

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

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**FORM 6-K**

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**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13A-16 OR 15D-16  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2017

Commission File Number: 001-35866

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**KNOT OFFSHORE PARTNERS LP**  
(Translation of registrant's name into English)

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**2 Queen's Cross,  
Aberdeen, Aberdeenshire  
AB15 4YB  
United Kingdom**  
(Address of principal executive office)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒

Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ☐

No ☒

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ☐

No ☒

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**KNOT OFFSHORE PARTNERS LP**

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

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**THIS REPORT ON FORM 6-K IS HEREBY INCORPORATED BY REFERENCE INTO (i) THE REGISTRATION STATEMENT ON FORM F-3 (NO. 333-195976) ORIGINALLY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") ON MAY 15, 2014 AND (ii) THE REGISTRATION STATEMENT ON FORM F-3 (NO. 333-218254) ORIGINALLY FILED WITH THE SEC ON MAY 26, 2017.**

# KNOT OFFSHORE PARTNERS LP

Unaudited Condensed Consolidated Statements of Operations  
For the Three and Six Months Ended June 30, 2017 and 2016  
(U.S. Dollars in thousands, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating revenues: (Notes 3 and 12)				
Time charter and bareboat revenues (Note 3)	\$ 51,537	\$ 42,864	\$ 95,284	\$ 84,690
Loss of hire insurance recoveries	2,276	—	3,426	—
Other income	593	199	687	399
Total revenues	54,406	43,063	99,397	85,089
Operating expenses: (Note 12)				
Vessel operating expenses	9,427	7,975	19,709	15,622
Depreciation	17,372	13,913	33,125	27,805
General and administrative expenses	1,493	948	2,962	2,256
Total operating expenses	28,292	22,836	55,796	45,683
Operating income	26,114	20,227	43,601	39,406
Finance income (expense) (Note 12):				
Interest income	44	—	80	3
Interest expense (Note 5)	(7,252)	(5,054)	(13,466)	(10,084)
Other finance expense (Note 5)	(328)	(334)	(630)	(601)
Realized and unrealized gain (loss) on derivative instruments (Note 6)	(1,536)	(3,176)	(1,017)	(6,360)
Net gain (loss) on foreign currency transactions	(124)	(82)	(218)	(117)
Total finance expense	(9,196)	(8,646)	(15,251)	(17,159)
Income before income taxes	16,918	11,581	28,350	22,247
Income tax benefit (expense) (Note 8)	(3)	(3)	(6)	(6)
Net income	\$ 16,915	\$ 11,578	\$ 28,344	\$ 22,241
Series A Preferred unitholders' interest in net income	\$ 1,009	\$ —	\$ 1,653	\$ —
General Partner's interest in net income	294	233	493	501
Limited Partners' interest in net income	15,613	11,345	26,198	21,740
Earnings per unit (Basic) (Note 14):				
Common unit (basic)	\$ 0.526	\$ 0.502	\$ 0.886	\$ 0.810
Subordinated unit (basic)	\$ —	\$ —	\$ —	\$ 0.767
General Partner unit (basic)	\$ 0.526	\$ 0.417	\$ 0.882	\$ 0.897
Earnings per unit (Diluted) (Note 14):				
Common unit (diluted)	\$ 0.522	\$ 0.502	\$ 0.886	\$ 0.810
Subordinated unit (diluted)	\$ —	\$ —	\$ —	\$ 0.767
General Partner unit (diluted)	\$ 0.526	\$ 0.417	\$ 0.882	\$ 0.897

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

**KNOT OFFSHORE PARTNERS LP**

Unaudited Condensed Consolidated Statements of Comprehensive Income  
for the Three and Six Months Ended June 30, 2017 and 2016  
*(U.S. Dollars in thousands)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 16,915	\$ 11,578	\$ 28,344	\$ 22,241
Other comprehensive income, net of tax	—	—	—	—
Comprehensive income	<u>\$ 16,915</u>	<u>\$ 11,578</u>	<u>\$ 28,344</u>	<u>\$ 22,241</u>

*The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.*

# KNOT OFFSHORE PARTNERS LP

Unaudited Condensed Consolidated Balance Sheets  
As of June 30, 2017 and December 31, 2016  
(U.S. Dollars in thousands)

	At June 30, 2017	At December 31, 2016
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents (Note 7)	\$ 64,501	\$ 27,664
Amounts due from related parties (Note 12)	767	150
Inventories	1,712	1,176
Derivative assets (Notes 6 and 7)	262	—
Other current assets	5,481	2,089
<b>Total current assets</b>	<b>72,723</b>	<b>31,079</b>
<b>Long-term assets:</b>		
Vessels, net of accumulated depreciation (Note 9)	1,519,270	1,256,889
Intangible assets, net (Note 10)	2,800	—
Derivative assets (Notes 6 and 7)	4,500	3,154
Accrued income	1,453	1,153
<b>Total long-term assets</b>	<b>1,528,023</b>	<b>1,261,196</b>
<b>Total assets</b>	<b>\$ 1,600,746</b>	<b>\$ 1,292,275</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Trade accounts payable (Note 12)	\$ 2,595	\$ 2,221
Accrued expenses	5,779	3,368
Current portion of long-term debt (Notes 7 and 11)	65,018	58,984
Current portion of derivative liabilities (Notes 6 and 7)	2,045	3,304
Income taxes payable	18	190
Current portion of contract liabilities	1,518	1,518
Prepaid charter and deferred revenue	7,578	7,218
Amount due to related parties (Note 12)	7,047	834
<b>Total current liabilities</b>	<b>91,598</b>	<b>77,637</b>
<b>Long-term liabilities:</b>		
Long-term debt (Notes 7 and 11)	840,882	657,662
Long-term debt from related parties	—	25,000
Derivative liabilities (Notes 6 and 7)	793	285
Contract liabilities	7,480	8,239
Deferred tax liabilities (Note 8)	707	685
Other long-term liabilities	313	1,057
<b>Total long-term liabilities</b>	<b>850,175</b>	<b>692,928</b>
<b>Total liabilities</b>	<b>941,773</b>	<b>770,565</b>
<i>Commitments and contingencies (Note 13)</i>		
<b>Series A Convertible Preferred Units (Notes 16 and 17)</b>	<b>88,451</b>	<b>—</b>
<b>Equity:</b>		
Partners' capital:		
Common unitholders	560,337	511,413
General partner interest	10,185	10,297
<b>Total partners' capital</b>	<b>570,522</b>	<b>521,710</b>
<b>Total liabilities and equity</b>	<b>\$ 1,600,746</b>	<b>\$ 1,292,275</b>

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

# KNOT OFFSHORE PARTNERS LP

Unaudited Condensed Consolidated  
Statements of Changes in Partners' Capital  
for the Six Months Ended June 30, 2017 and 2016  
(U.S. Dollars in thousands)

		Partners' Capital			Accumulated Other Comprehensive Income (Loss)	Total Partners' Capital	Series A Convertible Preferred Units
	Common Units	Subordinated Units	General Partner Units				
(U.S. Dollars in thousands)							
<b>Consolidated balance at December 31, 2015</b>	<b>\$ 411,317</b>	<b>\$ 99,158</b>	<b>\$ 10,295</b>	<b>\$ —</b>	<b>\$ 520,770</b>	<b>\$ —</b>	
Net income	16,688	5,052	501	—	22,241	—	
Other comprehensive income	—	—	—	—	—	—	
Cash distributions	(19,372)	(10,088)	(648)	—	(30,108)	—	
Conversion of subordinated units to common units	94,123	(94,123)	—	—	—	—	
<b>Consolidated balance at June 30, 2016</b>	<b>\$ 502,756</b>	<b>\$ —</b>	<b>\$ 10,148</b>	<b>\$ —</b>	<b>\$ 512,903</b>	<b>\$ —</b>	
<b>Consolidated balance at December 31, 2016</b>	<b>\$ 511,413</b>	<b>\$ —</b>	<b>\$ 10,297</b>	<b>\$ —</b>	<b>\$ 521,710</b>	<b>\$ —</b>	
Net income	26,198	—	493	—	26,691	1,653	
Other comprehensive income	—	—	—	—	—	—	
Cash distributions	(32,153)	—	(605)	—	(32,758)	(645)	
Net proceeds from issuance of common units	54,879	—	—	—	54,879	—	
Net proceeds from sale of Convertible Preferred Units	—	—	—	—	—	87,443	
<b>Consolidated balance at June 30, 2017</b>	<b>\$ 560,337</b>	<b>\$ —</b>	<b>\$ 10,185</b>	<b>\$ —</b>	<b>\$ 570,522</b>	<b>\$ 88,451</b>	

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

# KNOT OFFSHORE PARTNERS LP

## Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016 (U.S. Dollars in thousands)

	Six Months ended June 30,	
	2017	2016
(U.S. Dollars in thousands)		
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 28,344	\$ 22,241
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	33,125	27,805
Amortization of contract intangibles / liabilities	(632)	(759)
Amortization of deferred revenue	(743)	(886)
Amortization of deferred debt issuance cost	755	573
Goodwill impairment charge	—	—
Drydocking expenditure	(3,800)	(2,595)
Income tax expense	6	6
Income taxes paid	(182)	(241)
Unrealized (gain) loss on derivative instruments	(757)	3,868
Unrealized (gain) loss on foreign currency transactions	(2)	63
Changes in operating assets and liabilities		
Decrease (increase) in amounts due from related parties	38,590	33
Decrease (increase) in inventories	(216)	75
Decrease (increase) in other current assets	(1,914)	94
Decrease (increase) in accrued revenue	(300)	(706)
Increase (decrease) in trade accounts payable	71	(87)
Increase (decrease) in accrued expenses	826	(419)
Increase (decrease) prepaid revenue	360	3,776
Increase (decrease) in amounts due to related parties	4,490	(356)
<b>Net cash provided by operating activities</b>	<b>98,021</b>	<b>52,485</b>
<b>INVESTING ACTIVITIES</b>		
Disposals (additions) to vessel and equipment	(180)	(521)
Acquisition of <i>Tordis Knutsen</i> (net of cash acquired)	(32,374)	—
Acquisition of <i>Vigdis Knutsen</i> (net of cash acquired)	(28,321)	—
<b>Net cash used in investing activities</b>	<b>(60,875)</b>	<b>(521)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	130,000	5,000
Repayment of long-term debt	(167,460)	(24,642)
Repayment of long-term debt from related parties	(70,663)	—
Payment of debt issuance cost	(1,140)	(144)
Cash distribution	(33,403)	(30,107)
Net proceeds from issuance of common units	54,879	—
Net proceeds from sale of Convertible Preferred Units	87,443	—
<b>Net cash used in financing activities</b>	<b>(344)</b>	<b>(49,893)</b>
Effect of exchange rate changes on cash	35	23
Net increase in cash and cash equivalents	36,837	2,094
Cash and cash equivalents at the beginning of the period	27,664	23,573
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 64,501</b>	<b>\$ 25,667</b>

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

## KNOT OFFSHORE PARTNERS LP

### Notes to Unaudited Condensed Consolidated Financial Statements

#### 1) Description of Business

KNOT Offshore Partners LP (the “Partnership”) is a publicly traded Marshall Islands limited partnership initially 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 common units (the “IPO”), which was completed in April 2013.

As of June 30, 2017, the Partnership had a fleet of thirteen 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* and the *Vigdis Knutsen*, each referred to as a “Vessel” and, collectively, as the “Vessels.” The Vessels operate under fixed charter contracts to charterers.

The initial term for a time charter or bareboat charter commences upon the vessel’s delivery to the customer. The Partnership’s charters include options, exercisable by the customer, to extend the charter’s initial term. Pursuant to the Omnibus Agreement, KNOT has agreed to guarantee the payments of the hire rate under the initial charters for the *Windsor Knutsen* and the *Bodil Knutsen* for five years from the closing of the Partnership’s IPO. The time charter for the *Windsor Knutsen* expires in 2018 and the charterer has five one-year extension options. The time charter for the *Bodil Knutsen* expires in 2019 and contains customer options for extension through 2024. The *Recife Knutsen* and the *Fortaleza Knutsen* are under bareboat charter contracts that expire in 2023. The time charter for the *Carmen Knutsen* expires in 2023 and contains customer options for extension through 2026. The time charters for the *Hilda Knutsen* and the *Torill Knutsen* each expire in 2018 and contain a customer option for extension through 2023. The *Dan Cisne* and the *Dan Sabia* are under bareboat charter contracts that expire in 2023 and 2024, respectively. The time charter for the *Ingrid Knutsen* expires in 2024 and contains customer options for extension through 2029. The time charter for the *Raquel Knutsen* expires in 2025 and contains customer options for extension through 2030. The time charter for the *Tordis Knutsen* expires in 2022 and contains customer options for extension through 2032. The time charter for the *Vigdis Knutsen* expires in 2022 and contains customer options for extension through 2032.

Under the Partnership’s Amended and Restated Agreement of Limited Partnership (the “Partnership Agreement”), KNOT Offshore Partners GP LLC, a wholly owned subsidiary of KNOT, and the general partner of the Partnership (the “General Partner”), has irrevocably delegated to the Partnership’s board of directors the power to oversee and direct the operations of, manage and determine the strategies and policies of the Partnership. During the period from the Partnership’s IPO in April 2013 until the time of the Partnership’s first annual general meeting (“AGM”) on June 25, 2013, the General Partner retained the sole power to appoint, remove and replace all members of the Partnership’s board of directors. From the first AGM, four of the seven board members became electable by the common unitholders and accordingly, from this date, KNOT, as the owner of the General Partner, no longer retains the power to control the Partnership’s board of directors and, hence, the Partnership. As a result, the Partnership is no longer considered to be under common control with KNOT and as a consequence, the Partnership will not account for any vessel acquisitions from KNOT after June 25, 2013 as a transfer of equity interests between entities under common control.

On January 10, 2017, the Partnership issued and sold 2,500,000 common units in an underwritten public offering (see Note 16(a) — Equity Offering), raising approximately \$54.9 million in net proceeds.

On February 2, 2017, the Partnership issued and sold in a private placement 2,083,333 Series A Convertible Preferred Units (“Series A Preferred Units”) at a price of \$24.00 per unit. After deducting estimated fees and expenses, the net proceeds from the sale were approximately \$48.6 million.

On March 1, 2017, the Partnership’s wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT Shuttle Tankers 24 AS, the company that owns the *Tordis Knutsen*, from KNOT. The acquisition of the *Tordis Knutsen* was accounted for as an acquisition of a business. As a result, the Partnership has recorded the results of operations of the *Tordis Knutsen* in its consolidated statement of operations from March 1, 2017. See Note 15—Business Acquisitions.

On June 1, 2017, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 25 AS, the company that owns the *Vigdis Knutsen*, from KNOT. The acquisition of the *Vigdis Knutsen* was accounted for as an acquisition of a business. As a result, the Partnership has recorded the results of operations of the *Vigdis Knutsen* in its consolidated statement of operations from June 1, 2017. See Note 15—Business Acquisitions.

On June 30, 2017, the Partnership issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at a price of \$24.00 per unit. After deducting estimated fees and expenses, the net proceeds from the sale were approximately \$38.8 million.



## **2) Summary of Significant Accounting Policies**

### ***(a) Basis of Preparation***

The accompanying unaudited condensed consolidated interim financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) for interim financial information. In the opinion of management of the Partnership, all adjustments considered necessary for a fair presentation, which are of normal recurring nature, have been included. All intercompany balances and transactions are eliminated. The unaudited condensed consolidated financial statements do not include all the disclosures and information required for a complete set of annual financial statements; and, therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the Partnership’s audited consolidated financial statements for the year ended December 31, 2016, which are included in the Partnership’s Annual Report on Form 20-F (the “2016 20-F”).

### ***(b) Significant Accounting Policies***

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Partnership’s audited consolidated financial statements for the year ended December 31, 2016, as contained in the Partnership’s 2016 20-F.

### ***(c) Recent Accounting Pronouncements***

#### *Adoption of new accounting standards*

There are no accounting pronouncements effective for the period, whose adoption had a material impact on the consolidated financial statements in the current period.

#### *Accounting pronouncements to be adopted*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued revised guidance for leasing. The objective is to establish the principles that lessors and lessees shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. The standard is effective for annual periods beginning after December 15, 2018. The Partnership is currently assessing the impact the adoption of this standard will have on the consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which provides new authoritative guidance on the methods of revenue recognition and related disclosure requirements. This new standard supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The new standard also requires additional qualitative and quantitative disclosures. In April 2015 the FASB proposed to defer the effective date of the guidance by one year. Based on this proposal, public entities would need to apply the new guidance for annual and interim periods beginning after December 15, 2017, and may apply it, at the company’s option, retrospectively to each period presented or as a cumulative-effect adjustment as at the date of adoption. Early adoption is not permitted until periods beginning after December 15, 2016. The Partnership has begun an initial assessment of the impact of this standard update on its consolidated financial statements and related disclosures and expects to adopt the standard from January 1, 2018. Based on the analysis to date, the Partnership does not expect the pattern of revenue recognition under the new guidance to materially differ from its current revenue recognition pattern and expects to transition using a modified retrospective approach whereby it will record the cumulative effect of applying the new standard to all outstanding contracts as at January 1, 2018 as an adjustment to opening retained earnings.

Any other accounting pronouncements yet to be adopted by the Partnership are consistent with those disclosed in the Partnership’s audited consolidated financial statements for the year ended December 31, 2016.

## **3) Segment Information**

The Partnership has not presented segment information as it considers its operations to occur in one reportable segment, the shuttle tanker market. As of June 30, 2017, the Partnership’s fleet consisted of thirteen vessels and operated under nine time charters and four bareboat charters. As of June 30, 2016, the Partnership’s fleet consisted of ten vessels and operated under six time charters and four bareboat charters. Under the time charters and bareboat charters, the charterer, not the Partnership, controls the choice of which trading areas the applicable Vessel will serve. Accordingly, the Partnership’s management, including the chief operating decision makers, does not evaluate performance according to geographical region.

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The following table presents revenues and percentages of consolidated revenues for customers that accounted for more than 10% of the Partnership's consolidated revenues during the three and six months ended June 30, 2017 and 2016. All of these customers are subsidiaries of major international oil companies.

(U.S. Dollars in thousands)	Three Months Ended June 30,					Six Months Ended June 30,						
	2017		2016		2017		2016					
Eni Trading and Shipping S.p.A.	\$	11,345	22%	\$	11,689	27%	\$	22,905	24%	\$	23,375	28%
Fronape International Company, a subsidiary of Petrobras Transporte S.A.		11,249	22%		11,249	26%		22,378	23%		22,498	27%
Statoil ASA		5,778	11%		5,710	13%		11,459	12%		10,229	12%
Repsol Sinopec Brasil, S.A., a subsidiary of Repsol Sinopec Brasil, B.V.		7,094	14%		4,772	11%		14,396	15%		9,760	11%
Brazil Shipping I Limited, a subsidiary of Royal Dutch Shell		11,675	23%		5,097	13%		15,401	16%		10,134	12%
Standard Marine Tønsberg AS, a Norwegian subsidiary of ExxonMobil		4,396	9%		4,347	10%		8,745	9%		8,694	10%

#### 4) Insurance Proceeds

In February 2017, the *Raquel Knutsen* damaged its propeller hub. As a result, the Vessel was off-hire from February 22, 2017 to May 15, 2017 for repairs. Under the Partnership's loss of hire policies, its insurer will pay the Partnership the hire rate agreed in respect of each vessel for each day, in excess of 14 deductible days, for the time that the Vessel is out of service as a result of damage, for a maximum of 180 days. The Partnership received payments for loss of hire insurance of \$2.15 million and \$2.9 million during the three and six months ended June 30, 2017, respectively.

In addition, for the three and six months ended June 30, 2017, the Partnership recorded \$2.17 million and \$3.89 million, respectively, for recoveries up to the amount of loss under hull and machinery insurance for the repairs as a result of the propeller hub damage to the *Raquel Knutsen*. For the three and six months ended June 30, 2017, \$0.1 million and \$0.1 million, respectively, is classified under vessel operating expense along with the cost of the repairs.

#### 5) Other Finance Expenses

##### (a) Interest Expense

A reconciliation of total interest cost and interest expense as reported in the consolidated statements of operations for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(U.S. Dollars in thousands)				
Interest expense	\$ 6,846	\$ 4,768	\$ 12,711	\$ 9,511
Amortization of debt issuance cost and fair value of debt assumed	406	286	755	573
Total interest cost	<u>\$ 7,252</u>	<u>\$ 5,054</u>	<u>\$ 13,466</u>	<u>\$ 10,084</u>

##### (b) Other Finance Expense

The following table presents the other finance expense for three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(U.S. Dollars in thousands)				
Bank fees, charges	\$ 119	\$ 158	\$ 191	\$ 246
Guarantee costs	158	176	318	355
Commitment fees	51	—	121	—
Total other finance expense	<u>\$ 328</u>	<u>\$ 334</u>	<u>\$ 630</u>	<u>\$ 601</u>

## 6) Derivative Instruments

The unaudited condensed consolidated interim 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 U.S. Dollars and on its contract obligations. The Partnership does not apply hedge accounting for derivative instruments. The Partnership does not speculate using derivative instruments.

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

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

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

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

As of June 30, 2017, the Partnership had entered into various interest swap agreements for a total notional amount of \$536.7 million to hedge against the interest rate risks of its variable rate borrowings. Under the terms of the interest rate swap agreements, the Partnership receives interest based on three or six month LIBOR and pays a weighted average interest rate of 1.65%.

As of June 30, 2017 and December 31, 2016, 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 \$536.7 million and \$446.7 million, respectively. As of June 30, 2017 and December 31, 2016, the carrying amount of the interest rate swaps contracts were net assets of \$2.1 million and \$0.8 million, respectively. See Note 7—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 Norwegian Kroner (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 June 30, 2017 and December 31, 2016, 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 332.5 million and NOK 290.1 million, respectively. As of June 30, 2017 and December 31, 2016, the carrying amount of the Partnership's foreign exchange forward contracts was a net liability of \$0.2 million and \$1.3 million, respectively. See Note 7—Fair Value Measurements.

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The following table presents the realized and unrealized gains and losses that are recognized in earnings as net gain (loss) for derivative instruments for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<i>(U.S. Dollars in thousands)</i>				
<b>Realized gain (loss):</b>				
Interest rate swap contracts	\$ (938)	\$ (1,252)	\$ (1,607)	\$ (2,176)
Foreign exchange forward contracts	(97)	(316)	(166)	(316)
Total realized gain (loss):	(1,035)	(1,568)	(1,773)	(2,492)
<b>Unrealized gain (loss):</b>				
Interest rate swap contracts	(1,334)	(1,518)	(275)	(5,866)
Foreign exchange forward contracts	833	(90)	1,031	1,998
Total unrealized gain (loss):	(501)	(1,608)	756	(3,868)
<b>Total realized and unrealized gain (loss) on derivative instruments:</b>	<b>\$ (1,536)</b>	<b>\$ (3,176)</b>	<b>\$ (1,017)</b>	<b>\$ (6,360)</b>

## 7) 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 June 30, 2017 and December 31, 2016. 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.

	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(U.S. Dollars in thousands)</i>				
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 64,501	\$ 64,501	\$ 27,664	\$ 27,664
<b>Current derivative assets:</b>				
Interest rate swap contracts	124	124	—	—
Foreign exchange forward contracts	138	138	—	—
<b>Non-current derivative assets:</b>				
Interest rate swap contracts	4,461	4,461	3,154	3,154
Foreign exchange forward contracts	39	39	—	—
<b>Financial liabilities:</b>				
<b>Current derivative liabilities:</b>				
Interest rate swap contracts	1,634	1,634	2,039	2,039
Foreign exchange forward contracts	411	411	1,265	1,265
<b>Non-current derivative liabilities:</b>				
Interest rate swap contracts	793	793	285	285
Foreign exchange forward contracts	—	—	—	—
Long-term debt, current and non-current	912,010	911,083	745,649	743,898

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The carrying amounts shown in the table above are included in the condensed consolidated balance sheets under the indicated captions. The carrying value of trade accounts receivable, trade accounts payable and receivables/payables to owners and affiliates approximate their fair value.

The fair values of the financial instruments shown in the above table as of June 30, 2017 and December 31, 2016 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.
- *Interest rate swap contracts* : The fair value of interest rate swap contracts is determined using an income approach using the following significant inputs: the term of the swap, the notional amount of the swap, discount rates interpolated based on relevant LIBOR swap curves and the rate on the fixed leg of the swap.
- *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.
- *Long-term debt* : With respect to long-term debt measurements, the Partnership uses market interest rates and adjusts that rate for all necessary risks, including its own credit risk. In determining an appropriate spread to reflect its credit standing, the Partnership considered interest rates currently offered to KNOT for similar debt instruments of comparable maturities by KNOT's and the Partnership's bankers as well as other banks that regularly compete to provide financing to the Partnership.

**(b) Fair Value Hierarchy**

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value or for which fair value is required to be disclosed) as of June 30, 2017 and December 31, 2016:

		Fair Value Measurements at Reporting Date Using		
	June 30, 2017	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(U.S. Dollars in thousands)</i>				
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 64,501	\$ 64,501	\$ —	\$ —
<i>Current derivative assets:</i>				
Interest rate swap contracts	124	—	124	—
Foreign exchange forward contracts	138	—	138	—
<i>Non-current derivative assets:</i>				
Interest rate swap contracts	4,461	—	4,461	—
Foreign exchange forward contracts	39	—	39	—
<b>Financial liabilities:</b>				
<i>Current derivative liabilities:</i>				
Interest rate swap contracts	1,634	—	1,634	—
Foreign exchange forward contracts	411	—	411	—
<i>Non-current derivative liabilities:</i>				
Interest rate swap contracts	793	—	793	—
Foreign exchange forward contracts	—	—	—	—
Long-term debt, current and non-current	912,010	—	911,083	—

		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>	December 31, 2016			
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 27,664	\$ 27,664	\$ —	\$ —
<i>Current derivative assets:</i>				
Interest rate swap contracts	—	—	—	—
Foreign exchange forward contracts	—	—	—	—
<i>Non-current derivative assets:</i>				
Interest rate swap contracts	3,154	—	3,154	—
Foreign exchange forward contracts	—	—	—	—
<b>Financial liabilities:</b>				
<i>Current derivative liabilities:</i>				
Interest rate swap contracts	2,039	—	2,039	—
Foreign exchange forward contracts	1,265	—	1,265	—
<i>Non-current derivative liabilities:</i>				
Interest rate swap contracts	285	—	285	—
Foreign exchange forward contracts	—	—	—	—
Long-term debt, current and non-current	745,649	—	743,898	—

The Partnership's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2 or Level 3 as of June 30, 2017 and December 31, 2016.

## 8) Income Taxes

The Norwegian government is in negotiations with the EFTA Surveillance Authority to extend the effective date of the Norwegian Tonnage Tax regime (the "NTT"). Pursuant to those negotiations, Norway has proposed restrictions that would eliminate the ability of companies that own vessels under certain bareboat charters to qualify for the NTT. Companies that no longer qualify for the NTT would instead be subject to Norwegian corporate income tax.

Subsidiaries of the Partnership collectively own four vessels under bareboat charters. Under the currently proposed changes to the NTT, the subsidiaries that own those vessels would no longer qualify for the NTT and would instead be subject to Norwegian corporate income tax, potentially as of January 1, 2018. The Partnership is evaluating potential alternatives that would avoid any of its subsidiaries being disqualified from the NTT. However, until any changes to the NTT are finalized, the Partnership can make no assurances that it can avoid the disqualification of certain of its subsidiaries from the NTT.

### Components of Current and Deferred Tax Expense

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 Norwegian Tonnage Tax regime ("the tonnage tax regime"). The consequence of the reorganization was a one-time entrance tax into the tonnage tax regime due to the Partnership's acquisition of the shares in the subsidiary that owns the *Fortaleza Knutsen* and the *Recife Knutsen*. 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. 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 financial statements.

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. The entrance tax is payable over several years and is calculated by multiplying the tax rate by the declining balance of the gain, which will decline by 20% each year. The amount payable will be affected by the change in tax rate which was reduced to 24% in 2017 from 25% in 2016, from 27% in 2014 and from 28% in 2013 and the fluctuation in currency rates. Approximately \$0.2 and \$0.1 million of the entrance tax was paid during the first and second quarter of 2017, respectively, and \$0.2 million was paid during the first quarter of 2016. UK income tax is presented as income taxes payable, while \$0.7 million is presented as non-current deferred taxes payable.

Significant components of current and deferred income tax expense attributable to income from continuing operations for the three and six months ended June 30, 2017 and 2016 as follows:

(U.S. Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Income before income taxes	\$ 16,918	\$ 11,581	\$ 28,350	\$ 22,247
Income tax (expense)	(3)	(3)	(6)	(6)
Effective tax rate	0%	0%	0%	0%

The Partnership records a valuation allowance for deferred tax assets when it is more likely than not that some of or all of the benefit from the deferred tax assets will not be realized. In assessing the realizability of deferred tax assets, which relates to financial loss carry forwards and other deferred tax assets within the tonnage tax regime, 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 June 30, 2017 and December 31, 2016 there are no deferred tax assets recognized.

## 9) Vessels and Equipment

(U.S. Dollars in thousands)	Vessels & equipment	Accumulated depreciation	Net Vessels
<b>Vessels, December 31, 2015</b>	<b>\$1,351,219</b>	<b>\$ (158,292)</b>	<b>\$1,192,927</b>
Additions	115,934	—	115,934
Drydock costs	4,258	—	4,258
Disposals	(2,498)	2,498	—
Depreciation for the year	—	(56,230)	(56,230)
<b>Vessels, December 31, 2016</b>	<b>\$1,468,913</b>	<b>\$ (212,024)</b>	<b>\$1,256,889</b>
Additions	286,243	—	286,243
Drydock costs	9,263	—	9,263
Disposals	(1,508)	1,508	—
Depreciation for the period	—	(33,125)	(33,125)
<b>Vessels, June 30, 2017</b>	<b>\$1,762,912</b>	<b>\$ (243,641)</b>	<b>\$1,519,270</b>

As of June 30, 2017 and December 2016, Vessels with a book value of \$1,519 million and \$1,257 million, respectively, are pledged as security held as a guarantee for the Partnership's long-term debt. See Note 11—Long-term debt.

## 10) Intangible Assets

(U.S. Dollars in thousands)	Above market time charter <i>Tordis Knutsen</i>	Above market time charter <i>Vigdis Knutsen</i>	Total intangibles
<b>Intangibles, December 31, 2015</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
Additions	—	—	—
Amortization for the year	—	—	—
<b>Intangibles, December 31, 2016</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
Additions	1,468	1,458	2,926
Amortization for the period	(101)	(25)	(126)
<b>Intangibles, June 30, 2017</b>	<b>\$ 1,367</b>	<b>\$ 1,433</b>	<b>\$ 2,800</b>

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. Also see Note 15 – Business Acquisitions.

# 11) Long-Term Debt

As of June 30, 2017 and December 31, 2016, the Partnership had the following debt amounts outstanding:

<i>(U.S. Dollars in thousands)</i>	<b>Vessel</b>	<b>June 30, 2017</b>	<b>December 31, 2016</b>
\$220 million loan facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	\$ 172,857	\$ 180,714
\$35 million revolving credit facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	30,000	25,000
\$140 million loan facility	<i>Fortaleza Knutsen &amp; Recife Knutsen</i>	113,750	118,125
\$117 million loan facility	<i>Hilda Knutsen</i>	—	76,871
\$117 million loan facility	<i>Torill Knutsen</i>	75,641	78,105
\$172.5 million loan facility	<i>Dan Cisne, Dan Sabia</i>	95,939	100,539
\$77.5 million loan facility	<i>Ingrid Knutsen</i>	64,368	67,652
\$74.5 million loan facility	<i>Raquel Knutsen</i>	71,028	73,643
\$25 million Seller's Credit and Seller's Loan	<i>Raquel Knutsen</i>	—	25,000
\$114.4 million loan facility	<i>Tordis Knutsen</i>	93,581	—
\$114.4 million loan facility	<i>Vigdis Knutsen</i>	94,846	—
\$100 million loan facility	<i>Hilda Knutsen</i>	100,000	—
<b>Total long-term debt</b>		<b>912,010</b>	<b>745,649</b>
Less: current installments		66,661	60,314
Less: unamortized deferred loan issuance costs		1,643	1,330
<b>Current portion of long-term debt</b>		<b>65,018</b>	<b>58,984</b>
Amounts due after one year		845,350	685,335
Less: unamortized deferred loan issuance costs		4,468	2,673
Less: \$25 million Seller's Credit and Seller's Loan		—	25,000
<b>Long-term debt, less current installments, Seller's Credit and Seller's Loan and unamortized deferred loan issuance costs</b>		<b>\$ 840,882</b>	<b>657,662</b>

The Partnership's outstanding debt of \$912.0 million as of June 30, 2017 is repayable as follows:

<i>(U.S. Dollars in thousands)</i>	<b>Period repayment</b>	<b>Balloon repayment</b>
Remainder of 2017	\$ 33,331	\$ —
2018	66,303	86,677
2019	50,085	267,678
2020	39,153	—
2021	39,753	70,811
2022 and thereafter	85,507	172,712
<b>Total</b>	<b>\$ 314,132</b>	<b>\$ 597,878</b>

As of June 30, 2017, the interest rates on the Partnership's loan agreements (other than tranche two of the \$77.5 million loan facility) were the London Interbank Offered Rate ("LIBOR") plus a fixed margin ranging from 1.9% to 2.5%. On the export credit loan of \$44.6 million which is tranche two of the \$77.5 million loan facility secured by the *Ingrid Knutsen*, the annual rate is 3.85% composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The guarantee commission of 1.35% is classified as other finance expense.



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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.

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”). As of the time of the acquisition of the *Vigdis Knutsen* on June 1, 2017, the aggregate amount outstanding under the facility was \$114.4 million. 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.

On May 26, 2017, the Partnership’s subsidiary, KNOT 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 is repayable in twenty-eight (28) consecutive quarterly installments with a balloon payment of \$58.5 million due at maturity. The New Hilda Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.2%. The facility matures in 2024 and is guaranteed by the Partnership and refinanced the \$117 million loan facility associated with the *Hilda Knutsen* that bore interest at a rate of LIBOR plus 2.5% and was due to be paid in full in August 2018. As part of the refinancing, the \$117 million loan facility including amortized loan expenses has been fully derecognized.

## 12) Related Party Transactions

### (a) Related Parties

Net expenses (income) from related parties included in the unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2017 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<i>(U.S. Dollars in thousands)</i>				
<b>Statements of operations:</b>				
<i>Other income:</i>				
Guarantee income from KNOT (1)	593	192	687	381
<i>Operating expenses:</i>				
Technical and operational management fee from KNOT Management to Vessels (2)	1,079	733	2,028	1,465
<i>General and administrative expenses:</i>				
Administration fee from KNOT Management (3)	430	259	783	633
Administration fee from KOAS (3)	111	100	223	191
Administration fee from KOAS UK (3)	31	35	62	71
Administration and management fee from KNOT (4)	52	51	94	102
<i>Finance income (expense):</i>				
Interest expense charged from KNOT (5)	—	—	52	—
<b>Total</b>	<b>\$ 1,110</b>	<b>\$ 986</b>	<b>\$ 2,555</b>	<b>\$ 2,081</b>

<i>(U.S. Dollars in thousands)</i>	At June 30, 2017	At December 31, 2016
<b>Balance Sheet:</b>		
<i>Vessels:</i>		
Drydocking supervision fee from KNOT (6)	\$ 29	\$ 38
Drydocking supervision fee from KOAS (6)	—	16
<b>Total</b>	<b>\$ 29</b>	<b>\$ 54</b>

- (1) *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 *Windsor Knutsen* and *Bodil Knutsen* for a period of five years from the closing date of the IPO. 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 is paid by KNOT. See Note 12(b)—Related Party Transactions—Guarantees and Indemnifications. The *Vigdis Knutsen* suffered damages to its hull in connection with a ship-to-ship loading on May 24, 2017 and the vessel went offhire 6 days in June 2017 due to repairs of the damage. In connection with the *Vigdis Knutsen* acquisition KNOT agreed to pay for the repair cost and charter hire lost in connection with the incident. The reimbursement from KNOT for lost charter hire is accounted for as guarantee income.
- (2) *Technical and operational management fee from KNOT Management to Vessels* : KNOT Management AS (“KNOT Management”) provides technical and operational management of the vessels on time charter including crewing, purchasing, maintenance and other operational services. In addition, there is also a charge for 24-hour emergency response services provided by KNOT for all vessels managed by KNOT.
- (3) *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.
- (4) *Administration and management fee from KNOT*: 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 are subject to management and administration agreements with either KNOT Management or KNOT Management Denmark, pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.
- (5) *Interest expense charged from KNOT*: KNOT invoiced interest (expense) income for any outstanding payables to (receivable from) owners and affiliates to the vessel-owning subsidiaries.
- (6) *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.

In April 2014, the Partnership was notified that Shell would not exercise its option to extend the *Windsor Knutsen* time charter after the expiration of its initial term. The vessel was re-delivered on July 28, 2014. In order to comply with its obligations under the Omnibus Agreement, on July 29, 2014, KNOT and the Partnership entered into a time charter for the vessel at a rate of hire that would have been in effect during the option period under the previous Shell time charter. This charter was effective until the new Shell time charter commenced in October, 2015. The new Shell charter has a hire rate that is lower than the hire rate in the initial charter. The difference between the new hire and the initial rate is paid by KNOT.

Under the Omnibus Agreement, KNOT has agreed to indemnify the Partnership until April 15, 2018, against certain environmental and toxic tort liabilities with respect to certain assets that KNOT contributed or sold to the Partnership to the extent arising prior to the time they were contributed or sold. However, claims are subject to a deductible of \$0.5 million and an aggregate cap of \$5 million.

#### **(c) Transactions with Management and Directors**

See the footnotes to Note 12(a)—Related Party Transactions 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 (to) Related Parties**

Balances with related parties consisted of the following:

<i>(U.S. Dollars in thousands)</i>	<b>At June 30, 2017</b>	<b>At December 31, 2016</b>
<b>Balance Sheet:</b>		
Trading balances due from KOAS	\$ 128	\$ 108
Trading balances due from KNOT and affiliates	639	42
Amount due from related parties	<u>767</u>	<u>150</u>
Trading balances due to KOAS	\$ 835	\$ 543
Trading balances due to KNOT and affiliates	6,212	291
Amount due to related parties	<u>\$ 7,047</u>	<u>\$ 834</u>

Amounts due from (to) related parties are unsecured and intended to be settled in the ordinary course of business. They primarily relate to vessel management and other fees due to KNOT, KNOT Management, KOAS UK and KOAS.

**(e) Trade accounts payables**

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>	<b>At June 30, 2017</b>	<b>At December 31, 2016</b>
<b>Balance Sheet:</b>		
Trading balances due to KOAS	\$ 711	\$ 727
Trading balances due to KNOT and affiliates	877	394
Trade accounts payables to related parties	<u>\$ 1,588</u>	<u>\$ 1,121</u>

**(f) Long-term debt from related parties**

The balances to related parties consisted of the following:

<i>(U.S. Dollars in thousands)</i>	<b>At June 30, 2017</b>	<b>At December 31, 2016</b>
<b>Balance Sheet:</b>		
Long-term debt from related parties (KNOT)	\$ —	\$ 25,000
Total	<u>\$ —</u>	<u>\$ 25,000</u>

**(g) Acquisitions from KNOT**

On December 1, 2016, the Partnership acquired KNOT's 100% interest in Knutsen NYK Shuttle Tankers 19 AS, the company that owns and operates the *Raquel Knutsen*. This acquisition was accounted for as an acquisition of a business.

On March 1, 2017, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 24 AS, the company that owns and operates the *Tordis Knutsen*. This acquisition was accounted for as an acquisition of a business.

On June 1, 2017, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 25 AS, the company that owns and operates the *Vigdis Knutsen*. This acquisition was accounted for as an acquisition of a business.

