



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

Enheten

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

Regnskapsår

Årsregnskapets periode: 01.01.2020 - 31.12.2020

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: 11.03.2021

Grunnlag for avgivelse

År 2020: Årsregnskapet er elektronisk innlevert
År 2019: Tall er hentet fra elektronisk innlevert årsregnskap fra 2020

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, 25.03.2022



Resultatregnskap

Beløp i: NOK	Note	2020	2019
RESULTATREGNSKAP			
Kostnader			
Administrasjonskostnader	6	388 622	369 479
Sum kostnader		388 622	369 479
Driftsresultat		-388 622	-369 479
Finansinntekter og finanskostnader			
Finansinntekter	4	644 574 400	359 227 969
Agio/disagio		12 978 957	-6 062 522
Sum finansinntekter		657 553 357	353 165 447
Finanskostnader	4	20 732 956	25 304 286
Sum finanskostnader		20 732 956	25 304 286
Netto finans		636 820 401	327 861 161
Ordinært resultat før skattekostnad		636 431 779	327 491 682
Skattekostnad	10		
Ordinært resultat etter skattekostnad		636 431 779	327 491 682
Årsresultat		636 431 779	327 491 682
Årsresultat etter minoritetsinteresser		636 431 779	327 491 682
Totalresultat		636 431 779	327 491 682



Balanse

Beløp i: NOK	Note	2020	2019
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Utsatt skattefordel	10		
Finansielle anleggsmidler			
Investering i annet foretak i samme konsern	3	3 817 990 561	3 749 682 304
Sum finansielle anleggsmidler		3 817 990 561	3 749 682 304
Sum anleggsmidler		3 817 990 561	3 749 682 304
Omløpsmidler			
Varer			
Fordringer			
Debitorer	7	30 786 496	14 495
Konsernfordringer		6 400 172	8 996 469
Sum fordringer		37 186 669	9 010 964
Bankinnskudd, kontanter og lignende			
Bankinnskudd, kontanter og lignende	2	24 777 087	5 131 186
Sum bankinnskudd, kontanter og lignende		24 777 087	5 131 186
Sum omløpsmidler		61 963 756	14 142 150
SUM EIENDELER		3 879 954 317	3 763 824 454
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Aksjekapital 2400 á kr 42	5, 8, 11	606 000 000	606 000 000
Overkurs		1 912 001 500	2 380 180 508
Sum innskutt egenkapital		2 518 001 500	2 986 180 508



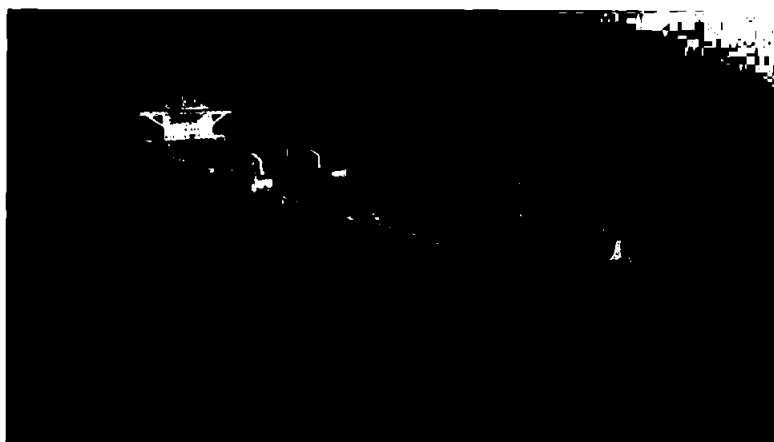
Balanse

Beløp i: NOK	Note	2020	2019
Opptjent egenkapital			
Annen egenkapital		636 431 779	327 491 683
Udekket tap	5		
Sum opptjent egenkapital		636 431 779	327 491 683
Sum egenkapital	5	3 154 433 279	3 313 672 190
Gjeld			
Langsiktig gjeld			
Utsatt skatt	10		
Other provisions	10		
Annen langsiktig gjeld			
Gjeld til kredittinstitusjoner	12	716 136 329	448 468 456
Other long term liabilities	7		
Sum annen langsiktig gjeld		716 136 329	448 468 456
Sum langsiktig gjeld		716 136 329	448 468 456
Kortsiktig gjeld			
Leverandørgjeld	7	400 443	58 435
Tax payable	10		
Kortsiktig konserngjeld		7 047 013	546 356
Annen kortsiktig gjeld		1 937 254	1 079 017
Sum kortsiktig gjeld		9 384 709	1 683 808
Sum gjeld		725 521 038	450 152 264
SUM EGENKAPITAL OG GJELD		3 879 954 317	3 763 824 454



KNOT Shuttle Tankers AS

Annual Report 2020



KNOT
Offshore Partners LP



KNOT SHUTTLE TANKERS AS

(the "Company")

DIRECTORS' REPORT 2020

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

The Company's activities

The Company operates a modern fleet of specialised shuttle tankers on long-term contracts to first class charterers. The company acquired KNOT Shuttle Tankers 34 AS, the owner of *M/T Tove Knutsen*, from Knutsen NYK Offshore Tankers AS at 31 December 2020. The vessel was delivered from the yard in Korea at the end of third quarter and started in fourth quarter of 2020 on a long term charter contract to a subsidiary of Equinor for operation on their offshore oil field offshore Brazil.

In November, 2020, the Company entered into a new three year \$25 million revolving credit facility with Shinsei Bank.

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

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

Profit for the year

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

The Company does not have own operation, and total operating income was NOK 0, and after operating expenses for the Company of NOK 388 622 (NOK 369 479 in 2019) this contributed to an operating result of minus NOK 388 622 (minus NOK 369 479 in 2019). Net financial gain summarizes to NOK 636 820 401 (NOK 327 861 161 in 2019). The financial gain includes NOK 641 396 250 in dividends from subsidiaries (NOK 355 526 611 in 2019). Ordinary result before tax amounted to NOK 636 431 779 (NOK 327 491 682 in 2019). Result of the year after tax amounted NOK 636 431 779



(NOK 327 491 682 in 2019). 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 2020 paid out extraordinary dividend to the owner in the amount of NOK 795 670 690.

The total liquidity position of the Company was NOK 24 777 087 as at 31.12.2020, NOK 5 131 186 as at 31.12.2019. Total short-term debt amounted to 1.3 % of total debt and liabilities at end of 2020 compared to 0.37 % at end of 2019.

Total assets at year-end amounted to NOK 3 879 954 317, compare to NOK 3 763 824 454 in 2019. Equity share as at 31.12.2020 was 81 % compare to 88 % as at 31.12.2019.

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

Risk factors

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

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

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

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



substantial part of the debt for the vessels on long-term charters are hedged with interest rates swaps.

Environment, safety, and quality control

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

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

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

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

Equal opportunity

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

The Group and the manager aim to avoid gender discrimination regarding salary, promotion and recruiting, which is included in the manager's policies. The managers have traditionally recruited from environments equally dominated by both men and women for its land-based activity, while there is a generally male dominated environment for applicants and recruitment of crew onboard the vessel. The members of the Board of Directors are all men.

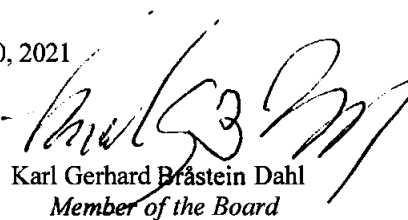


Future developments

The Board of Directors has every reason to believe that Company and the subsidiaries will have a positive year in 2021.

Haugesund, March 10, 2021


Trygve Seglem
Chairman of the Board


Karl Gerhard Bråstein Dahl
Member of the Board


Takashi Domyo
Member of the Board



KNOT Shuttle Tankers AS

Profit & Loss Account

	Note	2020	2019
<u>Operating Expenses</u>			
Administration	6	388 622	369 479
<i>Total Operating Expenses</i>		<u>388 622</u>	<u>369 479</u>
<i>Operating Result</i>		<u>-388 622</u>	<u>-369 479</u>
<u>Financial Income and Expenses</u>			
Financial income	4	644 574 400	359 227 969
Foreign exchange gain/loss		12 978 957	-6 062 522
Financial expenses	4	-20 732 956	-25 304 286
<i>Net Financial Items</i>		<u>636 820 401</u>	<u>327 861 161</u>
<i>Result before taxes</i>		<u>636 431 779</u>	<u>327 491 682</u>
Taxes	10	0	0
<i>Result for the year</i>		<u>636 431 779</u>	<u>327 491 682</u>



KNOT Shuttle Tankers AS
Balance Sheet as of 31. December

<u>Assets</u>	Note	2020	2019
<u>Non Current Assets</u>			
Investments in other group companies	3	3 817 990 561	3 749 682 304
<i>Total non Current Assets</i>		<u>3 817 990 561</u>	<u>3 749 682 304</u>
<u>Current Assets</u>			
Receivables	7	30 786 496	14 495
Current receivables group		6 400 172	8 996 469
Bank deposits	2	24 777 087	5 131 186
<i>Total Current Assets</i>		<u>61 963 756</u>	<u>14 142 150</u>
TOTAL ASSETS		<u>3 879 954 317</u>	<u>3 763 824 454</u>





