrying value of cash and cash equivalents, and derivative assets. The Partnership, in the normal course of business, does not demand collateral from its counterparties.

## 6) Operating Leases

### Revenues

The Partnership's primary source of revenues is chartering its shuttle tankers to its customers. The Partnership uses two types of contracts, time charter contracts and bareboat charter contracts. The Partnership's time-charter contracts include both a lease component, consisting of the bareboat element of the contract, and non-lease component, consisting of operation of the vessel for the customers, which includes providing the crewing and other services related to the Vessel's operations, the cost of which is included in the daily hire rate, except when off hire.

The following table presents the Partnership's revenues by time charter, bareboat charters and other revenues for the years ended December 31, 2022, 2021 and 2020:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2022	2021	2020
Time charter revenues (service element included)	\$ 216,822	\$ 224,191	\$ 233,346
Bareboat revenues	45,975	45,115	45,235
Total time charter and bareboat revenues	<u>262,797</u>	<u>269,306</u>	<u>278,581</u>
Other revenues (voyage revenues, loss of hire insurance recoveries and other income)	5,788	11,823	641
Total revenues	<u>\$ 268,585</u>	<u>\$ 281,129</u>	<u>\$ 279,222</u>

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



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As of December 31, 2022, 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 the service element of time charters, but excluding unexercised customer option periods and excluding any contracted revenues signed after December 31, 2022):

<i>(U.S. Dollars in thousands)</i>	
2023	\$ 183,049
2024	142,357
2025	131,472
2026	72,342
2027 and thereafter	14,536
Total	<u>\$ 543,756</u>

The minimum contractual future revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum contractual future revenues are calculated based on certain assumptions such as operating days per year. In addition, minimum contractual future revenues presented in the table above have not been reduced by estimated off-hire time for periodic maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

The Partnership's fleet as of December 31, 2022 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 Partnership agreed commercial terms for a new three-year time charter contract for the vessel with the existing charterer to commence directly upon expiration of the existing bareboat charter. The new charter was signed on March 28, 2023 and commenced on March 30, 2023. The vessel is now fixed until March 2026;
- the *Recife Knutsen*, a shuttle tanker built in 2011 that is currently operating under a bareboat charter that expires in August 2023 with Transpetro. The Partnership agreed commercial terms for a new three-year time charter contract for the vessel with the existing charterer to commence directly upon expiration of the existing bareboat charter. The new charter is expected to be signed in April 2023 and commence on or around August 3, 2023. Once signed, the vessel will be fixed until August 2026;
- the *Bodil Knutsen*, a shuttle tanker built in 2011 that is currently operating under a time charter contract with Knutsen Shuttle Tankers Pool AS, a subsidiary of KNOT, that expires on or around December 31, 2023, or at such time as the vessel is to be delivered to Equinor, if earlier. 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 of two years with options for the charterer to extend the charter 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 with Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell ("Shell"), that expires in January 2024, with a charterer's option to extend one year. The vessel will commence on a new time charter contract with Equinor in 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 2024, 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 rolling charter contract with Knutsen Shuttle Tankers Pool AS, a subsidiary of KNOT and which expires in January 2024 unless terminated by either party on giving not less than 30 days' notice;



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- the *Torill Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter contract with Knutsen Shuttle Tankers Pool AS, a subsidiary of KNOT, that expires on or around December 31, 2023;
- the *Dan Cisne*, a shuttle tanker built in 2011 that is currently operating under a bareboat charter that expires in September 2023 with Transpetro;
- the *Dan Sabia*, a shuttle tanker built in 2012 that is currently operating under a bareboat charter that expires in January 2024 with Transpetro;
- the *Ingrid Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter contract with Altera that expires in January 2024. The vessel has a time charter contract with Eni that will commence in January 2024 for a fixed period of three years, with Eni having options to extend the charter by up to three further years;
- 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 with a subsidiary of the French oil major TotalEnergies that expires in June 2023, at which time the vessel is expected to be delivered to Shell to commence on a three-year time charter contract;
- the *Vigdis Knutsen*, a shuttle tanker built in 2017 that is operating under a time charter with China Offshore Oil (Singapore) that expires in the third quarter of 2023, at which time the vessel is expected to be delivered to Shell to commence on a three-year time charter contract;
- the *Lena Knutsen*, a shuttle tanker built in 2017 that is currently operating under a time charter with TotalEnergies that expires in August 2023, at which time the vessel is expected to be delivered to Shell to commence on a three-year time charter contract;
- the *Brasil Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter with Petrogal S.A. that expires in November 2023;
- the *Anna Knutsen*, a shuttle tanker built in 2017 that is currently operating under a time charter with TotalEnergies that expires in April 2024 with options to extend for up to one two-year period and one one-year period;
- the *Tove Knutsen*, a shuttle tanker built in 2020 that is currently operating under a time charter that expires in November 2027 with Equinor, with options to extend until November 2040; and
- the *Symmøve Knutsen*, a shuttle tanker built in 2020 that is currently operating under a time charter that expires in February 2027 with Equinor, with options to extend until February 2042.

## ***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, 2022, the right-of-use asset and lease liability for operating leases was \$2.3 million and are presented as separate line items on the balance sheets. The operating lease cost and corresponding cash flow effect for 2022 was \$0.7 million. As of December 31, 2022, the weighted average discount rate for the operating leases for the portfolio excluding *Symmøve Knutsen* was 2.3% and was 4.3% for the *Symmøve Knutsen* alone. The rate was determined using the expected incremental borrowing rate for a loan facility of similar term. As of December 31, 2022, the weighted average remaining lease terms are 3.1 years.



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A maturity analysis of the Partnership's lease liabilities from leased-in equipment as of December 31, 2022 is as follows:

<i>(U.S. Dollars in thousands)</i>	
2023	\$ 762
2024	762
2025	762
2026	62
2027 and thereafter	—
Total	<u>\$ 2,348</u>
Less imputed interest	87
Carrying value of operating lease liabilities	<u>\$ 2,261</u>

## 7) Segment Information

The Partnership has one reportable segment, the shuttle tanker market. At December 31, 2022 the Partnership's fleet operated under twelve time charters and four bareboat charters. At December 31, 2021, the Partnership's fleet operated under thirteen 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

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 recognized when the proceeds are received. As of December 31, 2022 and 2021, the Partnership had open insurance claims for hull and machinery recoveries of \$2.1 million and \$0.1 million, respectively, which were recorded as part of Other current asset. See Note 12(b)—Other Current Asset.

As of December 31, 2021, loss of hire proceeds of \$11.5 million related to the *Windsor Knutsen*, the *Tove Knutsen* and the *Tordis Knutsen* were recognized as a component of total revenues, since day rates are recovered under the terms of the policy.

As of December 31, 2022, loss of hire proceeds of \$0.8 million related to the *Vigdis Knutsen* were recognized as a component of the total revenues, since day rates are recovered under the terms of the policy.

## 9) Other Finance Expenses

### (a) Interest Expense

The following table presents the components of interest expense as reported in the consolidated statements of operations for the years ended December 31, 2022, 2021 and 2020:

<i>(U.S. Dollars in thousands)</i>	<u>Year Ended December 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Interest expense	\$ 39,912	\$ 24,546	\$ 29,142
Amortization of debt issuance cost and fair value of debt assumed	2,692	3,519	2,503
Total interest expense	<u>\$ 42,604</u>	<u>\$ 28,065</u>	<u>\$ 31,645</u>



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### **(b) Other Finance Expense**

The following table presents the components of other finance expense for the years ended December 31, 2022, 2021 and 2020:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2022	2021	2020
Bank fees, charges	\$ 294	\$ 463	\$ 441
Commitment fees	334	548	264
Total other finance expense	<u>\$ 628</u>	<u>\$ 1,011</u>	<u>\$ 705</u>

### **10) Derivative Instruments**

#### ***Interest Rate Risk Management***

The consolidated financial statements include the results of interest rate swap contracts to manage the Partnership's exposure related to changes in interest rates on its variable rate debt instruments and the results of foreign exchange forward contracts to manage its exposure related to changes in currency exchange rates on its operating expenses, mainly crew expenses, in currency other than the U.S. Dollar and on its contract obligations. The Partnership does not apply hedge accounting for derivative instruments. The Partnership does not speculate using derivative instruments.

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 a portion of the Partnership's total 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, 2022 and 2021, the total notional amount of the Partnership's outstanding interest rate swap contracts that were entered into in order to hedge outstanding or forecasted debt obligations were \$451.2 million and \$462.3 million, respectively. As of December 31, 2022 and 2021, the carrying amount of the interest rate swap contracts was a net asset of \$29.4 million and a net liability of \$10.0 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.