The board of directors of the Partnership (the "Board") and the conflicts committee of the Board (the "Conflicts Committee") 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 15—Business Acquisitions.

### 13) Commitments and Contingencies

#### *Assets Pledged*

As of June 30, 2017 and December 31, 2016, Vessels with a book value of \$ 1,519 million and \$1,257 million, respectively, were pledged as security held as guarantee for the Partnership's long-term debt and interest rate swap obligations. See Note 6—Derivative Instruments and Note 11—Long-Term Debt.

#### *Claims and Legal Proceedings*

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

#### *Insurance*

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

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

#### 14) Earnings per Unit and Cash Distributions

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<i>(U.S. Dollars in thousands, except per unit data)</i>				
Net income	\$ 16,915	\$ 11,578	\$ 28,344	\$ 22,241
Less: Series A Preferred unitholders' interest in net income	1,009	—	1,653	—
Net income attributable to the unitholders of KNOT Offshore Partners LP	15,906	11,578	26,691	22,241
Less: Distributions (2)	16,379	15,027	32,758	30,122
Under (over) distributed earnings	(473)	(3,449)	(6,067)	(7,881)
Under (over) distributed earnings attributable to:				
Common unitholders (3)	(464)	(3,380)	(5,955)	(7,722)
Subordinated unitholders (3)	—	—	—	—
General Partner	(9)	(69)	(112)	(159)
Weighted average units outstanding (basic) (in thousands):				
Common unitholders	29,694	22,581	29,570	20,604
Subordinated unitholders	—	4,613	—	6,590
General Partner	559	559	559	559
Weighted average units outstanding (diluted) (in thousands):				
Common unitholders	31,798	22,581	31,296	20,604
Subordinated unitholders	—	4,613	—	6,590
General Partner	559	559	559	559
Earnings per unit (basic)				
Common unitholders (4)	\$ 0.526	\$ 0.502	\$ 0.886	\$ 0.810
Subordinated unitholders (4)	—	—	—	0.767
General Partner	0.526	0.417	0.882	0.897
Earnings per unit (diluted):				
Common unitholders	\$ 0.522	\$ 0.502	\$ 0.886	\$ 0.810
Subordinated unitholders (4)	—	—	—	0.767
General Partner	0.522	0.417	0.882	0.897
Cash distributions declared and paid in the period per unit (5)	0.520	0.520	1.040	1.040
Subsequent event: Cash distributions declared and paid per unit relating to the period (6)	0.520	0.520	0.520	0.520

- (1) Earnings per unit have been calculated in accordance with the cash distribution provisions set forth in the Partnership's Partnership Agreement.
- (2) This refers to distributions made or to be made in relation to the period irrespective of the declaration and payment dates and based on the number of units outstanding at the record date. This includes cash distributions to the IDR holder (KNOT) for the three months ended June 30, 2017 and 2016 of \$0.6 million and of \$0.6 million, respectively, and for the six months ended June 30, 2017 and 2016 of \$1.2 million and of \$1.2 million, respectively.
- (3) On May 18, 2016 all subordinated units converted into common units on a one-for-one basis.
- (4) This includes the net income attributable to the IDR holder. The IDRs generally may not be transferred by KNOT until March 31, 2018. The net income attributable to IDRs for the three months ended June 30, 2017 and 2016 was \$0.6 million and \$0.6 million, respectively, and for the six months ended June 30, 2017 and 2016 was \$1.2 million and \$1.2 million, respectively.
- (5) Refers to cash distributions declared and paid during the period.
- (6) Refers to cash distributions declared and paid subsequent to the period end.

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As of June 30, 2017, the Partnership had 29,694,094 common units outstanding, of which 21,036,226 are held by the public and 8,567,500 are held by KNOT. In addition, KNOT, through its ownership of the General Partner, held 558,674 general partner units and 90,368 common units. The Partnership also has 3,750,000 Series A Preferred Units outstanding.

Earnings per unit is determined by dividing net income, after deducting the distributions paid or to be made in relation to the period, by the weighted-average number of units (other than the Series A Preferred Units) outstanding during the applicable period. The General Partner's, common unitholders' and subordinated unitholders' interest in net income are calculated as if all net income was distributed according to the terms of the Partnership Agreement, regardless of whether those earnings would or could be distributed. The Partnership Agreement does not provide for the distribution of net income. Rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter less the amount of cash reserves established by the Board to provide for the proper conduct of the Partnership's business, including reserves for maintenance and replacement capital expenditures and anticipated credit needs and capital requirements and for funds to pay quarterly distributions on, and make any redemption payments on, the Series A Preferred Units. In addition, KNOT, as the initial holder of all IDRs, has the right, at the time when there are no subordinated units outstanding and 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.

For a description of the provisions of the Partnership Agreement relating to cash distributions, please see the Partnership's Form 8-A/A filed with the SEC on June 30, 2017.

### 15) Business Acquisitions

In December 2016, March 2017 and June 2017, the Partnership acquired from KNOT equity interests in certain subsidiaries which own and operate the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen*, respectively.

The Board and the Conflicts Committee approved the purchase price for each transaction. The Conflicts Committee retained a financial advisor to assist with its evaluation of each of the transactions. The details of each transaction are as follows:

	Provisional <i>Vigdis Knutsen</i> June 1, 2017	Provisional <i>Tordis Knutsen</i> March 1, 2017	Final <i>Raquel Knutsen</i> December 1, 2016
<i>(U.S. Dollars in thousands)</i>			
Purchase consideration (1)	\$ 31,759	\$ 32,983	\$ 20,252
Less: Fair value of net assets acquired:			
Vessels and equipment (2)	145,772	145,754	116,751
Intangibles: Above market time charter	1,458	1,468	
Cash	3,438	609	7,146
Inventories	190	129	307
Derivative assets	226	1,377	207
Others current assets	128	1,348	183
Amounts due from related parties	18,374	20,834	59
Long-term debt	(114,411)	(114,411)	(79,950)
Long-term debt from related parties	(22,703)	(22,960)	(24,019)
Deferred debt issuance	928	795	1,059
Trade accounts payable	(187)	(106)	(167)
Accrued expenses	(1,082)	(503)	(1,179)
Prepaid charter and deferred revenue	—	—	—
Amounts due to related parties	(372)	(1,351)	(145)
Subtotal	31,759	32,983	20,252
Difference between the purchase price and fair value of net assets acquired	—	—	—
Goodwill	—	—	—
Difference between the purchase price and allocated values	\$ —	\$ —	\$ —

(1) The purchase price is comprised of the following:

<i>(U.S. Dollars in thousands)</i>	<b>Provisional Vigdis Knutsen June 1, 2017</b>	<b>Provisional Tordis Knutsen March 1, 2017</b>	<b>Final Raquel Knutsen December 1, 2016</b>
Cash consideration paid to KNOT (from KNOT)	\$ 28,109	\$ 31,242	\$ (12,019)
Purchase price adjustments	3,650	1,741	7,271
Seller's credit	—	—	12,981
Seller's loan	—	—	12,019
Purchase price	\$ 31,759	\$ 32,983	\$ 20,252

(2) Vessels and equipment includes allocation to dry docking for the *Raquel Knutsen* of \$1.7 million, *Tordis Knutsen* of \$2.8 million, and for the *Vigdis Knutsen* of \$2.7 million.

### ***Raquel Knutsen***

On December 1, 2016, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in Knutsen Shuttle Tankers 19 AS, the company that owns and operates the *Raquel Knutsen*. The purchase price was \$116.5 million less \$103.5 million of outstanding indebtedness related to the vessel plus other purchase price adjustments of \$7.3 million. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

### ***Revenue and profit contributions***

The *Raquel Knutsen* business contributed revenues of \$1.5 million and net income of \$0.2 million to the Partnership for the period from December 1, 2016 to December 31, 2016.

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the year ended December 31, 2016, giving effect to the Partnership's acquisition and financing of the *Raquel Knutsen* as if this acquisition had taken place on January 1, 2016. The information is unaudited and is for illustration purposes only.

<i>(U.S. Dollars in thousands)</i>	<b>Year Ended December 31, 2016</b>
Revenue	\$ 190,229
Net income	65,101

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2016. In addition, the pro forma adjustments reflect changes in guarantors as if the acquisition had taken place from the date of delivery of the vessel.

### ***Tordis Knutsen***

On March 1, 2017, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 24 AS ("KNOT 24"), the company, that owns and operates the *Tordis Knutsen*. The purchase price was \$147.0 million less \$137.7 million of outstanding indebtedness plus \$21.1 million for a receivable owed by KNOT to KNOT 24 and approximately \$0.8 million for certain capitalized fees related to the financing of the *Tordis Knutsen* plus \$1.7 million of post-closing adjustments for working capital and interest rate swaps. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The provisional allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

### ***Revenue and profit contributions***

The *Tordis Knutsen* business contributed revenues of \$6.9 million and net income of \$0.5 million to the Partnership for the period from March 1, 2017 to June 30, 2017.

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The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the six months ended June 30, 2017, giving effect to the Partnership's acquisition and financing of the *Tordis Knutsen* as if this acquisition had taken place on January 1, 2017. Since *Tordis Knutsen* was delivered from the yard in late 2016 and commenced on its time charter contract in January 2017, there are no pro forma figures for the year ended December 31, 2016. The information is unaudited and is for illustration purposes only.

<i>(U.S. Dollars in thousands)</i>	<b>Six Months Ended June 30, 2017</b>
Revenue	\$ 101,392
Net income	26,864

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2017. In addition, the pro forma adjustments reflect changes in guarantors and amortization of the above market time charter as if the acquisition had taken place from the date of delivery of the vessel.

***Vigdis Knutsen***

On June 1, 2017, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 25 AS ("KNOT 25"), the company that owns and operates the *Vigdis Knutsen*. The purchase price was \$147.0 million less \$137.7 million of outstanding indebtedness plus \$17.9 million for a receivable owed by KNOT to KNOT 25 and approximately \$0.9 million for certain capitalized fees related to the financing of the *Vigdis Knutsen* plus \$3.7 million of post-closing adjustments for working capital and interest rate swaps. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The provisional allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

***Revenue and profit contributions***

The *Vigdis Knutsen* business contributed revenues of \$1.7 million and net income of \$0.2 million to the Partnership for the period from June 1, 2017 to June 30, 2017.

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the six months ended June 30, 2017, giving effect to the Partnership's acquisition and financing of the *Vigdis Knutsen* as if this acquisition had taken place on January 1, 2017. Since *Vigdis Knutsen* was delivered from the yard in February 2017 and commenced on its time charter contract in April 2017, there are no pro forma figures for the year ended December 31, 2016. The information is unaudited and is for illustration purposes only.

<i>(U.S. Dollars in thousands)</i>	<b>Six Months Ended June 30, 2017</b>
Revenue	\$ 102,548
Net income	23,009

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2017. In addition, the pro forma adjustments reflect changes in guarantors and amortization of the above market time charter as if the acquisition had taken place from the date of delivery of the vessel.

**16) Equity Offering and Sale of Series A Preferred Units**

***Equity Offering***

<i>(U.S. Dollars in thousands)</i>	<b>January 2017 Offering</b>
Gross proceeds received	\$ 56,125
Less: Underwriters' discount	925
Less: Offering expenses	321
Net proceeds received	\$ 54,879



On January 10, 2017, the Partnership sold 2,500,000 common units, representing limited partner interests, in an underwritten public offering (the “January 2017 Offering”). The Partnership’s total net proceeds from the January 2017 Offering were \$54.9 million.

The Partnership used the net proceeds from the January 2017 Offering to fund the cash portion of the purchase price of the *Tordis Knutsen* and to repay debt and for general partnership purposes.

### *Sale of Series A Preferred units*

<i>(U.S. Dollars in thousands)</i>	February 2017 Series A Preferred Units	June 2017 Series A Preferred Units	Total Series A Preferred Units
Gross proceeds received	\$ 50,000	\$ 40,000	\$ 90,000
Less: Fee	1,000	1,000	2,000
Less: Expenses	386	171	557
Net proceeds received	<u>\$ 48,614</u>	<u>\$ 38,829</u>	<u>\$ 87,443</u>

On February 2, 2017, the Partnership issued and sold in a private placement 2,083,333 Series A Preferred Units at a price of \$24.00 per unit. After deducting fees and expenses, the net proceeds from the sale were \$48.6 million. The Partnership used the net proceeds from the sale to fund the cash portion of the purchase price of the *Tordis Knutsen* and to repay debt and for general partnership purposes.

On June 30, 2017, the Partnership (i) issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at a price of \$24.00 per unit and (ii) amended and restated its Partnership Agreement to make certain amendments to the terms of the Series A Preferred Units, including the 2,083,333 Series A Preferred Units issued on February 2, 2017. After deducting estimated fees and expenses, the net proceeds of the sale were \$38.8 million. The Partnership used \$30.0 million of the net proceeds to repay the revolving credit facility, which was drawn in connection with acquisition of the *Vigdis Knutsen*.

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

The Series A Preferred Units will be generally convertible, at the option of the holders of the Series A Preferred Units, into common units commencing on February 2, 2019 at the then applicable conversion rate. The conversion rate will be subject to adjustment under certain circumstances. In addition, the conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to \$24.00 (the “Issue Price”) divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro-forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Issue Price divided by (ii) the book value per common unit on February 2, 2017. In addition, the Partnership may redeem the Series A Preferred Units at any time between February 2, 2019 and February 2, 2027 at the redemption price specified in the Partnership Agreement, provided, however, that upon notice from the Partnership to the holders of Series A Preferred Units of its intent to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the then applicable conversion rate.

Upon a change of control of the Partnership, the holders of Series A Preferred Units will have the right to require cash redemption at 100% of the Issue Price. In addition, the holders of Series A Preferred Units will have the right to cause the Partnership to redeem the Series A Preferred Units on February 2, 2027 in, at the option of the Partnership, (i) cash at a price equal to 70% of the Issue Price or (ii) common units such that each Series A Preferred Unit receives common units worth 80% of the Issue Price (based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of the common units as reported on the NYSE for the 30 trading day period ending on the fifth trading day immediately prior to the redemption date) plus any accrued and unpaid distributions. In addition, at any time following February 2, 2019 and subject to certain conditions, the Partnership will have the right to convert the Series A Preferred Units into common units at the then applicable conversion rate if the aggregate market value (calculated as set forth in the partnership agreement) of the common units into which the then outstanding Series A Preferred Units are convertible, based on the then applicable conversion rate, is greater than 130% of the aggregate Issue Price of the then outstanding Series A Preferred Units.

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For additional information about the Series A Preferred Units, please read the Partnership's Reports on Form 6-K filed with the Securities and Exchange Commission on February 2, 2017, May 17, 2017 and June 30, 2017 and Form 8-A/A filed on June 30, 2017.

## 17) Unit Activity

The following table shows the movement in the number of common units, subordinated units, general partner units and Series A Preferred Units from December 31, 2015 until June 30, 2017.

<i>(in units)</i>	<u>Common Units</u>	<u>Subordinated Units</u>	<u>General Partner Units</u>	<u>Convertible Preferred Units</u>
<b>December 31, 2015</b>	<b>18,626,594</b>	<b>8,567,500</b>	<b>558,674</b>	<b>—</b>
Subordinated units converted to common units	8,567,500	(8,567,500)	—	—
<b>December 31, 2016</b>	<b>27,194,094</b>	<b>—</b>	<b>558,674</b>	<b>—</b>
January 6, 2017: Public offering	2,500,000	—	—	—
February 2, 2017: Sale of Series A Preferred Units	—	—	—	2,083,333
June 30, 2017: Sale of Series A Preferred Units	—	—	—	1,666,667
<b>June 30, 2017</b>	<b>29,694,094</b>	<b>—</b>	<b>558,674</b>	<b>3,750,000</b>

On August 12, 2015, the Board authorized a program for the Partnership to repurchase up to 666,667 of its common units. The board of directors of the General Partner concurrently authorized the General Partner to purchase up to 333,333 common units of the Partnership. On August 10, 2016, the Board and the board of directors of the General Partner authorized an extension of the common unit purchase program to August 31, 2017, and on August 9, 2017, the Board and the board of directors of the General Partner authorized a further extension of the program to August 31, 2018. No additional common units were purchased by the Partnership or the General Partner in 2016 or to date in 2017. The Partnership and the General Partner may therefore purchase up to an additional 485,761 and 242,965 common units, respectively, under the extended program.

All purchases are made pursuant to a single program and are allocated approximately two-thirds to the Partnership and one-third to the General Partner. There is no obligation to purchase any specific number of common units and the program may be modified, suspended, extended or terminated at any time. Common units repurchased by the Partnership under the program have been cancelled.

The subordination period for the 8,567,500 subordinated units ended on May 18, 2016. All of the subordinated units, which were owned by KNOT, converted to common units on a one-for-one basis.

## 18) Subsequent Events

The Partnership has evaluated subsequent events from the balance sheet date through August 9, 2017, the date at which the unaudited condensed consolidated interim financial statements were available to be issued, and determined that there are no other items to disclose, except as follows:

On July 18, 2017, the Partnership declared a cash distribution of \$0.52 per common unit with respect to the quarter ended June 30, 2017 to be paid on August 15, 2017 to unitholders of record as of the close of business on August 2, 2017. On July 18, 2017, the Partnership also declared a cash distribution payable to Series A Preferred Unitholders with respect to the quarter ended June 30, 2017 in an aggregate amount equal to \$1.0 million.

On August 9, 2017, the Partnership entered into an agreement with NTT Finance Corporation for an unsecured revolving credit facility of \$25 million. The facility will mature in August 2019, bear interest at LIBOR plus a margin of 1.8% and have a commitment fee of 0.5% on the undrawn portion of the facility. Closing of the facility is expected to occur by the end of August 2017.

On August 9, 2017, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, entered into a share purchase agreement with KNOT to acquire KNOT Shuttle Tankers 26 AS ("KNOT 26"), the company that owns the shuttle tanker, *Lena Knutsen*, from KNOT (the "Lena Acquisition"). The Partnership expects the Lena Acquisition to close by September 30, 2017, subject to customary closing conditions. The purchase price of the Lena Acquisition is \$142.0 million, less approximately \$133.8 million of outstanding indebtedness related to the *Lena Knutsen* plus approximately \$24.1 million for a receivable owed by KNOT to KNOT 26 (the "KNOT 26 Receivable") and approximately \$1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen*. On the closing of the Lena Acquisition, KNOT 26 will repay approximately \$41.9 million of the indebtedness, leaving an aggregate of approximately \$91.9 million of debt outstanding under the secured credit facility related to the vessel (the "Lena Facility"). The Lena Facility is repayable in quarterly installments with a final balloon payment of \$69.8 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 purchase price will be settled in cash and will be subject to certain post-closing adjustments for currency fluctuations and accrued interest on the KNOT 26 Receivable, working capital, Norwegian tonnage entrance tax and interest rate swaps. On the closing of the Lena Acquisition, KNOT will repay the KNOT 26 Receivable in full.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Unless the context otherwise requires, references in this report to the "Partnership," "we," "our," "us" or like terms, refer to KNOT Offshore Partners LP and its subsidiaries. Those statements in this section that are not historical in nature should be deemed forward-looking statements that are inherently uncertain. See "Forward-Looking Statements" on page 45 for a discussion of the factors that could cause actual results to differ materially from those projected in these statements.*

*This section should be read in conjunction with our unaudited condensed consolidated financial statements for the interim periods presented elsewhere in this report, as well as our historical consolidated financial statements and notes thereto included in our Annual Report on Form 20-F for the year ended December 31, 2016 (the "2016 20-F"). Under our Partnership Agreement, KNOT Offshore Partners GP LLC, the general partner of the Partnership (the "General Partner"), has irrevocably delegated to the Partnership's board of directors the power to oversee and direct the operations of, and to manage and determine the strategies and policies of, the Partnership. During the period from the Partnership's initial public offering ("IPO") in April 2013 until the time of the Partnership's first annual general meeting ("AGM") on June 25, 2013, the General Partner retained the sole power to appoint, remove and replace all members of the Partnership's board of directors. From the first AGM, four of the seven board members became electable by the common unitholders and accordingly, from this date, the General Partner no longer retained the power to control the Partnership's board of directors and, hence, the Partnership. As a result, the Partnership is no longer considered to be under common control with Knutsen NYK Offshore Tankers AS ("KNOT") and as a consequence, the Partnership no longer accounts for any vessel acquisitions from KNOT as transfer of a business between entities under common control.*

### General

We are a limited partnership formed to own, operate and acquire offshore shuttle tankers under long-term charters, which we define as charters of five years or more. Our fleet of shuttle tankers has been contributed to us by KNOT or purchased by us from KNOT. KNOT is jointly owned by TS Shipping Invest AS ("TSSI") and Nippon Yusen Kaisha ("NYK"). TSSI is controlled by our Chairman and is a private Norwegian company with ownership interests in shuttle tankers, LNG tankers and product/chemical tankers. NYK is a Japanese public company with a fleet of approximately 800 vessels, including bulk carriers, containerships, tankers and specialized vessels.

As of June 30, 2017, we had a modern fleet of thirteen shuttle tankers that operate under long-term charters with major oil and gas companies engaged in offshore production. We intend to operate our vessels under long-term charters with stable cash flows and to grow our position in the shuttle tanker market through acquisitions from KNOT and third parties. Pursuant to the Omnibus Agreement we have entered into with KNOT in connection with the IPO (the "Omnibus Agreement"), we have the right to purchase from KNOT any shuttle tankers operating under charters of five or more years. This right will continue throughout the entire term of the Omnibus Agreement.

### Recent Developments

#### *Common Unit Offering*

On January 10, 2017, the Partnership sold 2,500,000 common units, representing limited partner interests, in an underwritten public offering, raising approximately \$54.9 million in net proceeds.

#### *Tordis Knutsen Acquisition*

On March 1, 2017, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT Shuttle Tankers 24 AS ("KNOT 24"), the company that owns the shuttle tanker *Tordis Knutsen*, from KNOT for a purchase price of \$147.0 million less \$137.7 million of outstanding indebtedness plus approximately \$21.1 million for a receivable owed by KNOT to KNOT 24 and approximately \$0.8 million for certain capitalized fees related to the financing of the *Tordis Knutsen* plus \$1.7 million of post-closing adjustments for working capital and interest rate swaps. On the closing of the acquisition, KNOT 24 repaid approximately \$42.8 million of the indebtedness, leaving an aggregate of approximately \$94.9 million of debt outstanding under the secured credit facility related to the vessel. The purchase price was settled in cash in cash. On the closing of the acquisition, KNOT repaid the receivable in full.

#### *Vigdis Knutsen Acquisition*

On June 1, 2017, KNOT Shuttle Tankers AS acquired KNOT Shuttle Tankers 25 AS ("KNOT 25"), the company that owns the shuttle tanker *Vigdis Knutsen*, from KNOT for a purchase price of \$147.0 million less \$137.7 million of outstanding indebtedness plus approximately \$17.9 million for a receivable owed by KNOT to KNOT 25 and approximately \$0.9 million for certain capitalized fees related to the financing of the *Vigdis Knutsen* plus \$3.7 million of post-closing adjustments for working capital and interest rate swaps. On the closing of the acquisition,

KNOT 25 repaid approximately \$42.9 million of the indebtedness, leaving an aggregate of approximately \$94.8 million of debt outstanding under the secured credit facility related to the vessel. The purchase price was settled in cash. On the closing of the acquisition, KNOT repaid the receivable in full.

### ***Series A Convertible Preferred Units***

On February 2, 2017, the Partnership issued and sold in a private placement 2,083,333 Series A Convertible Preferred Units (the “Series A Preferred Units”) at a price of \$24 per unit. After deducting fees and expenses, the net proceeds from the sale were \$48.6 million. The Partnership used the proceeds from the sale to fund the cash portion of the purchase price of the *Tordis Knutsen* and to repay debt and for general partnership purposes. On June 30, 2017, the Partnership (i) issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at a price of \$24 per unit and (ii) amended and restated its partnership agreement to make certain amendments to the terms of the Series A Preferred Units, including the 2,083,333 Series A Preferred Units issued on February 2, 2017. Among other things, the partnership agreement (i) provides that the consent of at least 67% of the Series A Preferred Units will be required to amend the terms of the Series A Preferred Units or issue any parity securities (subject to certain exceptions), (ii) modifies certain provisions related to conversions at the request of the Partnership and conversions at the request of the holders of Series A Preferred Units and (iii) provides that holders of Series A Preferred Units may transfer any such units at any time when the Partnership’s common units are no longer listed on a U.S. national securities exchange or at any time when an event of default has occurred and is continuing under any indebtedness of the Partnership or its subsidiaries in an outstanding principal amount, individually or in the aggregate, of at least \$10 million.

After deducting fees and expenses, the net proceeds from the second private placement were \$38.8 million. The Partnership used \$30.0 million of the net proceeds to repay the revolving credit facility which was drawn in connection with the *Vigdis Knutsen* acquisition.

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

The Series A Preferred Units will be generally convertible, at the option of the holders of the Series A Preferred Units, into common units commencing on February 2, 2019 at the then applicable conversion rate. The conversion rate will be subject to adjustment under certain circumstances. In addition, the conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to \$24.00 (the “Issue Price”) divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro-forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Issue Price divided by (ii) the book value per common unit on February 2, 2017. In addition, the Partnership may redeem the Series A Preferred Units at any time between February 2, 2019 and February 2, 2027 at the redemption price specified in the Partnership Agreement, provided, however, that upon notice from the Partnership to the holders of Series A Preferred Units of its intent to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the then applicable conversion rate.

Upon a change of control of the Partnership, the holders of Series A Preferred Units will have the right to require cash redemption at 100% of the Issue Price. In addition, the holders of Series A Preferred Units will have the right to cause the Partnership to redeem the Series A Preferred Units on February 2, 2027 in, at the option of the Partnership, (i) cash at a price equal to 70% of the Issue Price or (ii) common units such that each Series A Preferred Unit receives common units worth 80% of the Issue Price (based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of the common units as reported on the NYSE for the 30 trading day period ending on the fifth trading day immediately prior to the redemption date) plus any accrued and unpaid distributions. In addition, at any time following February 2, 2019 and subject to certain conditions, the Partnership will have the right to convert the Series A Preferred Units into common units at the then applicable conversion rate if the aggregate market value (calculated as set forth in the partnership agreement) of the common units into which the then outstanding Series A Preferred Units are convertible, based on the then applicable conversion rate, is greater than 130% of the aggregate Issue Price of the then outstanding Series A Preferred Units.

### ***Cash Distributions***

On May 15, 2017, we paid a quarterly cash distribution of \$0.52 per common unit and \$0.3093 per Series A Preferred Unit with respect to the quarter ended March 31, 2017. The cash distributions amounted to \$16.4 million for common unitholders and \$0.7 million for Series A Preferred unitholders.

On July 18, 2017, the Partnership declared a cash distribution of \$0.52 per common unit with respect to the quarter ended June 30, 2017 to be paid on August 15, 2017 to unitholders of record as of the close of business on August 2, 2017. On July 18, 2017, the Partnership also declared a cash distribution payable to holders of the Series A Preferred Units on August 15, 2017 with respect to the quarter ended June 30, 2017 in an aggregate amount equal to \$1.0 million.

### Extension of Windsor Knutsen Charter

On July 14, 2017, Shell utilised its option to extend the time charter of the vessel *Windsor Knutsen* by one additional year until October 2018. Following the extension, Shell has five remaining one-year options to extend the time charter until October 2023.

### Partnership Matters

Effective April 1, 2017, the Partnership's general partner appointed Mr. Richard Beyer to replace Mr. Hiroaki Nishiyama as an appointed Director on the Partnership's board of directors (the "Board"). Mr. Beyer has been a member of the board of directors of the Partnership's general partner and KNOT Offshore Partners UK LLC since 2013 and is a director of NYK Group Europe Limited and NYK Energy Transport (Atlantic) Limited. Before joining NYK Group Europe Limited, Mr. Beyer was a Senior Legal Adviser to BP Shipping Limited. Mr. Beyer was admitted as an English solicitor in 1995.

On August 9, 2017, we held our 2017 annual meeting of limited partners at which Hans Petter Aas was elected as a Class IV director of the Partnership whose term will expire at the 2021 annual meeting of limited partners.

### Common Unit Purchase Program

On August 10, 2016, the boards of directors of the Partnership and the General Partner each authorized an extension of the common unit purchase program to August 31, 2017. Originally approved on August 12, 2015, the program authorized the Partnership to repurchase up to 666,667 of its common units and the General Partner to purchase up to 333,333 common units of the Partnership. On August 9, 2017, the Board and the board of directors of the General Partner authorized a further extension of the program to August 31, 2018. As of December 31, 2015, the Partnership and the General Partner had purchased 180,906 and 90,368 common units, respectively, pursuant to the program at an average purchase price of \$12.71 per unit. No additional common units had been purchased by the Partnership or the General Partner as of June 30, 2017. The Partnership and the General Partner may therefore purchase up to an additional 485,761 and 242,965 common units, respectively, under the extended program.

### Revolving Credit Facility

On August 9, 2017, the Partnership entered into an agreement with NTT Finance Corporation for an unsecured revolving credit facility of \$25 million. The facility will mature in August 2019, bear interest at LIBOR plus a margin of 1.8% and have a commitment fee of 0.5% on the undrawn portion of the facility. Closing of the facility is expected to occur by the end of August 2017.

### Lena Knutsen Acquisition

On August 9, 2017, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, entered into a share purchase agreement with KNOT to acquire KNOT Shuttle Tankers 26 AS ("KNOT 26"), the company that owns the shuttle tanker, *Lena Knutsen*, from KNOT (the "Lena Acquisition"). The Partnership expects the Lena Acquisition to close by September 30, 2017, subject to customary closing conditions. The purchase price of the Lena Acquisition is \$142.0 million, less approximately \$133.8 million of outstanding indebtedness related to the *Lena Knutsen* plus approximately \$24.1 million for a receivable owed by KNOT to KNOT 26 (the "KNOT 26 Receivable") and approximately \$1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen*. On the closing of the Lena Acquisition, KNOT 26 will repay approximately \$41.9 million of the indebtedness, leaving an aggregate of approximately \$91.9 million of debt outstanding under the secured credit facility related to the vessel (the "Lena Facility"). The Lena Facility is repayable in quarterly installments with a final balloon payment of \$69.8 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 purchase price will be settled in cash and will be subject to certain post-closing adjustments for currency fluctuations and accrued interest on the KNOT 26 Receivable, working capital, Norwegian tonnage entrance tax and interest rate swaps. On the closing of the Lena Acquisition, KNOT will repay the KNOT 26 Receivable in full.

### Results of Operations

#### Three Months Ended June 30, 2017 Compared with the Three Months Ended June 30, 2016

(U.S. Dollars in thousands)	Three Months Ended June 30		Change	% Change
	2017	2016		
Time charter and bareboat revenues	\$51,537	\$42,864	\$ 8,673	20%
Loss of hire insurance recoveries	2,276	—	2,276	—
Other income	593	199	394	198%
Vessel operating expenses	9,427	7,975	1,452	18%
Depreciation	17,372	13,913	3,459	25%
General and administrative expenses	1,493	948	545	57%
Interest income	44	—	44	—
Interest expense	(7,252)	(5,054)	(2,198)	43%
Other finance expense	(328)	(334)	6	-2%
Realized and unrealized gain (loss) on derivative instruments	(1,536)	(3,176)	1,640	-52%
Net gain (loss) on foreign currency transactions	(124)	(82)	(42)	51%
Income tax benefit (expense)	(3)	(3)	—	0%
<b>Net income</b>	<b>16,915</b>	<b>11,578</b>	<b>5,337</b>	<b>46%</b>





**Time Charter and Bareboat Revenues:** Time charter and bareboat revenues increased by \$8.7 million to \$51.5 million for the three months ended June 30, 2017 compared to \$42.9 million for the three months ended June 30, 2016. The increase was mainly due to increased time charter revenues from the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively.

**Loss of hire insurance recoveries:** Loss of hire insurance recoveries for the three months ended June 30, 2017 were \$2.3 million compared to \$nil for the three months ended June 30, 2016. The loss of hire insurance recoveries were related to a technical default with *Raquel Knutsen*'s controllable pitch propeller. *Raquel Knutsen* was offhire from February 22, 2017 to May 15, 2017. Under our loss of hire policies, our insurer will pay us the hire rate under the time-charter 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. No further loss of hire recoveries are expected for this claim.

**Other income:** Other income for the three months ended June 30, 2017 was \$0.6 million compared to \$0.2 million for the three months ended June 30, 2016. Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payment of the hire rate that is equal to or greater than the hire rate payable under the initial charters of the *Bodil Knutsen* and *Windsor Knutsen* for a period of five years from the closing date of the IPO. In October 2015, the *Windsor Knutsen* commenced operating under a new Shell time charter. The hire rate for the new charter is below the initial charter hire rate and the difference between the new hire rate and the initial rate is paid by KNOT. During the three months ended June 30, 2017, \$0.3 million was recognized as income pursuant to this guarantee compared to \$0.2 million for same period last year. For the three months ended June 30, 2017 \$0.3 million was recognized as guarantee income from KNOT in connection with the offhire and repairs for the *Vigdis Knutsen*. In connection with the *Vigdis Knutsen* acquisition, KNOT agreed to reimburse the Partnership for repair costs and offhire incurred by the *Vigdis Knutsen* as a result of damages to its hull in connection with a ship-to ship loading on May 24, 2017.

**Vessel operating expenses:** Vessel operating expenses for the three months ended June 30, 2017 were \$9.4 million, an increase of \$1.5 million from \$8.0 million in the three months ended June 30, 2016. The increase is mainly attributable to the increase of \$2.5 million due to the *Raquel Knutsen*, *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively. The increase was partially offset by a \$0.5 insurance claim related to the *Raquel Knutsen* and lower operating expenses of \$0.5 million mainly due to the strengthening of the U.S. dollar against the NOK during the three months ended June 30, 2017 compared to same period last year.

**Depreciation:** Depreciation expense for the three months ended June 30, 2017 was \$17.4 million, an increase of \$3.5 million from \$13.9 million in the three months ended June 30, 2016. This increase was mainly due to the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively.

**General and administrative expenses:** General and administrative expenses for the three months ended June 30, 2017 were \$1.5 million, compared to \$0.9 million for the same period in 2016. The increase is mainly due to additional operational activity during the three months ended June 30, 2017 and the increased size of the fleet.

**Interest income:** Interest income for the three months ended June 30, 2017 was \$44,000, compared to \$nil for the three months ended June 30, 2016.

**Interest expense:** Interest expense for the three months ended June 30, 2017 was \$7.3 million, an increase of \$2.2 million from \$5.1 million for the three months ended June 30, 2016. The increase was mainly due to additional debt incurred in connection with the acquisition of the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* and higher LIBOR during the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

**Other finance expense:** Other finance expense was \$0.3 million for the three months ended June 30, 2017 and \$0.3 million for the three months ended June 30, 2016. Other finance expense is primarily related to bank fees and guarantee commissions.

**Realized and unrealized gain (loss) on derivative instruments:** Realized and unrealized loss on derivative instruments for the three months ended June 30, 2017 was \$1.5 million, compared to \$3.2 million for the three months ended June 30, 2016, as set forth in the table below:



(U.S. Dollars in thousands)	Three Months Ended June 30		\$ Change
	2017	2016	
Realized gain (loss):			
Interest rate swap contracts	\$ (938)	\$ (1,252)	\$ 314
Foreign exchange forward contracts	(97)	(316)	219
Total realized gain (loss):	(1,035)	(1,568)	533
Unrealized gain (loss):			
Interest rate swap contracts	(1,334)	(1,518)	184
Foreign exchange forward contracts	833	(90)	923
Total unrealized gain (loss):	(501)	(1,608)	1,107
Total realized and unrealized gain (loss) on derivative instruments:	<u>\$ (1,536)</u>	<u>\$ (3,176)</u>	<u>\$ 1,640</u>

As of June 30, 2017, the total notional amount of the Partnership's outstanding interest rate swap contracts that were entered into in order to hedge outstanding or forecasted debt obligations was \$536.7 million and the Partnership had entered into foreign exchange forward contracts, selling a total notional amount of \$40.0 million against the Norwegian Kroner (NOK) at an average exchange rate of NOK 8.31 per 1.0 U.S. Dollar, which are economic hedges for certain vessel operating expenses and general expenses in NOK. Of the unrealized loss for the three months ended June 30, 2017, \$1.3 million related to mark-to-market losses on interest rate swaps due to a decrease in swap rates during the quarter, and an unrealized gain of \$0.8 million related to foreign exchange contracts due to the strengthening of the NOK against the U.S. Dollar.

**Net loss on foreign currency transactions:** Net loss on foreign currency transactions for the three months ended June 30, 2017 and 2016 was \$0.1 million.

**Income tax (expense):** Income tax expense for the three months ended June 30, 2017 and 2016 was \$3,000.

**Net income:** As a result of the foregoing, we earned net income of \$16.9 million for the three months ended June 30, 2017 compared to net income of \$11.6 million for the three months ended June 30, 2016.

#### Six Months Ended June 30, 2017 Compared with the Six Months Ended June 30, 2016

(U.S. Dollars in thousands)	Six Months Ended June 30		Change	% Change
	2017	2016		
Time charter and bareboat revenues	\$ 95,284	\$ 84,690	\$ 10,594	13%
Loss of hire insurance recoveries	3,426	—	3,426	—
Other income	687	399	288	72%
Vessel operating expenses	19,709	15,622	4,087	26%
Depreciation	33,125	27,805	5,320	19%
General and administrative expenses	2,962	2,256	706	31%
Interest income	80	3	77	2567%
Interest expense	(13,466)	(10,084)	(3,382)	34%

(U.S. Dollars in thousands)	Six Months Ended June 30		Change	% Change
	2017	2016		
Other finance expense	(630)	(601)	(29)	5%
Realized and unrealized gain (loss) on derivative instruments	(1,017)	(6,360)	5,343	-84%
Net gain (loss) on foreign currency transactions	(218)	(117)	(101)	86%
Income tax benefit (expense)	(6)	(6)	—	0%
<b>Net income</b>	<b>28,344</b>	<b>22,241</b>	<b>6,103</b>	<b>27%</b>

**Time Charter and Bareboat Revenues:** Time charter and bareboat revenues increased by \$10.6 million to \$95.3 million for the six months ended June 30, 2017 compared to \$84.7 million for the six months ended June 30, 2016. This was principally due to increased revenues from the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively, and full earnings from the *Bodil Knutsen* during the six months ended June 30, 2017 compared to 20.9 days offhire due to planned drydocking in the same period last year. The increase was partially offset by a reduction in time charter earnings due to the *Windsor Knutsen* drydocking during the six months ended June 30, 2017, and lower utilization of the fleet during the six months ended June 30, 2017 due to 14 days deductible offhire for the vessel the *Raquel Knutsen* and one less operational day in that period compared to the same period last year.

**Loss of hire insurance recoveries:** Loss of hire insurance recoveries for the six months ended June 30, 2017 were \$3.4 million compared to \$nil for the six months ended June 30, 2016. The loss of hire insurance recoveries were related to a technical default with the *Raquel Knutsen*'s controllable pitch propeller. The *Raquel Knutsen* was offhire from February 22, 2017 to May 15, 2017.

**Other income:** Other income for the six months ended June 30, 2017 was \$0.7 million compared to \$0.4 million for the six months ended June 30, 2016. During the six months ended June 30, 2017 and 2016, \$0.3 million and \$0.4 million, respectively, was recognized as income pursuant to KNOT's guarantee of the initial hire rate under the *Windsor Knutsen* time charter.

**Vessel operating expenses:** Vessel operating expenses for the six months ended June 30, 2017 were \$19.7 million, an increase of \$4.1 million from \$15.6 million in the six months ended June 30, 2016. The increase was primarily due to an increase of \$3.9 million from the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively, and \$0.6 million was related to bunkers consumption in connection with the drydocking of the *Windsor Knutsen*. This was partially offset by lower operating expenses for the rest of the fleet.

**Depreciation:** Depreciation expense for the six months ended June 30, 2017 was \$33.1 million, an increase of \$5.3 million from \$27.8 million in the six months ended June 30, 2016. This increase was mainly due to the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively.