KNOT Shuttle Tankers AS
Balance Sheet as of 31. December


<u>Shareholders Equity and Liabilities</u>	Note	2020	2019
Equity			
Share capital	5, 8, 11	606 000 000	606 000 000
Share premium		1 912 001 500	2 380 180 508
<i>Total capital paid-in</i>		<u>2 518 001 500</u>	<u>2 986 180 508</u>
Other equity		636 431 779	327 491 683
<i>Total Shareholders' Equity</i>	5	<u>3 154 433 279</u>	<u>3 313 672 190</u>
Long Term Debt			
Liabilities to financial institutions	12	716 136 329	448 468 456
<i>Total Long Term Debt</i>		<u>716 136 329</u>	<u>448 468 456</u>
Current Liabilities			
Accounts payable	7	400 443	58 435
Current liabilities group		7 047 013	546 356
Other current liabilities		1 937 254	1 079 017
<i>Total Current Liabilities</i>		<u>9 384 709</u>	<u>1 683 808</u>
<i>Total liabilities</i>		<u>725 521 038</u>	<u>450 152 264</u>
SHAREHOLDERS' EQUITY AND LIABILITIES		<u>3 879 954 317</u>	<u>3 763 824 454</u>

Haugesund, March 10, 2021

The board of KNOT Shuttle Tankers AS


Trygve Seglem
chairman of the board


Karl Gerhard Bråstein Dahl
member of the board


Takashi Domyo
member of the board



KNOT SHUTTLE TANKERS AS

CASH FLOW STATEMENT

	2020	2019
<u>Cashflow from operations</u>		
Total generated from operations 1)	620 602 001	334 969 310
Change in working capital	<u>-20 474 804</u>	<u>-8 831 974</u>
Net cashflow from operations	<u>600 127 197</u>	<u>326 137 336</u>
<u>Cashflow from investments</u>		
Net repaid investments from subsidiaries	<u>-68 308 257</u>	<u>378 332 868</u>
Net cashflow from investments	<u>-68 308 257</u>	<u>378 332 868</u>
<u>Cashflow from financing</u>		
Paid-out dividend	-795 670 690	-705 155 800
Instalments/drawings - mortgage debt	<u>283 497 651</u>	<u>177 607</u>
Net cashflow from financing	<u>-512 173 039</u>	<u>-704 978 193</u>
Net change in cashflow for the period	19 645 901	-507 989
+ Cash balance per 01.01	<u>5 131 186</u>	<u>5 639 175</u>
= Cash Balance per 31.12.18	<u>24 777 087</u>	<u>5 131 186</u>

1) Generated from operations:

The result for the period before taxes	636 431 779	327 491 682
+Amortized debt issuance cost	1 107 431	990 853
+ unrealized/realized profit/loss on foreign exchange mortgage debt	<u>-16 937 210</u>	<u>6 486 776</u>
= Total generated from operations	<u>620 602 001</u>	<u>334 969 310</u>



KNOT Shuttle Tankers AS Notes to the Financial Statement 31.12.2020

1 Accounting Principles

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

Current Assets/Current Liabilities

Current assets and liabilities include items that are due for payment within one year or tied to the operation of the vessel. Other items are classified as fixed assets/long-term liabilities. Current assets are valued at the lower of cost and fair value. Short-term liabilities are recorded at nominal value at the time of the entering. The fixed assets are valued to the lowest of the depreciated value and the market value unless the fall in value is assumed to be temporary. Long-term debt is stated at nominal value.

Tax

The company have elected to be taxed based on the Norwegian tonnage tax regime. The tonnage tax regime have a list of requirements that companies have to fulfill to qualify for election of the regime, such as minimum 3% direct or indirect ownership in vessels that perform transportation only. The company are restricted to what assets, liabilities and business they can participate in, and the same will apply for underlying companies and/or partnerships.

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

Tonnage tax is classified as an operating expense in the profit and loss statement.

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

Interests in subsidiaries

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

Related party transactions

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

2 Bank deposits

The company doesn't have restricted cash per 31.12.



3 Investments in subsidiaries

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

Shares in subsidiaries

Investments	Year - purchased	Owner- and voting share	Equity 31.12 NOK.	Last years result NOK	Book value
KNOT Shuttle Tankers 12 AS	2013	100 %	114 439 469	86 613 591	91 112 566
Knutsen Shuttle Tankers XII AS	2013	100 %	13 075 746	9 560 969	11 266 863
KNOT Shuttle Tankers 17 AS	2013	100 %	364 867 963	55 930 987	362 315 376
Knutsen Shuttle Tankers 13 AS	2013	100 %	199 885 659	68 164 601	204 513 981
KNOT Shuttle Tankers 18 AS	2013	100 %	332 969 898	28 061 521	343 951 291
KNOT Shuttle Tankers 20 AS	2014	100 %	227 916 151	34 563 301	217 885 530
Knutsen Shuttle Tankers 14 AS	2014	100 %	102 810 500	73 500 739	79 257 587
Knutsen Shuttle Tankers 15 AS	2014	100 %	112 300 784	81 227 271	95 268 123
KNOT Shuttle Tankers 21 AS	2015	100 %	206 572 714	32 935 312	228 736 755
Knutsen NYK Shuttle Tankers 16 AS	2015	100 %	229 721 869	58 259 965	233 964 934
Knutsen Shuttle Tankers 19 AS	2016	100 %	235 659 046	18 978 311	297 936 389
KNOT Shuttle Tankers 24 AS	2017	100 %	297 077 312	61 019 072	307 793 590
KNOT Shuttle Tankers 25 AS	2017	100 %	293 590 571	63 648 683	300 723 052
KNOT Shuttle Tankers 26 AS	2017	100 %	318 677 823	70 764 879	325 776 288
KNOT Shuttle Tankers 32 AS	2017	100 %	218 578 968	38 870 202	226 964 393
KNOT Shuttle Tankers 30 AS	2018	100 %	232 990 813	58 591 220	241 795 595
KNOT Shuttle Tankers 34 AS	2020	100 %	189 097 943	-41 974 751	248 728 249

Net book value subsidiaries in KNOT Shuttle Tankers AS

3 817 990 561

4 Financial Income and -Expenses

	2020	2019
Financial income:		
Dividend from subsidiaries	641 396 250	355 526 611
Other interest income	77 133	566 025
Guarantee income group	3 101 017	3 135 333
Total financial income	<u>644 574 400</u>	<u>359 227 969</u>
	2020	2019
Financial expenses:		
Interest expenses	18 301 368	23 039 053
Other financial expenses	94 063	95 255
Guarantee expenses group	2 337 525	2 169 978
Total financial expenses	<u>20 732 956</u>	<u>25 304 286</u>



5 Equity

Specification of the equity per 31.12

	Share capital	Share premium	Other equity	Total equity
Equity 1.1	606 000 000	2 380 180 508	327 491 683	3 313 672 190
Result of the year	0	0	636 431 779	636 431 779
Dividend	0	-468 179 007	-327 491 683	-795 670 690
Equity 31.12.	606 000 000	1 912 001 500	636 431 779	3 154 433 279

6 Remuneration

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

Auditor's fee (excl. VAT):	2020	2019
Auditing	30 746	29 435
Other assurance services	0	0
Tax services	0	0
	30 746	29 435

7 Balances with related parties

	2020	2019
<u>Accounts payable</u>		
KNOT Management AS	385 330	53 806
Knutsen OAS Shipping AS	218	0
KNOT Offshore Partners LP	4 482	4 629
	390 030	58 435

	2020	2019
<u>Receivables</u>		
Knutsen NYK Offshore Tankers AS	30 705 006	0

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

8 Shares Owned by Board Members and Affiliates

Trygve Seglem controls TS Shipping Invest AS, which owns 50 % of the company Knutsen NYK Offshore Tankers AS, which controls 27,84% of KNOT Offshore Partners LP.

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

9 Employees

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



10 Tax

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

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

Specification on the temporary differences:

	<u>31.12.2020</u>	<u>Change</u>	<u>31.12.2019</u>
Loss carried forward	-16 458 433	-30 469	-16 427 964
Temporary differences	-16 458 433	-30 469	-16 427 964
Calculated deferred tax	-3 620 855	-6 703	-3 614 152
Deferred tax	0	0	0

<u>Tax cost</u>	<u>2020</u>	<u>2019</u>
Financial Results	636 820 401	327 861 161
Received dividend	-641 396 250	-355 526 611
Deductable financial items	-136 554	0
Non-deductible interest / taxable interest	17 385 854	22 134 409
Foreign exchange gain/loss, not taxable	-12 703 920	6 564 841
Tax base prior losses carried forward	-30 469	1 033 800
Changes in temporary differences	30 469	-1 033 800
Base for tax payable	0	0
Tax payable	0	0
Change deferred tax	0	0
Tax costs calculated	0	0

11 Share capital

Share capital consists of

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

The shareholders of the company are per 31.12.