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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 where possible. To meet this objective, the Partnership at times has entered into foreign exchange forward contracts to manage fluctuations in cash flows resulting from changes in the exchange rates towards the U.S. Dollar. The agreements change the variable exchange rate to fixed exchange rates at agreed dates.

The following table presents the realized and unrealized gains and losses that are recognized in earnings as net gain (loss) on derivative instruments for the years ended December 31, 2022, 2021 and 2020:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2022	2021	2020
<b>Realized gain (loss):</b>			
Interest rate swap contracts	\$ (2,478)	\$ (10,094)	\$ (3,528)
Foreign exchange forward contracts	(502)	—	(109)
Total realized gain (loss):	<u>(2,980)</u>	<u>(10,094)</u>	<u>(3,637)</u>
<b>Unrealized gain (loss):</b>			
Interest rate swap contracts	38,490	20,054	(21,795)
Foreign exchange forward contracts	—	—	(247)
Total unrealized gain (loss):	<u>38,490</u>	<u>20,054</u>	<u>(22,042)</u>
Total realized and unrealized gain (loss) on derivative instruments:	<u>\$ 35,510</u>	<u>\$ 9,960</u>	<u>\$ (25,679)</u>

## 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, 2022 and December 31, 2021. Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

<i>(U.S. Dollars in thousands)</i>	December 31, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 47,579	\$ 47,579	\$ 62,293	\$ 62,293
<b>Current derivative assets:</b>				
Interest rate swap contracts	15,070	15,070	—	—
<b>Non-current derivative assets:</b>				
Interest rate swap contracts	14,378	14,378	1,015	1,015
<b>Financial liabilities:</b>				
<b>Current derivative liabilities:</b>				
Interest rate swap contracts	—	—	6,754	6,754
<b>Non-current derivative liabilities:</b>				
Interest rate swap contracts	—	—	4,260	4,260
Long-term debt, current and non-current	\$ 1,062,647	\$ 1,035,740	\$ 974,596	\$ 974,596

The carrying amounts shown in the table above are included in the consolidated balance sheets under the indicated captions. Carrying amount of long-term debt, current and non-current, above excludes capitalized debt issuance cost of \$6.3 million and \$7.5 million as of December 31, 2022 and 2021, respectively. The carrying value of trade accounts receivable, trade accounts payable and receivables/payables to owners and affiliates approximate their fair value.



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The fair values of the financial instruments shown in the above table as of December 31, 2022 and 2021 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Partnership's own judgment about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Partnership based on the best information available in the circumstances, including expected cash flows, appropriately risk-adjusted discount rates and available observable and unobservable inputs.

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

- *Cash and cash equivalents and restricted cash:* The fair value of the Partnership's cash balances approximates the carrying amounts due to the current nature of the amounts. As of December 31, 2022 and 2021 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 2.7 years and 3.4 years, as of December 31, 2022 and 2021, respectively), (2) the notional amount of the swap contract (ranging from \$3.6 million to \$33.6 million as of December 31, 2022 and ranging from \$5.2 million to \$37.5 million as of December 31, 2021), 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, 2022 and 2021).
- *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, 2022 and December 31, 2021:

	Carrying Value December 31, 2022	Fair Value Measurements at Reporting Date Using		
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(U.S. Dollars in thousands)</i>				
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 47,579	\$ 47,579	\$ —	\$ —
<i>Current derivative assets:</i>				
Interest rate swap contracts	15,070	—	15,070	—
<i>Non-current derivative assets:</i>				
Interest rate swap contracts	14,378	—	14,378	—
<b>Financial liabilities:</b>				
<i>Non-current derivative liabilities:</i>				
Long-term debt, current and non-current	\$ 1,062,647	\$ —	\$ 1,035,740	\$ —

	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)
<i>(U.S. Dollars in thousands)</i>				
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 62,293	\$ 62,293	\$ —	\$ —
<i>Non-current derivative assets:</i>				
Interest rate swap contracts	1,015	—	1,015	—
<b>Financial liabilities:</b>				
<i>Current derivative liabilities:</i>				
Interest rate swap contracts	6,754	—	6,754	—
<i>Non-current derivative liabilities:</i>				
Interest rate swap contracts	4,260	—	4,260	—
Long-term debt, current and non-current	\$ 974,596	\$ —	\$ 974,596	\$ —

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, 2022 and December 31, 2021.



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## 12) Trade Accounts Receivable and Other Current Assets

### (a) Trade Accounts Receivable

Trade accounts receivable are presented as part of Other current assets, see Note 12(b)—Other Current Assets. Trade accounts receivable are presented net of provisions for expected credit loss. As of December 31, 2022 and 2021, there was no provision for expected credit loss.

### (b) Other Current Assets

Other current assets consist of the following:

<i>(U.S. Dollars in thousands)</i>	<u>At December 31, 2022</u>	<u>At December 31, 2021</u>
Trade receivables	\$ 7,662	\$ —
Trade receivables due from KNOT and affiliates (see Note 19(d))	1,405	—
Insurance claims for recoveries (see Notes 8 and 20)	2,112	124
Refund of value added tax	1,173	1,805
Prepaid expenses	1,311	1,158
Other receivables	1,865	2,539
Total other current assets	<u>\$ 15,528</u>	<u>\$ 5,626</u>

## 13) Inventory

The following table presents the inventory as of December 31, 2022 and December 31, 2021:

<i>(U.S. Dollars in thousands)</i>	<u>At December 31, 2022</u>	<u>At December 31, 2021</u>
Lubricating oil	\$ 3,245	\$ 2,683
Bunkers	2,514	623
Total inventory	<u>\$ 5,759</u>	<u>\$ 3,306</u>

## 14) Vessels and Equipment

<i>(U.S. Dollars in thousands)</i>	<u>Vessels &amp; equipment</u>	<u>Accumulated depreciation</u>	<u>Accumulated write down</u>	<u>Net Vessels</u>
<b>Vessels, December 31, 2020</b>	<b>\$ 2,250,053</b>	<b>\$ (541,267)</b>	<b>\$ —</b>	<b>\$ 1,708,786</b>
Additions(1)	14,065	—	—	14,065
Drydock costs	4,235	—	—	4,235
Disposals	(2,641)	2,641	—	—
Depreciation and write down for the period (2)	—	(99,559)	(29,421)	(128,980)
<b>Vessels, December 31, 2021</b>	<b>\$ 2,265,712</b>	<b>\$ (638,185)</b>	<b>\$ (29,421)</b>	<b>\$ 1,598,106</b>
Additions (3)	120,946	—	—	120,946
Drydock costs	19,747	—	—	19,747
Disposals	(17,790)	17,790	—	—
Depreciation and write down for the period	—	(107,419)	—	(107,419)
<b>Vessels, December 31, 2022</b>	<b>\$ 2,388,615</b>	<b>\$ (727,814)</b>	<b>\$ (29,421)</b>	<b>\$ 1,631,380</b>

As of December 31, 2022 and 2021, Vessels with a book value of \$1,631 million and \$1,598 million, respectively, are pledged as security for the Partnership's long-term debt. See Note 17—Long-Term Debt.

- (1) During the scheduled second renewal survey drydocking of the *Bodil Knutsen* a ballast water treatment system was installed on the vessel at a cost \$6.7 million. An advanced Volatile Organic Compounds (VOC) recovery system was also installed on the *Bodil Knutsen* during the fourth quarter of 2021 at a cost of \$7.3 million. Although the Partnership initially funded the installation costs of the VOC recovery system, such costs are expected to be recoverable by the Partnership up to an agreed budget, with interest, from the VOC Industry Co-operation Norwegian Sector ("VOCIC Norway") over a seven-year period. A separate



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agreement is also in place that allows the Partnership to recover costs from VOCIC Norway related to the ongoing operation of the VOC plant onboard the vessel.

- (2) The carrying value of the *Windsor Knutsen* was written down to its estimated fair value as of June 30, 2021.
- (3) On July 1, 2022, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 35 AS, the company that owns and operates the *Synnøve Knutsen*. This acquisition was accounted for as an acquisition of assets. See Note 23—Acquisitions.

Drydocking activity for the years ended December 31, 2022 and 2021 is summarized as follows:

<i>(U.S. Dollars in thousands)</i>	At December 31, 2022	At December 31, 2021
Balance at the beginning of the year	\$ 13,458	\$ 17,106
Costs incurred for dry docking	17,614	4,235
Costs allocated to drydocking as part of acquisition of asset	2,133	—
Drydock amortization	(8,610)	(7,883)
<b>Balance at the end of the year</b>	<b>\$ 24,595</b>	<b>\$ 13,458</b>

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.