**General and administrative expenses:** General and administrative expenses for the six months ended June 30, 2017 were \$3.0 million, compared to \$2.3 million for the same period in 2016. The increase is mainly due incremental expenses during the six months ended June 30, 2017 in connection with the January 2017 common unit offering, private placement of Series A Preferred Units and the acquisitions of the *Tordis Knutsen* and the *Vigdis Knutsen*.

**Interest income:** Interest income for the six months ended June 30, 2017 was \$80,000, compared to \$3,000 for the six months ended June 30, 2016.

**Interest expense:** Interest expense for the six months ended June 30, 2017 was \$13.5 million, an increase of \$3.4 million from \$10.1 million in the six months ended June 30, 2016. The increase was mainly due to additional debt incurred in connection with the acquisition of the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* and higher LIBOR during the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

**Other finance expense:** Other finance expense for the six months ended June 30, 2017 and 2016 was \$0.6 million. Other finance expense is primarily related to bank fees and guarantee commissions.

**Realized and unrealized gain (loss) on derivative instruments:** Realized and unrealized loss on derivative instruments for the six months ended June 30, 2017 was \$1.0 million, compared to \$6.4 million for the six months ended June 30, 2016, as set forth in the table below:

(U.S. Dollars in thousands)	Six Months Ended June 30		\$ Change
	2017	2016	
<b>Realized gain (loss):</b>			
Interest rate swap contracts	\$ (1,607)	\$ (2,176)	\$ 569
Foreign exchange forward contracts	(166)	(316)	150
Total realized gain (loss):	(1,773)	(2,492)	719
<b>Unrealized gain (loss):</b>			
Interest rate swap contracts	(275)	(5,866)	5,591
Foreign exchange forward contracts	1,031	1,998	(967)
Total unrealized gain (loss):	756	(3,868)	4,624
<b>Total realized and unrealized gain (loss) on derivative instruments:</b>	<b>\$ (1,017)</b>	<b>\$ (6,360)</b>	<b>\$ 5,343</b>

The decreased net realized and unrealized loss on derivative instruments was mainly due to an increase in long-term interest rates.

**Net loss on foreign currency transactions:** Net loss on foreign currency transactions for the six months ended June 30, 2017 was \$0.2 million, compared to \$0.1 million for the six months ended June 30, 2016.

**Income tax expense:** Income tax expense for the six months ended June 30, 2017 and 2016 was \$6,000.

**Net income:** As a result of the foregoing, we earned net income of \$28.3 million for the six months ended June 30, 2017 compared to net income of \$22.2 million for the six months ended June 30, 2016.

## Liquidity and Capital Resources

### Liquidity and Cash Needs

We operate in a capital-intensive industry, and we expect to finance the purchase of additional vessels and other capital expenditures through a combination of borrowings from commercial banks, cash generated from operations and debt and equity financings. In addition to paying distributions, our other liquidity requirements relate to servicing our debt, funding investments (including the equity portion of investments in vessels), funding working capital and maintaining cash reserves against fluctuations in operating cash flows. We believe our current resources are sufficient to meet our working capital requirements for our current business. Generally, our long-term sources of funds are cash from operations, long-term bank borrowings and other debt and equity financings. Because we distribute our available cash, we expect that we will rely upon external financing sources, including bank borrowings and the issuance of debt and equity securities, to fund acquisitions and other expansion capital expenditures.

Our funding and treasury activities are intended to maximize investment returns while maintaining appropriate liquidity. Cash and cash equivalents are held primarily in U.S. Dollars with some balances held in NOK, British Pounds and Euros. We have not made use of derivative instruments other than for interest rate and currency risk management purposes. We expect to continue to economically hedge our exposure to interest rate fluctuations in the future by entering into interest rate swap contracts.

We estimate that we will spend in total approximately \$20.2 million for the next dry-docking and classification surveys for our nine time charter vessels in our current fleet. As our fleet matures and expands, our dry-docking expenses will likely increase. Ongoing costs for compliance with environmental regulations are primarily included as part of our dry-docking and society classification survey costs or are a component of our vessel operating expenses. We are not aware of any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations. There will be further costs related to voyages to and from the dry-docking yard that will depend on actual deviation from the vessel's ordinary trading area to dry-docking yard.

On January 10, 2017, the Partnership sold 2,500,000 common units in a public offering, raising approximately \$54.9 million in net proceeds.

On February 2, 2017, the Partnership issued and sold in a private placement 2,083,333 Series A Preferred Units at a price of \$24.00 per unit, raising approximately \$48.6 million in net proceeds. On June 30, 2017, the Partnership issued and sold in a second private placement 1,666,667 additional Series A Preferred Units, raising approximately \$38.8 million in net proceeds.

As of June 30, 2017, the Partnership had available liquidity of \$69.5 million, which consisted of cash and cash equivalents of \$64.5 million and an undrawn revolving credit facility of \$5.0 million.

On August 12, 2015, the Board authorized a program for the Partnership to repurchase up to 666,667 of its common units. The board of directors of the General Partner concurrently authorized the General Partner to purchase up to 333,333 common units of the Partnership. On

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August 9, 2017, the Board and the board of directors of the General Partner authorized a further extension of the program to August 31, 2018. As of December 31, 2016, the Partnership and the General Partner had purchased 180,906 and 90,368 common units, respectively, pursuant to the program at an average purchase price of \$12.71 per unit. As of June 30, 2017, no additional common units had been purchased by the Partnership or the General Partner.

The consolidated financial statements have been prepared assuming that the Partnership will continue as a going concern. As of June 30, 2017, the Partnership's net current liabilities were \$18.9 million. Included in current liabilities are short term loan obligations that mature before June 30, 2018 and are therefore, presented as current debt.

The Partnership expects that its primary future sources of funds will be available cash, cash from operations, borrowings under any new loan agreements and the proceeds of any equity financings. The Partnership believes that these sources of funds (assuming the current rates earned from existing charters) will be sufficient to cover operational cash outflows and ongoing obligations under the Partnership's financing commitments to pay loan interest and make scheduled loan repayments and to make distributions on its outstanding units. Accordingly, the Partnership believes that its current resources, including its current undrawn revolving credit facilities of \$35.0 million, are sufficient to meet working capital requirements for its current business for at least the next twelve months.

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

(U.S. Dollars in thousands)	Six Months Ended June 30,	
	2017	2016
Net cash provided by (used in) operating activities	\$ 98,021	\$ 52,485
Net cash provided by (used in) investing activities	(60,875)	(521)
Net cash provided by (used in) financing activities	(344)	(49,893)
Effect of exchange rate changes on cash	35	23
Net increase in cash and cash equivalents	36,837	2,094
Cash and cash equivalents at the beginning of the period	27,664	23,573
Cash and cash equivalents at the end of the period	64,501	25,667

***Net cash provided by operating activities***

Net cash provided by operating activities increased by \$45.6 million to \$98.0 million in the six months ended June 30, 2017 compared to \$52.5 million in the six months ended June 30, 2016. This was mainly due to higher earnings from the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in our results of operations as of December 1, 2016, March 1, 2017 and June 1, 2017, respectively, and a decrease of working capital mainly due to increased prepaid revenue from the charters. The increase was partially offset by increased drydocking expenditures and loss of earnings for the scheduled drydocking of the *Windsor Knutsen* in first quarter of 2017.

***Net cash used in investing activities***

Net cash used in investing activities was \$60.9 million in the six months ended June 30, 2017 compared to \$0.5 million in the six months ended June 30, 2016. Net cash used in investing activities in the six months ended June 30, 2016 was higher due to the acquisition of the *Tordis Knutsen* and the *Vigdis Knutsen* on March 1, 2017 and June 1, 2017, respectively.

***Net cash used in financing activities***

Net cash used in financing activities during the six months ended June 30, 2017 of \$0.3 million and mainly related to the following:

- The net proceeds from a public offering of common units in January 2017 of \$54.9 million;
- The net proceeds from issuance of Series A Preferred Units of \$87.4 million;
- Proceeds of \$100.0 million from the refinancing of the *Hilda Knutsen*; and
- Proceeds from drawdowns under our revolving credit facility of \$30.0 million.

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This was offset by the following;

- Repayment of long-term debt of \$167.5 million, of which \$75.6 million was repaid in connection with refinancing of the *Hilda Knutsen* ;
- Repayment of long-term debt from related parties of \$70.7 million; and
- Payment of cash distributions of \$33.4 million.

Net cash used in financing activities during the six months ended June 30, 2016 of \$49.9 million mainly related to repayment of long-term debt of \$24.6 million and payment of cash distributions of \$30.1 million partially offset by a \$5.0 million drawdown under our revolving credit facility.

## Borrowing Activities

### Long-Term Debt

As of June 30, 2017 and December 31, 2016, the Partnership had the following debt amounts outstanding:

<i>(U.S. Dollars in thousands)</i>	<b>Vessel</b>	<b>June 30, 2017</b>	<b>December 31, 2016</b>
\$220 million loan facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	\$ 172,857	\$ 180,714
\$35 million revolving credit facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	30,000	25,000
\$140 million loan facility	<i>Fortaleza Knutsen &amp; Recife Knutsen</i>	113,750	118,125
\$117 million loan facility	<i>Hilda Knutsen</i>	—	76,871
\$117 million loan facility	<i>Torill Knutsen</i>	75,641	78,105
\$172.5 million loan facility	<i>Dan Cisne, Dan Sabia</i>	95,939	100,539
\$77.5 million loan facility	<i>Ingrid Knutsen</i>	64,368	67,652
\$74.5 million loan facility	<i>Raquel Knutsen</i>	71,028	73,643
\$25 million Seller's Credit and Seller's Loan	<i>Raquel Knutsen</i>	—	25,000
\$114.4 million loan facility	<i>Tordis Knutsen</i>	93,581	—
\$114.4 million loan facility	<i>Vigdis Knutsen</i>	94,846	—
\$100 million loan facility	<i>Hilda Knutsen</i>	100,000	—
<b>Total long-term debt</b>		<b>912,010</b>	<b>745,649</b>
Less: current installments		66,661	60,314
Less: unamortized deferred loan issuance costs		1,643	1,330
<b>Current portion of long-term debt</b>		<b>65,018</b>	<b>58,984</b>
Amounts due after one year		845,350	685,335
Less: unamortized deferred loan issuance costs		4,468	2,673
Less: \$25 million Seller's Credit and Seller's Loan		—	25,000
<b>Long-term debt, less current installments, Seller's Credit and Seller's Loan and unamortized deferred loan issuance costs</b>		<b>\$ 840,882</b>	<b>657,662</b>

The Partnership's outstanding debt of \$912.0 million as of June 30, 2017 is repayable as follows:

<i>(U.S. Dollars in thousands)</i>	<b>Period repayment</b>	<b>Balloon repayment</b>
Remainder of 2017	\$ 33,331	\$ —
2018	66,303	86,677
2019	50,085	267,678
2020	39,153	—
2021	39,753	70,811
2022 and thereafter	85,507	172,712
Total	<u>\$ 314,132</u>	<u>\$ 597,878</u>

As of June 30, 2017, the interest rates on the Partnership's loan agreements (other than tranche two of the \$77.5 million loan facility) were the London Interbank Offered Rate ("LIBOR") plus a fixed margin ranging from 1.9% to 2.5%. On the export credit loan of \$44.6 million which is tranche two of the \$77.5 million loan facility secured by the *Ingrid Knutsen*, the annual rate is 3.85% composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The guarantee commission of 1.35% is classified as other finance expense.

### ***\$220 Million Term Loan Facility and \$35 Million Revolving Credit Facilities***

In June 2014, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS entered into a senior syndicate secured loan facility in an aggregate amount of \$240 million (the "Senior Secured Loan Facility") to repay existing debt under previous credit facilities and a \$10.5 million seller's credit from KNOT. The Senior Secured Loan Facility consisted of (i) a \$220 million term loan (the "Term Loan Facility") and (ii) a \$20 million revolving credit facility (the "Revolving Credit Facility").

The Revolving Credit Facility terminates in June 2019, and bears interest at LIBOR plus a fixed margin of 2.125%, and has a commitment fee equal to 40% of the margin of the Revolving Credit Facility calculated on the daily undrawn portion of the Revolving Credit Facility. The Term Loan Facility is repayable in quarterly installments over five years with a final balloon payment due at maturity at June 2019. The Term Loan Facility bears interest at LIBOR plus a margin of 2.125%.

On June 30, 2016, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS, as borrowers, entered into an amended and restated senior secured credit facility (the "Amended Senior Secured Loan Facility"), which amended the Senior Secured Loan Facility. The Amended Senior Secured Loan Facility includes a new revolving credit facility tranche of \$15 million, bringing the total revolving credit commitments under the facility to \$35 million. The new revolving credit facility matures in June 2019, bears interest at LIBOR plus a fixed margin of 2.5% and has a commitment fee equal to 40% of the margin of the revolving facility tranche calculated on the daily undrawn portion of such tranche. The other material terms of the Senior Secured Loan Facility remain unaltered.

The *Windsor Knutsen*, the *Bodil Knutsen* and the *Carmen Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Amended Senior Secured Loan Facility. The Amended Senior Secured Loan Facility is guaranteed by the Partnership and KNOT Shuttle Tankers AS, and secured by vessel mortgages on the *Windsor Knutsen*, the *Bodil Knutsen* and the *Carmen Knutsen*.

The Amended Senior Secured Loan Facility contains the following financial covenants:

- The aggregate market value of the *Windsor Knutsen*, *Bodil Knutsen* and *Carmen Knutsen* shall not be less than 110% of the outstanding balance under the Amended Senior Secured Loan Facility for the first two years, 120% for the third and fourth years, and 125% thereafter;
- Positive working capital for the borrowers and the Partnership;
- Minimum liquidity of the Partnership of \$20 million plus increments of \$1 million for each additional vessel acquired by the Partnership 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 Amended Senior Secured Loan Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of June 30, 2017, the borrowers and the guarantors were in compliance with all covenants under this facility.

### ***\$100 Million Hilda Loan Facility***

On May 26, 2017, the Partnership's subsidiary, KNOT 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 twenty-eight (28) consecutive quarterly installments with a balloon payment of \$58.5 million due at maturity. The New Hilda Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.2%. The facility matures in 2024.

The Partnership and KNOT Shuttle Tankers AS are the sole guarantors. The New Hilda Facility contains the following primary financial covenants:

- Market value of the *Hilda Knutsen* shall not be less than 110% of the outstanding balance under the Hilda Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$20 million plus increments of \$1 million for each additional vessel acquired by the Partnership 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 New Hilda Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of June 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

#### ***\$117 Million Torill Loan Facility***

In November 2011, Knutsen Shuttle Tankers 15 AS, the subsidiary owning the *Torill Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$117 million (the “Torill Facility”). The Torill Facility is repayable in quarterly installments over five years with a final balloon payment due at maturity in October 2018. The Torill Facility bears interest at LIBOR plus a fixed margin of 2.5%. The facility is secured by a vessel mortgage on the *Torill Knutsen*. The *Torill Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Torill Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors. The Torill Facility contains the following primary financial covenants:

- Market value of the *Torill Knutsen* shall not be less than 110% of the outstanding balance under the Torill Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$20 million plus increments of \$1 million for each additional vessel acquired by the Partnership 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 Torill Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of June 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

#### ***\$140 Million Secured Loan Facility***

In June 2014, the Partnership’s subsidiary Knutsen Shuttle Tankers XII KS, as the borrower, entered into a senior syndicate secured loan facility in the amount of \$140 million (the “New Fortaleza and Recife Facility”). The New Fortaleza and Recife Facility was drawn in November 2014 and replaced a \$160 million loan facility previously secured by the *Fortaleza Knutsen* and the *Recife Knutsen*. The New Fortaleza and Recife Facility is repayable in quarterly installments over five years with a final balloon payment due at maturity at June 2019. The facility bears interest at LIBOR plus a margin of 2.125%. The *Fortaleza Knutsen* and the *Recife Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the New Fortaleza and Recife Facility. The facility is guaranteed by the Partnership and KNOT Shuttle Tankers AS and is secured by vessel mortgages on the *Fortaleza Knutsen* and the *Recife Knutsen*.

The New Fortaleza and Recife Facility contains the following financial covenants:

- The aggregate market value of the *Fortaleza Knutsen* and *Recife Knutsen* shall not be less than 110% of the outstanding balance under the New Fortaleza and Recife Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$20 million plus increments of \$1 million for each additional vessel acquired by the Partnership 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 New Fortaleza and Recife Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of June 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

#### ***\$172.5 Million Secured Loan Facility***

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



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

The facilities contain the following financial covenants:

- Market value of each of the *Dan Cisne* and *Dan Sabia* shall not be less than 100% of the outstanding balance under the Dan Cisne Facility and Dan Sabia Facility, respectively, for the first three years, and 125% thereafter;
- Minimum liquidity of the Partnership of \$20 million plus increments of \$1 million for each additional vessel acquired by the Partnership 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%.

The facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of June 30, 2017, the borrowers and the guarantor were in compliance with all covenants under this facility.

#### ***\$77.5 Million Secured Loan Facility***

In June 2012, Knutsen NYK Shuttle Tankers 16 AS, the subsidiary owning the *Ingrid Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$90.0 million (the “Ingrid Facility”). The Ingrid Facility includes two tranches. Tranche one is a commercial bank loan of \$22.4 million, repayable in semi-annual installments with a final balloon payment due at maturity in December 2018. Tranche one bears interest at LIBOR, plus a margin of 2.25%. Tranche two is an export credit loan of \$55.1 million, repayable in semi-annual installments and maturing in November 2025.

Tranche two bears interest at an annual fixed rate of 3.85%, composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The facility is secured by a vessel mortgage on the *Ingrid Knutsen*. The *Ingrid Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Ingrid Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Ingrid Facility contains the following financial covenants:

- Market value of the *Ingrid Knutsen* shall not be less than 125% of the outstanding balance under the Ingrid Facility;
- Positive working capital of the borrower and the Partnership;
- Minimum liquidity of the Partnership of \$20 million plus increments of \$1 million for each additional vessel acquired by the Partnership 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 Ingrid Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of June 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

#### ***\$74.5 Million Secured 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 is repayable in quarterly installments with a final balloon payment of \$30.5 million due at maturity in March 2025. The Raquel 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 *Raquel Knutsen*. The *Raquel Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Raquel Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Raquel Facility contains the following financial covenants:

- Market value of the *Raquel Knutsen* shall not be less than 100% of the of the outstanding balance under the Raquel Facility for the first three years, and 125% thereafter;
- Minimum liquidity of the Partnership of \$20 million plus increments of \$1 million for each additional vessel acquired by the Partnership 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 Raquel Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of June 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

#### ***\$25 Million Seller's Credit and Seller's Loan***

As part of financing for the purchase of the *Raquel Knutsen*, on December 1, 2016 KNOT provided a \$13.0 million seller's credit (the "Seller's Credit") and a \$12.0 million seller's loan (the "Seller's Loan"), each of which was guaranteed by the Partnership, had a maturity date of December 2021 and bore interest at LIBOR plus a fixed margin of 4.5%. Accrued interest on the Seller's Credit and the Seller's Loan accumulated and was capitalized. On January 13, 2017, the Seller's Credit and the Seller's Loan were repaid in full.

#### ***\$114.4 Million Tordis Loan Facility***

In April 2015, KNOT Shuttle Tankers 24 AS, the subsidiary owning the *Tordis Knutsen*, as the borrower, entered into a secured loan facility (the "Tordis Facility"). The Tordis Facility 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:

- Aggregate market value of the *Tordis Knutsen* and the *Vigdis Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility and the Vigdis Facility (as defined below) at any time;
- Minimum liquidity of the Partnership of \$20 million plus increments of \$1 million for each additional vessel acquired by the Partnership 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 Tordis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of June 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

#### ***\$114.4 Million 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:

- Aggregate market value of the *Tordis Knutsen* and the *Vigdis Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility and the Vigdis Facility at any time;
- Minimum liquidity of the Partnership of \$20 million plus increments of \$1 million for each additional vessel acquired by the Partnership 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 Vigdis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of June 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

#### ***\$25.0 Million Revolving Credit Facility***

On August 9, 2017, the Partnership entered into an agreement with NTT Finance Corporation for an unsecured revolving credit facility of \$25 million. The facility will mature in August 2019, bear interest at LIBOR plus a margin of 1.8% and have a commitment fee of 0.5% on the undrawn portion of the facility. The revolving credit facility also contains certain customary events of default. Closing the facility is expected to occur by the end of August 2017.

## Derivative Instruments and Hedging Activities

We use derivative instruments to reduce the risks associated with fluctuations in interest rates. We have a portfolio of interest rate swap contracts that exchange or swap floating rate interest to fixed rates, which, from a financial perspective, hedges our obligations to make payments based on floating interest rates. As of June 30, 2017, our net exposure to floating interest rate fluctuations on our outstanding debt was approximately \$266.2 million based on total interest bearing debt outstanding of \$912.0 million, less interest rate swaps of \$536.7 million, less a 3.85% fixed rate export credit loan of \$44.6 million and less cash and cash equivalents of \$64.5 million. Our interest rate swap contracts mature between April 2018 and February 2026. Under the terms of the interest rate swap agreements, we will receive from the counterparty interest on the notional amount based on three-month and six-month LIBOR and will pay to the counterparty a fixed rate. For the interest rate swap agreements above, we will pay to the counterparty a weighted average interest rate of 1.65%.

We enter into foreign exchange forward contracts in order to manage our exposure to the risk of movements in foreign currency exchange rate fluctuations. As of June 30, 2017, the total contract amount in foreign currency of our outstanding foreign exchange forward contracts that were entered into to economically hedge our outstanding future payments in currencies other than the U.S. Dollar was NOK 332.5 million. We do not apply hedge accounting for derivative instruments.

## Contractual Obligations

The following table summarizes our long-term contractual obligations as of June 30, 2017:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
<i>(U.S. Dollars in thousands)</i>					
Long-term debt obligations (including interest)(1)	\$ 1,033,576	\$ 100,316	\$ 504,235	\$ 246,311	\$ 182,715
Total	\$ 1,033,576	\$ 100,316	\$ 504,235	\$ 246,311	\$ 182,715

(1) The long-term debt obligations have been calculated assuming interest rates based on the 6-month LIBOR as of June 30, 2017, plus the applicable margin for all periods presented.

## Off-Balance Sheet Arrangements

Currently, we do not have any off-balance sheet arrangements.

## Critical Accounting Estimates

The preparation of the unaudited condensed consolidated interim financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures about contingent assets and liabilities. We base these estimates and assumptions on historical experience and on various other information and assumptions that we believe to be reasonable. Our critical accounting estimates are important to the portrayal of both our financial condition and results of operations and require us to make subjective or complex assumptions or estimates about matters that are uncertain. For a description of our material accounting policies that involve higher degree of judgment, please read Note 2 – Summary of Significant Accounting Policies of our consolidate financial statement included in our 2016 20-F filed with the Securities and Exchange Commission (“SEC”).

## Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including interest rate, foreign currency exchange and concentration of credit risks. Historically, we have entered into certain derivative instruments and contracts to maintain the desired level of exposure arising from interest rate and certain foreign exchange risks. Our policy is to economically hedge our exposure to risks, where possible, within boundaries deemed appropriate by management.

## Interest Rate Risks

A portion of our debt obligations and surplus funds placed with financial institutions are subject to movements in interest rates. It is our policy to obtain the most favorable interest rates available without increasing our foreign currency exposure. In keeping with this, our surplus funds may in the future be placed in fixed deposits with reputable financial institutions which yield better returns than bank deposits. The deposits generally have short-term maturities so as to provide us with the flexibility to meet working capital and capital investments.

We have historically used interest rate swap contracts to manage our exposure to interest rate risks. Interest rate swap contracts were used to convert floating rate debt obligations based on LIBOR to a fixed rate in order to achieve an overall desired position of fixed and floating rate debt. The extent to which interest rate swap contracts are used is determined by reference to our net debt exposure and our views regarding

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future interest rates. Our interest rate swap contracts do not qualify for hedge accounting, and movements in their fair values are reflected in the statements of operations under “Realized and unrealized gain (loss) on derivative instruments.” Interest rate swap contracts that have a positive fair value are recorded as “Other current assets,” while swaps with a negative fair value are recorded as “Derivative liabilities.”

As of June 30, 2017, we were party to interest rate swap contracts with a combined notional amount of approximately \$536.7 million. Under the terms of the interest rate swap contracts, we receive LIBOR-based variable interest rate payments and make fixed interest rate payments at fixed rates between 1.25% per annum and 2.49% per annum for all periods. The interest rate swap contracts mature between March 2018 and March 2025. The notional amount and fair value of our interest rate swap contracts recognized as net derivative liabilities as of June 30, 2017 are as follows:

(U.S. Dollars in thousands)	June 30, 2017	
	Notional Amount	Fair Value (asset)
Interest rate swap contracts	\$ 536,649	\$ 2,158

As of June 30, 2017, our net exposure to floating interest rate fluctuations on its outstanding debt was approximately \$266.2 million, based on total net interest bearing debt of approximately \$912.0 million less the notional amount of our floating to fixed interest rate swaps of \$536.7 million, less a 3.85% fixed rate export credit loan of \$44.6 million and less cash and cash equivalents of \$64.5 million. A 1% change in short-term interest rates would result in an increase or decrease to our interest expense of approximately \$2.7 million on an annual basis as of June 30, 2017.

### **Foreign Currency Fluctuation Risks**

We and our subsidiaries utilize the U.S. Dollar as our functional and reporting currency because all of our revenues and the majority of our expenditures, including the majority of our investments in vessels and our financing transactions, are denominated in U.S. Dollars. We could, however, earn revenue in other currencies and we currently incur a portion of our expenses in other currencies. Therefore, there is a risk that currency fluctuations could have an adverse effect on the value of our cash flows.

Our foreign currency risk arises from:

- the measurement of monetary assets and liabilities denominated in foreign currencies converted to U.S. Dollars, with the resulting gain or loss recorded as “Foreign exchange gain/(loss),” and
- the impact of fluctuations in exchange rates on the reported amounts of our revenues, if any, and expenses that are denominated in foreign currencies.

As of June 30, 2017 we had entered into foreign exchange forward contracts, selling a total notional amount of \$40.0 million against NOK at an average exchange rate of NOK 8.31 per 1.0 U.S. Dollar, which are economic hedges for certain vessel operating expenses and general expenses in NOK. We did not apply hedge accounting to our foreign exchange forward contracts.

### **Concentration of Credit Risk**

The market for our services is the offshore oil transportation industry, and the customers consist primarily of major oil and gas companies, independent oil and gas producers and government-owned oil companies. As of June 30, 2017 and December 31, 2017, six customers accounted for substantially all of our revenues. Ongoing credit evaluations of our customers are performed and generally do not require collateral in our business agreements. Typically, under our time charters and bareboat charters, the customer pays for the month’s charter the first day of each month, which reduces our level of credit risk. Provisions for potential credit losses are maintained when necessary.

We have bank deposits that expose us to credit risk arising from possible default by the counterparty. We manage the risk by using credit-worthy financial institutions.

### **Retained Risk**

For a description of our insurance coverage, including the risks retained by us related to our insurance policies, please read “Item 4. Information on the Partnership – Business Overview – Risk of Loss, Insurance and Risk Management” in our 2016 20-F.

## **Risk Factors**

In addition to the other information set forth below and elsewhere in this Report on Form 6-K, you should carefully consider the risk factors discussed in “Item 3. Key Information—Risk Factors” in our 2016 20-F, which could materially affect our business, financial condition or results of operations.

***There are proposed modifications to the Norwegian Tonnage Tax regime that could result in a material increase in our income taxes and a reduction in the amount of cash available for distribution.***

The Norwegian government is in negotiations with the EFTA Surveillance Authority to extend the effective date of the Norwegian Tonnage Tax regime (the “NTT”). Pursuant to those negotiations, Norway has proposed restrictions that would eliminate the ability of companies that own vessels under certain bareboat charters to qualify for the NTT. Companies that no longer qualify for the NTT would instead be subject to Norwegian corporate income tax.

Subsidiaries of the Partnership collectively own four vessels under bareboat charters. Under the currently proposed changes to the NTT, the subsidiaries that own those vessels would no longer qualify for the NTT and would instead be subject to Norwegian corporate income tax, potentially as of January 1, 2018. The Partnership is evaluating potential alternatives that would avoid any of its subsidiaries being disqualified from the NTT. However, until any changes to the NTT are finalized, the Partnership can make no assurances that it can avoid the disqualification of certain of its subsidiaries from the NTT.

In the event certain subsidiaries of the Partnership are disqualified from the NTT and become subject to Norwegian corporate income tax, such subsidiaries should be able to reduce the amount of their income subject to Norwegian corporate income tax through depreciation deductions on their vessels. However such deductions will decline over time. Accordingly, there could be a resulting increase in the Partnership’s income tax expense in several years that would reduce the amount of cash available for distribution.

## FORWARD-LOOKING STATEMENTS

This Report on Form 6-K contains certain forward-looking statements concerning future events and our operations, performance and financial condition and assumptions related thereto. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words “believe,” “anticipate,” “expect,” “estimate,” “project,” “will be,” “will continue,” “will likely result,” “plan,” “intend” or words or phrases of similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements include statements with respect to, among other things:

- market trends in the shuttle tanker or general tanker industries, including hire rates, factors affecting supply and demand, and opportunities for the profitable operations of shuttle tankers;
- KNOT’s and our ability to build shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers;
- forecasts of our ability to make or increase distributions on our common units and to make distributions on the Series A Preferred Units and the amount of any such distributions;
- our ability to integrate and realize the expected benefits from acquisitions, including the acquisition of KNOT 25 and the intended acquisition of KNOT 26;
- our anticipated growth strategies;
- the effects of a worldwide or regional economic slowdown;
- turmoil in the global financial markets;
- fluctuations in currencies and interest rates;
- fluctuations in the price of oil;
- general market conditions, including fluctuations in hire rates and vessel values;
- changes in our operating expenses, including drydocking and insurance costs and bunker prices;
- our future financial condition or results of operations and future revenues and expenses;
- the repayment of debt and settling of any interest rate swaps;
- our ability to make additional borrowings and to access debt and equity markets;
- planned capital expenditures and availability of capital resources to fund capital expenditures;
- our ability to maintain long-term relationships with major users of shuttle tonnage;
- our ability to leverage KNOT’s relationships and reputation in the shipping industry;
- our ability to purchase vessels from KNOT in the future;
- our continued ability to enter into long-term charters, which we define as charters of five years or more;
- our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term charter;
- the financial condition of our existing or future customers and their ability to fulfill their charter obligations;
- timely purchases and deliveries of newbuilds;
- future purchase prices of newbuilds and secondhand vessels;
- any impairment of the value of our vessels;
- our ability to compete successfully for future chartering and newbuild opportunities;
- acceptance of a vessel by its charterer;
- termination dates and extensions of charters;

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- the expected cost of, and our ability to comply with, governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by our charterers applicable to our business;
- availability of skilled labor, vessel crews and management;
- our general and administrative expenses and fees and expenses payable under the technical management agreements, management and administration agreements and the administrative services agreement;
- modifications to the Norwegian Tonnage Tax regime;
- the anticipated taxation of KNOT Offshore Partners and distributions to our unitholders;
- estimated future maintenance and replacement capital expenditures;
- our ability to retain key employees;
- customers' increasing emphasis on environmental and safety concerns;
- potential liability from any pending or future litigation;
- potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists;
- future sales of our securities in the public market;
- our business strategy and other plans and objectives for future operations; and
- other factors listed from time to time in the reports and other documents that we file with the SEC.

Forward-looking statements in this Report on Form 6-K are based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those risks discussed in this Form 6-K and our 2016 20-F. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

## EXHIBITS

The following exhibits are filed as part of this report:

<b>Exhibit Number</b>	<b>Description</b>
4.1	Accession Letter, dated June 1, 2017, among Knutsen NYK Offshore Tankers AS, KNOT Offshore Partners LP, KNOT Shuttle Tankers AS, KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS and DNB Bank ASA.
4.2	Ship Management Agreement for the Vigdis Knutsen, dated July 22, 2016 between KNOT Shuttle Tankers 25 AS and KNOT Management AS, as amended.
4.3	Loan Agreement, dated March 31, 2017 among Knutsen Shuttle Tankers 14 AS, as borrower, and Mitsubishi UFJ Lease & Finance (Hong Kong) Limited, as lender.
4.4	Addendum, dated May 30, 2017, to Share Purchase Agreement, dated May 16, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS.
4.5	Share Purchase Agreement, dated August 9, 2017, between Knutsen NYK Offshore Tankers AS and KNOT Shuttle Tankers AS.
101	The following financial information from KNOT Offshore Partners LP's Report on Form 6-K for the quarter ended June 30, 2017 formatted in XBRL (eXtensible Business Reporting Language):  (i) Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016;  (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016;  (iii) Unaudited Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016;  (iv) Unaudited Condensed Consolidated Statements of Changes in Partners' Capital for the Six Months Ended June 30, 2017 and 2016;  (v) Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016; and  (vi) Notes to Unaudited Condensed Consolidated Financial Statements.



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**KNOT OFFSHORE PARTNERS LP**

Date: August 10, 2017

By: /s/ John Costain  
Name: John Costain  
Title: Chief Executive Officer and Chief Financial Officer

## ACCESSION LETTER

From: KNOT Shuttle Tankers 24 AS  
 KNOT Shuttle Tankers 25 AS  
 KNOT Shuttle Tankers 26 AS  
 Knutsen NYK Offshore Tankers AS  
 KNOT Offshore Partners LP  
 KNOT Shuttle Tankers AS

To: DNB Bank ASA as Agent

Dated: 1 June 2017

Dear Sirs

**KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS and KNOT Shuttle Tankers 26 AS – USD 353,000,000 Facilities Agreement dated 27 April 2015 (the “Agreement”)**

1. We refer to the Agreement. This is an Accession Letter. Terms defined in the Agreement have the same meaning in this Accession Letter unless given a different meaning in this Accession Letter.
2. KNOT Offshore Partners LP (“KNOP”) and KNOT Shuttle Tankers AS (“KNOT ST”) agree to become Guarantors with respect to all amounts outstanding under the Post-Delivery Tranche B-1 and to be bound by the terms of the Agreement as Guarantor pursuant to Clause 28.2 ( *KNOP and KNOT ST as replacement Guarantors* ) of the Agreement.
3. KNOP’s and KNOT ST’s administrative details are as follows:  
 Address: 2 Queen’s Cross  
 Aberdeen  
 Aberdeenshire AB15 4YB  
 United Kingdom  
 Fax no.: +44 (0) 1224 624891  
 Attention: CFO/CEO
4. We confirm that the Repeating Representations are made by each of KNOT Shuttle Tankers 24 AS, KNOT Shuttle Tankers 25 AS, KNOT Shuttle Tankers 26 AS, Knutsen NYK Offshore Tankers AS, KNOP and KNOT ST on the date of this Accession Letter and that all Repeating Representations are true in all material respects on that date.
5. KNOP and KNOT ST both confirm having been notified by the Agent that accession to the Agreement as guarantors will imply that they become guarantors for existing debt, that there is no Event of Default and that in addition to the guarantees from KNOP and KNOT ST, the Outstanding Indebtedness will be secured by the following Security Documents (all as defined in the Agreement):
  - (a) the Pre-Delivery Assignment Agreements;
  - (b) the Mortgages;

- 
- (c) the Post-Delivery Assignment Agreements;
- (d) the Factoring Agreements;
- (e) the Account Pledges;
- (f) the Share Pledges.
6. This Accession Letter is governed by Norwegian law and KNOP has appointed KNOT Shuttle Tankers AS as its process agents in respect of this Accession Letter and the other Finance Documents.

Yours faithfully

/s/ Trygve Seglem  
\_\_\_\_\_  
authorised signatory for  
**KNOT Shuttle Tankers 24 AS**

/s/ Trygve Seglem  
\_\_\_\_\_  
authorised signatory for  
**KNOT Shuttle Tankers 25 AS**

/s/ Trygve Seglem  
\_\_\_\_\_  
authorised signatory for  
**KNOT Shuttle Tankers 26 AS**

/s/ Trygve Seglem  
\_\_\_\_\_  
authorised signatory for  
**Knutsen NYK Offshore Tankers AS**

/s/ John Costain  
\_\_\_\_\_  
authorised signatory for  
**KNOT Offshore Partners LP**

/s/ Trygve Seglem  
\_\_\_\_\_  
authorised signatory for  
**KNOT Shuttle Tankers AS**

## 1. Date of Agreement

22 July 2016

Approved by  
the International  
Ship Managers'  
Association (ISMA)

2. Owners (name, place of registered office and law of registry) ( CL 1 )

Name

**KNOT Shuttle Tankers 25 AS**

Place of registered office

**Smedasundet 40, 5529 Haugesund**

Law of registry

**Norway**4. Day and year of commencement of Agreement ( CL 2 )**See Additional Clause 21**5. Crew Management (state "yes" or "no" as agreed) ( CL 3.1 )**Yes**7. Commercial Management (state "yes" or "no" as agreed) ( CL 3.3 )**No**9. Accounting Services (state "yes" or "no" as agreed) ( CL 3.5 )**Yes**11. Provisions (state "yes" or "no" as agreed) ( CL 3.7 )**Yes**13. Chartering Services Period (only to be filled in if "yes" stated in Box 7) ( CL 3.3(i) )**No**15. Annual Management Fee (state annual amount) ( CL 8.1 )**USD 517 759, to be annually escalated by 6 %, first escalation 1 January 2018**17. Day and year of termination of Agreement ( CL 17 )**See CL 17**19. Notices (state postal and cable address, telex and telefax number for serving notice and communication to the Owners) ( CL 20 )

**KNOT Shuttle Tankers 25 AS**  
**Smedasundet 40, postboks 2017**  
**5504 Haugesund**  
**ph: +47 52 70 40 00**  
**fx: +47 52 70 40 40**

## THE BALTIC AND INTERNATIONAL MARITIME COUNCIL (BIMCO)



## STANDARD SHIP MANAGEMENT AGREEMENT

CODE NAME: "SHIPMAN 98"

Part I

3. Managers (name, place of registered office and law of registry) ( CL 1 )

Name

**KNOT Management AS**

Place of registered office

**Smedasundet 40, 5529 Haugesund**

Law of registry

**Norway**6. Technical Management (state "yes" or "no" as agreed) ( CL 3.2 )**Yes**8. Insurance Arrangements (state "yes" or "no" as agreed) ( CL 3.4 )**Yes**10. Sale or purchase of the Vessel (state "yes" or "no" as agreed) ( CL 3.6 )**No**12. Bunkering (state "yes" or "no" as agreed) ( CL 3.8 )**No**14. Owners' Insurance (state alternative (i), (ii) or (iii) of CL 6.3 )**Yes**16. Severance Costs (state maximum amount) ( CL 8.4(ii) )**A maximum of USD 50.000**18. Law and Arbitration (state alternative 19.1, 19.2 or 19.3; if 19.3 place of arbitration must be stated) ( CL 19 )**CL 19.3, Norwegian law, Haugesund City Court**20. Notices (state postal and cable address, telex and telefax number for serving notice and communication to the Managers) ( CL 20 )

**KNOT Management AS**  
**Smedasundet 40, Postboks 2017**  
**5504 Haugesund**  
**ph: +47 52 70 40 00**  
**fx: +47 52 70 40 40**

Approved by  
the Documentary  
Committee of The  
Japan Shipping  
Exchange  
Inc., Tokyo

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It is mutually agreed between the party stated in Box 2 and the party stated in Box 3 that this Agreement consisting of PART I and PART II as well as Annexes "A" (Details of Vessel) attached hereto, shall be performed subject to the conditions contained herein. In the event of a conflict of conditions, the provisions of PART I and Annexes "A", shall prevail over those of PART II to the extent of such conflict but no further. This Agreement covers "Vigdis Knutsen".