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



12 Mortgage Debt

<u>31.12.2020</u>	USD	Historical rate	Rate as at 31.12.	NOK
Unsecured USD revolver facility	84 278 861	8,2573	8,5375	719 530 772
Deferred debt issuance				<u>-3 394 443</u>
				<u>716 136 329</u>
Current portion:				
USD-loan	0			0
Deferred debt issuance				<u>-1 301 451</u>
				<u>-1 301 451</u>
<u>31.12.2019</u>	USD	Historical rate	Rate as at 31.12.	NOK
Unsecured USD revolver facility	51 278 861	8,0268	8,8176	452 156 481
Deferred debt issuance				<u>-3 688 025</u>
				<u>448 468 456</u>
Current portion:				
USD-loan	0			0
Deferred debt issuance				<u>-1 002 326</u>
				<u>-1 002 326</u>

The USDNOK exchange rate at the year-end was 8,5375 (8,8176 in 31.12.2019).

The estimated outstanding debt per 2025 is USD 84 million.



Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6A, NO-0191 Oslo
Postboks 1156 Sentrum, NO-0107 Oslo

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

www.ey.no
Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of KNOT Shuttle Tankers AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of KNOT Shuttle Tankers AS, which comprise the balance sheet as at 31 December 2020, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2020 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if,

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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 law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 10 March 2021
ERNST & YOUNG AS

The auditor's report is signed electronically

Johan Lid Nordby
State Authorised Public Accountant

Independent auditor's report - KNOT Shuttle Tankers AS

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Johan Nordby

Statsautorisert revisor

På vegne av: Ernst & Young AS

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

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

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

Basis for Opinion

These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

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

Vessel impairment

Description of the Matter

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



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

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

How We Addressed the Matter in Our Audit

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

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

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

Acquisition of KNOT Shuttle Tankers 34 AS

Description of the Matter

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

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

How We Addressed the Matter in Our Audit

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

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



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

/s/ Ernst & Young AS

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

Oslo, Norway

March 18, 2021

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Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

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

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

Basis for Opinion

The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young AS

Oslo, Norway
March 18, 2021



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

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

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



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KNOT OFFSHORE PARTNERS LP
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2020, 2019 and 2018
(U.S. Dollars in thousands)

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

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

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

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

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



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KNOT OFFSHORE PARTNERS LP
Consolidated Statements of Changes in Partners' Capital
For the Years Ended December 31, 2020, 2019 and 2018

(U.S. Dollars in thousands)

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

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



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KNOT OFFSHORE PARTNERS LP
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020, 2019 and 2018
(U.S. Dollars in thousands)

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

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

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



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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, 2020, the Partnership had a fleet of seventeen shuttle tankers, the *Windsor Knutsen*, the *Bodil Knutsen*, the *Recife Knutsen*, the *Fortaleza Knutsen*, the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen*, the *Dan Cisne*, the *Dan Sabia*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Brasil Knutsen*, the *Anna Knutsen* and the *Tove Knutsen*, each referred to as a "Vessel" and, collectively, as the "Vessels". The Vessels operate under fixed long-term charter contracts to charterers, with expiration dates between 2021 and 2027. Please see Note 6—Operating Leases.

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

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

The Partnership expects that its primary future sources of funds will be available cash, cash from operations, borrowings under any new loan agreements and the proceeds of any equity financings. The Partnership believes that these sources of funds (assuming the current rates earned from existing charters) will be sufficient to cover operational cash outflows and ongoing obligations under the Partnership's financing commitments to pay loan interest and make scheduled loan repayments and to make distributions on its outstanding units. Accordingly, as of March 18, 2021, the Partnership believes that its current resources, including the undrawn portion of its revolving credit facilities of \$55 million, are sufficient to meet working capital requirements for its current business for at least the next twelve months.

2) Summary of Significant Accounting Policies

(a) Basis of Preparation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). All intercompany balances and transactions are eliminated on consolidation.

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

(b) Business Combinations and Asset Acquisitions

Business combinations are accounted for under the purchase method of accounting. On acquisition, the identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. The consideration transferred for an acquisition is measured at fair value of the consideration given. Acquisition related costs are expensed as incurred. The results of operations of the acquired businesses are included in the consolidated results as of the date of the applicable acquisition.



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

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

(c) Reporting Currency

The consolidated financial statements are prepared in the reporting currency of U.S. Dollars. The functional currency of the vessel-owning Partnership subsidiaries is the U.S. Dollar, because the subsidiaries operate in the international shipping market, in which all revenues are U.S. Dollar-denominated and the majority of expenditures are made in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. As of the balance sheet dates, monetary assets and liabilities that are denominated in currencies other than the U.S. Dollar are translated to reflect the year-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of operations.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives and impairment of Vessels, drydocking, purchase price allocation and income taxes.

(e) Revenues and Operating Expenses

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

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

Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Vessel operating expenses are paid by the Partnership for time charters, spot contracts and during off-hire and are recognized when incurred.

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



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

(f) Financial Income (Expense)

Other finance expense includes external bank fees, commitment fees paid on undrawn revolving credit facility and guarantee commissions paid to external parties in connection with the Partnership's debt and other bank services.

(g) Cash and Cash Equivalents

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

(h) Trade Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Under terms of the current time charters and bareboat charters, the customers are committed to pay for the full month's charter the first day of each month. See Note 2(s) —Prepaid Charter. The allowance for expected credit losses is the Partnership's best estimate of the expected credit losses over the remaining lives of the assets. Expected credit losses are estimated using historical credit loss experience, relevant available information, from internal and external sources, relating to current conditions and reasonable and supportable forecasts of economic conditions impacting the collectability of the assets. There was no allowance for expected credit loss or amounts written off against the allowance as of December 31, 2020 and 2019. The Partnership does not have any off-balance-sheet credit exposure related to its customers.

(i) Inventories

Inventories, which are comprised principally of lubricating oils, are stated at the lower of cost or net realizable value. For vessels on time charters or bareboat charters, there are no bunkers, as the charterer supplies the bunkers, which principally consist of fuel oil. Cost is determined using the first-in, first-out method for all inventories.

(j) Other Current Assets

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

(k) Vessels and Equipment

Vessels and equipment are stated at the historical acquisition or construction cost, including capitalized interest, supervision and technical and delivery cost, net of accumulated depreciation and impairment loss, if any. Expenditures for subsequent conversions and major improvements are capitalized, provided that such costs increase the earnings capacity or improve the efficiency or safety of the vessels.

Generally, the Partnership drydocks each vessel every 60 months until the vessel is 15 years old and every 30 months thereafter, as required for the renewal of certifications issued by classification societies. For vessels operating on time charters, the Partnership capitalizes the costs directly associated with the classification and regulatory requirements for inspection of the vessels and improvements incurred during drydocking. Drydock cost is depreciated on a straight-line basis over the period until the next planned drydocking takes place. The Partnership expenses costs related to routine repairs and maintenance performed during drydocking or as otherwise incurred. For vessels that are newly built or acquired, an element of the cost of the vessel is initially allocated to a drydock component and depreciated on a straight-line basis over the period until the next planned drydocking. When significant dry-docking expenditures occur prior to the expiration of this period, the Partnership expenses the remaining balance of the original drydocking cost in the month of the subsequent drydocking. For vessels operating on bareboat charters, the charter-party bears the cost of any drydocking.



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

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

	<u>Useful Life</u>
Hull	25 years
Anchor-handling, loading and unloading equipment	25 years
Main/auxiliary engine	25 years
Thruster, dynamic positioning systems, cranes and other equipment	25 years
Drydock costs	2.5 – 5 years

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

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

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

(m) Capitalized Interest

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

(n) Impairment of Long-Lived Assets

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

(o) Intangibles

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



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

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

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

The intangible for the above market value of the time charter contract associated with the *Tordis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.8 years as of the acquisition date. The intangible for the above market value of the time charter contract associated with the *Vigdis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.9 years as of the acquisition date.

The unfavorable contractual rights for charters associated with *Fortaleza Knutsen* and *Recife Knutsen* were obtained in connection with a step acquisition in 2008 that had unfavorable contractual terms relative to market as of acquisition date. The *Fortaleza Knutsen* and the *Recife Knutsen* commenced on their 12 years' fixed bareboat charters in March 2011 and August 2011, respectively. The unfavorable contract rights related to *Fortaleza Knutsen* and *Recife Knutsen* are amortized to bareboat revenues on a straight line basis over the 12 years' contract period that expires in March 2023 and August 2023, respectively.

(p) Debt Issuance Costs

Debt issuance costs, including fees, commissions and legal expenses, are deferred and presented net of debt. Debt issuance costs of term loans are amortized over the term of the relevant loan. Amortization of debt issuance costs is included in interest expense. These costs are presented as a deduction from the corresponding liability, consistent with 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.



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KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

(r) Income Taxes

Historically, part of the Partnership's activities were subject to ordinary taxation and taxes were paid on taxable income (including operating income and net financial income and expense), while part of the activities were subject to the Norwegian Tonnage Tax Regime (the "tonnage tax regime"). Under the tonnage tax regime, the tax is based on the tonnage of the vessel, and operating income is tax free. The net financial income and expense remains taxable as ordinary income tax for entities subject to the tonnage tax regime. Income taxes arising from the part of activities subject to ordinary taxation are included in income tax expense in the consolidated statements of operations. For the portion of activities subject to the tonnage tax regime, tonnage taxes are classified as vessel operating expenses while the current and deferred taxes arising on net financial income and expense are reflected as income tax expense in the consolidated statements of operations. See Note 17—Income Taxes.