As of December 31, 2022, this exercise was performed which resulted in no impairment. 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.

## 15) Intangible Assets and Contract Liabilities

### (a) Intangible Assets

<i>(U.S. Dollars in thousands)</i>	Above market time charter <i>Tordis Knutsen</i>	Above market time charter <i>Vigdis Knutsen</i>	Total intangibles
<b>Intangibles, December 31, 2020</b>	<b>\$ 305</b>	<b>\$ 376</b>	<b>\$ 681</b>
Additions	—	—	—
Amortization for the year	(305)	(301)	(606)
<b>Intangibles, December 31, 2021</b>	<b>\$ —</b>	<b>\$ 75</b>	<b>\$ 75</b>
Additions	—	—	—
Amortization for the period	—	(75)	(75)
<b>Intangibles, December 31, 2022</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

The intangible for the above market value of time charter contract associated with the *Tordis Knutsen* was 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* was 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.



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### **(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 the 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 expire in March 2023 and August 2023, respectively.

<i>(U.S. Dollars in thousands)</i>	<u>Balance of December 31, 2020</u>	<u>Amortization for the year ended December 31, 2021</u>	<u>Balance of December 31, 2021</u>	<u>Amortization for the year ended December 31, 2022</u>	<u>Balance of December 31, 2022</u>
<b>Contract liabilities:</b>					
Unfavourable contract rights	\$ (3,686)	\$ 1,517	\$ (2,169)	\$ 1,518	\$ (651)
Total amortization income		<u>\$ 1,517</u>		<u>\$ 1,518</u>	

Accumulated amortization for contract liabilities was \$17.6 million and \$16.0 million as of December 31, 2022 and 2021, respectively.

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

<i>(U.S. Dollars in thousands)</i>	
2023	\$ 651
2024	—
2025	—
2026	—
2027 and thereafter	—
<b>Total</b>	<u>\$ 651</u>

### **16) Accrued expenses**

The following table presents accrued expenses as of December 31, 2022 and December 31, 2021:

<i>(U.S. Dollars in thousands)</i>	<u>At December 31, 2022</u>	<u>At December 31, 2021</u>
Operating expenses	\$ 1,125	\$ 559
Interest expenses	4,805	1,719
Other expenses	4,721	4,151
Total accrued expenses	<u>\$ 10,651</u>	<u>\$ 6,429</u>



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### 17) Long-Term Debt

Long-term debt as of December 31, 2022 and 2021, consisted of the following:

<i>(U.S. Dollars in thousands)</i>	<u>Vessel</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
\$345 million loan facility	<i>Anna Knutsen, Tordis Knutsen, Vigdis Knutsen, Brasil Knutsen, Lena Knutsen, Windsor Knutsen, Bodil Knutsen, Carmen Knutsen, Fortaleza Knutsen, Recife Knutsen, Ingrid Knutsen</i>	\$ 313,630	\$ 338,726
\$320 million loan facility		192,021	222,133
\$55 million revolving credit facility with DNB		55,000	—
Hilda loan facility	<i>Hilda Knutsen</i>	66,154	72,308
Torill loan facility	<i>Torill Knutsen</i>	—	75,000
\$172.5 million loan facility	<i>Dan Cisne, Dan Sabia</i>	31,739	45,340
Tove loan facility	<i>Tove Knutsen</i>	77,516	81,883
Synnøve loan facility	<i>Synnøve Knutsen</i>	85,292	—
\$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	<i>Raquel Knutsen</i>	84,247	89,206
Torill Sale & Leaseback	<i>Torill Knutsen</i>	107,048	—
<b>Total long-term debt</b>		<b>\$ 1,062,647</b>	<b>\$ 974,596</b>
Less: current installments		371,906	90,956
Less: unamortized deferred loan issuance costs		2,119	2,378
<b>Current portion of long-term debt</b>		<b>369,787</b>	<b>88,578</b>
Amounts due after one year		690,741	883,640
Less: unamortized deferred loan issuance costs		4,140	5,092
<b>Long-term debt, less current installments, and unamortized deferred loan issuance costs</b>		<b>\$ 686,601</b>	<b>\$ 878,548</b>

The Partnership's outstanding debt of \$1,062.6 million as of December 31, 2022 is repayable as follows :

<i>(U.S. Dollars in thousands)</i>	<u>Sale &amp; Leaseback</u>	<u>Period repayment</u>	<u>Balloon repayment</u>	<u>Total</u>
2023	\$ 13,161	\$ 77,839	\$ 280,906	\$ 371,906
2024	13,804	41,179	63,393	118,376
2025	14,399	33,109	136,583	184,091
2026	15,060	18,822	219,521	253,403
2027 and thereafter	134,871	—	—	134,871
Total	<u>\$ 191,295</u>	<u>\$ 170,949</u>	<u>\$ 700,403</u>	<u>\$ 1,062,647</u>

As of December 31, 2022, the interest rates on the Partnership's loan agreements were LIBOR plus a fixed margin ranging from 1.75% to 2.4%.

As shown on the balance sheet at December 31, 2022 and as disclosed in the table above, the Partnership has significant debt coming due within one year. The Partnership has commenced discussions and negotiations with its lending group and other institutions and advisors concerning the refinancing of all of its credit facilities that mature in 2023 and early 2024. However, if the Partnership is not able to secure the refinancing of this debt, there will be insufficient liquid funds necessary to repay the debt at maturity.

Although there is some judgement required in assessing this risk, given the negotiations that are already underway and given the Partnership's history of successfully obtaining financing or refinancing its debt, management believes that it will be able to conclude a refinancing of all such facilities on similar terms (including that no re-leverage is required) prior to maturity. However, no assurance can be given that all such facilities will be timely refinanced on acceptable terms.



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### ***\$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:

- Each borrower shall at all times maintain Liquidity equal to or greater than \$250,000;
- 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 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, 2022, 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 with DNB***

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, which was fully drawn on December 31, 2022, 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's subsidiary that owns the *Recife Knutsen* and the *Fortaleza Knutsen*) are guarantors, and the Multi-vessels Facility is secured by vessel mortgages on the *Windsor Knutsen*, the *Bodil Knutsen*, the *Fortaleza Knutsen*, the *Recife Knutsen*, the *Carmen Knutsen* and the *Ingrid Knutsen*.

The Multi-vessels Facility contains the following financial covenants:

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



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

The 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, 2022, 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 *Hilda Knutsen* 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 *Hilda Knutsen* and customary events of default. As of December 31, 2022, the borrower and the guarantors 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%.



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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, 2022, the borrowers and the guarantor were in compliance with all covenants under this facility.

### ***Tove Loan Facility***

In July 2019, KNOT Shuttle Tankers 34 AS, the subsidiary owning the *Tove Knutsen*, as the borrower, entered into a secured loan facility (the “Tove Facility”). The Tove Facility is repayable in quarterly installments with a final balloon payment of \$66.6 million due at maturity in September 2025, which includes the balloon payment and last quarterly installment. 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 the *Tove Knutsen* falls below 110% of the outstanding loan, upon total loss or sale of the vessel and customary events of default. As of December 31, 2022, the borrower and the guarantors were in compliance with all covenants under this facility.

### ***Synnøve Loan Facility***

In July 2019, KNOT Shuttle Tankers 35 AS, the subsidiary owning the *Synnøve Knutsen*, as the borrower, entered into a secured loan facility (the “Synnøve Facility”). The Synnøve Facility is repayable in quarterly installments with a final payment of \$72.3 million due at maturity in October 2025, which includes the balloon payment and last quarterly installment. The Synnøve 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 *Synnøve Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds. The Partnership and KNOT Shuttle Tankers AS guarantee the Synnøve Facility.

The Synnøve 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.



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The Synnøve Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of the *Synnøve Knutsen* falls below 110% of the outstanding loan, upon total loss or sale of the vessel and customary events of default. As of December 31, 2022, 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.

### ***Torill Sale and Leaseback***

On June 30, 2022, the Partnership through its wholly owned subsidiary, Knutsen Shuttle Tankers 15 AS, which owned the *Torill Knutsen*, closed a sale and leaseback agreement with a Japanese-based lessor for a lease period of ten years. The gross sales price was \$112.0 million, and a portion of the proceeds was used to repay the outstanding loan 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 previously existing loan, the Partnership realized net proceeds of \$39 million after fees and expenses.

### ***Torill Loan Facility***

In January 2018, the Partnership's subsidiary, Knutsen Shuttle Tankers 15 AS, which owned the vessel *Torill Knutsen*, entered into a \$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 was repayable in 24 consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The Torill Facility bore interest at a rate per annum equal to LIBOR plus a margin of 2.1%. The facility was guaranteed by the Partnership. On June 30, 2022, the Torill Facility was repaid in full using proceeds of the Torill sale and leaseback.