Signature(s) (Owners)	/s/ Trygve Seglem	Signature(s) (Managers)	/s/ Trygve Seglem
<b>for KNOT Shuttle Tankers 25 AS</b>		<b>for KNOT Management AS</b>	

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**ANNEX “A” (DETAILS OF VESSEL OR VESSELS) TO  
THE BALTIC AND INTERNATIONAL MARITIME COUNCIL (BIMCO)  
STANDARD SHIP MANAGEMENT AGREEMENT – CODE NAME: “SHIPMAN 98”**

Date of Agreement:  
**22 July 2016**

Name of Vessel(s):  
**Vigdis Knutsen**

Particulars of Vessel(s):  
**Shuttle Tanker**

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**ANNEX “B” (DETAILS OF CREW) TO  
THE BALTIC AND INTERNATIONAL MARITIME COUNCIL (BIMCO) STANDARD SHIP MANAGEMENT AGREEMENT – CODE NAME:  
“SHIPMAN 98”**

Date of Agreement:

Details of Crew:

Numbers	Rank	Nationality
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**ANNEX “C” (BUDGET) TO  
THE BALTIC AND INTERNATIONAL MARITIME COUNCIL (BIMCO) STANDARD SHIP MANAGEMENT AGREEMENT – CODE NAME:  
“SHIPMAN 98”**

Date of Agreement:

Managers’ Budget for the first year with effect from the Commencement Date of this Agreement:

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**ANNEX “D” (ASSOCIATED VESSELS) TO  
THE BALTIC AND INTERNATIONAL MARITIME COUNCIL (BIMCO) STANDARD SHIP MANAGEMENT AGREEMENT – CODE NAME:  
“SHIPMAN 98”**

**NOTE: PARTIES SHOULD BE AWARE THAT BY COMPLETING THIS ANNEX “D” THEY WILL BE SUBJECT TO THE PROVISIONS OF  
SUB-CLAUSE 18.1(i) OF THIS AGREEMENT.**

Date of Agreement:

Details of Associated Vessels:

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**PART II**  
**“SHIPMAN 98” Standard Ship Management Agreement**

**1. Definitions**

In this Agreement save where the context otherwise requires, the following words and expressions shall have the meanings hereby assigned to them.

“Owners” means the party identified in Box 2.

“Managers” means the party identified in Box 3.

“Vessel” means the vessel or vessels details of which are set out in Annex “A” attached hereto.

“Crew” means the Master, officers and ratings of the numbers, rank and nationality specified in Annex “B” attached hereto.

“Crew Support Costs” means all expenses of a general nature which are not particularly referable to any individual vessel for the time being managed by the Managers and which are incurred by the Managers for the purpose of providing an efficient and economic management service and, without prejudice to the generality of the foregoing, shall include the cost of crew standby pay, training schemes for officers and ratings, cadet training schemes, sick pay, study pay, recruitment and interviews.

“Severance Costs” means the costs which the employers are legally obliged to pay to or in respect of the Crew as a result of the early termination of any employment contract for service on the Vessel.

“Crew Insurances” means insurances against crew risks which shall include but not be limited to death, sickness, repatriation, injury, shipwreck unemployment indemnity and loss of personal effects.

“Management Services” means the services specified in subclauses 3.1 to 3.8 as indicated affirmatively in Boxes 5 to 12.

“ISM Code” means the International Management Code for the Safe Operation of Ships and for Pollution Prevention as adopted by the International Maritime Organization (IMO) by resolution A.741(18) or any subsequent amendment thereto.

“STCW 95” means the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, 1978, as amended in 1995 or any subsequent amendment thereto.

**2. Appointment of Managers**

With effect from the day and year stated in Box 4 and continuing unless and until terminated as provided herein, the Owners hereby appoint the Managers and the Managers hereby agree to act as the Managers of the Vessel.

**3. Basis of Agreement**

Subject to the terms and conditions herein provided, during the period of this Agreement, the Managers shall carry out Management Services in respect of the Vessel as agents for and on behalf of the Owners. The Managers shall have authority to take such actions as they may from time to time in their absolute discretion consider to be necessary to enable them to perform this Agreement in accordance with sound ship management practice.

**3.1 Crew Management**

*(only applicable if agreed according to Box 5)*

The Managers shall provide suitably qualified Crew for the Vessel as required by the Owners in accordance with the STCW 95 requirements, provision of which includes but is not limited to the following functions:

- (i) selecting and engaging the Vessel’s Crew, including payroll arrangements, pension administration, and insurances for the Crew other than those mentioned in Clause 6;
- (ii) ensuring that the applicable requirements of the law of the flag of the Vessel are satisfied in respect of manning levels, rank, qualification and certification of the Crew and employment regulations including Crew’s tax, social insurance, discipline and other requirements;
- (iii) ensuring that all members of the Crew have passed a medical examination with a qualified doctor certifying that they are fit

- for the duties for which they are engaged and are in possession of valid medical certificates issued in accordance with appropriate flag State requirements. In the absence of applicable flag State requirements the medical certificate shall be dated not more than three months prior to the respective Crew members leaving their country of domicile and maintained for the duration of their service on board the Vessel;
- (iv) ensuring that the Crew shall have a command of the English language of a sufficient standard to enable them to perform their duties safely;
- (v) arranging transportation of the Crew, including repatriation;
- (vi) training of the Crew and supervising their efficiency;
- (vii) conducting union negotiations;
- (viii) operating the Managers’ drug and alcohol policy unless otherwise agreed.

**3.2 Technical Management**

*(only applicable if agreed according to Box 6)*

The Managers shall provide technical management which includes, but is not limited to, the following functions:

- (i) provision of competent personnel to supervise the maintenance and general efficiency of the Vessel;
- (ii) arrangement and supervision of dry dockings, repairs, alterations and the upkeep of the Vessel to the standards required by the Owners provided that the Managers shall be entitled to incur the necessary expenditure to ensure that the Vessel will comply with the law of the flag of the Vessel and of the places where she trades, and all requirements and recommendations of the classification society;
- (iii) arrangement of the supply of necessary stores, spares and lubricating oil;
- (iv) appointment of surveyors and technical consultants as the Managers may consider from time to time to be necessary;
- (v) development, implementation and maintenance of a Safety Management System (SMS) in accordance with the ISM Code (see sub-clauses 4.2 and 5.3).

**3.3 Commercial Management**

*(only applicable if agreed according to Box 7)*

The Managers shall provide the commercial operation of the Vessel, as required by the Owners, which includes, but is not limited to, the following functions:

- (i) providing chartering services in accordance with the Owners’ instructions which include, but are not limited to, seeking and negotiating employment for the Vessel and the conclusion (including the execution thereof) of charter parties or other contracts relating to the employment of the Vessel. If such a contract exceeds the period stated in Box 13, consent thereto in writing shall first be obtained from the Owners.
- (ii) arranging of the proper payment to Owners or their nominees of all hire and/or freight revenues or other moneys of whatsoever nature to which Owners may be entitled arising out of the employment of or otherwise in connection with the Vessel.
- (iii) providing voyage estimates and accounts and calculating of hire, freights, demurrage and/or despatch moneys due from or due to the charterers of the Vessel;
- (iv) issuing of voyage instructions;
- (v) appointing agents;
- (vi) appointing stevedores;
- (vii) arranging surveys associated with the commercial operation of the Vessel.

**3.4 Insurance Arrangements**

*(only applicable if agreed according to Box 8)*

The Managers shall arrange insurances in accordance with Clause 6, on such terms and conditions as the Owners shall have instructed or agreed, in particular regarding conditions,

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## PART II

### “SHIPMAN 98” Standard Ship Management Agreement

insured values, deductibles and franchises.	132	responsibilities imposed by the ISM Code when applicable.	192
<b>3.5 Accounting Services</b>	133	<b>6. Insurance Policies</b>	193
<i>(only applicable if agreed according to Box 9)</i>	134	The Owners shall procure, whether by instructing the Managers under	194
The Managers shall, in relation to acting as Managers of the Vessel under this Agreement:	135	sub-clause 3.4 or otherwise, that throughout the period of this Agreement:	195
(i) establish an accounting system which meets the requirements of the Owners and provide regular accounting services, supply regular reports and records,	136	6.1 at the Owners' expense, the Vessel is insured for not less than her sound market value or entered for her full gross tonnage, as the case may be for:	196
(ii) maintain the records of all costs and expenditure incurred as well as data necessary or proper for the settlement of accounts between the parties.	137	(i) usual hull and machinery marine risks (including crew negligence) and excess liabilities;	197
	138	(ii) protection and indemnity risks (including pollution risks and Crew Insurances); and	198
	139	(iii) war risks (including protection and indemnity and crew risks) in accordance with the best practice of prudent owners of vessels of a similar type to the Vessel, with first class insurance companies, underwriters or associations ("the Owners' Insurances");	199
	140	6.2 all premiums and calls on the Owners' Insurances are paid promptly by their due date,	200
	141	6.3 the Owners' Insurances name the Managers and, subject to underwriters' agreement, any third party designated by the Managers as a joint assured, with full cover, with the Owners obtaining cover in respect of each of the insurances specified in sub-clause 6.1:	201
<b>3.6 Sale or Purchase of the Vessel</b>	142	(i) on terms whereby the Managers and any such third party are liable in respect of premiums or calls arising in connection with the Owners' Insurances; or	202
<i>(only applicable if agreed according to Box 10)</i>	143	(ii) if reasonably obtainable, on terms such that neither the Managers nor any such third party shall be under any liability in respect of premiums or calls arising in connection with the Owners' Insurances; or	203
The Managers shall, in accordance with the Owners' instructions, supervise the sale or purchase of the Vessel, including the performance of any sale or purchase agreement, but not negotiation of the same.	144	(iii) on such other terms as may be agreed in writing <i>Indicate alternative (i), (ii) or (iii) in Box 14. If Box 14 is left blank then (i) applies.</i>	204
	145	6.4 written evidence is provided, to the reasonable satisfaction of the Managers, of their compliance with their obligations under Clause 6 within a reasonable time of the commencement of the Agreement, and of each renewal date and, if specifically requested, of each payment date of the Owners' Insurances.	205
	146		206
	147		207
<b>3.7 Provisions</b> <i>(only applicable if agreed according to Box 11)</i>	148		208
The Managers shall arrange for the supply of provisions.	149		209
			210
			211
<b>3.8 Bunkering</b> <i>(only applicable if agreed according to Box 12)</i>	150		212
The Managers shall arrange for the provision of bunker fuel of the quality specified by the Owners as required for the Vessel's trade.	151		213
	152		214
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<b>4. Managers' Obligations</b>	153		219
4.1 The Managers undertake to use their best endeavours to provide the agreed Management Services as agents for and on behalf of the Owners in accordance with sound ship management practice and to protect and promote the interests of the Owners in all matters relating to the provision of services hereunder. Provided, however, that the Managers in the performance of their management responsibilities under this Agreement shall be entitled to have regard to their overall responsibility in relation to all vessels as may from time to time be entrusted to their management and in particular, but without prejudice to the generality of the foregoing, the Managers shall be entitled to allocate available supplies, manpower and services in such manner as in the prevailing circumstances the Managers in their absolute discretion consider to be fair and reasonable.	154		220
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	165		
4.2 Where the Managers are providing Technical Management in accordance with sub-clause 3.2, they shall procure that the requirements of the law of the flag of the Vessel are satisfied and they shall in particular be deemed to be the "Company" as defined by the ISM Code, assuming the responsibility for the operation of the Vessel and taking over the duties and responsibilities imposed by the ISM Code when applicable.	166		
	167		
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	173		
	174		
		<b>7. Income Collected and Expenses Paid on Behalf of Owners</b>	231
		7.1 All moneys collected by the Managers under the terms of this Agreement (other than moneys payable by the Owners to the Managers) and any interest thereon shall be held to the credit of the Owners in a separate bank account.	232
		7.2 All expenses incurred by the Managers under the terms of this Agreement on behalf of the Owners (including expenses as provided in Clause 8) may be debited against the Owners in the account referred to under sub-clause 7.1 but shall in any event remain payable by the Owners to the Managers on demand.	233
			234
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			241
<b>5. Owners' Obligations</b>	175		
5.1 The Owners shall pay all sums due to the Managers punctually in accordance with the terms of this Agreement.	176		
	177		
5.2 Where the Managers are providing Technical Management in accordance with sub-clause 3.2, the Owners shall:	178	<b>8. Management Fee</b>	242
(i) procure that all officers and ratings supplied by them or on their behalf comply with the requirements of STCW 95;	179	8.1 The Owners shall pay to the Managers for their services as Managers under this Agreement an annual management fee as stated in Box 15 which shall be payable by equal monthly instalments in advance, the first instalment being payable on the commencement of this Agreement (see Clause 2 and Box 4) and subsequent instalments being payable every month.	243
(ii) instruct such officers and ratings to obey all reasonable orders of the Managers in connection with the operation of the Managers' safety management system.	180	8.2 The management fee shall be subject to an annual review on the anniversary date of the Agreement and the proposed fee shall be presented in the annual budget referred to in sub-clause 9.1.	244
	181	8.3 The Managers shall, at no extra cost to the Owners, provide their own office accommodation, office staff, facilities and stationery. Without limiting the generality of Clause 7 the Owners	245
	182		246
	183		247
	184		248
5.3 Where the Managers are not providing Technical Management in accordance with sub-clause 3.2, the Owners shall procure that the requirements of the law of the flag of the Vessel are satisfied and that they, or such other entity as may be appointed by them and identified to the Managers, shall be deemed to be the "Company" as defined by the ISM Code assuming the responsibility for the operation of the Vessel and taking over the duties and	185		249
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**PART II**  
**“SHIPMAN 98” Standard Ship Management Agreement**

shall reimburse the Managers for postage and communication expenses, travelling expenses, and other out of pocket expenses properly incurred by the Managers in pursuance of the Management Services.	257	performance of their obligations under this Agreement.	324
<b>8.4</b> In the event of the appointment of the Managers being terminated by the Owners or the Managers in accordance with the provisions of Clauses 17 and 18 other than by reason of default by the Managers, or if the Vessel is lost, sold or otherwise disposed of, the “management fee” payable to the Managers according to the provisions of sub-clause 8.1, shall continue to be payable for a further period of three calendar months as from the termination date. In addition, provided that the Managers provide Crew for the Vessel in accordance with sub-clause 3.1:	258		
(i) the Owners shall continue to pay Crew Support Costs during the said further period of three calendar months and	259		
(ii) the Owners shall pay an equitable proportion of any Severance Costs which may materialize, not exceeding the amount stated in Box 16.	260		
<b>8.5</b> If the Owners decide to lay-up the Vessel whilst this Agreement remains in force and such lay-up lasts for more than three months, an appropriate reduction of the management fee for the period exceeding three months until one month before the Vessel is again put into service shall be mutually agreed between the parties.	261	<b>11. Responsibilities</b>	325
<b>8.6</b> Unless otherwise agreed in writing all discounts and commissions obtained by the Managers in the course of the management of the Vessel shall be credited to the Owners.	262	<b>11.1 Force Majeure</b> - Neither the Owners nor the Managers shall be under any liability for any failure to perform any of their obligations hereunder by reason of any cause whatsoever of any nature or kind beyond their reasonable control.	326
	263	<b>11.2 Liability to Owners</b> - (i) Without prejudice to sub-clause 11.1, the Managers shall be under no liability whatsoever to the Owners for any loss, damage, delay or expense of whatsoever nature, whether direct or indirect, (including but not limited to loss of profit arising out of or in connection with detention of or delay to the Vessel) and howsoever arising in the course of performance of the Management Services UNLESS same is proved to have resulted solely from the negligence, gross negligence or wilful default of the Managers or their employees, or agents or sub-contractors employed by them in connection with the Vessel, in which case (save where loss, damage, delay or expense has resulted from the Managers’ personal act or omission committed with the intent to cause same or recklessly and with knowledge that such loss, damage, delay or expense would probably result) the Managers’ liability for each incident or series of incidents giving rise to a claim or claims shall never exceed a total of ten times the annual management fee payable hereunder.	327
	264	(ii) Notwithstanding anything that may appear to the contrary in this Agreement, the Managers shall not be liable for any of the actions of the Crew, even if such actions are negligent, grossly negligent or wilful, except only to the extent that they are shown to have resulted from a failure by the Managers to discharge their obligations under sub-clause 3.1, in which case their liability shall be limited in accordance with the terms of this Clause 11.	328
	265	<b>11.3 Indemnity</b> - Except to the extent and solely for the amount therein set out that the Managers would be liable under sub-clause 11.2, the Owners hereby undertake to keep the Managers and their employees, agents and sub-contractors indemnified and to hold them harmless against all actions, proceedings, claims, demands or liabilities whatsoever or howsoever arising which may be brought against them or incurred or suffered by them arising out of or in connection with the performance of the Agreement, and against and in respect of all costs, losses, damages and expenses (including legal costs and expenses on a full indemnity basis) which the Managers may suffer or incur (either directly or indirectly) in the course of the performance of this Agreement.	329
<b>9. Budgets and Management of Funds</b>	266	<b>11.4 “Himalaya”</b> - It is hereby expressly agreed that no employee or agent of the Managers (including every sub-contractor from time to time employed by the Managers) shall in any circumstances whatsoever be under any liability whatsoever to the Owners for any loss, damage or delay of whatsoever kind arising or resulting directly or indirectly from any act, neglect or default on his part while acting in the course of or in connection with his employment and, without prejudice to the generality of the foregoing provisions in this Clause 11, every exemption, limitation, condition and liberty herein contained and every right, exemption from liability, defence and immunity of whatsoever nature applicable to the Managers or to which the Managers are entitled hereunder shall also be available and shall extend to protect every such employee or agent of the Managers acting as aforesaid and for the purpose of all the foregoing provisions of this Clause 11 the Managers are or shall be deemed to be acting as agent or trustee on behalf of and for the benefit of all persons who are or might be their servants or agents from time to time (including sub-contractors as aforesaid) and all such persons shall to this extent be or be deemed to be parties to this Agreement.	330
<b>9.1</b> The Managers shall present to the Owners annually a budget for the following twelve months in such form as the Owners require. The budget for the first year hereof is set out in Annex “C” hereto. Subsequent annual budgets shall be prepared by the Managers and submitted to the Owners not less than three months before the anniversary date of the commencement of this Agreement (see Clause 2 and Box 4).	267		
<b>9.2</b> The Owners shall indicate to the Managers their acceptance and approval of the annual budget within one month of presentation and in the absence of any such indication the Managers shall be entitled to assume that the Owners have accepted the proposed budget.	268		
<b>9.3</b> Following the agreement of the budget, the Managers shall prepare and present to the Owners their estimate of the working capital requirement of the Vessel and the Managers shall each month up-date this estimate. Based thereon, the Managers shall each month request the Owners in writing for the funds required to run the Vessel for the ensuing month, including the payment of any occasional or extraordinary item of expenditure, such as emergency repair costs, additional insurance premiums, bunkers or provisions. Such funds shall be received by the Managers within ten running days after the receipt by the Owners of the Managers’ written request and shall be held to the credit of the Owners in a separate bank account.	269		
<b>9.4</b> The Managers shall produce a comparison between budgeted and actual income and expenditure of the Vessel in such form as required by the Owners monthly or at such other intervals as mutually agreed.	270		
<b>9.5</b> Notwithstanding anything contained herein to the contrary, the Managers shall in no circumstances be required to use or commit their own funds to finance the provision of the Management Services.	271		
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<b>10. Managers’ Right to Sub-Contract</b>	319		
The Managers shall not have the right to sub-contract any of their obligations hereunder, including those mentioned in subclause 3.1, without the prior written consent of the Owners which shall not be unreasonably withheld. In the event of such a subcontract the Managers shall remain fully liable for the due	320		
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		<b>12. Documentation</b>	
		Where the Managers are providing Technical Management in	

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accordance with sub-clause 3.2 and/or Crew Management in accordance with sub-clause 3.1, they shall make available, upon Owners' request, all documentation and records related to the Safety Management System (SMS) and/or the Crew which the Owners need in order to demonstrate compliance with the ISM Code and STCW 95 or to defend a claim against a third party.	391 392 393 394 395 396 397		
<b>13. General Administration</b>	398		
13.1 The Managers shall handle and settle all claims arising out of the Management Services hereunder and keep the Owners informed regarding any incident of which the Managers become aware which gives or may give rise to claims or disputes involving third parties.	399 400 401 402		
13.2 The Managers shall, as instructed by the Owners, bring or defend actions, suits or proceedings in connection with matters entrusted to the Managers according to this Agreement.	403 404 405		
13.3 The Managers shall also have power to obtain legal or technical or other outside expert advice in relation to the handling and settlement of claims and disputes or all other matters affecting the interests of the Owners in respect of the Vessel.	406 407 408 409		
13.4 The Owners shall arrange for the provision of any necessary guarantee bond or other security.	410 411		
13.5 Any costs reasonably incurred by the Managers in carrying out their obligations according to Clause 13 shall be reimbursed by the Owners.	412 413 414 415		
<b>14. Auditing</b>	416		
The Managers shall at all times maintain and keep true and correct accounts and shall make the same available for inspection and auditing by the Owners at such times as may be mutually agreed. On the termination, for whatever reasons, of this Agreement, the Managers shall release to the Owners, if so requested, the originals where possible, or otherwise certified copies, of all such accounts and all documents specifically relating to the Vessel and her operation.	417 418 419 420 421 422 423 424		
<b>15. Inspection of Vessel</b>	425		
The Owners shall have the right at any time after giving reasonable notice to the Managers to inspect the Vessel for any reason they consider necessary.	426 427 428		
<b>16. Compliance with Laws and Regulations</b>	429		
The Managers will not do or permit to be done anything which might cause any breach or infringement of the laws and regulations of the Vessel's flag, or of the places where she trades.	430 431 432		
<b>17. Duration of the Agreement</b>	433		
This Agreement shall come into effect on the day and year stated in Box 4 and shall continue until terminated by either party giving to the other notice in writing, in which event the Agreement shall terminate upon the expiration of a period of six months from the date upon which such notice was given.	434 435 436 437 438		
<b>18. Termination</b>	439		
18.1 Owners' default	440		
(i) The Managers shall be entitled to terminate the Agreement with immediate effect by notice in writing if any moneys payable by the Owners under this Agreement and/or the owners of any associated vessel, details of which are listed in Annex "D", shall not have been received in the Managers' nominated account within ten running days of receipt by the Owners of the Managers written request or if the Vessel is repossessed by the Mortgagees.	441 442 443 444 445 446 447 448		
(ii) If the Owners:	449		
(a) fail to meet their obligations under sub-clauses 5.2 and 5.3 of this Agreement for any reason within their control, or	450 451 452 453		
(b) proceed with the employment of or continue to employ the Vessel in the carriage of contraband, blockade running, or in an unlawful trade, or on a voyage which in the reasonable opinion of the Managers is unduly hazardous or improper, the Managers may give notice of the default to the Owners, requiring them to remedy it as soon as practically possible. In the event that the Owners fail to remedy it within a reasonable time to the satisfaction of the Managers, the Managers shall be entitled to terminate the Agreement with immediate effect by notice in writing.	454 455 456 457 458 459 460 461 462		
<b>18.2 Managers' Default</b>	463		
If the Managers fail to meet their obligations under Clauses 3 and 4 of this Agreement for any reason within the control of the Managers, the Owners may give notice to the Managers of the default, requiring them to remedy it as soon as practically possible. In the event that the Managers fail to remedy it within a reasonable time to the satisfaction of the Owners, the Owners shall be entitled to terminate the Agreement with immediate effect by notice in writing.	464 465 466 467 468 469 470		
<b>18.3 Extraordinary Termination</b>	471		
This Agreement shall be deemed to be terminated in the case of the sale of the Vessel or if the Vessel becomes a total loss or is declared as a constructive or compromised or arranged total loss or is requisitioned.	472 473 474		
<b>18.4</b> For the purpose of sub-clause 18.3 hereof	475		
(i) the date upon which the Vessel is to be treated as having been sold or otherwise disposed of shall be the date on which the Owners cease to be registered as Owners of the Vessel;	476 477 478		
(ii) the Vessel shall not be deemed to be lost unless either she has become an actual total loss or agreement has been reached with her underwriters in respect of her constructive, compromised or arranged total loss or if such agreement with her underwriters is not reached it is adjudged by a competent tribunal that a constructive loss of the Vessel has occurred.	479 480 481 482 483		
<b>18.5</b> This Agreement shall terminate forthwith in the event of an order being made or resolution passed for the winding up, dissolution, liquidation or bankruptcy of either party (otherwise than for the purpose of reconstruction or amalgamation) or if a receiver is appointed, or if it suspends payment, ceases to carry on business or makes any special arrangement or composition with its creditors.	484 485 486 487 488 489		
<b>18.6</b> The termination of this Agreement shall be without prejudice to all rights accrued due between the parties prior to the date of termination.	490 491 492		
<b>19. Law and Arbitration</b>	493		
19.1 This Agreement shall be governed by and construed in accordance with English law and any dispute arising out of or in connection with this Agreement shall be referred to arbitration in London in accordance with the Arbitration Act 1996 or any statutory modification or re-enactment thereof save to the extent necessary to give effect to the provisions of this Clause. The arbitration shall be conducted in accordance with the London Maritime Arbitrators Association (LMAA) Terms current at the time when the arbitration proceedings are commenced.	494 495 496 497 498 499 500 501		
The reference shall be to three arbitrators. A party wishing to refer a dispute to arbitration shall appoint its arbitrator and send notice of such appointment in writing to the other party requiring the other party to appoint its own arbitrator within 14 calendar days of that notice and stating that it will appoint its arbitrator as sole arbitrator unless the other party appoints its own arbitrator and gives notice that it has done so within the 14 days specified. If the other party does not appoint its own arbitrator and give notice that it has done so	502 503 504 505 506 507 508 509 510 511 512 513 514 515 516 517 518 519 520 521		

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within the 14 days specified, the party referring a dispute to arbitration may,  
without the requirement of any further prior notice to the other party, appoint  
its arbitrator as sole arbitrator and shall advise the other party accordingly.  
The award of a sole arbitrator shall be binding on both parties as if he had  
been appointed by agreement.  
Nothing herein shall prevent the parties agreeing in writing to vary these  
provisions to provide for the appointment of a sole arbitrator.  
In cases where neither the claim nor any counterclaim exceeds the sum of  
USD50,000 (or such other sum as the parties may agree) the arbitration shall  
be conducted in accordance with the LMAA Small Claims Procedure current  
at the time when the arbitration proceedings are commenced.  
**19.2** This Agreement shall be governed by and construed in accordance with  
Title 9 of the United States Code and the Maritime Law of the United States  
and any dispute arising out of or in connection with this Agreement shall be  
referred to three persons at New York, one to be appointed by each of the  
parties hereto, and the third by the two so chosen; their decision or that of any  
two of them shall be final, and for the purposes of enforcing any award,  
judgement may be entered on an award by any court of competent  
jurisdiction. The proceedings shall be conducted in accordance with the rules  
of the Society of Maritime Arbitrators, Inc.  
In cases where neither the claim nor any counterclaim exceeds the sum of  
USD50,000 (or such other sum as the

parties may agree) the arbitration shall be conducted in accordance with the  
Shortened Arbitration Procedure of the Society of Maritime Arbitrators, Inc.  
current at the time when the arbitration proceedings are commenced.  
**19.3** This Agreement shall be governed by and construed  
in accordance with the laws of Norway  
and any dispute arising out of or in connection  
with this Agreement that cannot be resolved by mutual agreement  
between the parties hereto, shall be referred to Haugesund City  
Court for settlement, subject to the procedures applicable  
there.  
**19.4** If Box 18 in Part I is not appropriately filled in, sub-clause 19.1 of this  
Clause shall apply.

*Note: 19.1, 19.2 and 19.3 are alternatives; indicate alternative agreed in  
Box 18.*

**20. Notices**

**20.1** Any notice to be given by either party to the other party shall be in  
writing and may be sent by fax, telex, registered or recorded mail or by  
personal service.  
**20.2** The address of the Parties for service of such communication shall be as  
stated in Boxes 19 and 20, respectively.

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**ADDENDUM NO. 1**  
**TO**  
**SHIP MANAGEMENT AGREEMENT**  
**“VIGDIS KNUTSEN”**

This Addendum No. 1 (this **“Addendum”**) to the Ship Management Agreement, dated July 22, 2016, between KNOT Shuttle Tankers 25 AS, a Norwegian limited liability company (the **“Owners”**), and KNOT Management AS, a Norwegian private limited liability company (the **“Managers”**) and such agreement, as amended, the **“Agreement”**), is made as of May 16, 2017, between the Owners and the Managers

**RECITALS**

WHEREAS, the Owners and the Managers wish to amend certain provisions of the Agreement, and agree that such amendments are to take effect as from the Effective Date.

For the purpose of this Addendum **“Effective Date”** means the date on which the shares in the Owner have been transferred to KNOT Shuttle Tankers AS.

**AGREEMENT**

NOW, THEREFORE, for and in consideration of good and valuable consideration, the receipt and adequacy of which are hereby acknowledged by the parties’ execution and delivery hereof, the parties agree as follows.

**Section 1. Amendments to the Agreement.**

With effect as of the Effective Date, the Agreement shall be modified as follows:

**1.1** Box 7 of the Agreement is hereby amended and restated in its entirety to read as follows:

*“Yes”*

**1.2** Box 13 of the Agreement is hereby amended and restated in its entirety to read as follows:

*“Not applicable “*

**1.3** Box 14 of the Agreement is hereby amended and restated in its entirety to read as follows:

*“(ii) ”*

---

**1.4** Box 17 of the Agreement is hereby amended and restated in its entirety to read as follows:

*“One year after commencement”*

**1.5** Box 18 of the Agreement is hereby amended and restated in its entirety to read as follows:

*“Cl. 19.3 Norwegian law, Haugesund as place of arbitration “*

**1.6** The paragraph located above the signature block on page 2 of the Agreement is hereby amended and restated in its entirety to read as follows:

“It is mutually agreed between the party stated in Box 2 and the party stated in Box 3 that this Agreement consisting of PART I and PART II, as well as Annexes “A” (Details of Vessel), “B” (Manning) and “C” (Budget) attached hereto, shall be performed subject to the conditions contained herein. In the event of a conflict of conditions, the provisions of PART I and Annexes “A”, “B” and “C” shall prevail over those of PART II to the extent of such conflict but no further.”

**1.7** Sub-clause 3.2 of the Agreement is hereby amended and restated in its entirety to read as follows:

“The Managers shall provide technical management, which includes, but is not limited to, the following functions:

- (i) provision of competent personnel to supervise the maintenance and general efficiency of the Vessel;
- (ii) arrangement and supervision of dry dockings, repairs, alterations and the upkeep of the Vessel to the standards required by the Owners, provided that the Managers shall be entitled to incur the necessary expenditure to ensure that the Vessel will comply with the law of the flag of the Vessel and of the places where she trades and all requirements and recommendations of the classification society;
- (iii) arrangement of the supply of necessary stores, spares and lubricating oil;
- (iv) appointment of surveyors and technical consultants as the Managers may consider from time to time to be necessary;
- (v) development, implementation and maintenance of a Safety Management System (SMS) in accordance with the ISM Code (see sub-clauses 4.2 and 5.3);
- (vi) arrangement of the lay-up of the Vessel; and
- (vii) arrangement of the loading and discharging and all related matters, subject to the provisions of the time charter.

**1.8** Sub-clause 9.3 of the Agreement is hereby amended and restated in its entirety to read as follows:

“Following the agreement of the budget, the Managers shall prepare and present to the Owners their estimate of the working capital requirement of the Vessel and the Managers shall each quarter update this estimate. Based thereon, the Managers shall each quarter request the Owners in writing for the funds required to run the Vessel for the ensuing



quarter, including the payment of any occasional or extraordinary item of expenditure, such as emergency repair costs, additional insurance premiums, bunkers or provisions. Such funds shall be received by the Managers within 60 running days after the receipt by the Owners of the Managers' written request and shall be held to the credit of the Owners in a separate bank account."

**1.9** Sub-clause 11.2(i) of the Agreement is hereby amended and restated in its entirety to read as follows:

"Without prejudice to sub-clause 11.1, the Managers shall be under no liability whatsoever to the Owners for any loss, damage, delay or expense of whatsoever nature, whether direct or indirect, including, but not limited to, loss of profit arising out of or in connection with detention of or delay to the Vessel and howsoever arising in the course of performance of the Management Services (such loss, damage, delay or expense, a "*Loss*"); provided, however, that if such Loss is proved to be caused by or due to the fraud, gross negligence or willful misconduct of the Managers, the Managers shall be liable for any claim or claims in connection with such Loss in an amount not to exceed ten times the annual management fee payable hereunder."

**1.10** Sub-clause 18.1(i) of the Agreement is hereby amended and restated in its entirety to read as follows:

"The Managers shall be entitled to terminate the Agreement with immediate effect by notice in writing if any moneys payable by the Owners under this Agreement shall not have been received in the Managers' nominated account within 60 running days of receipt by the Owners of the Managers' written request or if the Vessel is repossessed by the Mortgagees."

**1.11** Annex "A", Annex "B" and Annex "C" of the Agreement are hereby amended and restated in their entirety in the forms attached hereto as Exhibit A, Exhibit B and Exhibit C, respectively.

**Section 2. No Other Changes.** Except as specifically set forth in this Addendum, the terms and provisions of the Agreement shall remain unmodified, and the Agreement is hereby confirmed by the parties in full force and effect as amended herein. The Agreement (as amended by this Addendum) constitutes the entire understanding of the parties with respect to the subject matter thereof, and no other covenants have been made by either party to the other.

**Section 3. Counterparts.** This Addendum may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

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**Section 4. Severability.** If any provision of this Addendum is held to be unenforceable under applicable law, such provision shall be excluded from this Addendum and the balance of this Addendum shall be interpreted as if such provision was so excluded and shall be enforceable in accordance with its terms.

[ *Signature Page Follows.* ]

IN WITNESS WHEREOF, the parties have executed this Addendum as of the date first above written.

**OWNERS**

KNOT SHUTTLE TANKERS 25 AS

By: /s/ Trygve Seglem  
Name: TRYGVE SEGLEM  
Title: CHAIRMAN

**MANAGERS**

KNOT MANAGEMENT AS

By: /s/ Trygve Seglem  
Name: TRYGVE SEGLEM  
Title: CEO

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**EXHIBIT A****ANNEX “A” (DETAILS OF VESSEL) TO  
THE BALTIC AND INTERNATIONAL MARITIME COUNCIL (BIMCO)  
STANDARD SHIP MANAGEMENT AGREEMENT—CODE NAME: “SHIPMAN 98”****Vigdis Knutsen****Main Particulars**

Owner	Knutsen Shuttle Tankers 25 AS
Operator	KNOT Management AS
Classification / Notation	ABS, +A1, Oil Carrier, BLU, HELIDK, SPMA, E, RW, +AMS, +ACCU, R1+ , ENVIRO+, POT, +DPS-2, EHS-PC, CPP, NIBS, CSR, AB-CM, ESP, GP, CRC, VEC-L, UWILD, TCM, BWE, BWT+, CPS
Flag / Register	NORWAY (NIS)
Home Port	Haugesund
IMO Number / Call sign	9757723 / LAYY7
Service Speed	14,5 knots

**Main Dimensions**

Length overall	284,30 m
Length between Perpendiculars	269,00 m
Breath (Moulded)	48,90 m
Depth (Moulded)	24,00 m
Keel to masthead	59,69 m
Ballast parallel body length Total/ Bow-mid manifold/stern-mid manifold	105,84 m / 61,44 m / 44,40 m

Summer deadweight (SDWT) parallel body length Total/ Bow-mid manifold/stern-mid manifold	105,84 m / 61,44 m / 44,40 m			
Manifold arrangement	Arrangement: OCIMF Standard (Steel) ANSI 150 LB			
	3x 660 mm ( 26")			
	Reducers			
	6 x 660/508mm (26/20")			
	3 x 660/406mm (26/16")			
	3 x 660/305mm (26/12")			
	3 x 660/254mm (26/10")			
	3 x 660/203mm (26/8")			
Draft/Displacement/Deadweight	Loadline	Draft	Deadweight	Displacement
	Summer:	16,92 m	156 559,0 MT	186 941,0 MT
	Winter:	16,57 m	152 242,0 MT	182 624,0 MT
	Tropical:	17,27 m	160 883,0 MT	191 265,0 MT
	Lightship:	3,35 m		30 341,6 MT
	Normal Ballast	15,40 m	58 000,0 MT	88 500,0 MT
Gross tonnage	90 031,0 Tonnes			
Net tonnage	47 834,0 Tonnes			
Machinery				
Main engine	HYUNDAI WARTSILA 6X72			
	Maximum continuous rating : 16860 KW X 77,7 RPM			
	Normal continuous rating : 14330 KW X 73,6 RPM			
Propeller	KAWASAKI HEAVY INDUSTRIES Controllable Pitch Propeller			
	CPP 2120CH/570RH			
Boilers (Maker / Type / Pressure / Capacity))	2 x (KANGRIM HEAVY INDUSTRIES CO., LTD, PB0601AS18 / Large Oil-fired boilers / 16 bar / 35 Metric Tonnes / Hour (Total 70 mT/H))			
Alternators	1x Hyndai HSJ7 919-10-P Output 6600V AC, 60Hz, 3Phase, 7200KW			
	3x Hyndai HSJ7 903-10-P Output 6600V AC, 60Hz, 3Phase, 3600KW			

Steering gear (Maker / Type)	One(1) set, Electro-hydraulic, Rotary Vane
	Maker MacGregor Porsgrunn Steering Gear AS / 650-325/21MO
Bow Thrusters	Brunvoll; Tunnel, 1 x 2430 KW + Azimuth 2 x 2270 KW
Stern Thrusters	Brunvoll; Tunnel, 1 x 2430 KW + Azimuth 1 x 2270 KW
<b>Cargo Equipment</b>	
Cargo tanks	No of tanks: 12 + 2 slops No of grades: 3 98% capacity cargo tanks: 172 907,40 m <sup>3</sup> 98% slop tanks capacity: 5 428,00 m <sup>3</sup> Total 98% capacity: 178 335,40 m <sup>3</sup>
Cargo pumps (Type/Maker/Capacity/head)	3x (Steam / Hyundai / 3800 m3/hr @ 135 Meters)
Spray/stripping pumps (Maker/Capacity/head)	COW Pump (Cargo Pumps)  3x (Steam / Hyundai / 3800 m3/hr @ 135 Meters)  Stripping Pump  1x(Hyundai Steam Driven Reciprocation/ 300 m3/hr/135 Meters)
Ballast pumps (Type/Maker/Capacity)	2 x (Electric / HHI HBP450 / 4100 m3/h @ 25m head)
High duty Compressor (Type/Maker/Capacity)	N/A
Low duty Compressor (Type/Maker/Capacity)	N/A
<b>Mooring equipment</b>	
Mooring Winches (Type/Maker/heaving power/break capacity)	Electric-hydraulic / MacGreagor Pusnes / 25 tons @ 15 m/min /55 metric tonnes
Mooring ropes on drums	Mooring Wires
/No/diameter/material/length/Breaking strength	16 pcs / 40 mm / Galvanized Steel Wire / 275 m / 110 metric tonnes  Wire Tailles  14 pcs / 90 mm / Nylon Mulyifilament /11m/ 150,7 metric tonnes

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**EXHIBIT B**

**ANNEX “B” (MANNING) TO**

**THE BALTIC AND INTERNATIONAL MARITIME COUNCIL (BIMCO)**

**STANDARD SHIP MANAGEMENT AGREEMENT-CODE NAME: “SHIPMAN 98”**

**TORDIS KNUTSEN**

<u>Rank</u>	<u>No</u>	<u>Nat.</u>	<u>No</u>	<u>Nat.</u>
Master/Kaptein	1	Nor	1	Nor
Ch.off/Ovstm	1	Nor	1	Swe
Ch.off.jr/Ovstm.jr	1	Eur	1	Eur
2.off/1.stm	1	Eur	1	Eur
3.off/2.stm	1	Fil	1	Fil
Ch.eng/Mask.sj	1	Nor	1	Nor
2.eng/1.mask.	1	Fil	1	Fil
3.eng/2.mask	1	Fil	1	Fil
4.eng/3.mask	1	Fil	1	Fil
Electr/Elektriker	1	Fil	1	Fil
Electr ass/Elektr.ass.	1	Fil	1	Fil
Bosun/Arb.leder	1	Fil	1	
Pumpman/Pumpemann				
AB/Matros	3	Fil	3	Fil
OS/Lettmatros	1	Fil	1	Fil
Motorman/Motormann	2	Fil	2	Fil
Fitter/Reparator	1	Fil	1	Fil

Wiper/Smører	1	Fil	1	Fil
Ch.stwrđ/Forpl.sj	1	Fil	1	Fil
Clerk (Ch.cook/Kokk)				
Messman/Messegutt	1	Fil	1	Fil
Stew/Forpl.ass				
Boy/Messegutt	1	Fil	1	Fil
Number On board	23		23	

## EXHIBIT C

### ANNEX “C” (BUDGET) TO

### THE BALTIC AND INTERNATIONAL MARITIME COUNCIL (BIMCO)

### STANDARD SHIP MANAGEMENT AGREEMENT-CODE NAME: “SHIPMAN 98”

Manager’s Budget for the year 2017:

### TORDIS KNUTSEN

DESCRIPTION	USD PER DAY	USD PER YEAR
1. Technical Expenses	2 724	994 437
2. Lubrication oils	356	130 000
3. Manning	7 138	2 605 274
4. Insurance	1 300	474 440
5. Management fee	1 481	540 559
Total	12 999	4 744 710





Loan Agreement

Knutsen Shuttle Tankers 14 AS  
as Borrower

and

Mitsubishi UFJ Lease & Finance (Hong Kong) Limited  
as Lender

in respect of one (1) 123,000 Suezmax shuttle tanker known as “MT HILDA KNUTSEN”

31 March 2017

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**BETWEEN:**

- (1) **KNUTSEN SHUTTLE TANKER 14 AS** , a corporation organised and existing under the laws of Norway, having its organisation number 996 821 374 with the office at Smedasundet 40, 5529 Haugesund, Norway (the “**Borrower**” ); and
- (2) **MITSUBISHI UFJ LEASE & FINANCE (HONG KONG) LIMITED** , a corporation organised and existing under the laws of Hong Kong, having its registered office at 402 Far East Finance Centre, 16 Harcourt Road, Hong Kong (the “**Lender**” ).