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

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

(s) Prepaid Charter

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

(t) Commitments, Contingencies and Insurance Proceeds

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. See Note 19—Commitments and Contingencies.

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



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

(u) Fair Value Measurements

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

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

(v) Recently Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (or ASU 2016-13). ASU 2016-13 replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The new guidance is applicable to financial assets measured at amortized cost, including trade receivables, contract assets and net investment in financing leases and was effective for the Partnership from January 1, 2020, with a modified-retrospective approach. The adoption of ASU 2016-13 did not have a material impact on the consolidated financial statements.

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

(w) New Accounting Standards Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04 *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The update provides temporary optional expedients and exceptions to the guidance in US GAAP on contract modifications and hedge accounting, to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. For all types of hedging relationships, the guidance allows an entity to change the reference rate and other critical terms related to reference rate reform without having to dedesignate the relationship. The guidance is effective upon issuance through December 31, 2022. Although the Partnership does not apply hedge accounting, the Partnership has debt and interest rate swaps that reference LIBOR. The Partnership is evaluating the impact of the guidance on the consolidated financial statements.

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



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

3) Formation Transactions and Initial Public Offering

During April 2013, the following transactions occurred in connection with KNOT's transfer of the interests in KNOT Shuttle Tankers AS and the subsequent IPO:

Capital Contribution

- (i) KNOT contributed to the Partnership's subsidiary KNOT Offshore Partners UK LLC ("KNOT UK") its 100% interest in KNOT Shuttle Tankers AS, which directly or indirectly owned (1) Knutsen Shuttle Tankers XII KS, the owner of the *Recife Knutsen* and the *Fortaleza Knutsen*, (2) Knutsen Shuttle Tankers XII AS, the general partner of Knutsen Shuttle Tankers XII KS, and (3) the *Windsor Knutsen* and the *Bodil Knutsen* and all of their related charters, inventory and long-term debt. This was accounted for as a capital contribution by KNOT to the Partnership.

Recapitalization of the Partnership

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

Initial Public Offering

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

Agreements

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

- An Administrative Services Agreement with KNOT UK, pursuant to which:
 - KNOT UK agreed to provide to the Partnership administrative services; and



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KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

- KNOT UK is permitted to subcontract certain of the administrative services provided under the administrative services agreement to Knutsen OAS (UK) Ltd. ("KOAS UK") and Knutsen OAS Shipping AS ("KOAS"), both wholly owned subsidiaries of TS Shipping Invest AS ("TSSI");
- Amended Technical Management Agreements with KNOT Management AS ("KNOT Management"), a wholly owned subsidiary of KNOT, that govern the crew, technical and commercial management of the vessels in the fleet;
- A Contribution and Sale Agreement with KNOT pursuant to which the Partnership acquired the entities that comprised its initial fleet;
- Amendments to certain of the Partnership's existing vessel financing agreements to permit the transactions pursuant to which the Partnership acquired its initial fleet in connection with the IPO and to include a \$20.0 million revolving credit facility; and
- An Omnibus Agreement with KNOT, the General Partner and the other parties thereto governing, among other things:
 - To what extent the Partnership and KNOT may compete with each other;
 - The Partnership's option to purchase the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen* and the *Raquel Knutsen* from KNOT;
 - Certain rights of first offer on shuttle tankers operating under charters of five or more years;
 - The provision of certain indemnities to the Partnership by KNOT; and
 - KNOT's guarantee of the payment of the hire rate under the existing *Bodil Knutsen* and *Windsor Knutsen* charters for a period of five years following the closing date of the IPO.



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

4) Subsidiaries

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

<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>Vigdis Knutsen</i>
KNOT Shuttle Tankers 26 AS	Norway	Owner of the <i>Lena Knutsen</i>
KNOT Shuttle Tankers 32 AS	Norway	Owner of the <i>Brasil Knutsen</i>
KNOT Shuttle Tankers 30 AS	Norway	Owner of the <i>Anna Knutsen</i>
KNOT Shuttle Tankers 34 AS	Norway	Owner of the <i>Tove Knutsen</i>

5) Significant Risks and Uncertainties Including Business and Credit Concentrations

Each of the Vessels is currently employed under long-term fixed rate charters, which mitigates earnings risk, except for *Windsor Knutsen* and, as of April 9, 2021, *Bodil Knutsen*. The Partnership's operational results are dependent on the worldwide market for shuttle tankers and timing of entrance into long-term charters. Market conditions for shipping activities are typically volatile, and, as a consequence, the hire rates we may be able to achieve might vary over time. The market today is mainly dependent upon four factors: the supply of vessels, the demand for oil, the long-term oil price outlook and overall growth in the world economy. The general supply of vessels is impacted by the number of newbuilds, the removal of older vessels from the market and legislation that may limit the use of older vessels or new standards for vessels used in specific trades.

As of December 31, 2020, all of the Partnership's Vessel crews, which are employed through KOAS were represented by collective bargaining agreements that are renegotiated annually, or bi-annually.

The Partnership did not incur any loss relating to its customers during the years ended December 31, 2020, 2019 and 2018.



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

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

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

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

6) Operating Leases

Revenues

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

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

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

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



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

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

<i>(U.S. Dollars in thousands)</i>	
2021	264,937
2022	184,259
2023	99,805
2024	83,959
2025	58,366
2026 and thereafter	46,775
Total	<u>\$ 738,101</u>

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

The Partnership's fleet as of December 31, 2020 consisted of:

- the *Fortaleza Knutsen*, a shuttle tanker built in 2011 that is currently operating under a bareboat charter that expires in March 2023 with Fronape International Company, a subsidiary of Petrobras Transporte S.A. ("Transpetro");
- the *Recife Knutsen*, a shuttle tanker built in 2011 that is currently operating under a bareboat charter that expires in August 2023 with Transpetro;
- the *Bodil Knutsen*, a shuttle tanker built in 2011 that is currently operating under a time charter that expires in April 2021 with Equinor Shipping Inc., a subsidiary of Equinor ASA;
- the *Windsor Knutsen*, a conventional oil tanker built in 2007 and retrofitted to a shuttle tanker in 2011. The vessel operated under a time charter with Brazil Shipping I Limited, a subsidiary of Shell, until July 2014. From July 2014 until October 2015, the vessel was employed under a time charter with KNOT. Beginning in October 2015, the vessel commenced operations under a two-year time charter with Brazil Shipping I Limited, with options to extend until 2023. In March 2019, the time charter contract was suspended until April 2020. During the suspension period, the *Windsor Knutsen* operated under a time charter contract with Knutsen Shuttle Tankers Pool AS that ended in April 2020, when it was redelivered to Shell. In October 2020, Shell sent its notice of redelivery, which resulted in the expiration of the charter. The *Windsor Knutsen* was redelivered on December 7, 2020. It was expected that the vessel would then undertake a number of short-term voyage contracts when the vessel reported a crack in its main engine block on December 12, 2020 and the vessel was placed off-hire. The Partnership's hull and machinery insurance is expected to cover the cost of repairs and loss of hire insurance is expected to provide income at approximately the level earned during the vessel's prior long-term charter, excepting a 14-day deductible period under the policy, up to and until the vessel is ready to return to service. Based on lead times for the manufacturing of necessary parts, logistics and the repair itself, the Partnership currently anticipates that the vessel will return to service in or around June 2021.



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KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

- the *Carmen Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in January 2023, with Repsol Sinopec Brasil, B.V. a subsidiary of Repsol Sinopec Brasil, S.A. (“Repsol”), with options to extend until January 2026;
- the *Hilda Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in August 2022 with Eni Trading and Shipping S.p.A. (“ENI”), with options to extend until August 2025;
- the *Torill Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in November 2022 with ENI, with options to extend until November 2024;
- the *Dan Cisne*, a shuttle tanker built in 2011 that is currently operating under a bareboat charter that expires in September 2023 with Transpetro;
- the *Dan Sabia*, a shuttle tanker built in 2012 that is currently operating under a bareboat charter that expires in January 2024 with Transpetro;
- the *Ingrid Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in February 2024 with Vår Energi Marine AS, a Norwegian subsidiary of Vår Energi (“Vår”), with options to extend until February 2029;
- the *Raquel Knutsen*, a shuttle tanker built in 2015 that is currently operating under a time charter that expires in June 2025 with Repsol, with options to extend until June 2030;
- the *Tordis Knutsen*, a shuttle tanker built in 2016 that is currently operating under a time charter that expires in January 2022, with a subsidiary of Shell. The vessel will commence on a new 3-year time charter contract with a major oil company in 2023;
- the *Vigdís Knutsen*, a shuttle tanker built in 2017 that is currently operating under a time charter that expires in the second quarter of 2022 with a subsidiary of Shell. The vessel will commence on a new 3-year time charter contract with a major oil company in 2023;
- the *Lena Knutsen*, a shuttle tanker built in 2017 that is currently operating under a time charter that expires in the third quarter of 2022 with a subsidiary of Shell. The vessel will commence on a new 3-year time charter contract with a major oil company in 2023;
- the *Brasil Knutsen*, a shuttle tanker built in 2013 that is currently operating under a time charter that expires in the third quarter of 2022 with Galp Sinopec Brazil Services B.V. (“Galp”), with options to extend until the third quarter of 2028; and
- The *Anna Knutsen*, a shuttle tanker built in 2017 that is currently operating under a time charter that expires in the first quarter of 2022 with Galp, with options to extend until the first quarter of 2028.
- The *Tove Knutsen*, a shuttle tanker built in 2020 that is currently operating under a time charter that expires in the fourth quarter of 2027 with Equinor, with options to extend until the fourth quarter of 2040.