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### 18) 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, 2022, 2021 and 2020. 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, 2022, 2021 and 2020 was \$0.2 million, \$0.3 million and \$0.2 million respectively. See Note 2(r)—Income Taxes. The activities taxable in the UK relate to KNOT UK and are 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, 2022, 2021 and 2020 are as follows:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2022	2021	2020
Current tax benefit (expense)	\$ (878)	\$ (488)	\$ (10)
Deferred tax benefit (expense)	3	—	—
Income tax benefit (expense)	<u>\$ (875)</u>	<u>\$ (488)</u>	<u>\$ (10)</u>

#### (b) Taxation

Income taxes attributable to income from continuing operations was an income tax expense of \$875,000 for the year ended December 31, 2022, an income tax expense of \$488,000 for the year ended December 31, 2021 and an income tax expense of \$10,000 for the year ended December 31, 2020, and differed from the amounts computed by applying the Norwegian and the UK ordinary income tax rate of 22% and 19% in for each of the years ended December 31, 2022, 2021 and 2020, to tonnage tax and pretax net income, respectively, as a result of the following:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2022	2021	2020
Income tax benefit (expense) at Norwegian tonnage tax regime	\$ (866)	\$ (479)	\$ —
Income tax benefit (expense) within UK	(9)	(9)	(10)
Income tax benefit (expense)	<u>\$ (875)</u>	<u>\$ (488)</u>	<u>\$ (10)</u>
Effective tax rate	<u>-1 %</u>	<u>-1 %</u>	<u>0 %</u>



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### *(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, 2022 and 2021 are presented below:

<i>(U.S. Dollars in thousands)</i>	As of December 31,	
	2022	2021
Deferred tax assets:		
Financial derivatives	\$ —	\$ —
Financial loss carry forwards for tonnage tax	25,657	23,485
Total deferred tax asset	25,657	23,485
Less valuation allowance	(25,657)	(23,485)
Net deferred tax asset	—	—
Deferred tax liabilities:		
Entrance tax	164	228
Deferred tax related to long-term debt	260	—
Total deferred tax liabilities	424	228
	<u>\$ 424</u>	<u>\$ 228</u>

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

<i>(U.S. Dollars in thousands)</i>	As of December 31,	
	2022	2021
Current deferred tax asset	\$ —	\$ —
Non-current deferred tax liabilities	424	228
Net deferred tax liabilities	<u>\$ 424</u>	<u>\$ 228</u>

Changes in the net deferred tax liabilities at December 31, 2022 and 2021 are presented below:

<i>(U.S. Dollars in thousands)</i>	As of December 31,	
	2022	2021
Net deferred tax liabilities at January 1,	\$ 228	\$ 295
Change in temporary differences	219	(58)
Translation differences	(23)	(9)
Net deferred tax liabilities at December 31,	<u>\$ 424</u>	<u>\$ 228</u>

The Partnership records a valuation allowance for deferred tax assets when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. The valuation allowances were \$25.7 million and \$23.5 million as of December 31, 2022 and 2021, 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, 2022, 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, 2021 the entrance tax had declined to approximately \$0.3 million due to paid entrance tax, change in tax rate and translation effects. As of December 31, 2022, the entrance tax had declined to approximately \$0.2 million



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due to paid entrance tax and translation effects. The taxes payable are calculated based on the Norwegian corporate tax rate of 22% for 2022 and 2021, and the deferred tax liabilities are also calculated based on a tax rate of 22% effective for 2022 and 2021. Income tax expense within the UK of \$8,722 and \$8,997 for 2022 and 2021, respectively, was calculated by multiplying the tax basis with the UK tax rate of 19% in each of 2022 and 2021.

As of December 31, 2022, the total income taxes payable are estimated to be \$0.7 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, 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.

The tax loss carry forward from ordinary taxation and financial loss carry forwards for tonnage tax have no expiration dates.

The Partnership's Norwegian income tax returns are subject to examination by Norwegian tax authorities going back ten years. The Partnership had no unrecognized tax benefits as of December 31, 2022 and 2021. During the years ended December 31, 2022 and 2021, 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.

## **19) Related Party Transactions**

### ***(a) Related Parties***

Prior to the IPO, the Partnership's predecessor operated as an integrated part of KNOT. KNOT is owned 50% by TSSI and 50% by NYK Europe.

The Partnership's vessels that 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, each of which is a 100% owned subsidiary of KNOT. Under these technical management agreements, the Partnership's subsidiaries pay fees to and reimburse the costs and expenses of KNOT Management. With respect to the Partnership's vessels that operate under bareboat charters, the customer is responsible for providing the crew, technical and commercial management of the vessel. However, each of the vessels operating under bareboat charters are subject to management and administration agreements with either KNOT Management or KNOT Management Denmark, pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.

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.



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The amounts of such costs and expenses included in the consolidated statements of operations for the years ended December 31, 2022, 2021 and 2020 are as follows:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2022	2021	2020
<b>Statements of operations:</b>			
<i>Time charter and bareboat revenues:</i>			
Time charter income from KNOT (1)	\$ 14,531	\$ 6,427	\$ 4,883
<i>Operating expenses:</i>			
Vessel operating expenses (2)	15,828	16,812	14,693
Voyage expenses and commissions (3)	59	—	—
Technical and operational management fee from KNOT to Vessels (4)	9,265	8,429	7,342
Operating expenses from other related parties (5)	799	866	515
<i>General and administrative expenses:</i>			
Administration fee from KNOT Management (6)	1,356	1,277	1,131
Administration fee from KOAS (6)	699	780	654
Administration fee from KOAS UK (6)	76	80	118
Administration and management fee from KNOT (7)	59	58	49
<b>Total income (expenses)</b>	<b>\$ (13,610)</b>	<b>\$ (21,875)</b>	<b>\$ (19,619)</b>
<i>(U.S. Dollars in thousands)</i>	At December 31, 2022	At December 31, 2021	At December 31, 2020
<b>Balance Sheet:</b>			
<i>Vessels:</i>			
Drydocking supervision fee from KNOT (8)	\$ 156	\$ 134	\$ 47
Drydocking supervision fee from KOAS (8)	96	—	—
Equipment purchased from KOAS (9)	1,148	1,840	—
<b>Total</b>	<b>\$ 1,400</b>	<b>\$ 1,974</b>	<b>\$ 47</b>

- (1) *Time charter income from KNOT:* The *Bodil Knutsen* has operated under a time charter with Knutsen Shuttle Tankers Pool AS, a subsidiary of KNOT, since the second quarter of 2021. The *Hilda Knutsen* commenced a time charter with Knutsen Shuttle Tankers Pool AS in the third quarter of 2022 and which now expires in January 2024 unless terminated by either party on giving not less than 30 days' notice.
- (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) *Voyage expenses and commissions:* The *Windsor Knutsen* and the *Torill Knutsen* have completed spot voyages where Knutsen Shuttle Tankers Pool AS has earned a 1.25% commission.
- (4) *Technical and operational management fee, from KNOT Management or KNOT Management Denmark to Vessels:* KNOT Management or KNOT Management Denmark provides technical and operational management of the vessels on time charter including 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.
- (5) *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 member onboard the vessel. Level Power & Automation AS, a company that provides automation and control systems for the maritime industry, offshore and land-based industry is owned by Level Group AS, where Trygve Seglem, his family and members of TSSI management have significant influence. The cost is related to equipment and inspection to the Partnership's vessels.



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- (6) *Administration fee from KNOT Management, Knutsen OAS Shipping AS ("KOAS") and Knutsen OAS (UK) Ltd. ("KOAS UK"):* Administration costs include compensation and benefits of KNOT Management's management and administrative staff as well as other general and administration expenses. Some benefits are also provided by KOAS and KOAS UK. Net administration costs are total administration cost plus a 5% margin, reduced for the total fees for services delivered by the administration staffs and the estimated shareholder costs for KNOT that have not been allocated. As such, the level of net administration costs as a basis for the allocation can vary from year to year based on the administration and financing services offered by KNOT to all the vessels in its fleet each year. KNOT Management also charges each subsidiary a fixed annual fee for the preparation of the statutory financial statement.
- (7) *Administration and management fee from KNOT Management and KNOT Management Denmark:* For bareboat charters, the shipowner is not responsible for providing crewing or other operational services and the customer is responsible for all vessel operating expenses and voyage expenses. However, each of the vessels under bareboat charters is subject to a management and administration agreement with either KNOT Management or KNOT Management Denmark, pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.
- (8) *Drydocking supervision fee from KNOT Management, KNOT Management Denmark and KOAS:* KNOT Management, KNOT Management Denmark and KOAS provide supervision and hire out service personnel during drydocking of the vessels. The fee is calculated as a daily fixed fee.
- (9) As part of the scheduled drydocking of the *Windsor Knutsen* and the *Carmen Knutsen* that commenced in the second quarter and the fourth quarter of 2022, respectively, ballast water treatment systems were installed on the vessels. As of December 31, 2022, parts of the systems had been purchased from Knutsen Ballast Water AS, a subsidiary of TSSI, for \$1.15 million. During the scheduled second renewal survey drydocking of the *Bodil Knutsen* in 2021, a ballast water treatment system was installed on the vessel. Parts of the system were purchased from Knutsen Ballast Water AS 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. Mr. Seglem, along with other third-party shipping companies in Haugesund, also jointly owns Simsea Real Operations AS.