**RECITALS**

- (A) The Borrower entered into the Existing Facility (hereinafter defined) in order to finance one (1) 123,000 dwt Suezmax shuttle tanker known as “MT HILDA KNUTSEN”, currently registered in the United Kingdom (the “ **Vessel** ”).
- (B) The Borrower is the owner of the Vessel.
- (C) The Borrower wishes to borrow from the Lender, and the Lender wishes to make available advance to the Borrower, an amount not exceeding the Commitment Amount (hereinafter defined), to assist the Borrower in the refinance of the Existing Facility, and to enable the Borrower to assist in the purchase and acquisition of another vessel by a Group (hereinafter defined) entity.

**THE PARTIES AGREE AS FOLLOWS:**

**1. DEFINITIONS AND INTERPRETATION**

**1.1 Definitions**

In this Agreement:

“**Advance**” means the Advance to be disbursed in United States Dollars from the Lender to the Borrower hereunder on the Drawdown Date;

“**Advisers**” has the meaning given to it in clause 16;

“**Agreed Currency**” has the meaning given to it in clause 18.3(a);

“**Annual Accounts**” means the audited balance sheets and profit and loss statements of the Borrower and the Guarantor delivered or to be delivered to the Lender under clause 12.2(a)(i) (Financial Statements);

“**Applicable Rate**” means any of the following rates, for the purpose of calculation of interest and with respect to each Interest Period or other relevant period, as selected by the Lender at its sole discretion:

- (a) LIBOR; or
- (b) the rate per annum (which rate is conclusively certified by the Lender) at which deposits in the Agreed Currency are offered to the Reference Bank by prime banks in the Interbank Eurocurrency Market, as selected by the Lender, at 10:00 A.M. (Hong Kong time) two (2) Banking Days prior to the first day of such Interest Period or such relevant period or as of such other date and time as near thereto as practicably possible;

**“ Approved Accounting Principles ”** means NORGAAP in respect of the Borrower and USGAAP in respect of the Guarantor;

**“Approved Shipbrokers”** means any of Fearnleys, Lorentzen & Stemoco, Clarksons Platou, Nordic Shipping or any other shipbroker that the Lender may approve;

**“Assignment of Insurance”** means a security agreement in the nature of an assignment of the Insurance in respect of the Vessel, to be given by the Borrower to and in favour of the Lender, in a form and content satisfactory to the Lender;

**“Availability Period”** means the period commencing on (and including) the date of this Agreement and ending on (and including) the Commitment Last Day;

**“Banking Day”** means a day (other than Saturday and Sunday) on which dealings in United States Dollars are carried out in the Interbank Eurocurrency Market and which is also a day on which commercial banks are open for business in Oslo, Hong Kong, Tokyo, London and New York and such other cities as are relevant to the Lender’s procurement of funding under or with respect to this Agreement;

**“Commitment”** means the Commitment Amount, as the same may be transferred, reduced, cancelled or terminated under this Agreement;

**“Commitment Amount”** means the amount of One Hundred Million United States Dollars (\$100,000,000);

**“Commitment Last Day”** means the numerically corresponding calendar day falling three (3) months after the date of this Agreement;

**“Companies”** means collectively the Borrower and the Guarantor, and **“Company”** means individually any or each of them;

**“ Current Assets ”** means the aggregate value of the Group’s (on a consolidated basis) or a Borrower’s (as the case may be) assets, which are treated as current assets in accordance with the Approved Accounting Principles;

**“ Current Liabilities ”** means the aggregate amount of the Group’s (on a consolidated basis) or a Borrower’s (as the case may be) liabilities, which are treated as current liabilities in accordance with the Approved Accounting Principles, but excluding instalments on long-term debt and Finance Leases which fall due during the next twelve (12) months;

**“Deed of Covenants”** means a deed of covenants as collateral to the Vessel Mortgage which shall be executed by the Borrower in favour of the Lender, in a form and content satisfactory to the Lender;

**“Default”** means an Event of Default or a Potential Event of Default;

**“Drawdown Date”** means the Banking Day upon which the Advance is disbursed from the Lender to the Borrower pursuant to clause 2, as specified by the Borrower in the Drawdown Notice;

**“Drawdown Notice”** means a notice requesting the Advance in the form set out in schedule 2;

**“Drawing”** means a utilisation by the Borrower of the Facility;

**“Environment”** means any and all living organisms (including man), ecosystems, gases, air, vapours, liquids, water, land, surface and sub-surface soils, rock and all other natural resources or part of such resources, including artificial or man-made buildings, structures or enclosures;

**“Environmental Approval”** means any consent required under or in relation to Environmental Laws;

**“Environmental Laws”** means all international, European Union, national, federal, state or local statutes, orders, regulations or other law or subordinate legislation or common law or guidance notes or regulatory codes of practice, circulars and equivalent controls including judicial interpretation of any of the foregoing concerning the Environment or health and safety which are in existence now or in the future and are binding at any time on each Company in the relevant jurisdiction in which that Company has been or is operating (including by the export of its products or its waste to that jurisdiction);

**“Earnings Account”** means the Borrower’s USD ordinary account (account number 1250.04.71296) at DNB Bank ASA, Head Office, Oslo;

**“Existing Facility”** means a USD117,000,000 term loan facility dated 11 July 2011 entered into between, *inter alia*, the Borrower, the Guarantor, Nordea Bank Norge ASA, as amended and restated from time to time;

**“Event of Default”** means any event specified in clause 13.1 (List of Events);

**“Facility”** means the loan facility made available by the Lender under clause 2.1 (Facility);

**“Factoring Agreement”** means an agreement including a declaration of pledge entered or to be entered into between the Borrower and the Lender whereby the Borrower pledges to the Lender all claims arising from the Borrower’s business operation, in a form and content satisfactory to the Lender;

**“Final Repayment Date”** means the twenty-eighths (28th) Repayment Date;

**“Finance Documents”** means collectively:

- (a) this Agreement;
- (b) the Security Documents; and
- (c) any other document expressed to be made supplemental to and/or modifying any of the foregoing or entered into pursuant hereto or thereto,

and **“Finance Document”** means any of them;

**“Finance Lease”** means any lease or hire purchase contract which would, in accordance with NORGAAP or USGAAP (as relevant), be treated as a finance or capital lease;

**“Financial Indebtedness”** means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar;

- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with NORGAAP or USGAAP (as relevant), be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; and
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the market to market value shall be taken into account);

**“Financial Year”** means the period of 12 months ending on 31 December in each year;

**“Group”** means the Guarantor and its Subsidiaries;

**“Guarantee”** means the guarantee to be executed by the Guarantor in favour of the Lender, in a form and content satisfactory to the Lender;

**“Guarantor”** means KNOT Offshore Partners LP, a limited partnership organised under the laws of the Marshall Islands listed on the New York Stock Exchange;

**“Instalments”** means twenty-eight (28) consecutive instalments of the Loan, which fall due on each of the Repayment Dates as set out in schedule 3;

**“Insurance”** means:

- (a) all contracts and policies of Hull and Machinery Insurance (such insurance shall be kept effective under the valued policies under which the Vessel shall be valued no less than one hundred and twenty per cent (120%) of the Loan Balance then outstanding), war and strike risks and other insurance to be taken out from time to time by and in the name of the Borrower and/or any bareboat charterer with any Insurer on and in respect of the Vessel; and
- (b) all entries and contracts and certificates of entry of the Vessel to be made by and in the name of the Borrower and/or any bareboat charterer in any P&I Club, pursuant to the provisions of the Vessel Mortgage, including a mortgagee interest insurance covering one hundred and ten per cent (110%) of the principal amount of outstanding Loan and additional perils insurance (pollution cover) covering one hundred and ten per cent (110%) of principal amount of outstanding Loan) relevant to the Vessel; or (where the context requires) means any or each of the Borrower’s rights, interests, titles, claims and/or benefits granted to or vested in the Borrower under the said contract(s) and policies of insurance and/or entry of the Vessel in the P&I Club;

**“Insurer”** means any such insurance company or underwriter or insurer as the Lender shall accept, with whom the Insurance (other than Insurance to be taken out with the P&I Club) shall from time to time be taken out on or in respect of the Vessel by the Borrower in accordance with the provisions of the Vessel Mortgage and of all relevant clauses of any of the other Finance Documents;

**“Interest Payment Date”** means the last day of the Interest Period;

**“Interest Period”** means each three (3) months period commencing on (and including) the Drawdown Date or in the case of subsequent Interest Periods, the immediately preceding Interest Payment Date and terminating on the numerically corresponding calendar dates falling three (3) calendar months from the Drawdown Date or in the case of subsequent Interest Periods, terminating on the relevant Interest Payment Date, PROVIDED THAT if the last day of any Interest Period is not a Banking Day, the immediately succeeding Banking Day shall be the last day of such Interest Period (unless such succeeding Banking Day falls in the next calendar month, in which event the last day of such Interest Period shall be the immediately preceding Banking Day) PROVIDED FURTHER THAT the last Interest Period shall end on the Maturity Date;

**“Interest Rate”** means the rate calculated in accordance with the provisions of clause 5 at which interest is from time to time payable on an Advance or the Loan Balance;

**“LIBOR”** means for the purpose of calculation of interest and with respect to each Interest Period or other relevant period, the rate per annum (which rate is conclusively certified by the Lender) at which deposits in United States Dollars are offered by prime banks in London Interbank Eurocurrency Market selected by the Lender to the Reference Bank (provided that if such rate is negative, the applicable rate shall be zero (0)), in the amount equal to the Loan Balance to be outstanding during the said Interest Period or any relevant amount, for a period equal to such Interest Period or such relevant period at 10:00 A.M. (Hong Kong time) on the day two (2) London Banking Days prior to the first day of such Interest Period or such relevant period or as of such other date and time as near thereto as practicably possible;

**“ Limited Partnership Agreement ”** means the partnership agreement dated 15 April 2013 in respect of the limited partnership of the Guarantor;

**“Loan”** means, where the context so requires, (i) the aggregate amount of the Advance disbursed from the Lender to the Borrower in accordance with clause 2 (Facility) or (ii) the outstanding balance of such sum at any relevant time hereunder;

**“Loan Balance”** means the outstanding principal amount of the Loan owing to the Lender at any relevant time as reduced by repayment(s) and/or prepayment(s);

**“Loan Period”** means the period from (and including) the date of this Agreement first above written up to (and including) the date upon which all the Outstanding Indebtedness shall have been paid to the Lender or its successors or assigns in full and during which period all the covenants, terms and conditions set out (expressly or by implication) in this Agreement and in any other Finance Documents have been duly performed, observed and complied with;

**“London Banking Day”** means a day on which dealings are carried out in London Interbank Eurocurrency Market and which is also a day on which commercial banks are open for business in London;

**“Management Fee”** has the meaning given to it in clause 10.1;

**“ Manager’s Undertaking ”** means an undertaking issued by KNOT Management AS, in a form and content satisfactory to the Lender;

**“Margin”** means two point two zero per cent (2.20%) per annum;

**“Material Adverse Effect”** means any effect, event, matter or circumstance:

- (a) which is materially adverse to:
  - (i) the assets or financial condition of the Borrower or of the Companies (taken as a whole);
  - (ii) the ability of the Borrower and/or the Guarantor to perform any of its obligations under any Finance Document; or
- (b) which results in any Security Document not providing to the Lender security over the assets expressed to be secured under that Security Document;

**“Maturity Date”** means the twenty-eighth (28<sup>th</sup>) Repayment Date;

**“NORGAAP”** means the Norwegian accounting requirements, practices and regulations as set out in the Norwegian Accounting Act of 17 July 1998 no. 56, and as recommended by the guidelines and standards from time to time issued by Norsk Regnskapsstiftelse, and the regulations and guidelines of the IFRS (if relevant) (all as amended or supplemented from time to time);

**“Original Audited Accounts”** means (a) the original audited accounts of the Borrower for the financial year ending 31 December 2016; and (b) the original audited accounts of the Guarantor for the financial year ending 31 December 2015;

**“Outstanding Indebtedness”** means the aggregate from time to time of all sums of money, including, without limitation, the Loan Balance and interest thereon, owing from the Borrower to the Lender under this Agreement and any other Finance Documents to which the Borrower is a party;

**“P&I Club”** means any such protection and indemnity association or club as the Lender shall accept, in which association or club the Vessel shall be entered and shall continue to be entered in the name of the Borrower and/or any bareboat charterer and with which association or club the Vessel shall be insured and shall continue to be insured, in accordance with all relevant provisions of the Vessel Mortgage and any of the other Finance Documents;

**“Payment Currency”** has the meaning given to it in clause 18.3(a);

**“Pledge of Accounts”** means a first priority pledge of the Earnings Account entered or to be entered into between the Borrower and the Lender, in a form and content satisfactory to the Lender;

**“Potential Event of Default”** means an event which, with the giving of notice, the lapse of time, the making of any determination, the fulfilment of any other condition or any combination of the foregoing will, or could reasonably be expected to, constitute an Event of Default;

**“Reference Bank”** means such prime bank or banks in Hong Kong as the Lender may determine at its sole discretion at any time during the Loan Period;

**“Repayment Date(s)”** means the first Repayment Date, which is the numerically corresponding calendar day falling three (3) months after the Drawdown Date, and each day which is the numerically corresponding calendar day three (3) month thereafter, PROVIDED THAT:

- (a) the last Repayment Date shall be the Maturity Date;
- (b) if any Repayment Date is not a Banking Day, the immediately succeeding Banking Day shall be such Repayment Date (unless such succeeding Banking Day falls in the next calendar month, in which event such Repayment Date shall be the immediately preceding Banking Day); and



(c) if there is no such corresponding date in the relevant calendar month, that Repayment Date shall be the last Banking Day of such month;

**“Restricted Party”** means a person (i) that is listed on any Sanctions List (whether designated by name or by reason of being included in a class of person); (ii) that is domiciled, registered as located or having its main place of business in, or is incorporated under the laws of, a country which is subject to Sanctions Laws; (iii) that is directly or indirectly owned or controlled by a person referred to in (i) or (ii) above; or (iv) with which the Lender is prohibited from dealing or otherwise engaging in transactions with by any Sanctions Laws;

**“Sanctions Authority”** means the Norwegian Kingdom, the United Nations, the European Union, the United Kingdom, the United States of America, Japan and any authority acting on behalf of any of them in connection with Sanctions Law, including, without limitation, the Office of Foreign Assets Control of the US Department of Treasury (**“OFAC”**), the United States Department of State and Her Majesty’s Treasury (**“HMT”**);

**“Sanctions Laws”** means the economic or financial sanctions laws and/or regulations, trade embargoes, prohibitions, restrictive measures, decisions, executive orders or notices from regulators implemented, adapted, imposed, administered, enacted and/or enforced by any Sanctions Authority;

**“Sanctions List”** means any list of persons or entities published in connection with Sanctions Laws by or on behalf of any Sanctions Authority, including, without limitation, the “Specially Designated Nationals and Blocked Persons” list maintained by OFAC, the “Consolidated List of Financial Sanctions Targets” maintained by HMT;

**“Security Documents”** means collectively:

- (a) the Vessel Mortgage (including any documentation to be delivered to the Lender under such Vessel Mortgage);
- (b) the Deed of Covenants;
- (c) the Assignment of Insurance (including any documents and instruments required to be delivered to the Lender under such Assignment of Insurance);
- (d) the Factoring Agreement;
- (e) the Pledge of Accounts;
- (f) the Share Pledge;
- (g) the Manager’s Undertaking;
- (h) the Guarantee; and
- (i) any other such document or documents creating, evidencing or granting a Security Interest in favour of the Lender as may have been or may hereafter be executed by any person to secure all or any of the Borrower’s obligations to the Lender under this Agreement;

**“Security Interest”** means any mortgage, charge (fixed or floating), pledge, lien, hypothecation, right of set-off, security trust, assignment by way of security, reservation of title, any other security interest or any other agreement or arrangement (including a sale and repurchase arrangement) having the commercial effect of conferring security;

**“Shares”** means all the shares in the Borrower;

**“Share Pledge”** means a first priority share pledge in the Shares, executed or to be executed by KNOT Shuttle Tankers AS in favour of the Lender, in a form and content satisfactory to the Lender;

**“Sponsor”** means Knutsen NYK Offshore Tankers AS, a Norwegian company;

**“Subsidiary”** means an entity of which a person has direct or indirect control or owns directly or indirectly more than fifty (50) per cent of the voting capital or similar right of ownership, and “control” for this purpose means the power to direct the management and the policies of the entity whether through the ownership of voting capital, by contract or otherwise;

**“Taxes”** means all present and future income and other taxes, levies, assessments, imposts, deductions, charges, duties, compulsory loans and withholdings (wherever imposed) and any charges in the nature of taxation together with interest thereon and penalties and fines in relation thereto, if any, and any payments made on or in relation thereof other than taxes on the overall net income of the Lender and **“Taxation”** shall be construed accordingly;

**“Total Loss”** means, in relation to the Vessel, (a) the actual or constructive or compromised or arranged total loss of the Vessel or (b) requisition for title or other compulsory acquisition of the Vessel other than requisition for hire or (c) capture, seizure, arrest, detention or confiscation of the Vessel by any government or by any persons acting or purporting to act on behalf of any government or by pirates or otherwise, unless the Vessel is released from such capture, seizure, arrest or detention within thirty (30) days after the occurrence thereof or (d) any other event which constitutes a total loss of the Vessel under the relevant policies of the Insurances;

**“United States Dollars”**, **“US Dollars”**, **“Dollars”**, **“USD”** or **“\$”** mean the lawful currency, during the Loan Period, of the United States of America;

**“USGAAP”** means accounting principles generally accepted in the United States of America;

**“Vessel”** has the meaning given to it in recital (A) above;

**“Vessel Mortgage”** means a first priority UK ship mortgage over the Vessel which shall be executed by the Borrower in favour of the Lender, in a form and content satisfactory to the Lender; and

**“Working Capital”** means, on any date, Current Asset less Current Liabilities.

## 1.2 Interpretation

In this Agreement, unless a contrary intention appears:

- (a) a reference to any person is, where relevant, deemed to be a reference to or to include, as appropriate, that person’s successors and permitted assignees or transferees;

- (b) references to clauses and schedules are references to, respectively, clauses of and schedules to this Agreement and references to this Agreement include its schedules;
- (c) a reference to (or to any specified provision of) any agreement or document is to be construed as a reference to that agreement or document (or that provision) as it may be from time to time, amended, varied, supplemented, restated or novated;
- (d) a reference to a statute, statutory instrument or accounting standard or any provision thereof is to be construed as a reference to that statute, statutory instrument or accounting standard or such provision thereof, as it may be amended or re-enacted from time to time;
- (e) the index to and the headings in this Agreement are inserted for convenience only and are to be ignored in construing this Agreement; and
- (f) words importing the plural shall include the singular and vice versa.

## 2. THE FACILITY

### 2.1 Facility

Subject to the other provisions of this Agreement, the Lender agrees to make available to the Borrower, a United States Dollar loan facility in a maximum aggregate principal amount not exceeding the Commitment Amount, which shall be available by way of an Advance on the Drawdown Date.

## 3. CONDITIONS PRECEDENT AND CONDITIONS SUBSEQUENT

### 3.1 Initial Conditions Precedent

- (a) The Lender shall not be under any obligation to make the Advance available to the Borrower unless the Lender has received:
  - (i) all of the documents and information specified in Part A of schedule 1 (Documentary Conditions Precedent) in a form and substance satisfactory to it no later than the tenth (10th) Banking Day prior to the Drawdown Date.
  - (ii) any other evidence or documents as the Lender may request.

### 3.2 Additional Conditions Precedent

The obligation of the Lender to make the Drawing available is subject to the further conditions precedent that, on both the date of the Drawdown Notice and the Drawdown Date:

- (a) all of the documents and information specified in Part B of schedule 1 (Documentary Conditions Precedent) in a form and substance satisfactory to it on or before the Drawdown Date;
- (b) no Default has occurred and is continuing or will occur as a result of making the Advance; and
- (c) the representations and warranties set out in clause 11 (Representations and Warranties) which are made or repeated on the Drawdown Date are true and accurate by reference to the facts and circumstances then subsisting and will remain true and accurate immediately after the Advance is made.

### 3.3 Conditions Subsequent

The Borrower undertakes to deliver to the Lender all of the additional documents and other evidence listed as conditions subsequent in Part C of schedule 1 (Documentary Conditions Subsequent) in a form and substance satisfactory to the Lender, no later than five (5) Banking Days after the Drawdown Date.

### 3.4 Failure to Satisfy Conditions Precedent

If the conditions referred to in clause 3.1 (Initial Conditions Precedent) and clause 3.2 (Additional Conditions Precedent) have not been fulfilled or waived in writing on or before the last day of the Availability Period for the Facility:

- (a) all the Commitments will automatically be cancelled;
- (b) the Lender will cease to have any obligation to make any Drawing available; and
- (c) if the Drawdown Notice has been received by the Lender, the Borrower shall pay to the Lender an amount which the Lender may certify with evidence issued by any bank (such certificate to be conclusive and binding on the Borrower save for manifest error) as compensation for any direct loss, premium, penalty or cost incurred or to be incurred in liquidating or redeveloping deposits acquired to meet the drawdown requirement.

### 3.5 Failure to Satisfy Conditions Subsequent

If the conditions referred to in clause 3.3 (Conditions Subsequent) have not been fulfilled or waived by the Lender in writing on or before the date which is five (5) Banking Days after the Drawdown Date, an Event of Default shall be deemed to have occurred pursuant to clause 13.1(v).

## 4. **DRAWDOWN PROCEDURES**

### 4.1 Delivery of Drawdown Notice

In order to utilise the Advance, the Borrower must deliver to the Lender a duly completed Drawdown Notice not later than 10:00 A.M. Hong Kong time on the fifth (5th) Banking Day before the proposed Drawdown Date.

### 4.2 Content of Drawdown Notice

The Drawdown Notice delivered to the Lender must be in the form set out in schedule 2 (Drawdown Notice).

### 4.3 Notices Irrevocable

The Drawdown Notice once given may not be withdrawn or revoked.

### 4.4 Warranty

The Drawdown Notice shall be deemed to constitute a warranty by the Borrower that the representations and warranties stated in clause 11 (Representations and Warranties) (updated *mutatis mutandis* ) are true and correct on the date of the Drawdown Notice as if made on such date by reference to facts and circumstances existing on such date, and that no Default has occurred and is continuing.

4.5 Automatic Available Period

The Advance shall be made only on Banking Day(s) until the last day of the Availability Period. Any part of the Commitment Amount undrawn by 10.00 A.M. Hong Kong time on the last day of the Availability Period for the Facility will be automatically cancelled.

5. **INTEREST**

5.1 Rate

The Interest Rate applicable to interest to be accrued on the Loan Balance for each Interest Period is the percentage rate per annum that is the aggregate of:

- (a) the Margin; and
- (b) the Applicable Rate.

5.2 Calculation

Interest shall accrue on the Loan Balance, for each Interest Period from (and including) the Drawdown Date through to the Maturity Date and will accrue daily from and including the first day of an Interest Period and shall be calculated on the number of days elapsed on the basis of a 360 day year.

5.3 Payment

The Borrower will pay to the Lender on each Interest Payment Date, for the relevant Interest Period, in arrears, interest on the Loan Balance on each Interest Payment Date after the Drawdown Date at the Interest Rate applicable to the relevant Interest Period.

5.4 Non-Banking Day

In the event that any Interest Payment Date should fall on a day which is not a Banking Day, such Interest Payment Date shall be extended to the immediately succeeding Banking Day, unless such Banking Day falls in the next calendar month, in which case the Interest Payment Date shall be the immediately preceding Banking Day.

5.5 Notification

The Lender will notify the Borrower of each determination of an Interest Rate (including a default rate) for each Interest Period under this clause 5 as soon as reasonably practicable after any such determination is made.

5.6 Default Interest

Without affecting any other right, power or remedy of the Lender under or pursuant to this Agreement or any of the other Finance Documents, in the event that any amount ( "**defaulted amount**" ) payable under or pursuant to this Agreement or otherwise in respect of the Loan Balance (whether principal of, or interest on, the Loan Balance or any part thereof, or any other sum whatsoever payable hereunder) is not paid on its due date or on demand (if such amount shall become due and payable upon demand) or on the date of notice given by the Lender pursuant to clause 13 (Events of Default) or on such date as the Lender may specify in such notice, whichever comes first, such defaulted amount shall become payable in United States Dollars; and the Borrower shall pay the said defaulted amount in United States Dollars; together with interest accrued thereon

during the period of such default (after as well as before judgment), such period consisting of the number of days actually elapsed after such due date or the date of such notice or the date specified in such notice, whichever comes first, until the full payment thereof, larger of four per cent (4%) per annum above the actual cost at which the Lender obtains funds from any financial institution or source for the purpose of this Agreement and (b) two per cent (2%) per annum above the Interest Rate in force immediately prior to such default, on the basis of a year of 360 days. In the event that the Lender suffers any loss of any kind whatsoever due to a delay in the payment of such defaulted amount, the Borrower shall pay a sum as shall be sufficient to cover such loss plus interest on such sum at the aforesaid rate from the date of such loss until such sum and interest are paid in full.

5.7 Compounding

Default interest will be payable on demand by the Lender and will be compounded at the end of each Interest Period for Advance and each Interest Period.

6. **REPAYMENT, PREPAYMENT AND CANCELLATION**

6.1 Repayment

Effective as of the Drawdown Date, the Advance shall thereafter constitute the Loan.

The Borrower shall repay all of the Advance by way of repayment of the Loan in accordance with clause 6.2 (Instalments) and clause 7 (Payments) below.

6.2 Instalments

Subject to the terms and conditions set forth in this Agreement, the Loan shall be repaid by the Borrower to the Lender in twenty-eight (28) consecutive quarterly Instalments on each of the relevant Repayment Dates with a balloon payment on the last Repayment Date as set forth in schedule 3 (Repayment Schedule).

The first Instalment shall be payable on the first Repayment Date and the succeeding Instalments shall be payable on the succeeding Repayment Dates. The final Instalment shall be payable on the Maturity Date.

The amount of each Instalment due on any Repayment Date (other than the Maturity Date) shall be the amount determined by calculating the principal component in the amount of the Loan by level monthly consecutive payments in arrears of principal.

Notwithstanding the foregoing provision, the amount of the Instalment payable on the Maturity Date shall be the amount equal to the Loan Balance then outstanding on the Maturity Date, together with any other amount due and payable including interest.

6.3 Banking Day

In the event that any Repayment Date falls on a day which is not a Banking Day, such Repayment Date shall be extended to the immediately succeeding Banking Day, unless such Banking Day falls in the next calendar month, in which case the Repayment Date shall be the immediately preceding Banking Day.

#### 6.4 Voluntary Prepayment

The Borrower may prepay all or any part of the Loan Balance at any time, provided that:

- (a) such prepayment shall only be made on an Interest Payment Date;
- (b) the Lender has received no less than thirty (30) days' irrevocable written notice from the Borrower of the proposed date and amount of the prepayment;
- (c) any partial prepayment is in a minimum amount of Five Million United States Dollars (\$5,000,000) and, if greater, an integral multiple of Five Million United States Dollars (\$5,000,000);
- (d) if paid other than on the last day of any Interest Period, the Borrower indemnifies the Lender under clause 18.2 (General Indemnity);
- (e) such prepayment shall only be made together with payment of (i) interest accrued on the Loan Balance to such prepayment date, and (ii) all other sums which shall have become due on or prior to the date of such prepayment pursuant to this Agreement;
- (f) the Borrower shall also pay all costs incurred by the Lender in respect of such prepayment which shall include the costs of discharging and releasing the Vessel Mortgage and other security (if any) granted for the Loan, if the Vessel Mortgage and security shall be, upon the prepayment of all of the Loan Balance, discharged and released pursuant to the terms thereof;
- (g) once such notice is given by the Borrower to the Lender, such notice shall constitute the irrevocable agreement of the Borrower to prepay the amount in such notice as far as the description of the above items is accurate;
- (h) the amount so prepaid shall not be available for re-borrowing under this Agreement; and
- (i) any partial prepayment shall be applied against the Instalments in inverse order of their maturity.

#### 6.5 Total Loss

Notwithstanding anything to the contrary contained in this Agreement, if the Vessel becomes a Total Loss, the Borrower shall repay or pay to the Lender, within ninety (90) days of the occurrence of such Total Loss, the Loan Balance in full, together with (i) interest accrued on the Loan Balance to such prepayment date, (ii) all other sums which shall have become due on or prior to the date of such prepayment and (iii) any actual loss, liability, cost, claim, expense, proceeding or demand which the Lender suffers due to the Total Loss.

For the purpose of this Agreement:

- (a) an actual total loss of the Vessel shall be deemed to have occurred at the actual date and time when the Vessel was lost but in the event of the date of the loss being unknown then the actual total loss shall be deemed to have occurred on the date on which the Vessel was last reported; and
- (b) a constructive total loss shall be deemed to have occurred at the date and time when notice of abandonment of the Vessel is given to the insurers of the Vessel for the time being (provided a claim for total loss is admitted by such insurers) or, if such insurers do not admit such a claim, at the date and time at which a total loss is subsequently adjudged by a competent court of law to have occurred.

## 6.6 Other Mandatory Prepayment

Notwithstanding anything to the contrary contained in this Agreement, if the market value of the Vessel evaluated by the Approved Shipbrokers (i) falls below one hundred and ten per cent (110%) of the Loan at any time in year one (1) to two (2) after the Drawdown Date; (ii) falls below one hundred and twenty per cent (120%) of the Loan at any time in year three (3) to four (4) after the Drawdown Date; (iii) falls below one hundred and twenty five per cent (125%) of the Loan at any time after year four (4) after the Drawdown Date, then the Borrower shall, at the request of the Lender and unless otherwise agreed with the Lender within thirty (30) days after being notified in writing by the Lender, either:

- (a) repay or pay to the Lender the Loan Balance in part or in full, together with (i) interest accrued on the Loan Balance to such prepayment date, (ii) all other sums which shall have become due on or prior to the date of such prepayment and (iii) any actual loss, liability, cost, claim, expense, proceeding or demand which the Lender suffers due to the above (a) or (b); or
- (b) provide with the Lender an additional security (including cash collateral comprised of United States Dollars) in favour of the Lender in a form and content satisfactory to the Lender.

## 7. PAYMENTS

### 7.1 By Borrower

On each date on which any amount is due from the Borrower under the Finance Documents, the Borrower shall pay (and cause such payment to be reached to the Lender's account) that amount on that date to the Lender before 10:00 A.M. (Hong Kong time) on the due date for payment and in immediately available cleared funds to the account that the Lender from time to time designates for that purpose.

### 7.2 No Set-off or Deductions

All payments made by the Borrower under the Finance Documents must be paid in full without set-off or counterclaim and not subject to any condition and free and clear of and without any deduction or withholding whatsoever. In the event that such deduction of withholding taxes or otherwise is required under existing or future laws as may apply, the Borrower shall forthwith pay to the Lender any additional amount that may be necessary to ensure that the net amount of the repayment of the Loan, interest and any other amount payable hereunder actually received by the Lender is equal to the amount that the Lender would have received had no withholding taxes or other taxes been withheld.

### 7.3 Banking Days for Payment

Subject to clause 6.3 (Banking Day), if any amount would otherwise become due for payment under any Finance Document on a day which is not a Banking Day, that amount shall become due on the immediately following Banking Day and all amounts payable under any Finance Document calculated by reference to any period of time shall be recalculated on the basis of that extension of time PROVIDED THAT if such next succeeding Banking Day falls in the next calendar month the due date thereof shall be the immediately preceding Banking Day.



#### 7.4 Currency

The Borrower hereby acknowledges that this Agreement constitutes an international transaction in which the specification of the currency is of the essence. The payment obligations of the Borrower under this Agreement shall not be discharged by an amount paid in another currency, whether pursuant to a judgment or otherwise, to the extent that the amount so paid upon prompt conversion to the currency in which payment shall be made under this Agreement under normal banking procedures does not yield the amount of such currency owing hereunder. In the event that any payment by the Borrower or the Guarantor whether pursuant to judgment or otherwise, upon conversion does not yield such amount of the currency, the Borrower shall pay such deficiency and the Lender shall have a separate cause of action against the Borrower for the additional amount necessary to yield the amount of such currency due and owing.

#### 7.5 Application of Moneys

If any amount paid or recovered in relation to the liabilities of the Borrower under any Finance Document is less than the amount then due, the Lender shall apply that amount against amounts outstanding under the Finance Documents in the following order:

- (a) first, to any unpaid fees and reimbursement of unpaid expenses of the Lender;
- (b) second, to unpaid interest;
- (c) third, to unpaid principal; and
- (d) fourth, to other amounts due under the Finance Documents.

Any such application by the Lender will override any appropriation made by the Borrower.

### 8. TAXES

#### 8.1 Gross Up

If any deduction or withholding for or on account of Taxes or any other deduction from any payment made or to be made by the Borrower to the Lender under any Finance Document is required by law, then the Borrower will:

- (a) ensure that the deduction or withholding does not exceed the minimum amount legally required;
- (b) pay to the relevant Taxation or other authorities within the period for payment permitted by the applicable law, the amount which is required to be paid in consequence of the deduction (including the full amount of any deduction from any additional amount paid under this clause 8.1);
- (c) promptly pay to the Lender an additional amount equal to the amount required to procure that the aggregate net amount received by the Lender will equal the full amount which would have been received by it if no such deduction or withholding had been made; and
- (d) indemnify the Lender against any losses incurred by it by reason of:
  - (i) any failure by the Borrower to make any deduction or withholding; or

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- (ii) any such additional amount not being paid on the due date for payment of that amount.

## 8.2 Indemnity

Without prejudice to clause 8.1 (Gross Up), if, as a result of the introduction of, or a change in the interpretation or application of, any law or regulation relating to Taxation occurring after the date of this Agreement (or compliance by the Lender with any such law or regulation), the Lender (or any person on its behalf) is required to make any payment in relation to Tax (other than Tax on its overall net income) on or calculated by reference to the amount of any payment received or receivable by the Lender (or any person on its behalf) under any Finance Document (including under clause 8.1 (Gross Up)) or any liability in relation to any such payment is assessed, levied, imposed or claimed against the Lender (or any person on its behalf), the Borrower shall, on demand by the Lender, forthwith indemnify the Lender (or relevant other person) against that payment or liability and any losses incurred in connection with that payment or liability.

## 8.3 Filings

If the Borrower is required (or would in the absence of any appropriate filing be required) to make a deduction or withholding for or on account of Taxes or any other deduction contemplated by this clause 8, the Borrower and the Lender shall promptly file all forms and documents which the appropriate Tax authority may reasonably require in order to enable the Borrower to make relevant payments under the Finance Documents without having to make that deduction or withholding.

## 8.4 Tax Affairs

Nothing in this clause 8 shall oblige the Lender to disclose any information to any person regarding its Tax affairs or Tax computations or interfere with the right of the Lender to arrange its Tax affairs in whatever manner it thinks fit.

# 9. CHANGE IN CIRCUMSTANCES

## 9.1 Increased Costs

In the event that any order of any court of competent jurisdiction, or any change in, or adoption of, any applicable law, order, regulation or regulatory requirement or any change in the official interpretation or application thereof by any governmental or other authority charged with the administration thereof or compliance by the Lender with any applicable order, direction, request or requirement (whether or not having the force of law) of any governmental or other authority shall:

- (a) require the Lender to make an entry of any reserve;
- (b) subject the Lender to Taxes or increase the Lender's liability to Taxes with respect to the transaction herein contemplated, the Advance, the Loan, or any part thereof or any interest thereon;
- (c) change the basis of Taxation on the Lender with regard to payments of principal or interest or any sum due or to become due to the Lender under or pursuant to or in connection with this Agreement or any of the other Finance Documents or otherwise in respect of the Advance, the Loan or any part thereof (other than where the Taxes in effect after such change in basis is still a Tax on overall net income); or

(d) impose on the Lender any other condition affecting funds for the Advance, the Loan Balance or any part thereof, or any interest thereon,

and the result of any of the foregoing is (in the opinion of the Lender) either directly to increase the cost to the Lender in making or maintaining the funds for the Advance, the Loan or the Loan Balance available to the Borrower hereunder, or to reduce the amount of any payment received or receivable by the Lender, in either case by an amount which the Lender deems material, then the Lender shall promptly give notice to the Borrower of the happening of such event, and the Borrower shall pay to the Lender, on demand from time to time, additional interest in such amount as the Lender may specify in such demand to be necessary to compensate the Lender for such increased cost or such reduction and the Borrower shall agree to change the interest rate to reflect such increased cost or reduction; provided always that the Borrower may prepay to the Lender within a period of thirty (30) days after receipt of such notice all (but not part only) of the Advance(s) or the Loan Balance, together with accrued interest thereon to the date of prepayment. Any such demand as is referred to in this clause 9.1 may be made at any time before or after the end of any Interest Period or other period to which such demand relates and at any time before or after the repayment or prepayment of all or any part of the Advance or the Loan Balance.

## 9.2 Market Collapse

In the event that, by reason of circumstances as provided in clause 9.1 (Increased Costs) or otherwise affecting the London Interbank Eurocurrency Market generally, the Lender is or may be unable or encounters difficulty in obtaining funds in the London Interbank Eurocurrency Market or in the event that, by reason of disturbance of the transactions in the London Interbank Eurocurrency Market or any circumstances affecting the London Interbank Eurocurrency Market generally, it is or may be, in the opinion of the Lender, impossible for the Lender to make the Advance, the Loan or maintain the Advance or the Loan Balance available to the Borrower, if the Lender so requests, the Borrower shall discuss a solution in good faith with the Lender for the period not exceeding thirty (30) days after such request. If the Borrower and the Lender fail to reach any appropriate solution, the interest rate on the Advance or the Loan Balance during the Interest Period shall be equal to the Margin above the effective cost (expressed as an annual rate) to the Lender in funding the Advance or the Loan Balance for that Interest Period and the Borrower shall on the last day of the Interest Period pay the whole of the Advance or the Loan Balance then outstanding, all accrued interest thereon and all other sums payable hereunder (but without penalty or premium) and this Agreement shall terminate forthwith upon the full payment thereof.