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

Lease obligations

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

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

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

7) Segment Information

The Partnership has not presented segment information as it considers its operations to occur in one reportable segment, the shuttle tanker market. At December 31, 2020, the Partnership's fleet operated under twelve time charters and four bareboat charters, at December 31, 2019 and at December 31, 2018, the Partnership's fleet operated under twelve time charters and four bareboat charters. See Note 5—Significant Risks and Uncertainties Including Business and Credit Concentrations for revenues from customers accounting for over 10% of the Partnership's consolidated revenue. In both time charters and bareboat charters, the charterer, not the Partnership, controls the choice of which trading areas the Vessels will serve. Accordingly, the Partnership's management, including the chief operating decision makers, does not evaluate performance according to geographical region.

8) Insurance Proceeds

Carmen Knutsen

During the fourth quarter of 2017, the *Carmen Knutsen* undertook her 5-year special drydocking survey. During dismantling for overhaul, a technical default with her controllable pitch propeller was found. As a result, the Vessel went to a different yard to complete the repair. Repairs were completed and the Vessel was back on hire on January 1, 2018. The additional off-hire and technical costs were subject to an insurance claim. Under its loss of hire insurance policies, the Partnership's insurer is expected to pay the hire rate agreed in respect of the *Carmen Knutsen* for each day in excess of 14 deductible days while the Vessel was off-hire as a result of the repairs of the controllable pitch propeller. For the year ended December 31, 2018, the Partnership recorded \$0.45 million for loss of hire which was recorded as a component of total revenues since day rates are recovered under the terms of the policy.



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

9) Other Finance Expenses

(a) Interest Expense

The following table presents the components of interest cost as reported in the consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018:

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

(b) Other Finance Expense

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

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

10) Derivative Instruments

Interest Rate Risk Management

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



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

By using derivative financial instruments to economically hedge exposures to changes in interest rates, the Partnership exposes itself to credit risk and market risk. Derivative instruments that economically hedge exposures are used for risk management purposes, but these instruments are not designated as hedges for accounting purposes. Credit risk is the failure of the counterparty to perform under the terms of the derivative instrument. When the fair value of a derivative instrument is positive, the counterparty owes the Partnership, which creates credit risk for the Partnership. When the fair value of a derivative instrument is negative, the Partnership owes the counterparty, and, therefore, the Partnership is not exposed to the counterparty's credit risk in those circumstances. The Partnership minimizes counterparty credit risk in derivative instruments by entering into transactions with major banking and financial institutions. The derivative instruments entered into by the Partnership do not contain credit risk-related contingent features. The Partnership has not entered into master netting agreements with the counterparties to its derivative financial instrument contracts.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates, currency exchange rates or commodity prices. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Partnership assesses interest rate risk by monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating economical hedging opportunities.

The Partnership has historically used variable interest rate mortgage debt to finance its vessels. The variable interest rate mortgage debt obligations expose the Partnership to variability in interest payments due to changes in interest rates. The Partnership believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, the Partnership entered into London Interbank Offered Rate ("LIBOR") based interest rate swap contracts to manage fluctuations in cash flows resulting from changes in the benchmark interest rate of LIBOR. These swaps change the variable rate cash flow exposure on the mortgage debt obligations to fixed cash flows. Under the terms of the interest rate swap contracts, the Partnership receives LIBOR-based variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed rate debt for the notional amount of its debt hedged.

As of December 31, 2020 and 2019, the total notional amount of the Partnership's outstanding interest rate swap contracts that were entered into in order to hedge outstanding or forecasted debt obligations were \$516.2 million and \$561.8 million, respectively. As of December 31, 2020 and 2019 the carrying amount of the interest rate swaps contracts were net liability of \$30.1 million and net liability of \$4.7 million, respectively. See Note 11—Fair Value Measurements.

Changes in the fair value of interest rate swap contracts are reported in realized and unrealized gain (loss) on derivative instruments in the same period in which the related interest affects earnings.

The Partnership and its subsidiaries utilize the U.S. Dollar as their functional and reporting currency, because all of their revenues and the majority of their expenditures, including the majority of their investments in vessels and their financing transactions, are denominated in U.S. Dollars. Payment obligations in currencies other than the U.S. Dollar, and in particular operating expenses in NOK, expose the Partnership to variability in currency exchange rates. The Partnership believes that it is prudent to limit the variability of a portion of its currency exchange exposure. To meet this objective, the Partnership entered into foreign exchange forward contracts to manage fluctuations in cash flows resulting from changes in the exchange rates towards the U.S. Dollar. The agreements change the variable exchange rate to fixed exchange rates at agreed dates.

As of December 31, 2020 and 2019, the total contract amount in foreign currency of the Partnership's outstanding foreign exchange forward contracts that were entered into to economically hedge outstanding future payments in currencies other than the U.S. Dollar were NOK nil million and NOK 46.1 million, respectively. As of December 31, 2020 and 2019, the carrying amount of the Partnership's foreign exchange forward contracts was a net asset of \$nil and a net asset of \$0.2 million, respectively. See Note 11—Fair Value Measurements.



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

The following table presents the realized and unrealized gains and losses that are recognized in earnings as net gain (loss) on derivative instruments for the years ended December 31, 2020, 2019 and 2018:

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31,		
	2020	2019	2018
Realized gain (loss):			
Interest rate swap contracts	\$ (3,528)	\$ 3,812	\$ 1,180
Foreign exchange forward contracts	(109)	(2,933)	1,084
Total realized gain (loss):	<u>(3,637)</u>	<u>879</u>	<u>2,264</u>
Unrealized gain (loss):			
Interest rate swap contracts	(21,795)	(20,663)	4,429
Foreign exchange forward contracts	(247)	1,987	(2,654)
Total unrealized gain (loss):	<u>(22,042)</u>	<u>(18,676)</u>	<u>1,775</u>
Total realized and unrealized gain (loss) on derivative instruments:	<u>\$ (25,679)</u>	<u>\$ (17,797)</u>	<u>\$ 4,039</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 financial instruments as of December 31, 2020 and 2019. Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

The carrying amounts shown in the table above are included in the consolidated balance sheets under the indicated captions. Carrying amount of long-term debt, current and non-current, above excludes capitalized debt issuance cost of \$5.8 million and \$7.4 million as of December 31, 2020 and 2019, respectively. The carrying value of trade accounts receivable, trade accounts payable and amounts due from/to related parties approximate their fair value.



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

The fair values of the financial instruments shown in the above table as of December 31, 2020 and 2019 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Partnership's own judgment about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Partnership based on the best information available in the circumstances, including expected cash flows, appropriately risk-adjusted discount rates and available observable and unobservable inputs.

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

- *Cash and cash equivalents and restricted cash:* The fair value of the Partnership's cash balances approximates the carrying amounts due to the current nature of the amounts. As of December 31, 2020 and 2019 there is no restricted cash.
- *Foreign exchange forward contracts:* The fair value is calculated using mid-rates (excluding margins) as determined by counterparties based on available market rates as of the balance sheet date. The fair value is discounted from the value at expiration to the current value of the contracts.
- *Interest rate swap contracts:* The fair value of interest rate swap contracts is determined using an income approach using the following significant inputs: (1) the term of the swap contract (weighted average of 4.3 years and 4.0 years, as of December 31, 2020 and 2019, respectively), (2) the notional amount of the swap contract (ranging from \$7.0 million to \$40.1 million as of December 31, 2020 and ranging from \$8.5 million to \$50.0 million as of December 31, 2019), discount rates interpolated based on relevant LIBOR swap curves; and (3) the rate on the fixed leg of the swap contract (rates ranging from 0.71% to 2.90% for the contracts as of December 31, 2020 and rates ranging from 1.38% to 2.90% for the contracts as of December 31, 2019).
- *Long-term debt:* With respect to long-term debt measurements, the Partnership uses market interest rates and adjusts for risks such as its own credit risk. In determining an appropriate spread to reflect its credit standing, the Partnership considered interest rates currently offered to KNOT for similar debt instruments of comparable maturities by KNOT's and the Partnership's bankers as well as other banks that regularly compete to provide financing to the Partnership.