See the footnotes to Note 19(a)—Related Party Transactions—Related Parties for a discussion of the allocation principles for KNOT's administrative costs, including management and administrative staff, included in the consolidated statements of operations.

### (c) Amounts Due from and Due to Related Parties

Balances with related parties consisted of the following:

<i>(U.S. Dollars in thousands)</i>	At December 31, 2022	At December 31, 2021
<b>Balance Sheet:</b>		
Trading balances due from KOAS	\$ 118	\$ 290
Trading balances due from KNOT and affiliates	1,880	2,378
Amount due from related parties	<u>\$ 1,998</u>	<u>\$ 2,668</u>
Trading balances due to KOAS	\$ 1,398	\$ 1,205
Trading balances due to KNOT and affiliates	319	219
Amount due to related parties	<u>\$ 1,717</u>	<u>\$ 1,424</u>

Amounts due from and due to related parties are unsecured and intended to be settled in the ordinary course of business. The majority of these related party transactions relate to vessel management and other fees due to KNOT, KNOT Management, KOAS UK and KOAS.



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### **(d) Trade accounts payable and other current assets**

Trade accounts payable to related parties are included in total trade accounts payables in the balance sheet. The balances to related parties consisted of the following:

<i>(U.S. Dollars in thousands)</i>	At December 31, 2022	At December 31, 2021
<b>Balance Sheet:</b>		
Trading balances due to KOAS	\$ 824	\$ 813
Trading balances due to KNOT and affiliates	998	783
Trade accounts payables to related parties	<u>\$ 1,822</u>	<u>\$ 1,596</u>

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

<i>(U.S. Dollars in thousands)</i>	At December 31, 2022	At December 31, 2021
<b>Balance Sheet:</b>		
Trade receivables due from KNOT and affiliates (See Note 12 (b))	\$ 1,405	\$ —
Other trading balances due from KOAS	645	687
Other trading balances due from KNOT and affiliates	353	543
Other current assets from related parties	<u>\$ 2,403</u>	<u>\$ 1,230</u>

### **(e) Acquisitions from KNOT**

On July 1, 2022, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 35 AS, the company that owns and operates the *Synnøve Knutsen*. This acquisition was accounted for as an acquisition of assets.

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

The board of directors of the Partnership (the "Board") and the Conflicts Committee of the Board approved the purchase price for the transactions described above. The Conflicts Committee retained a financial advisor to assist with its evaluation of each of the transactions. See Note 23—Acquisitions.

## **20) Commitments and Contingencies**

### ***Assets Pledged***

As of December 31, 2022 and 2021, Vessels with a book value of \$1,631 million and \$1,598 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 14—Vessels and Equipment and Note 17—Long-Term Debt.

### ***Claims and Legal Proceedings***

Under the Partnership's time charters, claims to reduce the hire rate payments can be made if the Vessel does not perform to certain specifications in the agreements. No accrual for possible claims was recorded for the years ended December 31, 2022, 2021 and 2020.

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.



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### **Insurance**

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

Under the loss of hire policies, the insurer will pay 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. See Note 8—Insurance Proceeds.

### **21) Earnings per Unit and Cash Distributions**

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

	<b>Year Ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<i>(U.S. Dollars in thousands, except per unit data)</i>			
Net income	\$ 58,667	\$ 53,876	\$ 65,225
Less: Series A Preferred unitholders' interest in net income	6,800	6,900	7,200
Net income attributable to the unitholders of KNOT Offshore Partners LP	51,867	46,976	58,025
Less: Distributions (2)	55,404	72,520	72,136
Under (over) distributed earnings	(3,537)	(25,544)	(14,111)
Under (over) distributed earnings attributable to:			
Common unitholders (3)	(3,430)	(24,927)	(13,851)
Class B unitholders	(42)	(147)	—
General Partner	(65)	(470)	(261)
Weighted average units outstanding (basic) (in thousands):			
Common unitholders	33,882	33,050	32,694
Class B unitholders	416	195	—
General Partner	640	623	615
Weighted average units outstanding (diluted) (in thousands):			
Common unitholders (4)	37,919	37,064	32,694
Class B unitholders	416	195	—
General Partner	640	623	615
Earnings per unit (basic)			
Common unitholders	\$ 1.48	\$ 1.38	\$ 1.74
Class B unitholders	1.48	2.62	—
General Partner	1.48	1.38	1.74
Earnings per unit (diluted):			
Common unitholders (4)	\$ 1.48	\$ 1.38	\$ 1.74
Class B unitholders	1.48	2.62	—
General Partner	1.48	1.38	1.74
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)	\$ 0.03	\$ 0.52	\$ 0.52



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- (1) Earnings per unit have been calculated in accordance with the cash distribution provisions set forth in the Partnership's agreement of limited partnership (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 number of units outstanding at the record date. This included cash distributions to the IDR holder (KNOT) for the years ended December 31, 2021 and 2020 of \$2.1 million and \$2.8 million, respectively. There were no payments to the IDR holder (KNOT) for the year ended December 31, 2022.
- (3) This included net income that was attributable to the IDR holder for the years ended December 31, 2021 and 2020 of \$2.1 million and \$2.8 million, respectively.
- (4) Diluted weighted average units outstanding and earnings per unit diluted for the years ended December 2022, 2021 and 2020 does not reflect any potential common units relating to the convertible preferred units since the assumed issuance of any additional units would be anti-dilutive.
- (5) Refers to cash distributions declared and paid during the period.
- (6) Refers to cash distributions declared and paid subsequent to December 31.

On May 27, 2021, Tortoise Direct Opportunities Fund LP, the holder of 416,677 of the Partnership's Series A Convertible Preferred Units ("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.



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

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

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

After the payment of the Partnership's quarterly cash distribution on February 12, 2022, with respect to the fourth quarter of 2021, 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 May 12, 2022, with respect to the first quarter of 2022, 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 August 11, 2022, with respect to the second quarter of 2022, 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 November 9, 2022 with respect to the third quarter of 2022, 84,135 of the Class B Units converted to common units on a one-to-one basis.

On January 11, 2023, the Partnership declared a quarterly cash distribution with respect to the fourth quarter of 2022 of \$0.026 per common unit and, after the payment of this quarterly cash distribution on February 9, 2023, no Class B Units converted to common units.

As of December 31, 2022, 71.4% 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 28.4% of such units were held directly by KNOT (in the form of 9,661,255 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, 2022, KNOT also held 208,333 Series A Preferred Units and 252,405 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 252,405 Class B Units as of December 31, 2022. 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.



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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.

## 22) 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, 2020 until December 31, 2022:

<i>(in units)</i>	<b>Common Units</b>	<b>Class B Units</b>	<b>General Partner Units</b>	<b>Convertible Preferred Units</b>
<b>December 31, 2020</b>	<b>32,694,094</b>	—	<b>615,117</b>	<b>3,750,000</b>
May 27, 2021: Conversion of Series A Preferred Units	215,292	—	—	(208,334)
September 7, 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)	—	—
<b>December 31, 2021</b>	<b>33,708,541</b>	<b>588,945</b>	<b>640,278</b>	<b>3,541,666</b>
February 10, 2022: Quarterly conversion of Class B Units	84,135	(84,135)	—	—
May 12, 2022: Quarterly conversion of Class B Units	84,135	(84,135)	—	—
August 11, 2022: Quarterly conversion of Class B Units	84,135	(84,135)	—	—
November 9, 2022: Quarterly conversion of Class B Units	84,135	(84,135)	—	—
<b>December 31, 2022</b>	<b>34,045,081</b>	<b>252,405</b>	<b>640,278</b>	<b>3,541,666</b>

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 Agreement.

On February 12, 2022, 84,135 Class B units were converted to common units on a one-to-one basis pursuant to the Partnership Agreement.