## 9.3 Illegality

If it is or becomes contrary to any law or regulation for the Lender to make any of the Facilities available or to maintain any Drawing or any Commitment, then the Lender may give notice to that effect to the Borrower, whereupon:

- (a) the Borrower will forthwith prepay all Advances then outstanding, together with all interest accrued on those Advances and pay all other amounts due to the Lender under the Finance Documents (including under clause 18.2 (General Indemnity)); and
- (b) the Lender's undrawn Commitments (if any) will immediately be cancelled and the Lender will have no further obligation to make the Facilities available.

#### 9.4 Conclusive Evidence

The certificate, determination or opinion of the Lender concerning any of the matters referred to in this clause 9 shall, in the absence of any manifest error, be conclusive and binding on the Borrower.

### 10. FEES, EXPENSES AND STAMP DUTIES

#### 10.1 Management Fee

- (a) The Borrower shall pay to the Lender a management fee (the “**Management Fee**” ) in an amount equal to one per cent (1.00%) of the Commitment Amount.
- (b) The Management Fee shall be payable within ten (10) Banking Days after the signing of this Agreement.
- (c) The Management Fee shall be non-refundable.

#### 10.2 Initial Expenses

The Borrower will on demand pay to the Lender, whether or not any Advance is made, the amount of all costs and expenses (including legal fees, fees payable to the Lender’s counsels, attorneys, accountants or other professionals and other out-of-pocket expenses and any value added tax or other similar tax thereon) reasonably incurred by the Lender in connection with:

- (a) the drafting, negotiation, preparation, production, execution, completion and registration of the Finance Documents, and all documents, matters and things referred to in, or incidental to, any Finance Document;
- (b) any amendment, consent or suspension of rights (or any proposal for any of the same) relating to any Finance Document (and documents, matters or things referred to in any Finance Document);
- (c) the investigation of any Default; or
- (d) the Advance or the Loan.

#### 10.3 Enforcement Expenses

The Borrower will on demand pay to the Lender, whether or not the Advance is made, the amount of all costs and expenses (including legal fees and other out-of-pocket expenses and any value added tax or other similar tax thereon) incurred by the Lender in connection with the preservation, enforcement or attempted preservation or enforcement of any of the Lender’s rights under any Finance Document (and any documents referred to in any Finance Document).

#### 10.4 Stamp Duties, etc.

The Borrower will on demand, whether or not any Advance is made, indemnify the Lender from and against any liability for any stamp, documentary, filing and other duties, fees and Taxes (if any) which are or may become payable in connection with any Finance Document, Advance or the Loan, including any such duties, fees and Taxes payable by the Lender.

#### 10.5 Payment of Costs and Expenses re Vessel Mortgage, Insurance, etc.

The Borrower hereby agrees to pay and ensure that the Borrower and the Guarantor shall be jointly and severally obliged to pay, without demand, to any such person as shall submit invoices and bills for the payment of fees, charges or expenses for the production or certification or modification of any document or instrument other than the Finance Documents (including, but not limited to, a letter of undertaking from an Insurer, and certificate of the provisional and permanent licence of the Vessel, of the preliminary and final registration of the Borrower's ownership of the Vessel and of the Vessel Mortgage) being prepared, produced and/or executed for the purpose of full satisfaction of all terms of, or transactions contemplated under, all of the Finance Documents. If neither the Borrower nor any Guarantor pays but the Lender incurs such fees, charges and/or expenses or any part thereof, the Borrower hereby agrees to pay on demand to the Lender such fees, charges and expenses, whether or not the Loan is advanced and whether or not the Lender has paid such fees, charges or expenses.

#### 10.6 Other Costs and Expenses

The Borrower further agrees to bear, and to ensure that the Borrower and the Guarantor shall jointly and severally bear, all other costs and expenses whatsoever incurred in connection with the Loan, the Finance Documents or the Vessel.

### 11. REPRESENTATIONS AND WARRANTIES

#### 11.1 Reliance

The Borrower represents and warrants as set out in the following provisions of this clause 11 and acknowledges that the Lender has entered into the Finance Documents and has agreed to provide the Loan in full reliance on those representations and warranties.

#### 11.2 Incorporation

The Borrower is duly incorporated, validly existing and is in good standing under the laws of Norway and has the power to own its property and assets, including the Vessel, and carry on its business.

#### 11.3 Power and Capacity

- (a) The Borrower has full power and authority to enter into and execute this Agreement, to borrow each Advance, to incur indebtedness and to perform all its obligations under this Agreement, and has taken all necessary corporate or other action to authorise the borrowing of each Advance and incurring of indebtedness under this Agreement and the execution, delivery and performance of this Agreement. This Agreement constitutes the valid and legally binding obligations of the Borrower in accordance with the terms thereof.
- (b) The Borrower will, on or before the date of execution of each of the Finance Documents to which it is a party, have full power to enter into and execute each of the Finance Documents to which it is a party and have taken all necessary corporate and other action to authorise the execution, delivery and performance of the same; and each of the Finance Documents to which it is a party, when executed and delivered, will constitute the valid and binding obligations of the Borrower, in accordance with their respective terms.

#### 11.4 No Contravention

Neither the execution and delivery by the Borrower or the Guarantor of any Finance Document to which it is respectively a party, nor the borrowing by the Borrower of the Advance or any part thereof, nor the incurring by the Borrower or the Guarantor of indebtedness or other obligation under this Agreement or the Guarantees, nor the performance or observance by the Borrower or the Guarantor of any of their respective obligations under or pursuant to any of the Finance Documents to which it is respectively a party, will or would:

- (a) conflict with, or result in any breach of or default under, any provision of any law, order, agreement, instrument, franchise, concession, license, permit, liability, obligation or duty applicable to any of them or by which any of them is bound; or
- (b) cause any limit on any of its borrowing, guaranteeing, mortgaging, charging or other powers (whether imposed by its constitutional documents or by agreement, instrument or otherwise), to be exceeded or limit the ability of its board of directors or officers to exercise any of such powers; or
- (c) create or result in, or (except as expressly contemplated by the Finance Documents) oblige any of them to create any assignment, mortgage, charge, pledge, lien or other security interest or encumbrance on or in respect of the whole or any part of their respective undertakings, properties, assets, revenues or rights, present or future.

#### 11.5 Consents and Government Approval

- (a) All (if any) consents, authorities, approvals, licenses, permits, resolutions and waivers by the holders of any class of shares in each Company or from any of the creditors of the Borrower, or from any other party to any relevant deed or document, or from any governmental or other authority required for the execution, delivery and performance of this Agreement and the other Finance Documents and in order for the Borrower to borrow the Advance and incur indebtedness under this Agreement, have been duly obtained and passed and are in full force, validity and effect, or, as the case may be, will have been duly obtained and passed and will be in full force and effect on or before the date of the execution of each relevant Finance Document.
- (b) All necessary reports have been and will be timely and duly submitted to all relevant governments and authorities, and all necessary consents, approvals and waivers have been and will be obtained from all relevant governments and authorities in order for the Borrower to use the Loan or any part thereof.
- (c) All consents and filings required for the conduct of its business as presently conducted have been obtained and are in full force and effect.

#### 11.6 No Defaults

- (a) No Default has occurred and is continuing.
- (b) No event is continuing which constitutes a default or which with the giving of notice or the lapse of time or making of any determination or fulfilment of any condition could reasonably be expected to constitute a default under any agreement or document to which any Company is party.
- (c) Neither the Borrower nor the Guarantor is in breach of or in default under any law or order applicable to it or under any agreement or other instrument to which it is a party or by which it or any of its respective assets or properties may be bound or affected or to which any other person is a party for whom it is responsible by reason of any guarantee, indemnity, law or order.

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- 11.7      Litigation
- No dispute, litigation, arbitration or administrative proceeding is current or pending or, so far as it is aware, threatened against any Company.
- 11.8      Environment
- (a)      Each Company is and has at all times been in compliance with all Environmental Laws and all Environmental Approvals necessary in connection with the ownership and operation of its business, if any, have been obtained and are in full force and effect.
- (b)      To the best of its knowledge and belief having made due and careful enquiry, there are no circumstances which could reasonably be expected to prevent any Company from complying with any Environmental Law or any Environmental Approval.
- (c)      To the best of its knowledge and belief, having made due and careful enquiry, there has been no act or omission by it, and no event or circumstance has arisen, in each case which has resulted in (or could result in) any third party taking any legal proceedings against or serving any notice on any Company under any Environmental Law or in the revocation, suspension, variation or non-renewal of, or in material expenditure being required in order to surrender, any Environmental Approval.
- 11.9      Original Accounts
- (a)      The balance sheets and profit and loss statements of each of the Borrower with a director's certificate and the audited balance sheets and profit and loss statements of the Guarantor most recently delivered to the Lender:
- (i)      have been prepared in accordance with accounting principles and practices generally accepted; and
- (ii)     fairly represent the financial condition of each of the Borrower and the Guarantor, respectively, as at the date to which they were drawn up.
- 11.10     Vessel
- The Borrower is the sole legal and absolute owner of the Vessel.
- 11.11     Anti-bribery and corruption
- Neither of the Companies nor any of its employees, representatives, agents, servants or contractors will pay, promise to pay or authorise the payment of any money or anything of value, directly or indirectly, whether as a bribe, pay-off, kickback, gift, commission or gratuity, to any public officials for the purpose of illegally or improperly inducing any government or corporation in public sector to make a buying or selling decision or illegally or improperly influencing any public official of present or prospective government or public sector customers of the Companies in obtaining or retaining business or taking any other improper action favourable to the Companies.
- 11.12     International sanctions
- (a)      The Companies and their joint ventures, their respective directors, officers, employees, agents or representative have been and are in compliance with the Sanctions Laws.

- (b) None of the Companies, their joint ventures, and their respective directors, officers, employees, agents or representatives (i) is a Restricted Party, or is involved in any transaction through which it is likely to become a Restricted Party; or (ii) is subject to or involved in any inquiry, claim, action, suit, proceeding or investigation against it with respect to Sanctions Laws by any Sanctions Authority.
- 11.13 Information
- The information furnished by the Borrower to the Lender in connection with the Facilities does not contain any factual statements which are materially incorrect and is not misleading.
- 11.14 Material Adverse Change
- There has been no material adverse change in the financial condition of any of the Borrower and the Guarantor respectively since the date to which the respective Original Audited Accounts were prepared.
- 11.15 Repetition
- The representations and warranties in this clause 11 are made on the date of this Agreement and shall be deemed repeated on the date of each Drawdown Notice, on each Drawdown Date and on the first day of each Interest Period, in each case by reference to the facts and circumstances existing on that date, except that the representations and warranties set out in clauses 11.7 (Litigation), 11.13 (Information) and 11.14 (Material Adverse Change) shall not be repeated after the Drawdown Date.
12. **UNDERTAKINGS**
- 12.1 Duration of Undertakings
- The Borrower undertakes to the Lender in the terms of this clause 12 from the date of this Agreement until all amounts outstanding under the Finance Documents have been discharged and the Lender has no further Commitment or obligations under the Finance Documents.
- 12.2 Affirmative Undertakings
- (a) Information and Accounting Undertakings
- (i) Financial Statements
- The Borrower shall, and shall procure that the Guarantor shall, deliver to the Lender as soon as available upon demand by the Lender during the Loan Period, and in any event within one hundred and twenty (120) days after the end of each Financial Year, copies of the Annual Accounts as at the end of and for that Financial Year, all prepared in accordance with generally accepted accounting principles;
- (ii) Vessel Information
- The Borrower shall, and shall ensure that the Guarantor shall:
- (A) provide the Lender with accounting, financial and other such information relating to the Vessel as the Lender may from time to time reasonably request;



- (B) promptly on request, furnish the Lender with (i) a copy of the most up-to-date certificate of the registration of the Vessel, (ii) a copy of the most up-to-date certificate or documentary evidence of the registration of the ownership in the Borrower's name and of the Vessel Mortgage at the relevant authority in the United Kingdom; (iii) a copy of survey reports in respect of the Vessel; (iv) all such information as the Lender may from time to time require regarding the Vessel, its employment, position and engagements, particulars of all towages and salvages, and copies of all charters and other contracts for the use or employment or otherwise concerning the Vessel and (v) a valuation report of the Vessel by independent valuers acceptable to the Lender;

(iii) Defaults

- (A) The Borrower will notify the Lender forthwith upon becoming aware of the occurrence of a Default and will from time to time on request supply the Lender with a certificate duly signed by any of its directors certifying that no Default has occurred and is continuing or, if that is not the case, setting out details of any Default which is outstanding and the action taken or proposed to be taken to remedy it.
- (B) The Borrower shall, and shall ensure that the Guarantor shall, promptly inform the Lender of any Event of Default, or any Potential Event of Default, or any other occurrence of which it becomes aware which, in its reasonable opinion, would adversely affect the ability of it or the Guarantor fully to perform any of their respective obligations under or pursuant to this Agreement or any of the other Finance Documents to which any of them may be a party.

(iv) Other Information

The Borrower will promptly deliver to the Lender:

- (A) details of any litigation, arbitration, administrative or regulatory proceedings relating to it;
- (B) at the same time as it is sent to its creditors, any other document or information sent to any class of its creditors generally (excluding for this purpose creditors which are Companies); and
- (C) any other information relating to the financial condition or operation of any Company which the Lender may from time to time reasonably request.

(b) Legal Compliance Undertaking

- (i) The Borrower shall always comply with any and all conditions set out by the competent government, for and in connection with the borrowing by the Borrower or the advance by the Lender of the Loan or the execution or performance of this Agreement.

- 
- (ii) The Borrower shall ensure that by the Drawdown Date, the competent authority has issued, in favour of the company which engages in the operation and management of the Vessel, the Company's Document of Compliance as required by ISM Code. Promptly after the issuance, the Borrower shall provide the Lender with a photocopy of the permanent Ships' Safety Management Certificate on the Vessel and the Company's Document of Compliance referred to above.
  - (iii) The Borrower shall take any and all procedures and steps so as to comply with the provisions of all laws, regulations and requirements from time to time applicable to the Vessel.
  - (iv) The Borrower shall unconditionally comply with any laws, regulations, orders, guidelines and conditions governing the transactions herein contemplated and as amended, newly enacted, established or made after the execution of this Agreement and shall indemnify the Lender and keep the Lender indemnified against any loss, damage and expenses suffered or incurred in connection therewith or arising therefrom.
  - (v) The Borrower will obtain and maintain in full force and effect all consents and filings required under any applicable law or regulation to enable it to perform its obligations under each Finance Document and for the validity, enforceability or admissibility in evidence of each Finance Document.
- (c) Flag Change
- (i) The Borrower, forthwith upon the first request of the Lender so to do, and always subject to consent from the charterer of the Vessel, will procure the transfer of the Vessel to an alternative flag (including, but not limited to, the UK, NIS, Malta, Isle of Man and Bermuda) acceptable to the Lender in circumstances where the Lender is of the reasonable opinion, based on the advice of the Lender's local legal counsel, that the security constituted by the Vessel Mortgage has been weakened or jeopardised by the changes to the law of the flag under which the Vessel is registered at that time and on such transfer of flag, the Borrower shall execute and deliver, or procure that there be executed and delivered, to the Lender such Finance Documents as the Lender may require which are equivalent to the security held by the Lender under the previous flag, at the cost and expense of the Borrower.
  - (ii) The Borrower, whenever requested by the Lender so to do (which requests shall be made by the Lender only at reasonable intervals), shall procure that evidence is delivered satisfactory to the Lender on the general condition and seaworthiness of the Vessel prepared by surveyors approved by the Lender (each such survey to be carried out at the Borrower's expense).

(d) Insurances

The Borrower shall do or cause to be done all other acts and things which are, in the Lender's opinion, necessary or desirable to assign to and confer upon the Lender all rights under, and the full benefit of the Insurance on or in respect of the Vessel. The Borrower hereby undertakes to procure that at all times throughout the Loan Period the Insurances in respect of the Vessel shall be satisfactory to the Lender and agree that, when necessary in the Lender's reasonable opinion, the Lender may, at the cost and expense of the Borrower, commission an independent insurance expert to review the

Insurances of the Vessel and the Borrower hereby agrees to implement or procure such action as the Lender may require in relation to those Insurances after such review.

(e) Maintenance of Status and Authorisation

The Borrower will do all things necessary to maintain its corporate existence.

(f) Pari Passu Ranking

The Borrower will ensure that the claims of the Lender against it under the Finance Documents will at all times rank at least *pari passu* in right and priority of payment with the claims of all its other present and future unsecured and unsubordinated creditors (actual or contingent) except those whose claims are preferred solely by operation of law.

(g) Entry into the US territory

The Borrower shall, before the Vessel is entering into the territorial waters of the United States of America, certify that the Vessel is in compliance with all the regulations in the United States of America relevant to the Vessel, including oil pollution regulations and requirements with respect to certificate of financial responsibility which shall be arranged with insurers and on terms approved by the Lender.

12.3 Negative Undertakings

(a) Undertaking in relation to the Vessel

The Borrower shall not sell, transfer, assign or in any way dispose of all or part of or any share in the Vessel, or permit any mortgage, charge, pledge or lien to exist upon the Vessel (other than (a) under the relevant Finance Documents, (b) those approved by the Lender and (c) liens for current crews' wages and liens for salvage).

(b) Amalgamations and Joint Ventures

- (i) The Borrower will not amalgamate, merge or consolidate with or into any other person or be the subject of any reconstruction.
- (ii) The Borrower will not enter into any joint venture, partnership or similar arrangement with any person without the Lender's prior written consent.

(c) Change of Business

The Borrower will not make a material change to the nature of its business.

(d) Disposals

The Borrower will not (whether by a single transaction or a series of related or unrelated transactions and whether at the same time or over a period of time) sell, transfer, license, lease out or otherwise dispose (each a **"disposal"**) of any of its assets or agree to do so, without the Lender's prior written consent, other than:

- (i) any disposal on arm's length terms in the ordinary course of trading; and

- (ii) any disposal of obsolete equipment no longer required for the purposes of the business carried on by the Borrower.

(e) Negative Pledge

The Borrower will not create or agree to create or permit to subsist any Security Interest over any part of its assets, other than:

- (i) any Security Interest granted by the Finance Documents;
- (ii) liens securing obligations no more than thirty (30) days overdue, arising by operation of law and in the ordinary course of trading;
- (iii) Security Interests arising out of title retention provisions in a supplier's standard conditions of supply of goods where the goods in question are supplied on credit and are acquired by the relevant Company in the ordinary course of trading; and
- (iv) Security Interests over goods and documents of title to goods arising in the ordinary course of documentary credit transactions entered into by a Company in the ordinary course of trading.

(f) Shareholding

The Borrower shall ensure that (i) KNOT Shuttle Tankers AS will not assign, transfer, sell, pledge, mortgage, hypothecate, or otherwise dispose of any of its Shares to a third party without the Lender's prior written consent; (ii) KNOT Offshore Partners UK LLC will not assign, transfer, sell, pledge, mortgage, hypothecate, or otherwise dispose of any of its shares of KNOT Shuttle Tankers AS to a third party without the Lender's prior written consent; and (iii) the Guarantor will not assign, transfer, sell, pledge, mortgage, hypothecate, or otherwise dispose of any of its shares of KNOT Offshore Partners UK LLC.

(g) Documents

The Borrower shall not cancel, terminate, alter, amend or modify or cause or permit or suffer to be cancelled, terminated, altered, amended or modified any of the agreements (including, but not limited to, the Finance Documents) or other documents supplied to the Lender which are material in relation to this Agreement.

(h) Other Business

The Borrower shall not carry on nor engage in or be concerned with any business or activities except for those referred to in any of the Finance Documents and activities incidental thereto.

(i) Acquisitions

The Borrower will not acquire any assets or shares, without the Lender's prior written consent, other than:

- (i) in the ordinary course of its trading activity; and
- (ii) an asset acquired by the Borrower from another Company provided such acquisition is not otherwise restricted by this Agreement or any other Finance Document.

## 12.4 Exceptions

- (a) Intercompany loans, disposals and dividends
  - (i) As long as no Event of Default has occurred and is continuing, the Borrower and the Guarantor shall be allowed to make and grant intercompany loans or deposits and to freely accept and grant equity contributions in any form to or from companies within the Group; and
  - (ii) As long as no Event of Default has occurred and is continuing the Borrower and the Guarantor shall be allowed to declare dividends, reduction of share capital or other distribution to its shareholders.

## 13. EVENTS OF DEFAULT

### 13.1 List of Events

Each of the events set out in this clause 13.1 constitutes an Event of Default, whether or not the occurrence of the event concerned is outside the control of the Borrower or the Guarantor.

- (a) Payment Default
  - (i) The Borrower fails to pay on the due date any amount payable by it under any Finance Document at the place at which and in the currency in which it is expressed to be payable;
  - (ii) The Guarantor fails to pay on demand any sum demanded by the Lender under the Guarantee,  
provided that if such failure is caused by an administrative or technical error and payment is made by the Borrower or the Guarantor, as applicable, within three (3) Banking Days of its due date, such event shall not be deemed as an Event of Default.
- (b) Breach of Other Obligations
  - (i) The Borrower fails to comply with any of its obligations under any Finance Document (whether or not the relevant obligation is enforceable against the Borrower), other than those specified in clause 13.1(a) (Payment Default) and, if that failure is in the opinion of the Lender capable of remedy, it is not remedied within fifteen (15) Banking Days of the earlier of:
    - (A) the Lender notifying the Borrower of that default; and
    - (B) the Borrower becoming aware of the relevant matter.
  - (ii) The Guarantor fails to comply with any of their obligations under the Guarantee (whether or not the relevant obligation is enforceable against the Guarantors), other than those specified in clause 13.1(a)(ii) (Payment Default) and, if that failure is in the opinion of the Lender capable of remedy, it is not remedied within fifteen (15) Banking Days of the earlier of:
    - (A) the Lender notifying the Guarantor of that default; and
    - (B) the Guarantor becoming aware of the relevant matter.

(c) Misrepresentation

Any representation, warranty or statement which is made or deemed to be made by the Borrower in any Finance Document or is contained in any certificate, statement or notice provided under or in connection with any Finance Document is incorrect in any respect when made (or when deemed to be made or repeated) and, if the circumstances giving rise to that default are in the opinion of the Lender capable of remedy, they are not remedied within 15 Banking Days of the earlier of:

- (i) the Lender notifying the Borrower of that default; and
- (ii) the Borrower becoming aware of the relevant matter.

(d) Invalidity and Unlawfulness

- (i) Any provision of any Finance Document is or becomes invalid or unenforceable for any reason or is repudiated or the validity or enforceability of any provision of any Finance Document is contested by any person (other than the Lender) or any party to any Finance Document denies the existence of any liability or obligation on its part under any Finance Document.
- (ii) It is or becomes unlawful under any applicable jurisdiction for the Borrower or any of the Guarantor to perform or fulfil any of its covenants or obligations under any Finance Document to which it is a party, or for the Lender to exercise any of the rights, powers or remedies vested in it under or pursuant to any of the Finance Documents, or otherwise.

(e) Insolvency, Receivership, Administration and Arrangements with Creditors

- (i) Any order is made, any resolution is passed or any other action is taken for the suspension of payments, protection from creditors or bankruptcy of any Company, including, without limitation, where the Borrower or any of the Guarantor stops payment to creditors generally, or is unable or admits inability to pay its debts when and as they fall due.
- (ii) A petition for bankruptcy, corporate reorganisation, compromise or any other legal insolvency proceeding under any law is filed against any Company with any competent court either by itself or by any person.
- (iii) A liquidator, receiver or trustee, of any Company or of all or a substantial part of its assets, is appointed by any competent court or other authority.
- (iv) Any creditor of any Company exercises a contractual right to take control over the whole or any substantial part of its respective business or to assume financial or managerial control thereof.
- (v) Any encumbrance takes possession of, or a receiver or administrator or similar officer is appointed over or in relation to, all or any part of the assets of any Company.
- (vi) A petition is presented, a meeting is convened, an application is made or any other step is taken for the purpose of appointing an administrator or receiver or other similar officer of, or for the making of an administration order in relation to any Company.

(vii) Any Company convenes a meeting of its creditors generally or proposes or makes any arrangement or composition with, or any assignment for the benefit of, its creditors generally.

(viii) Any Company proposes or enters into any negotiations for or in connection with the rescheduling, restructuring or re-adjustment of any indebtedness by reason of, or with a view to avoiding, financial difficulties.

PROVIDED ALWAYS that in relation to any Company, other than the Borrower or the Guarantor, an Event of Default shall only be triggered if the occurrence of the event in this sub-clause (e) could reasonably be expected to have a Material Adverse Effect on the Borrower or the Guarantor.

(f) Winding-Up

(i) Any meeting of the Borrower or the Guarantor is convened for the purpose of considering any resolution for (or to petition for) its winding-up or the Borrower or the Guarantor passes such a resolution.

(ii) A petition is presented for the winding-up of the Borrower or the Guarantor or an order is made for the winding-up of the Borrower or the Guarantor.

(g) Attachment or Process

An order or decree or judgment for attachment, provisional attachment or provisional disposal is enforced against any of the Borrower or the Guarantor, the Vessel or any assets or property owned by any of the Borrower or the Guarantor by any person with any competent court or other appropriate authority and such enforcement is not discontinued, cancelled, dismissed or discharged within thirty (30) consecutive days; or any *in rem* proceedings or arrest proceedings of any kind against the Vessel (whether before or after the delivery of the Vessel to the Borrower) is initiated in any country and the Vessel is not released from such proceedings within 30 consecutive days.

(h) Cessation of Business

The Borrower or the Guarantor ceases, or threatens or proposes to cease, to carry on all or a substantial part of its business, or a substantial part of the business, property or assets of the Borrower or the Guarantor is seized or appropriated.

(i) Compulsory Acquisition

All or any part of the assets of any Company are seized, nationalised, expropriated or compulsorily acquired by, or by the order of, any central or local governmental authority and such occurrence could be expected to have a Material Adverse Effect on the Borrower or the Guarantor.

(j) Security Interests

- (i) Any Security Interest affecting the business, undertaking or any of the assets of a Company becomes enforceable, whether or not steps are taken to enforce the same and such occurrence could be expected to have a Material Adverse Effect on the Borrower or the Guarantor.
- (ii) Either of the Borrower or the Guarantor does, suffers or omits anything the result of which, in the opinion of the Lender, may imperil the security created by any of the Finance Documents.
- (iii) By reason of any order of any court of competent jurisdiction, or any change in, or extension of, any applicable law, order, regulation or regulatory requirement, or in the official interpretation or application by any governmental or other authority charged with the administration thereof, it appears to the Lender that it has or will become unlawful for the Lender to have, or be granted or allowed to have, any right, interest, power, security, remedy or claim which is or shall be in the future given or granted to the Lender under any of the Finance Documents against any of the Borrower or the Guarantor and/or the Vessel or any of the other property or assets of any of the Borrower or the Guarantor.

(k) Cross Default

- (i) Any Financial Indebtedness of the Borrower or the Guarantor:
  - (A) is not paid when due or within any originally applicable grace period in any agreement relating to that Financial Indebtedness; or
  - (B) becomes due and payable (or capable of being declared due and payable) before its normal maturity or is placed on demand (or any commitment for any such indebtedness is cancelled or suspended) by reason of a default or event of default (however described);
- (ii) the Borrower or the Guarantor fails to perform or observe any covenant or agreement to be performed or observed by it contained in any other agreement or in any instrument evidencing any of its indebtedness and, as a result of that failure, any other party to that agreement or instrument is entitled to exercise, and has not irrevocably waived, the right to accelerate the maturity of any amount owing thereunder; or
- (iii) any promissory note or cheque issued by any of the Borrower or the Guarantor or any bill of exchange payable by any of the Borrower or the Guarantor is dishonoured,

provided that no Event of Default will occur under this clause 13 (other than in the case of (iii) above) if the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (i) and (ii) above is less than USD 8,000,000 (or its equivalent in any other currencies).



(l) Breach of Financial Covenants

Either the Borrower or the Guarantor (as applicable) is in any of the following status:

- (i) **Liquidity.** In case of the Guarantor (on a consolidated basis), at any time during the Loan Period, has cash and cash equivalents of less than Fifteen Million United States Dollars (\$15,000,000) (i) plus an amount of One Million Five Hundred Thousand United States Dollars (\$1,500,000) for each vessel owned by the Guarantor with no time charterparty with less than twelve (12) months firm period, and (ii) plus an amount of One Million United States Dollars (\$1,000,000) for each vessel owned by the Guarantor in excess of eight (8) vessels;
- (ii) **Negative Working Capital.** In case either of the Borrower or the Guarantor, at any time after the Drawdown Date, has a negative Working Capital;
- (iii) **Minimum Equity Ratio.** In case of the Guarantor's (on a consolidated basis) equity ratio becomes less than thirty per cent (30%);
- (iv) **Interest Coverage Ratio.** In case of the Guarantor's (on a consolidated basis) interest coverage ratio becomes less than two point five per cent (2.5%);
- (v) **Loss of Property.** In case a substantial part of either the Borrower's or the Guarantor's business or asset has been destroyed, abandoned, seized, appropriated or forfeited for any reason provided that, in the reasonable opinion of the Lender, such occurrence has or is reasonably likely to have a Material Adverse Effect.

(m) Litigation

Any litigation, arbitration or administrative proceeding is commenced by or against any Company which is reasonably likely to be resolved against the relevant Company and if so resolved could reasonably be expected to have a Material Adverse Effect on the Borrower or the Guarantor.

(n) Material Adverse Change

At any time there occurs any event or default not mentioned in any of the provisions of this clause 13.1 which, in the opinion of the Lender, could reasonably be expected to have a Material Adverse Effect.

(o) Modification, Suspension or Cancellation of Approvals, etc.

Any consent, authority, approval, licence, permit, resolution or waiver referred to in clause 11.5 (Consents and Government Approval) of this Agreement or otherwise in respect of any transaction or obligation contemplated in any Finance Document is modified in a manner unacceptable to the Lender or is wholly or partially revoked, withdrawn, suspended or terminated or expires and is not renewed or otherwise fails to remain in full force, validity and effect and such circumstances are considered by the Lender to be material.

(p) Change of Ownership

- (i) the Borrower ceases to be a directly or indirectly wholly-owned (share capital and voting rights) subsidiary of the Guarantor;

- 
- (ii) the Guarantor ceases to be directly or indirectly in the 25% ownership (share capital and voting rights subject to the limitations on voting rights relating to election of board members, amendments and certain other matters as set out in the Limited Partnership Agreement) of the Sponsor or if any person or group of persons acting in concert (other than the Sponsor (or any wholly owned subsidiaries thereof) acquires more than 25% of the share capital or voting rights of the Guarantor;
  - (iii) KNOT Offshore Partners GP LLC ceases to hold the right to appoint three (3) out of seven (7) board directors of the Guarantor;
  - (iv) Nippon Yusen Kabushiki Kaisha ceases to hold directly or indirectly 50% shares in the Sponsor;
  - (v) Any share of the capital stock of the Borrower is (without the prior written consent of the Lender) sold, transferred or assigned to, or pledged or hypothecated in favour of, or otherwise disposed of for the benefit of, any person other than the Lender;
  - (vi) without the prior written consent of the Lender, such consent not to be unreasonably withheld, there is any change with regard to any director or officer of any of the Borrower or the Guarantor.
- (q) Failure to Insure
- The Borrower fails to keep, throughout the Loan Period, the Vessel fully insured in accordance with the relevant provisions of the Vessel Mortgage.
- (r) Failure to Class
- The Borrower fails to keep, throughout the Loan Period, the Vessel classed as DNV+1A1, ICE-1C, WINTERIZED COLD (-15â„ƒ, -35â„ƒ), CSR, Tanker for Oil ESP, BOW LOADING, SPM, COMF-V(3)C(3), HELDK-SH (CAA-N), OPP-F, E0, ESV-DP(HIL), F-AMC, CCO, DYNPOS-AUTR (A), NAUT-AW, VCS-2, CLEAN DESIGN, COAT-PSPC(B), CSA-FLS2, PLUS, BIS, TMON at such other similar classification society as the Lender shall accept.
- (s) Events of Default under the Vessel Mortgage
- Any event of default described in the relevant clause of the Vessel Mortgage occurs or exists.
- (t) Modification
- The Borrower consents, without the prior written consent of the Lender, to any modification and/or amendment, which would involve a material alteration of the terms or conditions of any of the Finance Documents, and/or termination of any of the Finance Documents, or the Borrower waives, without the prior written consent of the Lender, any of the Borrower's rights and interest under any of the Finance Documents.
- (u) Delisting
- The Guarantor ceases to be listed on the New York Stock Exchange (NYSE).
- (v) Failure to satisfy Conditions Subsequent
- The Borrower fails to satisfy the conditions referred to in clause 3.3 (Conditions Subsequent) by the date stipulated in clause 3.5.

### 13.2 Cancellation and Repayment

At any time after the occurrence of an Event of Default (whether or not that Event of Default is then continuing), the Lender shall be entitled to exercise and enforce without further notice or demand all or any of the rights, powers and remedies under all or any of the Finance Documents then held by the Lender as security for the obligations of the Borrower under or pursuant to this Agreement if all amounts demanded by the Lender under this clause are not paid immediately or otherwise in accordance with such demand and may by notice to the Borrower do all or any of the following in addition and without prejudice to any other rights or remedies which it may have under any other Finance Document:

- (a) terminate the availability of the Commitment Amount, whereupon the Commitment Amount shall cease to be available for drawing, the undrawn portion of the Loan shall be cancelled and the Lender shall not be under any further obligation to make Advances; and/or
- (b) declare the Advance, accrued interest on the Advance and any other amounts then payable under any Finance Document to be immediately due and payable, whereupon those amounts shall become so due and payable; and/or
- (c) declare the Advance to be payable on demand, whereupon that Advance shall become payable on demand.

## 14. SET-OFF

### 14.1 Set-off Rights

#### (a) Set-Off By Lender

The Lender may at any time after it has made a demand on the Borrower under this Agreement (without further notice to the Borrower), notwithstanding any settlement of account or other matter whatsoever:

- (i) combine or consolidate all or any of the Borrower's or the Guarantor's then existing accounts with the Lender (whether ordinary, current, deposit, loan or of any other nature whatsoever, whether subject to notice or not, and which accounts may be terminated by the Lender at any time), and set off or transfer any sum standing to the credit of any one or more such accounts wherever situated, in or towards payment and satisfaction of all or any part of the Loan Balance, interest thereon, and other amounts payable to the Lender under or pursuant to this Agreement and the other Finance Documents, or otherwise in respect of the Loan (irrespective of the terms applicable to those accounts and whether or not those amounts are then due for repayment to the Borrower); and

- (ii) set off any other obligations (whether or not then due for performance) owed by the Lender to the Borrower, against any liability of the Borrower to the Lender under the Finance Documents.

#### (b) Legal Right of Set-Off

Nothing expressed or implied in this Agreement shall be regarded as in any way negating, prejudicing or otherwise affecting any right of set-off which the Lender may have as against the Borrower and/or the Guarantor as a matter of law.

#### 14.2 Different Currencies

The Lender may exercise its rights under clause 14.1 (Set-off Rights) notwithstanding that the amounts concerned may be expressed in different currencies and the Lender is authorised to effect any necessary conversions at a market rate of exchange selected by it.

Where such combination, set-off or transfer requires the conversion of one currency into United States Dollars, such conversion shall be calculated by the Lender at the telegraphic transfer selling (including special discount of the Lender, if any) spot rate of exchange for the sale of United States Dollars quoted by the first class bank designated by the Lender to its customers in Hong Kong on the date of the combination, set-off or transfer or, if the Hong Kong foreign exchange market is not open on such day, on the immediately preceding day such market is open.

#### 14.3 Unliquidated Claims

If the relevant obligation or liability is unliquidated or unascertained, the Lender may set off the amount which it estimates (in good faith) will be the final amount of that obligation or liability once it becomes liquidated or ascertained.

### 15. NOTICES

#### 15.1 Mode of Service

Except as specifically provided otherwise in this Agreement, any notice, demand, consent, agreement or other communication (a “**Notice**”) to be served under or in connection with any Finance Document will be in writing and be:

- (a) personally delivered; or
- (b) sent by postage prepaid registered airmail or mail; or
- (c) dispatched by fax, addressed, until further notice to other parties in writing of a change of address, as follows:

If to the **Borrower** :

To: Knutsen Shuttle Tankers 14 AS  
c/o Knutsen NYK Offshore Tankers AS  
P.O. Box 2017  
N-5504 Haugesund Norway  
Attention: Chief financial officer

Fax : +47 52 70 40 40  
E-mail : [finance@knutsenoas.com](mailto:finance@knutsenoas.com)  
[omk@knutsenoas.com](mailto:omk@knutsenoas.com)  
[kly@knutsenoas.com](mailto:kly@knutsenoas.com)  
[jka@knutsenoas.com](mailto:jka@knutsenoas.com)

If to the **Lender** :

To: Mitsubishi UFJ Lease & Finance (Hong Kong) Limited  
402 Far East Finance Centre, 16 Harcourt Road, Hong Kong

Attention: Auto & Equipment Finance Division  
Tel: +852 2527 7620  
Fax: +852 2865 6471  
Email: wataru.hamanaka@hk.lf.mufg.jp

Copy to: Mitsubishi UFJ Lease & Finance Company Limited  
5-1, Marunouchi 1-chome  
Chiyoda-ku, Tokyo, Japan  
Attention: Business Department No. 2

Tel: +81 3 6865 3017  
Fax: +81 3 6865 3962  
Email: koichi.isoga@lf.mufg.jp  
Manabu.fujita@lf.mufg.jp  
takeshi.tsuruta@lf.mufg.jp

#### 15.2 Deemed Service

- (a) Subject to sub-clause (b) below, a Notice will be deemed to be given as follows:
- (i) if by letter, when delivered personally or on actual receipt; and
  - (ii) if by facsimile or e-mail, when delivered.
- (b) A Notice given in accordance with sub-clause (a) above but received on a day that is not a working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

#### 15.3 Language

Each document, instrument, certificate, statement, notice, request, demand, consent or other communication referred to in this Agreement or to be delivered under or pursuant to this Agreement shall be in English.

#### 16. CONFIDENTIALITY

Subject to clause 17.4 (Disclosure of Information), the parties will keep the Finance Documents and their subject matter confidential, except to the extent that they are required by law or regulation to disclose the same. The Lender agrees with the Borrower to hold confidential all information which it acquires under or in connection with the Finance Documents, except to the extent it is required by law or regulation to disclose it or it comes into the public domain (otherwise than as a result of a breach of this clause 16). The Lender may, however, disclose any such information to its auditors, legal advisers or other professional advisers (the “**Advisers**”) for any purpose connected with the Finance Documents, provided that the Lender takes reasonable steps to procure that each Adviser maintains the confidentiality of that information.

#### 17. CHANGES TO PARTIES

##### 17.1 No Transfer by the Borrower and Guarantor

This Agreement shall be binding upon, and enure to the benefit of, the Borrower, the Lender and their respective successors and assigns, except that the Borrower may not assign any of its rights, benefits or obligations under or pursuant to this Agreement without the prior written consent of the Lender (which consent the Lender shall have liberty, at its discretion, to give or withhold).