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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, 2020 and 2019:

	Carrying Value December 31, 2020	Fair Value Measurements at Reporting Date Using		
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(U.S. Dollars in thousands)</i>				
Financial assets:				
Cash and cash equivalents	\$ 52,583	\$ 52,583	\$ —	\$ —
Financial liabilities:				
<i>Current derivative liabilities:</i>				
Interest rate swap contracts	10,695	—	10,695	—
<i>Non-current derivative liabilities:</i>				
Interest rate swap contracts	19,358	—	19,358	—
Long-term debt, current and non-current	1,036,118	—	1,036,118	—

	Carrying Value December 31, 2019	Fair Value Measurements at Reporting Date Using		
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(U.S. Dollars in thousands)</i>				
Financial assets:				
Cash and cash equivalents	\$ 43,525	\$ 43,525	\$ —	\$ —
<i>Current derivative assets:</i>				
Interest rate swap contracts	674	—	674	—
Foreign exchange forward contracts	246	—	246	—
<i>Non-current derivative assets:</i>				
Interest rate swap contracts	648	—	648	—
Financial liabilities:				
<i>Current derivative liabilities:</i>				
Interest rate swap contracts	910	—	910	—
<i>Non-current derivative liabilities:</i>				
Interest rate swap contracts	5,133	—	5,133	—
Long-term debt, current and non-current	1,002,813	—	1,002,813	—

The Partnership's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer.

12) Trade Accounts Receivable and Other Current Assets

(a) Trade Accounts Receivable

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



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KNOT OFFSHORE PARTNERS LP
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(b) Other Current Assets

Other current assets consist of the following:

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

13) Vessels and Equipment

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

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

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

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



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14) Intangible Assets and Contract Liabilities

(a) Intangible Assets

<i>(U.S. Dollars in thousands)</i>	Above market time charter <i>Tordis Knutsen</i>	Above market time charter <i>Vigdis Knutsen</i>	Total intangibles
Intangibles, December 31, 2018	\$ 911	\$ 980	\$ 1,891
Additions	—	—	—
Amortization for the year	(303)	(302)	(605)
Intangibles, December 31, 2019	\$ 608	\$ 678	\$ 1,286
Additions	—	—	—
Amortization for the period	(303)	(302)	(605)
Intangibles, December 31, 2020	\$ 305	\$ 376	\$ 681

The intangible for the above market value of time charter contract associated with the *Tordis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.8 years as of the acquisition date. The intangible for the above market value of time charter contract associated with the *Vigdis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.9 years as of the acquisition date.

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

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

(b) Contract Liabilities

The unfavorable contractual rights for charters associated with *Fortaleza Knutsen* and *Recife Knutsen* were obtained in connection with a step acquisition in 2008 that had unfavorable contractual terms relative to market as of acquisition date. The *Fortaleza Knutsen* and the *Recife Knutsen* commenced on their 12 years' fixed bareboat charters in March 2011 and August 2011, respectively. The unfavorable contract rights related to *Fortaleza Knutsen* and *Recife Knutsen* are amortized to bareboat revenues on a straight line basis over the 12 years' contract period that expires in March 2023 and August 2023, respectively.

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

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



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

<i>(U.S. Dollars in thousands)</i>	2021	2022	2023	2024	2025
Contract liabilities:					
Unfavourable contract rights	\$ (1,518)	\$ (1,518)	\$ (650)	\$ —	\$ —

15) Accrued Expenses

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

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

16) Long-Term Debt

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

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



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

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

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

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

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

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

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

The Multi-vessels Facility contains the following financial covenants:

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

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



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

Hilda Loan Facility

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

The Hilda Facility contains the following primary financial covenants:

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

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

Torill Loan Facility

In January 2018, the Partnership's subsidiary, Knutsen Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, entered into a new \$100 million senior secured term loan facility (the "Torill Facility") with a consortium of banks, in which The Bank of Tokyo-Mitsubishi UFJ acted as agent. The Torill Facility replaced a \$117 million secured loan facility, which was due to be paid in full in October 2018. The Torill Facility is repayable in 24 consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The Torill Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.1%. The facility will mature in January 2024 and is guaranteed by the Partnership. The Torill Facility contains the following primary financial covenants:

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



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KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

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

\$172.5 Million Secured Loan Facility

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

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

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

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

The facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of either of the vessels are less than 125% of the respective loan, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrowers and the guarantor were in compliance with all covenants under this facility.

Raquel Loan Facility

In December 2014, Knutsen Shuttle Tankers 19 AS, the subsidiary owning the *Raquel Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$90.0 million (the "Raquel Facility"). The Raquel Facility was repayable in quarterly installments with a final balloon payment of \$30.5 million due at maturity in March 2025. The Raquel Facility bore interest at an annual rate equal to LIBOR plus a margin of 2.0%. The facility was secured by a vessel mortgage on the *Raquel Knutsen*. The *Raquel Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds were pledged as collateral for the Raquel Facility. The Partnership and KNOT Shuttle Tankers AS were the sole guarantors. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility. On January 21, 2021, the Raquel Facility was repaid in full.



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

Tordis Loan Facility

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

The Tordis Facility contains the following financial covenants:

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

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

Vigdis Loan Facility

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

The Vigdis Facility contains the following financial covenants:

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



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

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

Lena Loan Facility

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

The Lena Facility contains the following financial covenants:

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

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

Brasil Loan Facility

In June 2017, KNOT Shuttle Tankers 32 AS, the subsidiary owning the *Brasil Knutsen*, as the borrower, entered into a secured loan facility (the "Brasil Facility"). The Brasil Facility is repayable in quarterly installments with a final balloon payment of \$40.0 million due at maturity in July 2022. The Brasil Facility bears interest at an annual rate equal to LIBOR plus a margin of 2.3%. The facility is secured by a vessel mortgage on the *Brasil Knutsen*. The *Brasil Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Brasil Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Brasil Facility contains the following financial covenants:

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



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

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

The Brasil Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of the vessel is less than 125% of the outstanding loan first four years and 135% thereafter, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility.

Anna Loan Facility

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

The Anna Facility contains the following financial covenants:

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

The Anna Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including if the market value of the vessel is less than 130% of the outstanding loan, upon a total loss or sale of a vessel and customary events of default. As of December 31, 2020, the borrower and the guarantors were in compliance with all covenants under this facility.

Tove Loan Facility

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

The Tove Facility contains the following financial covenants:

- Positive working capital of the Partnership;



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KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

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

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

\$25 Million Revolving Credit Facility with NTT

In June 2019, KNOT Shuttle Tankers AS extended the maturity of its unsecured revolving credit facility of \$25 million with NTT Finance Corporation. The facility will mature in August 2021, bears interest at LIBOR plus a margin of 1.8% and has a commitment fee of 0.5% on the undrawn portion of the facility.

\$25 Million Revolving Credit Facility with Shinsei

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

17) Income Taxes

(a) Components of Current and Deferred Tax Expense

All of the income from continuing operations before income taxes was taxable to Norway and UK for the years ended December 31, 2020, 2019 and 2018. The entities and activities taxable to Norway are subject to the Norwegian tonnage tax regime. Under the Norwegian tonnage tax regime, the tax is based on the tonnage of the vessel, and the operating income is tax free. The amount of tonnage tax included in operating expenses for each of the years ended December 31, 2020, 2019 and 2018 was \$0.2 million. The net financial income and expense remains taxable as ordinary income tax for entities subject to the tonnage tax regime. See Note 2(r)—Income Taxes. The activities taxable to UK relates to KNOT UK and is based on the operating income for the entity.

The significant components of current and deferred income tax expense attributable to income from continuing operations for the years ended December 31, 2020, 2019 and 2018 are as follows:

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



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

(b) Taxation

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

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

(c) Components of Deferred Tax Assets and Liabilities

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2020 and 2019 are presented below:

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

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

<i>(U.S. Dollars in thousands)</i>	As of December 31,	
	2020	2019
Current deferred tax asset	\$ —	\$ —
Non-current deferred tax liabilities	295	357
Net deferred tax liabilities	<u>\$ 295</u>	<u>\$ 357</u>

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

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

The Partnership records a valuation allowance for deferred tax assets when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. The valuation allowances were \$20.9 million and



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

\$17.3 million as of December 31, 2020 and 2019, respectively. The valuation allowances relate to the financial loss carry forwards and other deferred tax assets for tonnage tax that, in the judgment of the Partnership, are more-likely-than not to be realized reflecting the Partnership's cumulative loss position for tonnage tax. In assessing the realizability of deferred tax assets, the Partnership considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized taking into account all the positive and negative evidence available. As of December 31, 2020, the Partnership determined that the deferred tax assets are likely to not be realized, and the booked value was, therefore, zero. There is no expiration date for losses carried forward.

After the reorganization of the Partnership's predecessor's activities into the new group structure in February 2013, all profit from continuing operations in Norway is taxable within the tonnage tax regime. The consequence of the reorganization is a one-time entrance tax into the Norwegian tonnage tax regime due to the Partnership's acquisition of the shares in the subsidiary that owns the *Fortaleza Knutsen* and the *Recife Knutsen*. The total amount of the entrance tax was estimated to be approximately \$3.0 million, which was recognized in the three months ended March 31, 2013. At September 30, 2017 the Partnership acquired the shares in the subsidiary that owns the *Lena Knutsen*, and recognized an additional entrance tax of \$0.1 million. The entrance tax on this gain is payable over several years and is calculated by multiplying the Norwegian tax rate by the declining balance of the gain, which will decline by 20% each year. At December 31, 2018 the entrance tax had declined to approximately \$0.6 million due to paid entrance tax, change in tax rate and translation effects. At December 31, 2019 the entrance tax had declined to approximately \$0.4 million due to paid entrance tax, change in tax rate and translation effects. At December 31, 2020 the entrance tax had declined to approximately \$0.4 million due to paid entrance tax, change in tax rate and translation effects. The taxes payable, mainly related to the entrance tax, are calculated based on the Norwegian corporate tax rate of 22% for 2020 and 2019, and the deferred tax liabilities, also mainly related to the entrance tax, are calculated based on a tax rate of 22% effective as from January 1, 2021 and January 1, 2020, respectively. Income tax expense within the UK of \$10,233 and \$8,754 for 2020 and 2019, respectively, was calculated by multiplying the tax basis with the UK tax rate of 19% in 2020 and 20% in 2019.