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On May 12, 2022, 84,135 Class B units were converted to common units on a one-to-one basis pursuant to the Partnership Agreement.

On August 11, 2022, 84,135 Class B units were converted to common units on a one-to-one basis pursuant to the Partnership Agreement.

On November 9, 2022, 84,135 Class B units were converted to common units on a one-to-one basis pursuant to the Partnership Agreement.

### 23) Acquisitions

During the year ended December 31, 2022 and 2020 the Partnership acquired from KNOT equity interests in the subsidiaries which own and operate the *Synnøve Knutsen* and the *Tove Knutsen*, respectively.

The board of directors of the Partnership and the Conflicts Committee approved the purchase price for each transaction. The Conflicts Committee retained a financial advisor to assist with its evaluation of the transactions. The cost of the fee paid to the financial advisor was divided equally between the Partnership and KNOT. Acquisition related costs of \$0.04 million and \$0.06 million as of December 31, 2022 and 2020, respectively, were capitalized as a component of the assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their estimated fair values at the date of acquisition. The purchase price of each acquisition has been allocated to the identifiable assets acquired. The details of each transaction are as follows:

<i>(U.S. Dollars in thousands)</i>	Final <i>Synnøve Knutsen</i> July 1, 2022	Final <i>Tove Knutsen</i> December 31, 2020
Purchase consideration (1)	\$ 37,907	\$ 21,898
Less: Fair value of net assets acquired:		
Vessels and equipment (2)	119,119	117,978
Cash	5,702	804
Inventories	291	136
Derivatives assets (liabilities)	958	(3,537)
Others current assets	211	270
Amounts due from related parties	53	—
Long-term debt	(87,661)	(93,139)
Deferred debt issuance	592	769
Trade accounts payable	(160)	(430)
Accrued expenses	(694)	(622)
Amounts due to related parties	(503)	(331)
Income tax payable	(1)	—
Subtotal	37,907	21,898
Difference between the purchase price and fair value of net assets acquired	\$ —	\$ —

(1) The purchase consideration comprises the following:

<i>(U.S. Dollars in thousands)</i>	Final <i>Synnøve Knutsen</i> July 1, 2022	Final <i>Tove Knutsen</i> December 31, 2020
Cash consideration paid to KNOT (from KNOP)	\$ 31,931	\$ 25,430
Purchase price adjustments	5,937	(3,596)
Acquisition-related costs	39	64
Purchase price	\$ 37,907	\$ 21,898

(2) Vessel and equipment includes allocation to drydocking for the following vessels (in thousands): *Synnøve Knutsen* of \$2,133 and *Tove Knutsen* of \$3,040.



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### ***Synnøve Knutsen***

On July 1, 2022, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT Shuttle Tankers 35 AS ("KNOT 35"), the company that owns and operates the *Synnøve Knutsen*. The purchase price for the vessel was \$119.0 million, less \$87.7 million of outstanding indebtedness related to the *Synnøve Knutsen* plus approximately \$0.6 million for certain capitalized fees related to the financing of the Vessel and plus customary working capital purchase price adjustments of \$5.9 million.

### ***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 customary working capital purchase price adjustments of \$3.6 million.

## **24) Subsequent Events**

The Partnership has evaluated subsequent events from the balance sheet date through March 30, 2023, the date at which the audited consolidated financial statements were available to be issued, and determined that there are no other items to disclose, except as follows:

On January 11, 2023, the Partnership declared a quarterly cash distribution of \$0.026 per common with respect to the quarter ended December 31, 2022 paid on February 9, 2023, to all common unitholders of record on January 26, 2023. On the same day, the Partnership declared a quarterly cash distribution to holders of Series A Preferred Units with respect to the quarter ended December 31, 2022 in an aggregate amount equal to \$1.7 million.

The *Windsor Knutsen* was delivered to Shell on January 11, 2023, commencing on a fixed one-year charter, with Shell also having an option to extend the charter by one further year.

In January 2023, TotalEnergies exercised the option for an additional six months under the *Lena Knutsen* charter and the charter will expire on or around August 2023, at which time the vessel is expected to be delivered to Shell to commence on a three-year time charter contract.

On February 9, 2023, TotalEnergies exercised the second option to extend the charter with the *Tordis Knutsen* for three further months, making the charter fixed until June 2023, at which time the vessel is expected to be delivered to Shell to commence on a three-year time charter contract.

The *Carmen Knutsen* finished her drydocking on February 24, 2023 and commenced on her first one-year option with Repsol Sinopec.

The *Torill Knutsen* was redelivered from Eni to the Partnership on December 17, 2022, and the vessel subsequently performed a number of spot voyages, including in the conventional tanker market. Since March 1, 2023 the vessel has operated under a time charter to KNOT on a fixed-term basis that expires on or around December 31, 2023 at a reduced charter rate. The Partnership is continuing to market the vessel for new, third-party time charter employment.

In accordance with the time charter agreement with Eni for the *Ingrid Knutsen*, the vessel was returned to the Partnership on January 2, 2023, and the vessel subsequently performed a number of spot voyages, including in the conventional tanker market. On February 17, 2023, the Partnership entered into a new fixed ten-month time charter contract with Altera which commenced on March 2, 2023.

The current bareboat charters of the *Fortaleza Knutsen* and the *Recife Knutsen* with Transpetro are due to expire in March 2023 and August 2023, respectively. The Partnership agreed commercial terms for a new three-year time charter contract for each of these two vessels with the existing charterer to commence directly upon expiration of the existing bareboat charters. The new charter for the *Fortaleza Knutsen* was signed on March 28, 2023 and commenced on March 30, 2023, and the contract for the *Recife Knutsen* is expected to be signed in April 2023 and commence on or around August 3, 2023. Once signed, the vessels will be fixed until March 2026 and August 2026, respectively.



 Admincontrol

## List of Signatures Page 1/1

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Name	Method	Signed at
Seglem, Trygve	BANKID	2023-03-13 12:50 GMT+01
Domyo, Takashi	BANKID	2023-03-13 12:14 GMT+01
Dahl, Karl Gerhard B	BANKID	2023-03-13 11:41 GMT+01



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# KNOT Shuttle Tankers AS

## Annual Report 2022



**KNOT**  
Offshore Partners LP



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**KNOT SHUTTLE TANKERS AS**  
(the "Company")

**DIRECTORS' REPORT 2022**

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 where most of the fleet are on time charter 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.

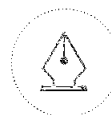
Our vessels transport oil from several oil fields in the Northern Europe and Brazil. The vessels operate in a demanding trade with frequent offshore loadings and subsequent port calls, requiring high quality operations.

**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 its own operation, and total operating income was NOK 0, and after operating expenses for the Company of NOK 894 213 (NOK 1 540 693 in 2021) this contributed to an operating result of minus NOK 894 213 (minus NOK 1 540 693 in 2021). Net financial gain summarizes to NOK 208 319 653 (NOK 625 608 829 in 2021). The financial gain includes NOK 211 709 426 in dividends from subsidiaries (NOK 604 234 446 in 2021). Ordinary result before tax amounted to NOK 207 425 440 (NOK 596 747 323 in 2021). Result of the year after tax amounted to NOK 198 455 270 (NOK 620 192 442 in 2021). 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 2022 paid out ordinary dividend with NOK 174 429 500 and extraordinary dividend to the owner in the amount of NOK 637 665 250.



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The total liquidity position of the Company was NOK 80 885 845 as at 31.12.2022, NOK 6 715 689 as at 31.12.2021.

Total assets at year-end amounted to NOK 4 068 674 745, compared to NOK 3 699 466 642 in 2021. Equity-share as at 31.12.2022 was 61 % compared to 79 % as at 31.12.2021.

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.

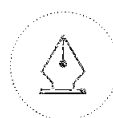
The company invest in new and modern vessels with long-term contract so secure earnings and reduce dependency to the oil price.

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 aware of the exposure to such financial risks and employ strategies and financial instruments 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. Most 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

The requirements for safety and operation of ships are increasing, and the company, the group and the manager KNOT Management AS are concerned with operational excellence. The company vessel consists of modern ships which are designed and engineered for safe, environmentally sound, and efficient operations. The ship is



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maintained and upgraded continuously to meet the demands and expectations from stakeholders. The company and the manager put significant resources into quality assurance and there are strict requirements for safety systems and the operation of the ship.

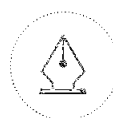
The operation of the vessel can affect the external environment through emissions of air and water and the company, and the manager therefore has a high focus on health, environment, and safety work. The company and manager are concerned with environmental considerations when implementing projects, and environmental considerations are included in all stages from planning and implementation from operation, maintenance, sorting and recycling. The manager and the crew focus on minimizing energy consumption and reducing the pollution from energy generation on the vessel from the daily operation. The requirements for environment and safety in the operations of vessels are increasing, and both the company, the manager and the KNOT Offshore Partners Group emphasize operational quality. There have been no accidents linked to operations that have had serious consequences for crew, the environment, or assets in 2022.