## 17.2 Transfers by the Lender

- (a) The Lender shall be entitled to assign, sub-participate or novate the whole or any part of its rights, benefits or obligations under or pursuant to this Agreement or any of the other Security Documents, provided that, in the case of any partial assignment or novation, the Borrower shall, and shall ensure that the Guarantor shall, continue to make all payments due under this Agreement or the Guarantee, as the case may be, to the Lender and the relevant assignee(s) in the proportion of their respective interests.
- (b) The Lender may in such manner and upon such terms as it shall think fit invite other banks or financial institutions to assign, sub-participate or novate in making the Loan available to the Borrower or in continuing the same.
- (c) Any additional taxes, costs or expenses which may be incurred in the course of or by reason of the assignment and/or sub-participation and/or novation by the Lender of its rights and obligations under this clause 17.2 or under the other Finance Documents which would not have been incurred by the Lender but for such assignment and/or sub-participation and/or novation shall be borne by the Lender or its assignees and/or its sub-participants.
- (d) The Borrower shall not be concerned in any way with any such assignment and/or sub-participation and/or novation save as provided by this clause 17.2.

## 17.3 Partial Assignment By Lender

If the Lender assigns the whole or any part of its rights, benefits or obligations pursuant to clause 17.2, all references in this Agreement to “Lender” shall thereafter be construed as including the Lender and/or such assignee(s) to the extent of their respective participation.

## 17.4 Disclosure of Information

The Lender may disclose on a confidential basis (but not so as to be in breach of any applicable securities law) to a proposed assignee, novatee, transferee or any sub-participant, risk participant or other participant proposing to enter or having entered into a contract with the Lender regarding the Finance Documents any information in the possession of the Lender relating to the Borrower and the Guarantors and their respective financial conditions, assets and properties (including, without limitation, the Vessel).

## 18. INDEMNITIES

### 18.1 Indemnity Relating to the Vessel

The Borrower shall assume liability for and agrees to indemnify, protect, save and keep harmless the Lender, its assigns and agents, from and against any and all liabilities, losses, damages, injuries, claims, demands, suits, proceedings (whether civil or criminal), judgments, awards, fines, sanctions, penalties (including in particular, but without limitation to the foregoing generality, liabilities arising from any oil, liquid, gas or other substance emanating or threatening to emanate from the Vessel) or settlements, salvage, general average and all expenses, legal or otherwise, of whatsoever kind and nature arising from or in connection with:

- (a) any lien, charge or encumbrance of any nature on the Vessel or any claim of any nature on the Vessel by any third party, founded or unfounded, whether arising before or after the date of this Agreement, arising directly or indirectly from the transactions contemplated in this Agreement;

- (b) the ownership, lease, chartering, use, condition, maintenance or operation of the Vessel, and by whomsoever chartered, used or operated including any sub-bareboat/time charter; and
- (c) any failure on the part of the Borrower to perform or comply with any of the terms of this Agreement.

#### 18.2 General Indemnity

- (a) The Borrower shall fully indemnify the Lender on the Lender's demand in respect of all expenses, liabilities and losses which are incurred by the Lender, or which the Lender, reasonably and with due diligence estimates that it will incur, as a result of or in connection with:
  - (i) the Advance not being borrowed on the Drawdown Dates for any reason other than a default by the Lender;
  - (ii) the receipt or recovery of all or any part of the Loan or an overdue sum otherwise than on the last day of an Interest Period or other relevant period;
  - (iii) any failure (for whatever reason) by the Borrower to make payment of any amount due under this Agreement on the due date or, if so payable, on demand (after giving credit for any default interest paid by the Borrower on the amount concerned); and/or
  - (iv) the occurrence and/or continuance of an Event of Default and/or the acceleration of repayment of the Loan under clause 13 (Events of Default);

and in respect of any tax (other than tax on its overall net income) for which the Lender is liable in connection with any amount paid or payable to the Lender (whether for its own account or otherwise) under any of the Finance Documents.

- (b) Without limiting its generality, this clause 18.2 covers any liability, expense or loss, including a loss of a prospective profit, incurred by the Lender:
  - (i) in liquidating or employing deposits from third parties acquired or arranged to fund or maintain all or any part of the Loan and/or any overdue amount (or an aggregate amount which includes the Loan or any overdue amount); and
  - (ii) in terminating, reversing or unwinding any contract concluded or entered into under or otherwise in connection with, any interest and/or currency swap or any other transaction (whether with another legal entity or with another office or department of the Lender) to hedge any exposure arising under this Agreement.

### 18.3 Currency Indemnity

Without prejudice to clause 18.1 (Indemnity Relating to the Vessel) and clause 18.2 (General Indemnity), if:

- (a) any amount payable by the Borrower under or in connection with any Finance Document is received by the Lender (or by an agent on behalf of the Lender) in a currency (the **"Payment Currency"**) other than that agreed in the relevant Finance Document (the **"Agreed Currency"**), whether as a result of any judgment or order, the enforcement of any judgment or order, the liquidation of the Borrower or otherwise, and the amount produced by converting the Payment Currency so received into the Agreed Currency is less than the relevant amount of the Agreed Currency; or
- (b) any amount payable by the Borrower under or in connection with any Finance Document has to be converted from the Agreed Currency into another currency for the purpose of:
  - (i) making or filing a claim or proof against the Borrower;
  - (ii) obtaining an order or judgment in any court or other tribunal; or
  - (iii) enforcing any order or judgment given or made in relation to any Finance Document,

then the Borrower will, as an independent obligation, on demand indemnify the Lender for the deficiency and any loss sustained as a result. Any conversion required will be made at the prevailing rate of exchange on the date and in the market determined by the Lender as being most appropriate for the conversion. The Borrower will also pay the costs of the conversion.

### 18.4 Waiver

The Borrower waives any right it may have in any jurisdiction to pay any amount under any Finance Document in a currency other than that in which it is expressed to be payable in that Finance Document.

## 19. MISCELLANEOUS

### 19.1 Certificates Conclusive

Save as expressly provided otherwise in any Finance Document, a certificate, determination, notification or opinion of the Lender stipulated for in any Finance Document or as to any rate of interest or any other amount payable under any Finance Document will be conclusive and binding on the Borrower, except in the case of manifest error.

### 19.2 Conflict between this Agreement and any Other Finance Document

If there is conflict in the meaning or otherwise between the terms of this Agreement and the terms of any other Finance Document, the terms of this Agreement shall govern.

### 19.3 No Implied Waivers

- (a) No failure or delay by the Lender in exercising any right, power or privilege under any Finance Document will operate as a waiver of that right, power or privilege, nor will any single or partial exercise of any right, power or privilege preclude any other or further exercise of that right, power or privilege, or the exercise of any other right, power or privilege.
- (b) The rights and remedies provided in the Finance Documents are cumulative and not exclusive of any rights and remedies provided by law.



- (c) A waiver given or other consent granted by the Lender under any Finance Document will be effective only if given in writing and then only in the instance and for the purpose for which it is given.

19.4 Invalidity of any Provision

If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not be affected or impaired in any way. Where however the provisions of any such applicable law may be waived, they are hereby waived by the parties hereto to the full extent permitted by such law to the end that this Agreement shall be a valid and binding agreement enforceable in accordance with its terms.

19.5 Originals

This agreement shall be executed in two originals, one of which shall be held and kept by the Lender and the Borrower respectively.

19.6 Loan Extension

The Lender may consider extension of the Loan prior to maturity if so requested by the Borrower. However, any extension shall be in the sole discretion of the Lender, and shall, if applicable, be on such terms as the Lender shall agree.

19.7 Variation

No variation of this Agreement shall be effective unless it is in writing and signed by both the Lender and the Borrower.

19.8 Counterparts

This Agreement may be executed by the Lender and the Borrower respectively on separate counterparts, each of which for all purposes shall be deemed an original, without in any way adversely affecting the validity of this Agreement.

20. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

20.1 Governing Law

This Agreement (and any dispute, controversy, proceedings or claim of whatever nature arising out of or in any way relating to this Agreement or its formation) shall be governed by, and construed in all respects in accordance with, the laws of England.

20.2 Submission to Jurisdiction

The Borrower hereby irrevocably submits to the jurisdiction of the courts of England for the purpose of hearing and determining any dispute arising out of this Agreement and for the purpose of enforcement of any judgement against its assets and in any action or proceeding arising out of or relating to this Agreement, and the Borrower hereby irrevocably waives the defence of *forum non conveniens* with regard to the maintenance of such action or proceedings.

20.3 Freedom of Choice

The submission to the jurisdiction of the courts referred to in clause 20.2 (Submission to Jurisdiction) shall not (and shall not be construed so as to) limit the right of the Lender to take proceedings against the Borrower in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

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20.4 Service of Process

The Borrower hereby agrees to irrevocably appoint an agent in England to receive on its behalf service of summons and complaint and any other process which may be served in any action or proceedings, by no later than ten (10) Banking Days before the Drawdown Date.

**IN WITNESS** whereof this Agreement has been executed on the date first above written.

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## SCHEDULE 1

### Documentary Conditions Precedent

#### Part A

#### 1. CERTIFICATES

- 1.1 A certificate in the agreed form from the Borrower duly signed by its authorised officer or attorney-in fact attaching the following documents, together with English translations thereof (if the original document is a non-English document):
- (a) a copy, duly certified as a true copy by a duly authorised officer or attorney-in-fact, of the certificate of registration issued by the Norwegian company registry or its equivalent document, in respect of the Borrower;
  - (b) a copy, duly certified as a true copy by a duly authorised officer or attorney-in-fact of the Borrower, of the Articles of Association of the Borrower;
  - (c) a certified copy of the resolution of the Board of Directors of the Borrower (or equivalent) approving the transactions and matters contemplated by this Agreement and the other Finance Documents and approving the execution, delivery and performance of each and authorising named persons to sign the Finance Documents and any documents to be delivered by the Borrower under any of the same;
  - (d) if required under its constitutional or governing documents, a certified copy of a resolution of the shareholders of the Borrower approving the transactions and matters contemplated by the Finance Documents; and
  - (e) acknowledgment of appointment of a process agent in England for acceptance of service of process.
- 1.2 A certificate in the agreed form from each of the Guarantor signed by its authorised officer or attorney-in-fact attaching the following documents or any similar documents which have same meaning according to the legal jurisdiction of the Guarantor:
- (a) an original or a copy, duly certified as a true copy by a duly authorised officer or attorney-in-fact, of the Registry Certificate or the Certificate of Good Standing, issued by the Marshall Islands company registry or its equivalent document (as appropriate) in respect of the Guarantor;
  - (b) a certified copy of the Articles of Incorporation and By-Laws or the Memorandum & Articles of Association (as appropriate) of the Guarantor;
  - (c) a certified copy of the resolution of the Board of Directors of the Guarantor (or equivalent) approving the transactions and matters contemplated by the Guarantee, this Agreement and the other Finance Documents and approving the execution, delivery and performance of the Guarantee and authorising named persons to sign the Guarantee and any other documents to be delivered by the Guarantor under the Guarantee; and
  - (d) if required under its constitutional or governing documents, a certified copy of a resolution of the shareholders of the Guarantor approving the transactions and matters contemplated by the Finance Documents.

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**2. DOCUMENTS**

Each of the following documents in the agreed form duly executed and delivered by all parties to them:

- (a) an original Guarantee;
- (b) a legal opinion in respect of the enforceability of the Guarantee under Marshall Islands law, to be provided by Marshall Islands counsel, in form and substance satisfactory to the Lender;
- (c) any other evidence or documents as the Lender may request.

**Part B**

**1. CERTIFICATES**

A certificate in the agreed form from the Borrower duly signed by its authorised officer or attorney-in-fact attaching the following documents, together with English translations thereof:

- (a) a copy of the permanent Ship's Safety Management Certificate on the Vessel and the Borrower's document of compliance as required by the International Safety Management Code regulated by the International Maritime Organization;

**2. DOCUMENTS**

Each of the following documents in the agreed form duly executed and delivered by all parties to them:

- (a) one original of the Deed of Covenants in respect of the Vessel Mortgage duly executed by the authorised officer of the Borrower;
- (b) an original Vessel Mortgage, together with any and all documents and instruments required for the Vessel Mortgage to be registered with the relevant authorities in the United Kingdom;
- (c) an original Assignment of Insurance, together with any and all documents and instruments to be delivered to the Lender under the Assignment of Insurance;
- (d) a copy of a Notice of Assignment signed by the Borrower addressed to the Insurer;
- (e) a copy of a Notice of Assignment signed by the Borrower addressed to the P&I Club;
- (f) an original Factoring Agreement, together with any and all documents and instruments to be delivered to the Lender under the Factoring Assignment;
- (g) an original Pledge of Accounts, together with any and all documents and instruments to be delivered to the Lender under the Pledge of Accounts;
- (h) an original Share Pledge, together with any and all documents and instruments to be delivered to the Lender under the Share Pledge;
- (i) an original free of encumbrance certificate or its equivalent dated not more than five (5) Banking Days prior to the date of the Drawdown date certifying that the Vessel is free from registered mortgages and encumbrances;

- 
- (j) an original undertaking from the Borrower to release all the security interests under the Existing Facility;
  - (k) any other evidence or documents as the Lender may request.

## **Part C**

### **1. CERTIFICATES**

A certificate in the agreed form from the Borrower duly signed by its authorised officer or attorney-in-fact attaching the following documents, together with English translations thereof:

- (a) a copy of the provisional certificate of the registry of the Vessel in the name of the Borrower issued by the United Kingdom authority;
- (b) a copy of the provisional radio station certificate of the Vessel;
- (c) a copy of all documentary evidence that the present class of the Vessel is maintained in the name of the Borrower;
- (d) a cover note or letter of undertaking issued by the relevant Insurer of such insurance on the Vessel taken out by and in the name of the Borrower and/or any bareboat charterer as required under the relevant provisions of the Vessel Mortgage in or to which policies such loss payable clause and notice of cancellation clauses as required under the relevant provisions of the Assignment of Insurance will following delivery of the Vessel be duly endorsed or attached; and
- (e) a copy of all entry certificates of the Vessel in the ownership of the Borrower and/or any bareboat charterer by the P&I Club and a copy of the rules of the P&I Club in or on which, if so requested by the Lender, a loss payable clause and notice of cancellation clauses will following delivery of the Vessel be endorsed or contained.

### **2. DOCUMENTS**

Each of the following documents in the agreed form duly executed and delivered by all parties to them:

- (a) a legal opinion in respect of the enforceability of the Vessel Mortgage under English law, to be provided by the Borrower from English law counsel, in form and substance satisfactory to the Lender;
- (b) legal opinion in respect of the enforceability of the Factoring Agreement, the Pledge of Accounts and the Share Pledge;
- (c) one original of the Acceptance and Acknowledgement in relation to the Assignment of Insurance, executed by the Insurer in favor of the Lender; and
- (d) such further evidence or documents as the Lender as at the date hereof may have requested or hereafter may request.

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**SCHEDULE 2**

**Drawdown Notice**

To: **Mitsubishi UFJ Lease & Finance (Hong Kong) Limited**  
c/o Mitsubishi UFJ Lease & Finance Co., Ltd.  
5-1, Marunouchi 1-chome  
Chiyoda-ku, Tokyo, Japan  
  
Attention: Business Department No. 2

From: **Knutsen Shuttle Tankers 14 AS**

Date: []

Dear Sirs,

We refer to a loan agreement (the “**Loan Agreement**”) for refinancing the purchase of one (1) 123,000 dwt Suezmax shuttle tanker presently known as MT HILDA KNUTSEN dated 31 March 2017 and made by and between Mitsubishi UFJ Lease & Finance (Hong Kong) Limited as lender and ourselves as the borrower.

We hereby give notice in accordance with clause 4.1 (Delivery of Drawdown Notices) of the Loan Agreement of our intention to draw down thereunder and request the drawdown be made as follows:

- |                                |                                                       |
|--------------------------------|-------------------------------------------------------|
| (a) Amount:                    | [ ] United States Dollars (\$[ ])                     |
| (b) Drawdown Date:             | [ ]                                                   |
| (c) Payment should be made to: | Account No. [ ] at [ ], [ ] office in the name of [ ] |

We confirm that:

- (i) the representations and warranties made in clause 11 (Representations and Warranties) of the Loan Agreement stipulated as being made or repeated on the date of this Drawdown Notice are true and accurate as if made in relation to the facts and circumstances existing on that date; and
- (ii) no Default has occurred and is continuing or will occur as a result of the proposed Advance being made.

Terms defined in the Loan Agreement have the same meanings when used in this Drawdown Notice.

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**[ *President & Director* ]**  
for and on behalf of  
Knutsen Shuttle Tankers 14 AS

### SCHEDULE 3

#### Repayment Schedule

Time	Date	Principal Repayment in USD	Outstanding Loan Balance in USD
		\$ 0	\$ 100,000,000
1	3 month from the Drawdown Date	\$ 1,538,464	\$ 98,461,536
2	6 months from the Drawdown Date	\$ 1,538,464	\$ 96,923,072
3	9 months from the Drawdown Date	\$ 1,538,464	\$ 95,384,608
4	12 months from the Drawdown Date	\$ 1,538,464	\$ 93,846,144
5	15 months from the Drawdown Date	\$ 1,538,464	\$ 92,307,680
6	18 months from the Drawdown Date	\$ 1,538,464	\$ 90,769,216
7	21 months from the Drawdown Date	\$ 1,538,464	\$ 89,230,752
8	24 months from the Drawdown Date	\$ 1,538,464	\$ 87,692,288
9	27 months from the Drawdown Date	\$ 1,538,464	\$ 86,153,824
10	30 months from the Drawdown Date	\$ 1,538,464	\$ 84,615,360
11	33 months from the Drawdown Date	\$ 1,538,464	\$ 83,076,896
12	36 months from the Drawdown Date	\$ 1,538,464	\$ 81,538,432
13	39 months from the Drawdown Date	\$ 1,538,464	\$ 79,999,968
14	42 months from the Drawdown Date	\$ 1,538,464	\$ 78,461,504
15	45 months from the Drawdown Date	\$ 1,538,464	\$ 76,923,040
16	48 months from the Drawdown Date	\$ 1,538,464	\$ 75,384,576
17	51 months from the Drawdown Date	\$ 1,538,464	\$ 73,846,112
18	54 months from the Drawdown Date	\$ 1,538,464	\$ 72,307,648
19	57 months from the Drawdown Date	\$ 1,538,464	\$ 70,769,184
20	60 months from the Drawdown Date	\$ 1,538,464	\$ 69,230,720
21	63 months from the Drawdown Date	\$ 1,538,464	\$ 67,692,256
22	66 months from the Drawdown Date	\$ 1,538,464	\$ 66,153,792
23	69 months from the Drawdown Date	\$ 1,538,464	\$ 64,615,328
24	72 months from the Drawdown Date	\$ 1,538,464	\$ 63,076,864
25	75 months from the Drawdown Date	\$ 1,538,464	\$ 61,538,400
26	78 months from the Drawdown Date	\$ 1,538,464	\$ 59,999,936
27	81 months from the Drawdown Date	\$ 1,538,464	\$ 58,461,472
28	84 months from the Drawdown Date	\$ 58,461,472	\$ 0

**Signatories to the Loan Agreement**

**KNUTSEN SHUTTLE TANKERS 14 AS** )  
as Borrower )  
was hereunto affixed in accordance with its )  
Articles of Association )

/s/ Junichi Katayama  
Name: Junichi Katayama  
Title: Attorney-in-Fact



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**MITSUBISHI UFJ LEASE & FINANCE (HONG KONG) LIMITED**

As Lender

/s/ Teppei Tomikawa

\_\_\_\_\_  
Name: Teppei Tomikawa

Title: Managing Director

I certify that on the 31st day of March 2017, this agreement was duly executed by the above parties in my presence:

Signature: /s/ Wataru Hamanaka

Name: Wataru Hamanaka

Address: MITSUBISHI UFJ LEASE & FINANCE (HONG KONG) LIMITED

402 Far East Finance Centre, 16 Harcourt Road, Hong Kong

Occupation: Deputy Managing Director

**ADDENDUM  
TO A SHARE PURCHASE AGREEMENT  
DATED 16 MAY 2017**

This addendum (this “ **Addendum** ”) to a share purchase agreement dated 16 May 2017 is entered into the 30 May 2017 between:

- (1) **Knutsen NYK Offshore Tankers AS** , company registration no. 995 221 713 (the “ **Seller** ”);
- (2) **KNOT Shuttle Tankers AS** , company registration no. 998 942 829 (the “ **Buyer** ”).

The Seller and the Buyer are hereinafter individually referred to as a “ **Party** ” and jointly the “ **Parties** ”.

**WHEREAS:**

- a) The Parties have entered a share purchase agreement dated 16 May 2017 (the “ **Agreement** ”), pursuant to which the Seller has agreed to sell, and the Buyer has agreed to buy, all shares issued in KNOT Shuttle Tankers 25 AS, company registration no. 914 006 600 (the “ **Company** ”) being the sole owner of the vessel MT “Vigdis Knutsen” having IMO No. 9757723 (the “ **Vessel** ”);
- b) On 24 May 2017, the Vessel suffered damage to its hull in connection with a ship-to-ship loading at area La Paloma (the “ **Incident** ”).
- c) The Parties now enter into this Addendum to reflect how the Incident shall affect their rights and obligations under the Agreement.

**1 DEFINITIONS**

Terms defined in the Agreement shall have the same meaning when used in this Addendum.

**2 INDEMNITY BY THE SELLER**

Without prejudice to Clause 12.1 ( *Indemnity by the Seller* ) or any other rights of the Buyer under the Agreement, and as a supplemental obligation on the Seller, the Seller shall be liable for, and shall indemnify, defend and hold harmless the Buyer Indemnitees from and against, any Losses, suffered or incurred by such Buyer Indemnitees by reason of, arising out of or otherwise in respect of the Incident, including without limitation any repair costs incurred and/or any charter hire lost by the Company.

**3 WAIVER BY THE BUYER**

In consideration of the specific indemnity by the Seller pursuant to Clause 2 above, and without prejudice to Clause 12.1 ( *Indemnity by the Seller* ) or any other rights of the Buyer under the Agreement, the Buyer confirm and agree that for the purpose of Clause 6.1 ( *Conditions to the Buyer's Closing obligations* ) of the Agreement, any breach by the Seller of any warranties or representations caused by the Incident, shall be deemed waived by the Buyer.

4 CONTINUED FORCE AND EFFECT

Except as amended and supplemented by this Addendum, the Agreement shall continue in full force and effect, and the Agreement and this Addendum shall be read and construed as one instrument.

Knutsen NYK Offshore Tankers AS

/s/ Trygve Seglem  
\_\_\_\_\_  
Trygve Seglem  
Chairman

/s/ Fumitake Shishido  
\_\_\_\_\_  
Fumitake Shishido  
Executive Vice President

KNOT Shuttle Tankers AS

/s/ Trygve Seglem  
\_\_\_\_\_  
Trygve Seglem  
Chairman

# SHARE PURCHASE AGREEMENT

Between

**Knutsen NYK Offshore Tankers AS**

**(as Seller)**

And

**KNOT Shuttle Tankers AS**

**(as Buyer)**

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for the sale and purchase of the shares in

**KNOT Shuttle Tankers 26 AS**

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## SHARE PURCHASE AGREEMENT

This agreement (this “ **Agreement** ”) is entered into on the 9 August 2017 between:

(1) **Knutsen NYK Offshore Tankers AS** , company registration no. 995 221 713

(the “ **Seller** ”), and

(2) **KNOT Shuttle Tankers AS** , company registration no. 998 942 829

(the “ **Buyer** ”).

The Seller and the Buyer are hereinafter individually referred to as a “ **Party** ” and jointly the “ **Parties** ”.

### 1 RECITALS

#### WHEREAS:

- a) KNOT Shuttle Tankers 26 AS, company registration no. 914 021 251, is a private limited liability company that has as its purpose to engage in shipowning activities, is duly incorporated under Norwegian law and has its registered place of business in Haugesund, Norway (the “ **Company** ”);
- b) The Seller is the sole owner of the ownership interest in the Company, with a share capital of NOK 100,000;
- c) The Company is the owner of the MT “Lena Knutsen”, having IMO No. 9782766 (the “ **Vessel** ”); and
- d) The Seller and the Buyer have agreed that the Buyer shall acquire 100% of the shares in the Company (the “ **Shares** ”) on the terms and conditions set forth in this Agreement.

### 2 DEFINITIONS

In this Agreement, the following definitions shall have the following meanings:

- a) **Accounting Principles** means the applicable Norwegian generally accepted accounting principles as defined by Norwegian law and regulations and accounting standards issued by the Norwegian Accounting Standards Board (Nw: *Norsk Regnskapsstiftelse/NRS* ), applied on a consistent basis;
- b) **Accounts** means, in respect of the Company, its audited annual accounts ( *årsregnskap* ), consisting of the profit and loss account, balance sheet, statement of cash flow and the notes thereto, for the financial year ended on the Accounts Date attached as Schedule 2 ;

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c)	<b>Accounts Date</b>	means 31 December 2016;
d)	<b>Agreement</b>	shall have the meaning ascribed to such term in the preamble to this Agreement;
e)	<b>Business</b>	means the current business of the Company, being to own the Vessel, and charter the same under the Charter;
f)	<b>Business Day</b>	means a day on which banks are open for general banking business in Norway;
g)	<b>Buyer</b>	shall have the meaning ascribed to such term in the preamble to this Agreement;
h)	<b>Buyer Indemnitees</b>	shall have the meaning ascribed to such term in Clause 12.1;
i)	<b>Capitalized Fees</b>	means capitalized fees and transaction costs related to the financing of the Vessel as of the Closing Date. Provided the Closing Date occurs on 30 September, 2017, the Capitalized Fees will be USD 1,044,326.
j)	<b>Charter</b>	means the Time Charter, dated 17 June 2015, entered into between the Company as owner and the Charterer as charterer in respect of the Vessel;
k)	<b>Charterer</b>	means Brazil Shipping I Limited;
l)	<b>Closing</b>	shall have the meaning ascribed to such term in Clause 5.1;
m)	<b>Closing Date</b>	means the date when the Closing actually takes place according to Clause 5.1;
n)	<b>Companies Act</b>	means the Norwegian Limited Liability Companies Act of 1997
o)	<b>Company</b>	means KNOT Shuttle Tankers 26 AS, Norwegian organization no.: 914 021 251;
p)	<b>Company's Receivable</b>	means the receivable in the principal amount of NOK 190,501,184.49 as of 31 July 2017 held by the Company and owed by the Seller pursuant to an intra-group loan, equivalent to the amount of USD 24,072,936.69 when applying 7.9135 as the exchange rate for USD/NOK published as the middle rate of DNB Markets on 31 July 2017;
q)	<b>Encumbrance</b>	means any mortgage, charge, pledge, lien, option or other security interest or restriction of any kind;

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r)	<b>Facility Prepayment Amount</b>	means the amount of the Lena Facility to be prepaid on Closing by the Company in accordance with the terms of the Lena Facility, being USD 19,192,565.00 (representing the total outstanding amount under the Post-Delivery Tranche C-2 (as defined in the Lena Facility) provided that Closing occurs on 30 September 2017), plus accumulated interest;
s)	<b>Governmental Authority</b>	means any domestic or foreign government, including federal, provincial, state, municipal, county or regional government or governmental or regulatory authority, domestic or foreign, and includes any department, commission, bureau, board, administrative agency or regulatory body of any of the foregoing and any multinational or supranational organization;
t)	<b>Indemnified Party</b>	shall have the meaning ascribed to such term in Clause 12.3;
u)	<b>Indemnifying Party</b>	shall have the meaning ascribed to such term in Clause 12.3;
v)	<b>Lena Facility</b>	means the USD 353,000,000 Facilities Agreement in respect of the Vessel, dated 27 April 2015, as amended and restated on 23 October 2015, made between (i) the Company, KNOT Shuttle Tankers 24 AS and KNOT Shuttle Tankers 25 AS as joint borrowers, (ii) the Seller as original guarantor and KNOT Offshore Partners L.P and KNOT Shuttle Tankers AS as acceding Guarantors, (iii) the banks and financial institutions listed in Schedule 1 thereto as lenders, (iv) ABN AMRO Bank N.V., Oslo Branch, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Commbank Europe Limited, DNB Bank ASA, Mizuho Bank, Ltd. and Nordea Bank Norge ASA, as mandated lead arrangers, (v) ABN AMRO Bank N.V., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Commonwealth Bank of Australia, DNB Bank ASA, Mizuho Bank, Ltd. and Nordea Bank Finland Plc. as hedging banks and (vi) DNB Bank ASA as agent;
w)	<b>Losses</b>	means any loss, liability, claim, damage, expense (including costs of investigation and defence and reasonable attorneys' fees) or diminution of value, whether or not involving a third-party claim;
x)	<b>Material Adverse Effect</b>	means a material adverse effect on the condition (financial, commercial, technical, legal or otherwise) of the Business, assets, results of operations or prospects of the Company;
y)	<b>Material Agreement</b>	shall have the meaning ascribed to such term in Clause 8.11;
z)	<b>NYK Shareholder Loan</b>	shall mean the loan made to the Company pursuant to the Loan Agreement, dated 1 March 2016, among NIPPON YUSEN

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KABUSHIKI KAISHA, as lender, Seller, as Guarantor and the Company, KNOT Shuttle Tankers 24 AS and KNOT Shuttle Tankers 25 AS, as joint borrowers;

aa)	<b>Party</b>	shall have the meaning ascribed to such term in the preamble to this Agreement;
bb)	<b>Parties</b>	shall have the meaning ascribed to such term in the preamble to this Agreement;
cc)	<b>Partnership</b>	means KNOT Offshore Partners LP, a Marshall Islands limited partnership;
dd)	<b>Purchase Price</b>	shall have the meaning ascribed to such term in Clause 4;
ee)	<b>Purchase Price Adjustments</b>	shall have the meaning ascribed to such term in Clause 5.4;
ff)	<b>Seller</b>	shall have the meaning ascribed to such term in the preamble to this Agreement;
gg)	<b>Seller Indemnities</b>	shall have the meaning ascribed to such term in Clause 12.2;
hh)	<b>Shares</b>	shall have the meaning ascribed to such term in Clause 1;
ii)	<b>Signing Date</b>	means the date of this Agreement;
jj)	<b>Swap Agreements</b>	means the 2002 ISDA master agreements entered into between the Company and DNB Bank ASA (together with the Schedule thereto), dated 23 October 2015, with Nordea Bank Finland Plc, dated 23 October 2015, with ABN AMRO Bank N.V., dated 23 October 2015, with The Bank of Tokyo-Mitsubishi UFJ, Ltd., dated 23 October 2015, with Commonwealth Bank of Australia, dated 23 October 2015 and with Mizuho Bank, Ltd., dated 24 November 2015, respectively, and the Schedules thereto and all Transactions and/or Confirmations (as each is defined in the Master Agreements) supplemental thereto relating to the Lena Facility;
kk)	<b>Swap Balance</b>	means the balance under the Swap Agreements as determined according to a mark-to-market determination as of the Closing Date and applying the middle rate for USD/NOK as published by DNB Markets on the Closing Date, adjusted by USD 279,266 in favour of the Seller to cover the hedging margin compared to the rate at which the Swap Agreements were entered into. As of 31 July 2017 the Swap Balance (being the balance under three swaps entered into with Nordea Bank Finland Plc and DNB Markets ASA) was USD 1,241,223 (in favour of the Company);



- ll) **Taxes** means all taxes (including value-added tax and similar taxes), however denominated, including interest, penalties and other additions to tax that may become payable or imposed by any applicable statute, rule or regulation or any governmental agency, including all taxes, withholdings and other charges in respect of income, profits, gains, payroll, social security or other social benefit taxes, sales, use, excise, real or personal property, stamps, transfers and workers' compensation, which the Company is required to pay, withhold or collect; and
- mm) **Third-Party Claim** shall have the meaning ascribed to such term in Clause 12.3; and
- nn) **Vessel** shall have the meaning ascribed to such term in Clause 1.

### 3 SALE AND PURCHASE

Subject to the terms and conditions set forth in this Agreement, the Seller agrees to sell, and the Buyer agrees to purchase, the Shares, together with all rights attached to them.

The Shares shall be transferred to the Buyer on the Closing Date, free and clear from any Encumbrances, other than pursuant to the Tordis Facility.

### 4 PURCHASE PRICE

The Seller agrees to sell and transfer to the Buyer, and the Buyer agrees to purchase from the Seller the Shares for USD 142,000,000, less USD 111,067,565 of outstanding principal under Post-Delivery Tranche C-1 and Post-Delivery Tranche C-2 under the Lena Facility (including the Facility Prepayment Amount) at Closing and less USD 22,706,375.79 of outstanding principal and interest under the NYK Shareholder Loan, plus the Company's Receivable (calculated in USD) in the amount of USD 24,072,936.69, plus the Capitalized Fees in the amount of USD 1,044,326, (the "**Purchase Price**"), plus the Purchase Price Adjustments, all in accordance with and subject to the terms and conditions set forth in this Agreement. The Vessel has recently been delivered from the yard, and the Buyer is aware that the Shares are sold on the basis that any costs for additional stocking, stores, inventories and lubricant oils or similar provisions for the Vessel shall be for the Buyer account.

The Purchase Price is to be settled by way of cash payment on the Closing Date in the amount of USD 33,343,321.9 from the Buyer to the Seller, subject to the subsequent Purchase Price Adjustments in accordance with Clause 5.4 below.

The Purchase Price as calculated above is based on the assumption that Closing occurs on 30 September 2017 at 23:59 CET. If Closing should occur at another time the Parties shall agree on an adjusted Purchase Price to be paid on Closing, to reflect accrued interest, currency fluctuations and paid instalments (as applicable) in respect of the Lena Facility, the NYK Shareholder Loan and the Company's Receivable.

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## **5 CLOSING**

### **5.1 Time and place**

Subject to the satisfaction or waiver of the conditions set forth in Clause 6, the completion of the transactions contemplated by this Agreement (the “ **Closing** ”) shall take place at the offices of the Seller at 30 September 2017 or such other time as the Parties agree.

### **5.2 The Seller’s Closing obligations**

At the Closing, the Seller shall:

- a) deliver to the Buyer a copy of the minutes of the meeting of the board of directors of the Seller authorising the execution of, and the consummation of the transaction completed by, this Agreement; and
- b) in exchange for the payment of the Purchase Price, transfer the Shares to the Buyer and deliver to the Buyer the share register of the Company with the Buyer duly registered as the owner of the Shares, as well as the related notices according to Sections 4-7 and 4-10 of the Companies Act.
- c) repay the Company’s Receivable in full by making a cash payment to the Company.

### **5.3 The Buyer’s Closing obligations**

At the Closing, the Buyer shall

- a) settle the Purchase Price in accordance with Clause 4;
- b) procure that the Company prepays the NYK Shareholder Loan in full; and
- c) procure that the Company prepays the Facility Prepayment Amount in full.

### **5.4 Post-Closing Adjustment**

- a) Within 45 days following the Closing Date, the Buyer and the Seller shall agree on the amount of the post-Closing adjustments to the Purchase Price based on:
  - (i) the Company’s working capital as of 23:59 hours CET on the Closing Date;
  - (ii) long term liabilities due under the entrance tax under the Norwegian Tonnage Tax regime;
  - (iii) the Swap Balance;
  - (iv) currency fluctuations USD/NOK on the Company’s Receivable, between 31 July 2017 and the Closing Date, determined on the basis of the middle rates published by DNB Markets.

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(v) accrued interest on the Company's Receivable between 31 July 2017 and the Closing Date.

(the "Purchase Price Adjustments").

- b) Within 15 days following the date on which the Purchase Price Adjustments have been agreed pursuant to Clause 5.4 a) above, the Buyer or the Seller (as the case may be) shall pay to the other Party an amount, in cash, equal to the net Purchase Price Adjustments. Any amounts other than those covered by the Purchase Price Adjustments varying in the period between the Signing Date and the Closing Date shall be for Seller's account.

## **6 CLOSING CONDITIONS**

### **6.1 Conditions to the Buyer's Closing obligations**

The obligations of the Buyer to purchase the Shares and to take the other actions required to be taken by it at the Closing are subject to the satisfaction of each of the following conditions (any of which may be waived in whole or in part by the Buyer) on or before the Closing Date:

- a) that the Vessel has been delivered to the Charterer in accordance with the provisions of the Charter and that all costs and expenses related thereto have been settled by the Sellers;
- b) there is no material breach of any of the representations and warranties of the Seller set forth in Clause 8 and Clause 9;
- c) the Buyer shall have obtained the funds necessary to consummate the purchase of the Shares, to ensure prepayment by the Company of the NYK Shareholder Loan and the Facility Prepayment Amount, and to pay all related fees and expenses;
- d) in all respects material to the transactions contemplated hereby, the Seller shall have performed or complied with all of its obligations pursuant to this Agreement to be performed or complied with by the Seller at or prior to the Closing Date and shall have delivered each document or instrument to be delivered by it pursuant to this Agreement; and
- e) the results of the searches, surveys, tests and inspections of the Vessel referred to in Clause 10.1 h) are reasonably satisfactory to the Buyer.

### **6.2 Conditions to the Seller's Closing obligations**

The obligations of the Seller to sell the Shares and to take the other actions required to be taken by it at the Closing are subject to the satisfaction of each of the following conditions (any of which may be waived in whole or in part by the Seller) on or before the Closing Date:

- a) there is no material breach of any of the representations and warranties of the Buyer set forth in Clause 7;
- b) At Closing, the Buyer shall procure that the Partnership accede to the Lena Facility as "Guarantor" for the debt thereunder pertaining to the Vessel (only) by way of an "Accession Letter" set out therein, and that the Shares are pledged as contemplated by the Lena Facility, and procure that relevant conditions precedent under the Lena Facility

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- relating to the Partnership and/or the Buyer have been satisfied. At Closing, the Seller shall be released from its guarantee obligations under the Lena Facility with respect to outstanding amounts relating to the Vessel; and
- c) in all respects material to the transactions contemplated hereby, the Buyer shall have performed or complied with all of its obligations pursuant to this Agreement to be performed or complied with by the Buyer at or prior to the Closing Date and shall have delivered each document or instrument to be delivered by it pursuant to this Agreement.

### **6.3 Conditions of the Parties.**

The obligations of Seller to sell the Shares and the obligations of Buyer to purchase the Shares are subject to the satisfaction (or waiver by each of Seller and Buyer) on or prior to the Closing Date of the following conditions:

- a) The Seller shall have received any and all written consents, permits, approvals or authorizations of any Governmental Authority or any other Person (including, but not limited to, with respect to the Charter, the Lena Facility, the NYK Shareholder Loan and the Swap Agreements) and shall have made any and all notices or declarations to or filing with any Governmental Authority or any other Person, including those related to any environmental laws or regulations, required in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereunder, including the transfer of the Shares; and
- b) No legal or regulatory action or proceeding shall be pending or threatened by any Governmental Authority to enjoin, restrict or prohibit the purchase and sale of the Shares.

## **7 REPRESENTATIONS AND WARRANTIES OF THE BUYER**

The Buyer represents and warrants to the Seller that as of the Signing Date and on the Closing Date, unless otherwise expressly stated:

### **7.1 Corporate existence and power**

The Buyer is duly incorporated, validly existing and in good standing under the laws of Norway.

The Buyer has not been declared insolvent; become the subject of a petition in bankruptcy; had a receiver appointed with respect to it or to the Business or part thereof; entered into any arrangement with, or made an assignment for the benefit of, its creditors; or ceased to function as a going concern.

### **7.2 Corporate authorisation and non-contravention**

This Agreement and each other document or instrument delivered or to be delivered in connection with this Agreement has been duly authorised by all necessary corporate action(s) of the Buyer and constitutes or will, when executed, constitute valid and binding obligations of the Buyer enforceable in accordance with its respective terms.

The execution by the Buyer of this Agreement and each other document or instrument delivered or to be delivered in connection with it, and the performance by the Buyer of its obligations under this

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Agreement and the consummation of the transactions provided for in this Agreement, do not and will not result in a breach of any provision of the articles of association of the Buyer or of any applicable law, order, judgment or decree of any court or Governmental Authority or of any agreement to which the Buyer is bound.

The Buyer is not required to obtain any authorisations, consents, approvals or exemptions by any Governmental Authority in connection with the entering into or performance of its obligations under this Agreement.

## **8 REPRESENTATIONS AND WARRANTIES OF THE SELLER**

The Seller represents and warrants to the Buyer as of the Signing Date and on the Closing Date, unless otherwise expressly stated:

### **8.1 Corporate existence and power**

Each of the Company and the Seller is duly incorporated, validly existing and in good standing under the laws of Norway.