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

As of December 31, 2020, approximately \$0.08 million of the estimated entrance tax of \$0.38 million is estimated to be payable in the first and second quarter of 2021 and is presented as income taxes payable, while \$0.30 million is presented as non-current deferred taxes payable. As of December 31, 2019, approximately \$0.09 million of the estimated entrance tax of \$0.45 million was estimated to be payable in the first and second quarter of 2019 and was presented as income taxes payable, while \$0.36 million was presented as non-current deferred taxes payable.

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

The Partnership's Norwegian income tax returns are subject to examination by Norwegian tax authorities going back ten years from 2014. The Partnership had no unrecognized tax benefits as December 31, 2020 and 2019. During the years ended December 31, 2020 and 2019, the Partnership did not incur any interest or penalties on its tax returns.



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

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

18) Related Party Transactions

(a) Related Parties

Prior to the IPO, the Partnership's predecessor operated as an integrated part of KNOT. KNOT is owned 50% by TSSI and 50% by Nippon Yusen Kaisha ("NYK").

The *Windsor Knutsen*, the *Bodil Knutsen*, the *Carmen Knutsen*, the *Hilda Knutsen*, the *Torill Knutsen*, the *Ingrid Knutsen*, the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the *Lena Knutsen*, the *Brasil Knutsen*, the *Anna Knutsen* and the *Tove Knutsen*, all of which operate under time charters, are subject to technical management agreements pursuant to which certain crew, technical and commercial management services are provided by KNOT Management or KNOT Management Denmark. Under these technical management agreements, the Partnership's subsidiaries pay fees to and reimburse the costs and expenses of KNOT Management. The *Fortaleza Knutsen*, the *Recife Knutsen*, the *Dan Cisne* and the *Dan Sabia* operate under bareboat charters and, as a result, the customer is responsible for providing the crew, technical and commercial management of the vessel. However, each of these vessels are subject to management and administration agreements with either KNOT Management or KNOT Management Denmark, a 100% owned subsidiary of KNOT, pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.

The Partnership is a party to an administrative services agreement with KNOT UK, pursuant to which KNOT UK provides administrative services, and KNOT UK is permitted to subcontract certain of the administrative services provided under the administrative services agreement to KOAS UK and KOAS. On May 7, 2015, the Partnership entered into an amendment to the administrative services agreement, which allows KNOT UK to also subcontract administrative services to KNOT Management. Effective as of February 26, 2018, the Partnership entered into a second amendment to the administrative services agreement extending the term of the agreement indefinitely, subject to termination by any party upon 90 days' notice for any reason.



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

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

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

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

- (1) *Time charter income from KNOT:* On December 17, 2018, the Partnership's subsidiary that owns the *Windsor Knutsen* and Royal Dutch Shell ("Shell") agreed to suspend the vessel's time charter contract. The suspension period commenced March 4, 2019 and ended April 5, 2020, when the vessel was redelivered to Shell. During the suspension period, the *Windsor Knutsen* operated under a time charter contract with Knutsen Shuttle Tankers Pool AS on the same terms as the time charter contract with Shell.
- (2) *Guarantee income from KNOT:* Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payments of the hire rate under the initial charter of the *Bodil Knutsen* and *Windsor Knutsen* for a period of five years from the closing date of the IPO (until April 15, 2018). In October 2015, the *Windsor Knutsen* commenced on a new Shell time charter with a hire rate below the hire rate in the initial charter. The difference between the new hire rate and the initial rate was paid by KNOT until April 15, 2018. The reimbursement from KNOT for the difference in the charter hire is accounted for as guarantee income. See Note 18(b)—Related Party Transactions—Guarantees and Indemnifications.
- (3) *Vessel operating expenses:* KNOT Management or KNOT Management Denmark provides technical and operational management of the vessels on time charter including crewing and crew training services. The crew hire has in previous years been disclosed qualitatively, but the Partnership has concluded this year to disclose quantitatively to make it more transparent.



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KNOT OFFSHORE PARTNERS LP

Notes to Consolidated Financial Statements (Continued)

- (4) *Technical and operational management fee from KNOT Management or KNOT Management Denmark to Vessels:* KNOT Management or KNOT Management Denmark provides technical and operational management of the vessels on time charter including purchasing, maintenance and other operational service. In addition, there is also a charge for 24-hour emergency response services provided by KNOT Management for all vessels managed by KNOT Management.
- (5) *Operating expenses from other related parties:* Simsea Real Operations AS, a company jointly owned by Trygve Seglem and by other shipping companies in Haugesund, provides simulation, operational training assessment and other certified maritime courses for seafarers. The cost is course fees for seafarers. Knutsen OAS Crewing AS, a subsidiary of TSSI, provides administrative services related to East European crew on vessels operating on time charter contracts. The cost is a fixed fee per month per East European crew onboard the vessel. AS Marin Elektro, a company that delivers electrical installations on ships, offshore installations and thermography, was (at the time when services for the Partnership were performed) owned by Level Group AS, where Trygve Seglem, his family and members of the TSSI management have significant influence. AS Marin Elektro provided drydocking, service and thermography/IR inspections for the Partnership for \$39,993. Level Power & Automation AS, also owned by Level Group AS, provided equipment and spare parts to the Partnership's vessels for \$47,399.
- (6) *Administration fee from KNOT Management and Knutsen OAS Shipping AS ("KOAS") and Knutsen OAS (UK) Ltd. ("KOAS UK"):* Administration costs include the compensation and benefits of KNOT Management's management and administrative staff as well as other general and administration expenses. Some benefits are also provided by KOAS and KOAS UK. Net administration costs are total administration cost plus a 5% margin, reduced for the total fees for services delivered by the administration staffs and the estimated shareholder costs for KNOT that have not been allocated. As such, the level of net administration costs as a basis for the allocation can vary from year to year based on the administration and financing services offered by KNOT to all the vessels in its fleet each year. KNOT Management also charges each subsidiary a fixed annual fee for the preparation of the statutory financial statement.
- (7) *Administration and management fee from KNOT Management and KNOT Management Denmark:* For bareboat charters, the shipowner is not responsible for providing crewing or other operational services and the customer is responsible for all vessel operating expenses and voyage expenses. However, each of the vessels under bareboat charters is subject to a management and administration agreement with either KNOT Management or KNOT Management Denmark, pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.
- (8) *Drydocking supervision fee from KNOT and KOAS:* KNOT and KOAS provide supervision and hire out service personnel during drydocking of the vessels. The fee is calculated as a daily fixed fee.

(b) Guarantees and Indemnifications

Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payments of the hire rate under the initial charters of each of the *Windsor Knutsen* and the *Bodil Knutsen* for a period of five years from the closing date of the IPO (until April 15, 2018).

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



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

(c) Transactions with Management and Directors

Trygve Seglem, the Chairman of the Partnership's board of directors and the President and CEO of KNOT, controls Seglem Holding AS, which owns 100% of the equity interest in TSSI, which controls KOAS. TSSI owns 50% of the equity interest in KNOT. NYK, which owns 50% of the equity interest in KNOT, has management and administrative personnel on secondment to KNOT.

See the footnotes to Note 18(a)—Related Party Transactions—Related Parties for a discussion of the allocation principles for KNOT's administrative costs, including management and administrative staff, included in the consolidated statements of operations.

(d) Amounts Due from and Due to Related Parties

Balances with related parties consisted of the following:

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

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

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

e) Trade accounts payables and other currents assets

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

<i>(U.S. Dollars in thousands)</i>	At December 31, 2020	At December 31, 2019
Balance Sheet:		
Trading balances due to KOAS	\$ 1,304	\$ 216
Trading balances due to KNOT and affiliates	902	685
Trade accounts payables to related parties	<u>\$ 2,206</u>	<u>\$ 901</u>



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

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

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

(f) Acquisitions from KNOT

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

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

The board of directors of the Partnership and the Conflicts Committee of the board approved the purchase price for each transaction described above. The Conflicts Committee retained a financial advisor to assist with its evaluation of each of the transactions. See Note 21—Acquisitions.

19) Commitments and Contingencies

Assets Pledged

As of December 31, 2020 and 2019, Vessels with a book value of \$1,709 million and \$1,677 million, respectively, were pledged as security held as guarantee for the Partnership's long-term debt and interest rate swap obligations. See Note 10—Derivative Instruments, Note 13—Vessels and Equipment and Note 16—Long-Term Debt.

Claims and Legal Proceedings

Under the Partnership's time charters, claims to reduce the hire rate payments can be made if the Vessel does not perform to certain specifications in the agreements. No accrual for possible claim was recorded for the years ended December 31, 2020, 2019 and 2018.