The company has no employees and thus no working environment. The company aims to be a workplace where there is no discrimination related to gender, ethnicity, religion, or disability. The board of directors considers the working conditions satisfactory. The company aims to avoid gender discrimination regarding salary, promotion and recruiting. The members of the Board of Directors are all men. There have not been taken out any board of directors' liability insurance.

The company and the other companies in the Norwegian part of the group regularly carries out risk-based due diligence assessments in accordance with the obligations pursuant to the Act relating to enterprises' transparency and work on fundamental human rights and decent working conditions (LOV-2021-06-18-99) section 4. The due diligence assessments cover the operations in the company. The account for these due diligence assessments and other obligations pursuant to the Act's section 5 will be included in a report here [www.knutsenoas.com](http://www.knutsenoas.com) within 30 June 2023.

## **Future developments**

The Board of Directors has every reason to believe that Company and the subsidiaries will have a positive year in 2023.



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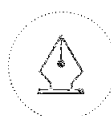


Haugesund, March 13, 2023

Trygve Seglem  
*Chairman of the Board*

Karl Gerhard Bråstein Dahl  
*Member of the Board*

Takashi Domyo  
*Member of the Board*



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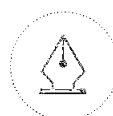
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**KNOT Shuttle Tankers AS**

**Profit & Loss Account**

	Note	2022	2021
<b><u>Operating Expenses</u></b>			
Administration	1	894 213	1 540 693
<i>Total Operating Expenses</i>		<u>894 213</u>	<u>1 540 693</u>
<i>Operating Result</i>		<u>-894 213</u>	<u>-1 540 693</u>
<b><u>Financial Income and Expenses</u></b>			
Financial income	2	255 004 817	734 014 369
Foreign exchange gain/loss		-57 778 741	-23 914 879
Financial expenses	2	11 093 577	-84 490 661
<i>Net Financial Items</i>		<u>208 319 653</u>	<u>625 608 829</u>
<i>Result before taxes</i>		<u>207 425 440</u>	<u>624 068 136</u>
Taxes	3	-8 980 170	-3 875 694
<i>Result for the year</i>		<u>198 445 270</u>	<u>620 192 442</u>



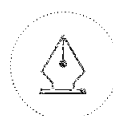
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**KNOT Shuttle Tankers AS**  
**Balance Sheet as of 31. December**

<u>Assets</u>	Note	2022	2021
<b><u>Non Current Assets</u></b>			
Investments in other group companies	4	<u>3 852 072 361</u>	<u>3 503 986 192</u>
<i>Total non Current Assets</i>		<u>3 852 072 361</u>	<u>3 503 986 192</u>
<b><u>Current Assets</u></b>			
Receivables	9	67 671	1 311 942
Current receivables group		135 648 868	187 452 819
Bank deposits	5	80 885 845	6 715 689
<i>Total Current Assets</i>		<u>216 602 384</u>	<u>195 480 450</u>
<b>TOTAL ASSETS</b>		<u>4 068 674 745</u>	<u>3 699 466 642</u>



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**KNOT Shuttle Tankers AS**  
**Balance Sheet as of 31. December**

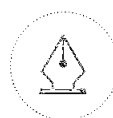
<b><u>Shareholders Equity and Liabilities</u></b>	<b>Note</b>	<b>2022</b>	<b>2021</b>
<b><u>Equity</u></b>			
Share capital		606 000 000	606 000 000
Share premium		1 696 082 680	1 721 793 239
<i>Total capital paid-in</i>		<u>2 302 082 680</u>	<u>2 327 793 239</u>
Other equity		198 445 270	611 954 691
<i>Total Shareholders' Equity</i>	<b>6, 7</b>	<u>2 500 527 950</u>	<u>2 939 747 930</u>
<b><u>Long Term Debt</u></b>			
Deferred tax	<b>3</b>	2 577 659	0
Liabilities to financial institutions	<b>8</b>	1 039 231 034	439 535 988
Long-term debt group	<b>8</b>	479 479 440	132 544 500
<i>Total Long Term Debt</i>		<u>1 521 288 133</u>	<u>572 080 488</u>
<b><u>Current Liabilities</u></b>			
Accounts payable	<b>9</b>	316 973	328 117
Tax payable	<b>3</b>	6 402 502	3 875 694
Current liabilities group		31 926 057	7 339 205
Dividends		0	174 429 500
Other current liabilities		8 213 130	1 665 709
<i>Total Current Liabilities</i>		<u>46 858 662</u>	<u>187 638 224</u>
<i>Total liabilities</i>		<u>1 568 146 795</u>	<u>759 718 712</u>
<i>SHAREHOLDERS' EQUITY AND LIABILITIES</i>		<u>4 068 674 745</u>	<u>3 699 466 642</u>

Haugesund, March 13, 2023,  
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



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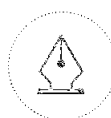


## KNOT SHUTTLE TANKERS AS

### CASHFLOW STATEMENT

The cash flow statement is presented using the indirect method of NRS. The liquidity balance is defined as the sum of cash, bank deposits and other short term liquid deposits.

	2022	2021
Result before tax	207,425,440	624,068,136
+ Paid tax	-3,875,694	0
-/+ Profit/loss on foreign exchange liabilities to fin. institutions	51,012,000	16,679,021
-/+ Profit/loss on foreign loan to group company	11,608,340	5,007,000
+ Financial expenses - liabilities to financial institutions	1,317,046	1,364,584
+ Write-down investments subsidiaries	-63,333,657	63,333,657
= Total generated from operations	204,153,475	710,452,399
+ Net received on current assets	53,048,212	-51,677
+ Net received on current liabilities	31,123,130	-151,578,093
<b>Net cashflow from operations</b>	<b>288,324,817</b>	<b>558,822,629</b>
<u>Cashflow from investments</u>		
Investment in group companies	-500,691,701	0
Dividends and repayment of equity from group companies	215,939,189	250,670,712
<b>Net cashflow from investments</b>	<b>-284,752,512</b>	<b>250,670,712</b>
<u>Cashflow from financing</u>		
Loan from group companies	335,326,600	127,537,500
Proceeds from liabilities to financial institutions	547,366,000	0
Repayment of liabilities to financial institutions	0	-294,643,946
Dividend paid-out	-812,094,750	-660,448,292
<b>Net cashflow from financing</b>	<b>70,597,850</b>	<b>-827,554,738</b>
<b>Net cashflow for the year</b>	<b>74,170,156</b>	<b>-18,061,398</b>
+ Bank deposits per 01.01.	6,715,689	24,777,087
<b>= Bank deposits per 31.12.</b>	<b>80,885,845</b>	<b>6,715,689</b>



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## KNOT Shuttle Tankers AS Notes to the Financial Statement 31.12.2022

### Accounting Principles

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

### Transactions in Foreign Currency

Transactions in foreign currency is recorded at the rate of exchange on the day the transaction is carried out. Assets and liabilities in foreign currencies, that are not used for hedging purposes, are valued at the exchange rate on the date of the balance. Time charter hire in foreign currency for a calendar month is recorded at the rate of exchange on the first day with contract revenue of the month.

### Related party transactions

The Company has undertaken several agreements and transactions with group companies and/or related parties. The level of fees are based on market terms and are in accordance with the arm's length principle. Ship management fee includes services like technical management, crewing management, IT and energy management.

## **1 Employees and remuneration**

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

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.

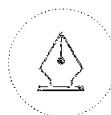
Auditors remuneration (excl. VAT):

	<b>2022</b>	<b>2021</b>
Audit	23,502	10,994
Other services besides audit	0	0
	<u>23,502</u>	<u>10,994</u>

## **2 Financial Income and -Expenses**

### **Financial income:**

	<b>2022</b>	<b>2021</b>
Dividend from subsidiaries	211,709,426	694,888,916
Interest income group	0	0
Other interest income	744,948	449
Guarantee income group	42,550,443	39,125,004
Total financial income	<u>255,004,817</u>	<u>734,014,369</u>



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	2022	2021
<b>Financial expenses:</b>		
Interest expenses	30,261,753	15,079,415
Write-down subsidiaries	-63,333,657	63,333,657
Other financial expenses	85,445	209,181
Interest expenses group	21,892,882	5,868,408
Total financial expenses	-11,093,577	84,490,661

### 3 Tax

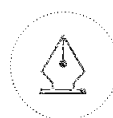
The company qualify for and have elected to be taxed based on the Norwegian tonnage tax regime.

In the tonnage tax regime, the company pay no tax on qualifying operational result and part of the net financial related to the ownership of the vessel, but pay an annual tax set annually by the parliament related to the tonnage owned by the company. The limited part of the profit that is taxable are taxed under the standard Norwegian company tax that for the accounting period is 22%. Tonnage taxed companies will also have to pay a calculated tax on the equity if the equity exceed 70% of total capital.

#### Specification on the temporary differences:

	2022/12/31	Change	2021/12/31
USD debt	-11,716,633	8,616,238	-3,100,395
Temporary differences	-11,716,633	8,616,238	-3,100,395
Calculated deferred tax	-2,577,659	-2,577,659	0
Deferred tax	0	0	0

	2022	2021
<b>Tax cost</b>		
Financial Results	208,319,653	625,608,829
Received dividend	-211,709,426	-694,888,916
Write-down/reversal subsidiaries	-63,333,657	63,333,657
Non-deductible interest / taxable interest	46,150,306	19,103,826
Foreign exchange gain/loss, not taxable	58,291,643	20,917,829
<b>Tax base prior losses carried forward</b>	<b>37,718,519</b>	<b>34,075,226</b>
Changes in temporary differences	-8,616,238	-16,458,433
<b>Base for tax payable</b>	<b>29,102,280</b>	<b>17,616,793</b>
Tax payable	6,402,502	3,875,694
Difference in tax paid and tax calculated last year	9	0
Change deferred tax	2,577,659	0
<b>Tax costs calculated</b>	<b>8,980,170</b>	<b>3,875,694</b>



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## 4 Investments in subsidiaries

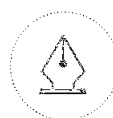
Interests in subsidiaries are presented by the cost method. As a result, the company's share of income is not included in the Profit and Loss Account.

### 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%	115,098,953	67,843,337	91,112,566
Knutsen Shuttle Tankers XII AS	2013	100%	12,373,569	7,487,021	11,266,863
KNOT Shuttle Tankers 17 AS	2013	100%	434,228,785	-37,556,045	521,132,166
Knutsen Shuttle Tankers 13 AS	2013	100%	244,998,387	70,709,845	182,162,055
KNOT Shuttle Tankers 18 AS	2013	100%	326,504,672	-77,420,662	467,258,991
KNOT Shuttle Tankers 20 AS	2014	100%	267,906,965	40,784,027	217,885,530
Knutsen Shuttle Tankers 14 AS	2014	100%	103,696,288	34,593,609	79,257,587
Knutsen Shuttle Tankers 15 AS	2014	100%	73,796,620	73,596,620	48,151,414
KNOT Shuttle Tankers 21 AS	2015	100%	246,824,679	40,870,874	215,692,305
Knutsen NYK Shuttle Tankers 16 AS	2015	100%	253,246,057	62,898,385	207,448,891
Knutsen Shuttle Tankers 19 AS	2016	100%	69,820,913	67,560,230	38,230,067
KNOT Shuttle Tankers 24 AS	2017	100%	299,139,348	15,945,532	279,176,626
KNOT Shuttle Tankers 25 AS	2017	100%	260,837,448	-9,955,966	261,848,755
KNOT Shuttle Tankers 26 AS	2017	100%	298,629,312	2,164,802	300,562,058
KNOT Shuttle Tankers 32 AS	2017	100%	183,614,867	56,792,023	179,232,493
KNOT Shuttle Tankers 30 AS	2018	100%	257,917,839	19,995,045	230,400,246
KNOT Shuttle Tankers 34 AS	2020	100%	176,492,485	27,063,221	193,831,907
KNOT Shuttle Tankers 35 AS	2022	100%	118,697,969	10,783,748	327,421,841

Net book value subsidiaries in KNOT Shuttle Tankers AS

3,852,072,361



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## 5 Bank deposits

The company doesn't have restricted bank funds per 31.12.

## 6 Equity

Specification of the equity per 31.12.

	Share capital	Share premium	Other equity	Total equity
Equity 1.1	606,000,000	1,721,793,239	611,954,691	2,939,747,930
Result of the year		0	198,445,270	198,445,270
Paid-out dividend		0	-25,710,559	-637,665,250
Equity 31.12.	606,000,000	1,696,082,680	198,445,270	2,500,527,950

Share capital consist of 3 000 shares à NOK 202 000, all the shares is owned by KNOT Offshore Partners UK LLC.

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

## 7 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.

## 8 Mortgage Debt and Financial Instruments

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

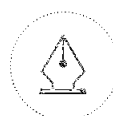
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recorded in the profit and loss over the period of the interest-bearing liabilities. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in the net profit and loss statement when the liabilities are devalued or depreciated, as well as through the amortization process.

	Currency	Outstanding currency	Exchange rate 31.12.	Accounting balance 2022	Accounting balance 2021
Mortgage debt	USD	105,000,000	9.9066	1,040,192,999	441,814,999
Debt issuance cost				-961,965	-2,279,011
Liabilities to financial institutions				1,039,231,034	439,535,988

### Amounts due within 12 months of the balance sheet date:

Mortgage debt	1,040,192,999	0
Debt issuance cost	-876,127	-1,338,675
Liabilities to financial institutions	1,039,316,873	-1,338,675



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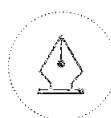
<u>Repayment profile:</u>	<u>based on expected refinancing</u>		
0 - 12 months		55,000,000	0
13 - 24 months		0	0
25 - 36 months		50,000,000	0
37 - 48 months		0	50,000,000
49 - 60 months		0	0
After 60 months		0	0
		<u>105,000,000</u>	<u>50,000,000</u>
The exchange rate at the year-end	USDNOK	9.9066	8.8363

## 9 Balances with related parties

		<u>2022</u>	<u>2021</u>
<u>Accounts payable</u>			
KNOT Management AS		301,338	328,117
		<u>301,338</u>	<u>328,117</u>
		<u>2022</u>	<u>2021</u>
<u>Long-term debt group</u>			
Knutsen Shuttle Tankers 15 AS	USD	32,000,000	0
Knutsen Shuttle Tankers 19 AS	USD	16,400,000	15,000,000
		<u>48,400,000</u>	<u>15,000,000</u>

Knutsen Shuttle Tankers 19 AS has lent out USD 16.4 million of the proceeds from the sale-lease back transaction to the owner, KNOT Shuttle Tankers AS. Knutsen Shuttle Tankers 15 AS has lent out USD 32 million of the proceeds from the sale-lease back transaction to the owner, KNOT Shuttle Tankers AS. The intergroup loan shall be repaid with annual instalments of USD 1.600.000 and the outstanding amount will 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 12 month LIBOR and margin of 4.65 per cent for the Knutsen Shuttle Tankers 19 AS loan and 4.80 per cent for the Knutsen Shuttle Tankers 15 AS loan. The loan is booked at the exchange rate at the balance sheet date.

		<u>2022</u>	<u>2021</u>
<u>Receivables</u>			
Knutsen OAS Shipping AS		0	293
Knutsen NYK Offshore Tankers AS		0	384,064
KNOT Shuttle Tankers 31 AS		0	860,600
		<u>0</u>	<u>1,244,957</u>



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Ernst & Young AS

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Postboks 1156 Sentrum, 0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA  
Tlf: +47 24 00 24 00

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Medlemmer av Den norske Revisorforening

## INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of KNOT Shuttle Tankers AS

### Opinion

We have audited the financial statements of KNOT Shuttle Tankers AS (the Company), which comprise the balance sheet as at 31 December 2022, the income statement 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 legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2022 and its financial performance and 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 in accordance with the requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of 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 other information, and, in doing so, consider whether the board of directors' report contains the information required by legal requirements and whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information or that the information required by legal requirements is not included, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report is consistent with the financial statements and contains the information required by applicable legal requirements.

### Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the



going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the board of directors 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, 13 March 2023  
ERNST & YOUNG AS

*(The auditor's report is signed electronically)*

Johan Lid Nordby  
State Authorised Public Accountant (Norway)

Independent auditor's report - KNOT Shuttle Tankers AS 2022

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## Johan Nordby

Statsautorisert revisor

På vegne av: Ernst & Young AS

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## Skattedirektoratet

Saksbehandler Torstein Kinden Helleland	Deres dato 25.01.2013	Vår dato 30.01.2013
Telefon 22078139	Deres referanse	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;

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

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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### 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

seniorrådgiver

Rettsavdelingen, foretaksskatt

Skattedirektoratet

Torstein Kinden Helleland