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

Insurance

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



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

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

Carmen Knutsen

During the fourth quarter of 2017, the *Carmen Knutsen* undertook her 5-year special drydocking survey. During dismantling for overhaul, a technical default with her controllable pitch propeller was found. As a result, the Vessel went to a different yard to complete the repair. Repairs were completed and the Vessel was back on hire on January 1, 2018. The additional off-hire and technical costs were subject to an insurance claim. Under its loss of hire insurance policies, the Partnership's insurer paid the hire rate agreed in respect of the *Carmen Knutsen* for each day in excess of 14 deductible days while the Vessel was off-hire as a result of the repairs of the controllable pitch propeller. For the year ended December 31, 2018, the Partnership recorded \$0.45 million, for loss of hire which was recorded as a component of total revenues since day rates are recovered under the terms of the policy.

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



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

20) Earnings per Unit and Cash Distributions

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

<i>(U.S. Dollars in thousands, except per unit data)</i>	Year Ended December 31,		
	2020	2019	2018
Net income	\$ 65,225	\$ 58,957	\$ 82,165
Less: Series A Preferred unitholders' interest in net income	7,200	7,200	7,200
Net income attributable to the unitholders of KNOT Offshore Partners LP	<u>58,025</u>	<u>51,757</u>	<u>74,965</u>
Less: Distributions (2)	<u>72,136</u>	<u>72,136</u>	<u>72,136</u>
Under (over) distributed earnings	<u>(14,111)</u>	<u>(20,379)</u>	<u>2,829</u>
Under (over) distributed earnings attributable to:			
Common unitholders (3)	(13,851)	(20,003)	2,777
General Partner	(261)	(376)	52
Weighted average units outstanding (basic) (in thousands):			
Common unitholders	32,694	32,694	32,694
General Partner	615	615	615
Weighted average units outstanding (diluted) (in thousands):			
Common unitholders (4)	32,694	32,694	36,370
General Partner	615	615	615
Earnings per unit (basic)			
Common unitholders	\$ 1.74	\$ 1.55	\$ 2.25
General Partner	1.74	1.55	2.25
Earnings per unit (diluted):			
Common unitholders (4)	\$ 1.74	\$ 1.55	\$ 2.22
General Partner	1.74	1.55	2.25
Cash distributions declared and paid in the period per unit (5)	\$ 2.08	\$ 2.08	\$ 2.08
Subsequent event: Cash distributions declared and paid per unit relating to the period (6)	\$ 0.52	\$ 0.52	\$ 0.52

- (1) Earnings per unit have been calculated in accordance with the cash distribution provisions set forth in the Partnership Agreement.
- (2) This refers to distributions made or to be made in relation to the period irrespective of the declaration and payment dates and based on the numbers of units outstanding at the record date. This includes cash distributions to the IDR holder (KNOT) for the years ended December 31, 2020, 2019 and 2018 of \$2.8 million, respectively.
- (3) This includes the net income attributable to the IDR holder. The net income attributable to IDRs for the years ended December 31, 2020, 2019 and 2018 was \$2.8 million, respectively.
- (4) Diluted weighted average units outstanding for the year ended December 31, 2020 excludes 3.8 million potential common shares relating to the convertible preferred units since the assumed issuance had an anti-dilutive effect on the calculation of diluted earnings per unit.
- (5) Refers to cash distributions declared and paid during the period.
- (6) Refers to cash distributions declared and paid subsequent to December 31, 2020.



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

As of December 31, 2020, 73.5% of the Partnership's total number of common units outstanding representing limited partner interests were held by the public (in the form of 24,036,226 common units) and 26.2% of such units were held directly by KNOT (in the form of 8,567,500 common units). In addition, KNOT, through its ownership of the General Partner, held a 1.85% general partner interest (in the form of 615,117 general partner units) and a 0.3% limited partner interest (in the form of 90,368 common units).

Earnings per unit—basic is determined by dividing net income, after deducting the amount of net income attributable to the Series A Preferred Units and the distribution paid or to be made in relation to the period by the weighted-average number of units outstanding during the applicable period.

The computation of limited partners' interest in net income per common unit—diluted assumes the issuance of common units for all potentially dilutive securities consisting of the Series A Preferred Units. Consequently, the net income attributable to limited partners' interest is exclusive of any distributions on the Series A Preferred Units. In addition, the weighted average number of common units outstanding has been increased assuming the Series A Preferred Units have been converted to common units using the if-converted method. The computation of limited partners' interest in net income per common unit—diluted does not assume the issuance of Series A Preferred Units if the effect would be anti-dilutive.

The General Partner's and common unitholders' interest in net income was calculated as if all net income was distributed according to the terms of the Partnership Agreement, regardless of whether those earnings would or could be distributed. The Partnership Agreement does not provide for the distribution of net income. Rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter less the amount of cash reserves established by the Partnership's board of directors (the "Board") to provide for the proper conduct of the Partnership's business, including reserves for maintenance and replacement capital expenditures, anticipated credit needs and capital requirements and any accumulated distributions on, or redemptions of, the Series A Preferred Units. In addition, KNOT, as the initial holder of all IDRs, has the right, at the time when it has received incentive distributions at the highest level to which it is entitled (48.0% for each of the prior four consecutive fiscal quarters), to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Unlike available cash, net income is affected by non-cash items, such as depreciation and amortization, unrealized gains and losses on derivative instruments and unrealized foreign currency gains and losses.

Distributions of available cash from operating surplus for any quarter are required to be made in the following manner:

- *first* , 98.15% to all common unitholders, pro rata, and 1.85% to the General Partner, until each outstanding common unit has received an amount equal to \$0.375 (the "MQD") for that quarter;
- *second* , 98.15% to all common unitholders, pro rata, and 1.85% to the General Partner, until each outstanding common unit has received a total of \$0.43125 (the "first target distribution") for that quarter;
- *third* , 85.15% to all common unitholders, pro rata, 1.85% to the General Partner, and 13% to the IDR holders, pro rata, until each outstanding common unit has received a total of \$0.46875 (the "second target distribution") for that quarter;
- *fourth* , 75.15% to all common unitholders, pro rata, 1.85% to the General Partner, and 23% to the IDR holders, pro rata, until each outstanding common unit has received a total of \$0.5625 (the "third target distribution") for that quarter; and
- *thereafter* , 50.15% to all common unitholders, pro rata, 1.85% to the General Partner, and 48% to the IDR holders, pro rata.



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

The percentage interests set forth above assumed that the General Partner continues to own a 1.85% general partner interest and that the Partnership has not issued additional classes of equity securities.

21) Acquisitions

During the years ended December 31, 2020 and 2018, the Partnership acquired from KNOT equity interests in two subsidiaries which own and operate the *Tove Knutsen* and the *Anna Knutsen*.

The board of directors of the Partnership and the Conflicts Committee approved the purchase price for each transaction. The Conflicts Committee retained a financial advisor to assist with its evaluation of the transactions. The cost of the fee paid to the financial advisor was divided equally between the Partnership and KNOT. Acquisition related costs of \$0.1 million, \$nil million and \$0.1 million as of December 31, 2020, 2019 and 2018, respectively, were expensed as incurred under general and administrative expenses. The allocation of the purchase price to acquired identifiable assets was based on their estimated fair values at the date of acquisition. The purchase price of each acquisition has been allocated to the identifiable assets acquired. The details of each transaction are as follows:

<i>(U.S. Dollars in thousands)</i>	Final Tove Knutsen December 31, 2020	Final Anna Knutsen March 1, 2018
Purchase consideration (1)	\$ 21,898	\$ 19,913
Less: Fair value of net assets acquired:		
Vessels and equipment (2)	117,978	120,274
Cash	804	4,537
Inventories	136	257
Derivatives assets (liabilities)	(3,537)	1,839
Others current assets	270	111
Amounts due from related parties	—	520
Long-term debt	(93,139)	(84,217)
Long-term debt from related parties	—	(22,535)
Deferred debt issuance costs	769	1,228
Trade accounts payable	(430)	(971)
Accrued expenses	(622)	(1,013)
Amounts due to related parties	(331)	(117)
Total purchase consideration	21,898	19,913
Difference between the purchase price and fair value of net assets acquired	\$ —	\$ —

(1) The purchase consideration comprises the following:

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

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



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

Tove Knutsen

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

Anna Knutsen

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

22) Subsequent Events

The Partnership has evaluated subsequent events from the balance sheet date through March 18, 2021, the date at which the audited consolidated financial statements were available to be issued, and determined that there are no other items to disclose, except as follows:

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

On December 30, 2020, the Partnership through its wholly-owned subsidiary, Knutsen Shuttle Tankers 19 AS, which owned the *Raquel Knutsen*, agreed to enter into a sale and leaseback agreement with a Japanese-based lessor for a lease period of ten years. The closing of the transaction occurred on January 19, 2021. The gross sales price was \$94.3 million and a portion of the proceeds was used to repay the outstanding loan and 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.

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

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

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



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;

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

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

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

Bakgrunn

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

Postadresse Postboks 9200 Grønland 0134 Oslo For elektronisk henvendelse se www.skatteetaten.no	Besøksadresse: Se www.skatteetaten.no Org.nr: 996250318	Sentralbord 800 80 000 Telefaks 22 17 08 60
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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