Each of the Company and the Seller has not been declared insolvent; become the subject of a petition in bankruptcy; had a receiver appointed with respect to it or to the Business or part thereof; entered into any arrangement with, or made an assignment for the benefit of, its creditors; or ceased to function as a going concern.

### **8.2 Corporate authorisation and non-contravention**

This Agreement and each other document or instrument delivered or to be delivered in connection with this Agreement has been duly authorised by all necessary corporate action(s) of each of the Company and the Seller, as appropriate, and constitutes or will, when executed, constitute valid and binding obligations of each of the Company and the Seller, as appropriate, enforceable in accordance with its respective terms.

The execution by each of the Company and the Seller, as appropriate, of this Agreement and each other document or instrument delivered or to be delivered in connection with it, and the performance by each of the Company and the Seller, as appropriate, of its obligations under this Agreement and the consummation of the transactions provided for in this Agreement, do not and will not result in a breach of any provision of the articles of association of each of the Company and the Seller, as appropriate, or of any applicable law, order, judgment or decree of any court or Governmental Authority or of any agreement to which each of the Company and the Seller, as appropriate, is bound.

Each of the Company and the Seller, as appropriate, is not required to obtain any authorisations, consents, approvals or exemptions by any Governmental Authority in connection with the entering into or performance of its obligations under this Agreement.

### **8.3 Capitalisation and title**

The Seller has full ownership to the Shares. The Shares are fully authorised, validly issued, fully paid and at Closing, free and clear from any Encumbrances, other than pursuant to the Lena Facility.

There is no outstanding subscription, option or similar rights relating to the Shares.

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#### **8.4 Records**

The Company's articles of association and shareholders' register are true, accurate, up-to-date and complete.

#### **8.5 Charter documents; validity of the Charter**

The Seller has supplied to the Buyer true and correct copies of the Charter and any related documents, as amended to the Closing Date. The Charter is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms and, to the knowledge of the Seller, the Charter is a valid and binding agreement of all other parties thereto enforceable against such parties in accordance with its terms.

#### **8.6 Accounts**

The Accounts have been prepared in accordance with the Accounting Principles and in accordance with the books and records of the Company. The Accounts give a true and accurate view of the financial position, solvency, assets, liabilities, liquidity, cash flow and the result of the operations of the Company as of the Accounts Date.

#### **8.7 No undisclosed liabilities**

Neither the Company nor the Vessel has any Encumbrances, or other liabilities or obligations of any nature, whether absolute, accrued, contingent or otherwise, and whether due or to become due (including, without limitation, any liability for Taxes and interest, penalties and other charges payable with respect to any such liability or obligation), except for such liabilities or obligations arising under the Charter, the Lena Facility, the NYK Shareholder Loan, the Swap Agreements, the management agreement relating to the Vessel with KNOT Management AS, the inter-company balances described in Clause 8.8 c) and the Encumbrances appearing in the ship registry of the Vessel and arising under the Lena Facility and the Swap Agreements.

#### **8.8 Loans and other financial facilities**

All loans and other financial facilities available to the Company have been made available for review by the Buyer.

- a) As of the Signing Date, the principal outstanding amount under the Lena Facility in respect of the Vessel is USD 93,100,000 under the Post-Delivery Tranche C-1 and USD 20,202,700 under the Post-Delivery Tranche C-2. Before Closing, the Company is scheduled to repay USD 1,225,000 and USD 1,010,135 under Post-Delivery Tranche C-1 and Post-Delivery Tranche C-2 respectively. Hence, the amount for which the Company will be responsible at the time of Closing is USD 111,067,565 (provided Closing takes place on 30 September 2017), including the Facility Prepayment Amount which the Company will be responsible to prepay at the time of Closing;
- b) The principal outstanding amount, with accrued interest, under the NYK Shareholder Loan for which the Company will be responsible to prepay at the time of Closing is USD 22,706,375.79 (provided Closing takes place on 30 September 2017, with repayment under the NYK Shareholder Loan on 2 October 2017 Japan time); and
- c) As of 31 July 2017, the non-interest bearing inter-company balance between the Company (as borrower) and KNOT Management AS (as lender) was NOK 344,688.44

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- d) As of 31 July 2017, the Company's Receivable (which the Seller will be responsible to pay to the Company at the time of Closing) owed by the Seller was in the principal amount of NOK 190,501,184.49.

No event has occurred which gives, or after notice or lapse of time, or both, would give any third party the right to call for repayment from the Company prior to normal maturity of any loan or other financial facility. The Company shall not be indebted, directly or indirectly, to any person who is an officer, director, stockholder or employee of any of the Seller or any spouse, child or other relative or any affiliate of any such person, nor shall any such officer, director, stockholder, employee, relative or affiliate be indebted to the Company.

## **8.9 Assets**

At the Closing Date, the Company shall not be using assets in the Business that it neither owns nor has the right to use pursuant to written agreements with third parties. At the Closing Date, the assets of the Company will comprise all the assets necessary for carrying on the Business fully and effectively to the extent to which it is conducted at the Signing Date.

## **8.10 Absence of certain changes or events**

Since the Accounts Date, there has not occurred or arisen:

- a) any change of accounting methods, principles or practices, accounting, invoicing and supplier practice or procedures for the Company;
- b) any acquisition or disposal of, or the entering into any agreement to acquire or dispose of, any asset, other than the sale of products in the ordinary course of business;
- c) the termination of any Material Agreement;
- d) any obligations, commitments or liabilities, contingent or otherwise, whether for Taxes or otherwise, except obligations, commitments and liabilities arising in the ordinary course of business;
- e) any event or condition, whether covered by insurance or not, which has resulted in or may result in a Material Adverse Effect; or
- f) the entering into of any agreements or commitments other than on customary terms.

## **8.11 Agreements**

Each Material Agreement is in full force and effect. No other Material Agreements will be entered into by the Company prior the Closing Date without the prior consent of the Buyer (such consent not to be unreasonably withheld). The Company has fulfilled all material obligations required pursuant to the Material Agreements to have been performed by it prior to the Signing Date and has not waived any material rights thereunder.

There has not occurred any material default on the part of the Company under any of the Material Agreements, or to the knowledge of the Seller, on the part of any other party thereto, nor has any event occurred that with the giving of notice or the lapse of time, or both, would constitute any material default on the part of the Company under any of the Material Agreements nor, to the knowledge of the Seller, has any event occurred that with the giving of notice or the lapse of time, or both, would constitute any material default on the part of any other party to any of the Material Agreements.

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The term “ **Material Agreement** ” means each agreement, contract or other undertaking by or of the Company (a) that is of material importance to the Business or (b) the value of which, in respect of total turnover during one year, is not less than NOK 500,000, provided, however, that such term includes the Charter, the Lena Facility, the Company’s Receivable, the NYK Shareholder Loan and the Swap Agreements.

#### **8.12 Insurance**

The Company maintains insurance policies on fire, theft, loss, disruption, product and general liability and other forms of insurance with reputable insurers that would reasonably be judged to be sound and required for the Business.

The Company’s insurance policies do not contain any provisions regarding a change of control or ownership of the insured.

The Company is in compliance with all terms and conditions contained in the insurance policies, and nothing has been done or omitted to be done that would make any insurance policy or insurance void or voidable or that would result in a reduction of the coverage ( *No: avkortning* ).

#### **8.13 Environmental matters**

The Company is not and has not been in breach of any applicable laws (whether civil, criminal or administrative), statutes, regulations, directives, codes, judgments, orders or any other measures imposed by any governmental, statutory or regulatory body with regard to the pollution or the protection of the environment or to the protection of human health or human safety, or any other living organisms supported by the environment.

There is no current governmental investigation or disciplinary proceeding relating to any alleged breach of any law or permit by the Company, and none is pending, nor threatened.

The Company has not, other than as permitted under applicable permits or applicable laws or regulations held from time to time, disposed of, discharged, released, placed, dumped or emitted any hazardous substances, such as pollutants, contaminants, hazardous or toxic materials, wastes or chemicals. Neither the Seller nor the Company has received any formal or informal notice or other communication from which it appears that the Company may be or has been in violation of any laws or permits. There are no actual or contingent obligations on the Company to pay money or carry out any work in order to keep or be granted an extension or renewal of any existing permit. There are no facts or circumstances that could result in such an obligation. The properties used by the Company are not made of or do not contain any form of asbestos or any other toxic substance that may cause damage to the health of the persons working or visiting the premises.

#### **8.14 Compliance with laws**

The Company has at all times conducted the Business in accordance with and has complied with any applicable laws in Norway and in any other relevant countries relating to its operations and the Business.



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All necessary licences, consents, permits and authorisations have been obtained by the Company to enable the Company to carry on the Business in the places and in the manner in which such Business is now conducted and all such licences, consents, permits and authorisations are valid and subsisting and have been complied with in all respects.

#### **8.15 Litigation**

There are no claims, actions, lawsuits, administrative, governmental, arbitration or other legal proceedings (including but not limited to proceedings related to Taxes) pending or threatened against or involving the Company, the Business or properties or assets of the Company and which would result in a Material Adverse Effect if adversely determined.

#### **8.16 Taxes**

The Company has properly filed with the appropriate Tax authorities all Tax returns and reports required to be filed for all Tax periods ending prior to the Closing Date. Such filings are true, correct and complete. All information required for a correct assessment of Taxes has been provided.

The Tax returns of the Company have been assessed and approved by the Tax authorities through the Tax years up to and including the years for which such assessment and approval is required, and the Company is not subject to any dispute with any such authority.

All Taxes that have become due have been fully paid or fully provided for in the Accounts, and the Company shall not be liable for any additional Tax pertaining to the period before the Accounts Date. All Taxes for the period after the Accounts Date have been fully paid when due.

There are no Tax audits, Tax disputes or Tax litigation pending or threatened against or involving the Company. There is no basis for assessment of any deficiency in any Taxes against the Company that has not been provided for in the Accounts or that has not been paid.

The Company is not and has not been involved in any transaction that could be considered as Tax-evasive. All losses for Tax purposes incurred by of the Company are trading losses and are available to be carried forward and set off against income in succeeding periods without limitation and have been accepted by the relevant Tax authorities.

The Company is not and has not been subject to any Tax outside its respective country of fiscal residence.

#### **8.17 Relationship with the Seller**

Except as disclosed to the Buyer, there are no written or oral agreements or arrangements between the Company and the Seller, and no liabilities or obligations (contingent or otherwise) owed by the Company to the Seller.

No services provided by the Seller to the Company are necessary in the ordinary course of business.

No payments of any kind, including, but not limited to management charges, have been made by the Company to the Seller, save for payments under agreements or arrangements made on an arm's-length basis in accordance with applicable law and regulations.

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### **8.18 Information**

All documents provided to the Buyer by or on behalf of the Seller or the Company are true and correct, and no document provided to the Buyer by or on behalf of the Seller or the Company contains any untrue statement of a relevant fact or omits to state a relevant fact necessary to make the statements contained in the document not misleading.

There are no facts or circumstances known to the Seller, relating to the affairs of the Company, that have not been disclosed to the Buyer, which, if disclosed, reasonably could have been expected to influence the decision of the Buyer to purchase the Shares on the terms of this Agreement.

The Seller confirms that the Seller, prior to the Signing Date, has made, and until the Closing Date, shall continue to make, all investigations necessary in order to ensure that the statements in Clauses 8 and 9 are correct.

## **9 REPRESENTATIONS AND WARRANTIES OF THE SELLER REGARDING THE VESSEL**

The Seller represents and warrants to the Buyer as of the Signing Date and on the Closing Date, unless otherwise expressly stated:

### **9.1 Flag and title**

The Company is the registered owner of the Vessel and has good and marketable title to the Vessel, free and clear of any and all Encumbrances, other than those arising under the Lena Facility and the Swap Agreements. The Vessel is properly registered in the name of the Seller under and pursuant to the flag and law of Norway, and all fees due and payable in connection with such registration have been paid.

### **9.2 Classification**

The Vessel is entered with the American Bureau of Shipping and has the highest classification rating. The Vessel is in class without any recommendations or notation as to class or other requirement of the relevant classification society, and if the Vessel is in a port, it is in such condition that it cannot be detached by any port state authority or the flag state authority for any deficiency.

### **9.3 Maintenance**

The Vessel has been maintained in a proper and efficient manner in accordance with internationally accepted standards for good ship maintenance, is in good operating order, condition and repair and is seaworthy, and all repairs made to the Vessel during the last two years and all known scheduled repairs due to be made and all known deficiencies have been disclosed to the Buyer.

### **9.4 Liens**

The Vessel is not (a) under arrest or otherwise detained, (b) other than in the ordinary course of business, in the possession of any person (other than her master and crew) or (c) subject to a possessory lien.

### **9.5 Safety**

The Vessel is supplied with valid and up-to-date safety, safety construction, safety equipment, radio, loadline, health, tonnage, trading and other certificates or documents as may for the time being be prescribed by the law of Norway or of any other pertinent jurisdiction, or that would otherwise be deemed necessary by a shipowner acting in accordance with internationally accepted standards for good ship management and operations.

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**9.6 No blacklisting or boycotts**

No blacklisting or boycotting of any type has been applied or currently exists against or in respect of the Vessel.

**9.7 No options**

There are not outstanding any options or other rights to purchase the Vessel.

**9.8 Insurance**

The insurance policies relating to the Vessel are as set forth on Schedule 1 hereto, each of which is in full force and effect and, to the Seller's knowledge, not subject to being voided or terminated for any reason.

**10 COVENANTS PRIOR TO THE CLOSING****10.1 Covenants of the Seller Prior to the Closing**

From the Signing Date to the Closing Date, the Seller shall cause the Company to conduct its business in the usual, regular and ordinary course in substantially the same manner as previously conducted. The Seller shall not permit the Company to enter into any contracts or other written or oral agreements prior to the Closing Date, other than such contracts and agreements as have been disclosed to the Buyer prior to the Signing Date, without the prior consent of the Buyer (such consent not to be unreasonably withheld). In addition, the Seller shall not permit the Company to take any action that would result in any of the conditions to the purchase and sale of the Shares set forth in Clause 6 not being satisfied. Furthermore, the Seller hereby agrees and covenants that it:

- a) shall use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary to consummate and make effective as promptly as possible the transactions contemplated by this Agreement and to co-operate with the Buyer and others in connection with the foregoing;
- b) shall use its best efforts to obtain the authorisations, consents, orders and approvals of regulatory bodies and officials that may be or become necessary for the performance of its obligations pursuant to this Agreement and the completion of the transactions contemplated by it;
- c) shall co-operate with the Buyer and promptly seek to obtain such authorisations, consents, orders and approvals as may be necessary for the performance of the Parties' respective obligations pursuant to this Agreement;
- d) shall not amend, alter or otherwise modify or permit any amendment, alteration or modification of any material provision of or terminate the Charter or any other contract prior to the Closing Date without the prior written consent of the Buyer, such consent not to be unreasonably withheld or delayed;
- e) shall not exercise or permit any exercise of any rights or options contained in the Charter, without the prior written consent of the Buyer, not to be unreasonably withheld or delayed;

- f) shall observe and perform in a timely manner, all of its covenants and obligations under the Charter, the Lena Facility, the NYK Shareholder Loan and the Swap Agreements, if any, and in the case of a default by another party thereto, it shall forthwith advise the Buyer of such default and shall, if requested by the Buyer, enforce all of its rights under such Charter, the Lena Facility, the NYK Shareholder Loan or the Swap Agreements, as applicable, in respect of such default;
- g) shall not cause or, to the extent reasonably within its control, permit any Encumbrances to attach to the Vessel other than in connection with the Lena Facility and the Swap Agreements; and
- h) shall permit representatives of the Buyer to make, prior to the Closing Date, at the Buyer's risk and expense, such surveys, tests and inspections of the Vessel as the Buyer may deem desirable, so long as such surveys, tests or inspections do not damage the Vessel or interfere with the activities of the Seller, the Company or the Charterer thereon and so long as the Buyer shall have furnished the Seller with evidence that adequate liability insurance is in full force and effect.

## **10.2 Covenants of the Buyer Prior to the Closing**

The Buyer hereby agrees and covenants that during the period of time after the Signing Date and prior to the Closing Date, the Buyer shall, in respect of the Shares to be transferred on the Closing Date, take, or cause to be taken, all necessary company action, steps and proceedings to approve or authorize validly and effectively the purchase and sale of the Shares and the execution and delivery of this Agreement and the other agreements and documents contemplated hereby.

## **11 TERMINATION**

### **11.1 Termination**

This Agreement may be terminated, and the transactions contemplated by this Agreement may be abandoned, at any time prior to the Closing Date:

- a) by either Party if a breach of any provision of this Agreement has been committed by the other Party, such breach has not been waived and such breach is material to the transactions contemplated hereby, the Business or the assets, financial condition or prospect of the Company;
- b) by the Buyer if satisfaction of any of the conditions in Clause 6.1 is or becomes impossible (other than through the failure of the Buyer to comply with its obligations under this Agreement) and the Buyer has not waived such condition;
- c) by the Seller if satisfaction of any of the conditions in Clause 6.2 is or becomes impossible (other than through the failure of the Seller to comply with its obligations under this Agreement) and the Seller has not waived such condition;
- d) by either Party if satisfaction of any of the conditions in Clause 6.3 is or becomes impossible and Buyer and Seller have not waived such condition;
- e) by the Buyer due to a change having occurred that has resulted or may result in a Material Adverse Effect; or

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- f) by mutual written consent of the Seller and the Buyer.

## **11.2 Rights on termination**

If this Agreement is terminated pursuant to Clause 11.1, all further obligations of the Parties pursuant to this Agreement shall terminate without further liability of a Party to the other, provided, however, that the obligations of the Parties contained in Clause 13 (Costs) and Clause 17 (Governing Law and arbitration) shall survive such termination, and further provided, that if this Agreement is terminated by a Party because of the breach of this Agreement by the other Party or because one or more of the conditions to the terminating Party's obligations under this Agreement is not satisfied as a result of the other Party's failure to comply with its obligations under this Agreement, the terminating Party's right to pursue all legal remedies will survive such termination unimpaired.

## **12 INDEMNIFICATION**

### **12.1 Indemnity by the Seller**

Following the Closing, the Seller shall be liable for, and shall indemnify, defend and hold harmless the Buyer and its respective officers, directors, employees, agents and representatives (the “**Buyer Indemnitees**”) from and against, any Losses, suffered or incurred by such Buyer Indemnitees:

- a) by reason of, arising out of or otherwise in respect of any inaccuracy in, breach of any representation or warranty, or a failure to perform or observe fully any covenant, agreement or obligation of, the Seller in or under this Agreement or in or under any document, instrument or agreement delivered pursuant to this Agreement by the Seller;
- b) subject to Clause 13 b), any fees, expenses or other payments incurred or owed by the Seller to any brokers, financial advisors or comparable other persons retained or employed by it in connection with the transaction contemplated by this Agreement;
- c) any Losses of the Company or the Vessel incurred prior to or on the Closing Date arising from any violation of any applicable law or regulation relating to protection of natural resources, health and safety and the environment;
- d) all federal, state, foreign and local income tax liabilities attributable to the Company or operation of the Vessel prior to the Closing Date; or
- e) any Losses suffered or incurred by such Buyer Indemnitees in connection with any claim for the repayment of hire or Losses in relation to the Vessel for periods prior to the Closing.

### **12.2 Indemnity by the Buyer**

Following the Closing, the Buyer shall be liable for, and shall indemnify, defend and hold harmless the Seller and its respective officers, directors, employees, agents and representatives (the “**Seller Indemnitees**”) from and against, any Losses, suffered or incurred by such Seller Indemnitees by reason of, arising out of or otherwise in respect of any inaccuracy in, breach of any representation or warranty, or a failure to perform or observe fully any covenant, agreement or obligation of, the Buyer in or under this Agreement or in or under any document, instrument or agreement delivered pursuant to this Agreement by the Buyer.

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### **12.3 Indemnification procedures with respect to third-party claims**

If the Seller or the Buyer, as the case may be (an “ **Indemnified Party** ”), shall receive notice of any claim by a third party that is or may be subject to indemnification or compensation from the other Party pursuant to this Agreement (a “ **Third-Party Claim** ”), the Indemnified Party shall give the other Party (the “ **Indemnifying Party** ”) prompt written notice of such Third-Party Claim and the Indemnifying Party shall, at the Indemnifying Party’s option, have the right to participate in the defence thereof by counsel at the Indemnifying Party’s own cost and expense. If the Indemnifying Party acknowledges within 30 days from such written notice in writing its obligation to indemnify the Indemnified Party against all Losses that may result from such Third-Party Claim, the Indemnifying Party shall be entitled, at the Indemnifying Party’s option, to assume and control the defence of such Third-Party Claim at the Indemnifying Party’s cost and expense and through counsel of the Indemnifying Party’s choice. No such Third-Party Claim may be settled by the Indemnifying Party without the written consent of the Indemnified Party, unless the settlement involves only the payment of money by the Indemnifying Party. No Third-Party Claim that is being defended in good faith by the Indemnifying Party shall be settled by the Indemnified Party without the written consent of the Indemnifying Party. The Indemnifying Party shall have no obligation to indemnify the Indemnified Party for any losses resulting from the settlement of Third-Party Claims in violation of the provisions of this Clause 12.3.

### **13 COSTS**

- a) Subject to Clause 13b) and 13c), each party shall pay its own costs and expenses in connection with the preparation for and completion of the transactions contemplated by this Agreement, including but not limited to all fees and expenses of its own representatives, agents, brokers, legal and financial advisers and authorities and no such costs or expenses shall be charged to or paid by, neither directly or indirectly, the Company.
- b) The fees and expenses related to the fairness opinion of Pareto Securities Ltd. dated [•] 2017 will be divided equally between the Buyer and the Seller.
- c) Legal fees to Norwegian legal counsel (Advokatfirmaet Thommessen AS) related to the transactions contemplated by this Agreement and the related and financing arrangements will be divided equally between the Buyer and the Seller.

### **14 NOTICES**

All notices, requests, demands, approvals, waivers and other communications required or permitted under this Agreement must be in writing in the English language and shall be deemed to have been received by a Party when:

- a) delivered by post, unless actually received earlier, on the third Business Day after posting, if posted within Norway, or the fifth Business Day, if posted to or from a place outside Norway;
- b) delivered by hand, on the day of delivery; or
- c) delivered by fax, on the day of dispatch if supported by a written confirmation from the sender’s fax machine that the message has been properly transmitted.

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All such notices and communications shall be addressed as set forth below or to such other addresses as may be given by written notice in accordance with this Clause 14.

If to the Seller:

Knutsen NYK Offshore Tankers AS

Attention: CEO

Smedasundet 40, Postboks 2017, 5504 Haugesund, Norway

Fax no.: +47 52 70 40 40

If to the Buyer:

KNOT Shuttle Tankers AS

Attention: Chairman of the Board

Smedasundet 40, Postboks 2017, 5504 Haugesund, Norway

Fax no.: +47 52 70 40 40

## **15      ASSIGNMENT**

This Agreement shall be binding upon and inure to the benefit of the successors of the Parties, but shall not be assignable by any of the Parties without the prior written consent of the other Party. The benefit of this Agreement may, however, be assigned by either of the Parties to any group directly or indirectly controlling, controlled by or under common control of the assignor, provided that the assignor shall remain liable for its own debt and for all obligations under this Agreement.

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## **16 MISCELLANEOUS**

### **16.1 Further Assurances**

From time to time after the Signing Date, and without any further consideration, the Parties agree to execute, acknowledge and deliver all such additional deeds, assignments, bills of sale, conveyances, instruments, notices, releases, acquittances and other documents, and shall do all such other acts and things, all in accordance with applicable law, as may be necessary or appropriate (a) more fully to assure that the applicable Parties own all of the properties, rights, titles, interests, estates, remedies, powers and privileges granted by this Agreement, or which are intended to be so granted, (b) more fully and effectively to vest in the applicable Parties and their respective successors and assigns beneficial and record title to the interests contributed and assigned by this Agreement or intended so to be and (c) more fully and effectively to carry out the purposes and intent of this Agreement.

### **16.2 Integration**

This Agreement, the Schedules hereto and the instruments referenced herein supersede all previous understandings or agreements among the Parties, whether oral or written, with respect to its subject matter hereof. This Agreement, the Schedules hereto and the instruments referenced herein contain the entire understanding of the Parties with respect to the subject matter hereof and thereof. No understanding, representation, promise or agreement, whether oral or written, is intended to be or shall be included in or form part of this Agreement unless it is contained in a written amendment hereto executed by the Parties hereto after the Signing Date.

### **16.3 No Broker's Fees**

No one is entitled to receive any finder's fee, brokerage or other commission in connection with the purchase of the Shares or the consummation of the transactions contemplated by this Agreement.

## **17 GOVERNING LAW AND ARBITRATION**

This Agreement shall be governed by and construed in accordance with Norwegian law.

The Parties shall seek to solve through negotiations any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity hereof. If the Parties fail to solve such dispute, controversy or claim by a written agreement within 60 days after one of the Parties has requested such negotiations by notice to the other Party, such dispute, controversy or claim shall be finally settled by arbitration in Haugesund in the English language in accordance with the Norwegian Arbitration Act. The arbitration tribunal shall consist of three arbitrators, of which the Buyer shall appoint one arbitrator and the Seller shall appoint one arbitrator. The arbitrators so appointed shall appoint the third arbitrator, who shall be the chairman of the arbitration tribunal. In the event of failure by a Party to appoint its arbitrator within 30 days after the request for arbitration first is given, or the failure by the first two arbitrators to appoint the third arbitrator within 30 days after appointment of the last of the first two arbitrators to be appointed, such arbitrator or arbitrators shall be appointed by the district judge (No: "*Sorenskriver* ") of Haugesund District Court. Any Party may seek judgement upon any award in any court having jurisdiction, or an application may be made to such court for the judicial acceptance of the award and for an order of enforcement.

Notwithstanding the above, either Party may bring an action in any court of competent jurisdiction (a) for provisional relief pending the outcome of arbitration, including, without limitation, provisional injunctive relief or pre-judgement attachment of assets, or (b) to compel arbitration or enforce any arbitral award. For purposes of any proceeding authorised by this Clause 17, each Party hereby consents to the non-exclusive jurisdiction of Haugesund, Norway.

\* \* \*



This Agreement has been executed in two original copies, of which each Party has retained one copy.

**Knutsen NYK Offshore Tankers AS**

By: /s/ Trygve Seglem  
Name: Trygve Seglem  
Title: CEO

By: /s/ Fumitake Shishido  
Name: Fumitake Shishido  
Title: Executive Vice President

**KNOT Shuttle Tankers AS**

By: /s/ Trygve Seglem  
Name: Trygve Seglem  
Title: Chairman

## INSURANCES

## Insurance Policies (all quoted values are USD)

Hull & Machinery

<b>Hull</b>	<b>Insured Value: \$110 400 000</b> <b>Policy Renewal: 22.06.2016-31.10.2017</b>
<b>Hull Interest</b>	<b>Insured Value: \$27 600 000</b> <b>Policy Renewal: 22.06.2016-31.10.2017</b>
<b>Freight Interest</b>	<b>Insured Value: \$27 600 000</b> <b>Policy Renewal: 22.06.2016-31.10.2017</b>

P&I Insurance

<b>Gross Tonnage:</b>	<b>90031</b>
<b>Policy Renewal:</b>	<b>20.06.2017-20.02.2018</b>

War Risk

<b>Insured Value:</b>	<b>\$165 600 000</b>
<b>Policy Renewal:</b>	<b>20.06.2017-31.12.2017</b>

Hull & Machinery

<b>1,0%</b>	<b>Aon Hong Kong Limited</b>
<b>1%</b>	<b>China Continent P&amp;C Insurance Co. Ltd</b>
<b>1,0%</b>	<b>Aon Hong Kong Limited</b>
<b>1%</b>	<b>Taiping General Insurance, Beijing Branch</b>
<b>2,5%</b>	<b>Aon London Broking Center</b>
<b>2,5%</b>	<b>Lloyds Syndicate 1884 TSS</b>
<b>7,5%</b>	<b>Aon London Broking Center</b>
<b>7,5%</b>	<b>Lloyds Syndicate 2987 BRT</b>
<b>10,0%</b>	<b>Aon London Broking Center</b>
<b>10%</b>	<b>XL Insurance Company Ltd.</b>
<b>5,0%</b>	<b>Aon London Broking Center</b>
<b>5%</b>	<b>Arch Insurance Comp. (Europe) Ltd.</b>
<b>10,0%</b>	<b>Aon London Broking Center</b>
<b>10%</b>	<b>Swiss Re International SE, UK Branch</b>
<b>5,0%</b>	<b>Aon Singapore Pte. Ltd.</b>
<b>5%</b>	<b>India International Insurance Pte Ltd</b>
<b>12,5%</b>	<b>Gard AS, as agents only for Gard M&amp;E Ltd</b>
<b>2,5%</b>	<b>International Insurance Company of Hannover SE</b>
<b>10,0%</b>	<b>Norwegian Hull Club</b>
<b>4,0%</b>	<b>Skuld 1897</b>
<b>4,0%</b>	<b>The Swedish Club</b>
<b>25,0%</b>	<b>Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.</b>
<b>100,0%</b>	<b>Total</b>

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**Hull Interest/Freight Interest**

10,0%	Aon London Broking Center
10%	XL Insurance Company Ltd.
5,0%	Aon London Broking Center
5%	Arch Insurance Comp. (Europe) Ltd.
12,0%	Aon London Broking Center
12%	Swiss Re International SE, UK Branch
7,5%	Aon London Broking Center
7,5%	Lloyds Syndicate 2987 BRT
15,0%	Gard AS, as agents only for Gard M&E Ltd
2,5%	International Insurance Company of Hannover SE
15,0%	Norwegian Hull Club
4,0%	Skuld 1897
4,0%	The Swedish Club
25,0%	Tokio Marine & Nichido Fire Insurance Co., Ltd.
100,0%	Total

**War Risk**

100%	Den Norske Krigsforsikring for Skib
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**P&I**

100%	Den Norske Krigsforsikring for Skib
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ACCOUNTS

*[Separate attachment]*

## **KNOT Shuttle Tankers 26 AS**

### **Annual Report 2016**



**M/T “Lena Knutsen”**



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## KNOT SHUTTLE TANKERS 26 AS

### REPORT OF THE BOARD OF DIRECTORS 2016

KNOT Shuttle Tankers 26 AS have contracted one 158,000 DWT suez-max DP2 shuttle tanker at Hyundai Heavy Industries Co., Ltd. in South Korea for delivery in the 2<sup>nd</sup> quarter of 2017.

The company operates out of Haugesund, Norway and has no employees and working environment. KNOT Management AS in Haugesund manages the daily operations of the company in accordance with separate agreement.

#### **The company's activity**

The Company has entered into construction contract for one suez-max DP2 shuttle tanker at Hyundai Heavy Industries Co., Ltd. in South Korea with hull number 2818. The vessel is expected to be delivered from the yard in the 2<sup>nd</sup> quarter of 2017. The design and construction of the vessel is proceeding according to schedule. The four first installments, 40% of the contract price, have been paid from signing the contract and to the end of 2016 and there is one outstanding payment to the yard at delivery, with a total value of USD 73 million.

The vessels will be chartered to Brazil Shipping I Limited, a member of Shell Group, on a five-year time charter agreement where charterer have option to increase the fixed period to seven or ten year and have two options to increase with five more years.

#### **Result for the year**

The company has had no operating income during 2016. The operating loss for KNOT Shuttle Tankers 26 AS was NOK 485 648 in 2016 compared to NOK 154 925 in 2015. After net financial income of NOK 1 470 562 in 2016, against net expenses of NOK 1 365 684 in 2015, the results of the year were NOK 4 190 807 in 2016 compared to a loss of NOK 1 140 949 in 2015.

The Board of Directors propose to the result for the year transferred to other equity.

Total cash flow from operational activities was NOK 21 336 245 in 2016, compared to NOK 1 997 096 in 2015. The liquidity position was NOK 23 267 058 as per 31.12.2016 compared to NOK 14 287 480 as per 31.12.2015. The company's ability to finance its investments is good. The company have financed the vessel under construction in 2015 for period until the delivery and after delivery and have secured a top financing from a related company in 2016. The outstanding mortgage loan including the loan from the related party were at the end of 2016 USD 55 million.

The company's short term debt was 0.7% of total debt as of 31.12.2016, compared to 2.1 % as of 31.12.2015.

Total capital was by the end of the year NOK 643 294 911, compared to NOK 416 058 380 the year before. The equity share as of 31.12.2016 was 30%, compared to 45% per 31.12.2015.

The company is exposed to fluctuations in foreign exchange rates, especially USD, as the company's income is denominated in USD. Since the majority of the company's operating expenses and financial costs also are denominated in USD, this limits the company's foreign exchange risk. The company has not entered into any forward contracts or other agreements in order to reduce the company's foreign exchange risk, and thereby operating related market risk.

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The company is also exposed to changes in the interest rate level, as its long term debt carrying floating interest rate. The company has entered into interest rate swaps to reduce the company's interest rate risk.

The financial accounts are made on the assumption of a going concern. The Board of Directors confirms the conditions for continued operation. The Board of the Directors is of the opinion that the financial statements give a true and fair reflection of the company's assets and liabilities as well as financial strength and profitability.

#### **The environment safety and quality control**

The requirements for environment and safety in the operations of the vessels are increasing, and both the Company and the Knutsen NYK Offshore Tankers Group emphasize operational quality.

The Company and the group allocate considerable resources to quality control, and there are strict requirements to safety and the operational systems of the vessel. There are no indications that the company pollutes the external environment significantly, and the board of directors considers the working conditions as satisfactory. All certificates are valid. The new building will be certified in accordance with both the ISM and ISPS codes from delivery.

The company have no employees and thus no working environment. The company aims to be workplace where there is no discrimination related to gender, ethnicity, religion or disability. The company aims to avoid gender discrimination regarding salary, promotion and recruiting. The members of the Board of Directors are all men.

#### **Future prospects**

The contracted vessel is chartered out on a long term charter with a company in the Shell Group. The company have secured long term financing partly secured with interest rate swaps. The Board of Directors of KNOT Shuttle Tankers 26 AS expects 2017 to be a satisfactory year for the company with delivery of the vessel from the yard and to the charterer.

Haugesund, February 28, 2017

A blue ink signature consisting of several large, overlapping loops and a long horizontal stroke at the bottom.

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Trygve Seglem  
*Chairman of the Board*

A blue ink signature with a series of horizontal, wavy lines and a long, sweeping stroke extending to the right.

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Fumitake Shishido  
*Member of the Board*

A blue ink signature with a cursive style, featuring a large 'K' and 'G' at the beginning and a long, flowing tail.

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Karl Gerhard Brastein Dahl  
*Member of the Board*

# KNOT Shuttle Tankers 26 AS

## Profit & Loss Account

	Note	2016	2015
<b>Operating Income</b>			
Operating Income	3	0	0
<b>Operating Expenses</b>			
Crew-hire		90 852	0
Other operating expenses		29 619	4 362
Administration	10, 11	365 177	150 563
<i>Total Operating Expenses</i>		<b>485 648</b>	<b>154 925</b>
<i>Operating Result</i>		<b>-485 648</b>	<b>-154 925</b>
<b>Financial Income and Expenses</b>			
Financial income	6	4 278 431	708
Foreign exchange gain/loss		-419 834	1 170 935
Financial expenses	6	-2 388 035	-2 537 328
<i>Net Financial Items</i>		<b>1 470 562</b>	<b>-1 365 684</b>
<i>Result before taxes</i>		<b>984 914</b>	<b>-1 520 610</b>
Taxes	12	-3 205 893	-379 661
<i>Result for the year</i>		<b>4 190 807</b>	<b>-1 140 949</b>



# KNOT Shuttle Tankers 26 AS

## Balance Sheet as of 31. December

	Note	2016	2015
<b>Assets</b>			
<b>Fixed assets</b>			
Vessel	4, 5	449 006 065	208 279 709
<i>Total Fixed Assets</i>		<b>449 006 065</b>	<b>208 279 709</b>
<b>Current Assets</b>			
Receivables		981 952	1 384 364
Current receivables group	7	170 039 836	192 106 827
Bank deposits	2	23 267 058	14 287 480
<i>Total Current Assets</i>		<b>194 288 846</b>	<b>207 778 671</b>
<i>TOTAL ASSETS</i>		<b>643 294 911</b>	<b>416 058 380</b>

KNOT Shuttle Tankers 26 AS

Balance Sheet as of 31. December

	Note	2016	2015
<b>Shareholders Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	8, 9	100 000	100 000
Share premium		2 064	2 064
Other paid-in equity		186 382 639	186 382 639
<i>Total capital paid-in</i>		<b>186 484 704</b>	<b>186 484 704</b>
Other equity		4 190 807	0
<i>Total Shareholders' Equity</i>	8	<b>190 675 511</b>	<b>186 484 704</b>
<b>Long - Term Debt</b>			
Deferred tax	12	786 288	4 196 944
Liabilities to financial institutions	5	270 409 162	46 698 022
Long-term debt group companies	7	0	173 773 870
Other long term liabilities related parties	5	178 432 419	0
<i>Total Long-Term Debt</i>		<b>449 627 869</b>	<b>224 668 836</b>
<b>Current Liabilities</b>			
Accounts payable	7	268 807	3 271 242
Accrued interest		2 347 124	1 633 598
Tax payable	12	204 763	0
Other current liabilities		170 837	0
<i>Total Current Liabilities</i>		<b>2 991 531</b>	<b>4 904 840</b>
<i>Total liabilities</i>		<b>452 619 400</b>	<b>229 573 676</b>
<i>SHAREHOLDERS' EQUITY AND LIABILITIES</i>		<b>643 294 911</b>	<b>416 058 380</b>

Haugesund, February 28, 2017



Trygve seglem  
chairman of the board



Fumitake Shishido  
member of the board



Karl Gerhard Brastein Dahl  
member of the board

KNOT SHUTTLE TANKERS 26 AS

CASHFLOW STATEMENT

	2016	2015
Total generated from operations 1)	984 914	-1 520 610
Change in working capital	-	
	171 755 496	3 517 706
Net cashflow from operations	-	
	170 770 582	1 997 096
Invested in vessel under construction	-	
	238 717 347	-208 279 709
Net cashflow from investments	-	
	238 717 347	-208 279 709
Net change in debt to group companies	-	
	173 773 870	173 751 549
Capitalized issuance costs	-329 669	-12 191 678
Net drawn debt from NYK	178 432 419	0
Paid in equity	192 106 827	0
Net drawn mortgage debt	222 031 800	58 889 700
Net cashflow from financing	418 467 507	220 449 571
Net cashflow for the year	8 979 579	14 166 959
+ Cash balance per 01.01.	14 287 480	120 522
<b>= Cash Balance per 31.12.</b>	<b>23 267 058</b>	<b>14 287 480</b>
1) Generated from operations:		
Result before tax	984 914	-1 520 610
=Total generated from operations	984 914	-1 520 610

**1 Accounting Principles**

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

**Current Assets/Current Liabilities**

Fixed assets are intended for long-term ownership and use. Other assets are classified as current assets. Short-term liabilities are due within one year or tied to the operation of the vessel. Other liabilities are classified as 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.

This principle is not used for current items in foreign currency, which are valued at the rate of exchange at the year-end.

**Fixed Assets**

The total cost of the vessel is capitalised at delivery and depreciated linearly to zero at the date 25 years after delivery of the vessel from newbuilding yard.

The total cost of the contract value is linearly capitalised over the contract period.

Dry-docking expenses are capitalised and expensed over the period till the next dry-docking. This is in line with the depreciation plan of the vessel, and takes into account that the vessel is classified to operate for an additional period. Dry-docking is carried out every 5th year for vessels less than 15 years, and every 2.5 year for vessels more than 15 years. In the case of a newbuilding, a portion of the total cost of the vessel equal to the dry-docking cost is capitalised. Actual expenses related to repair and maintenance of the vessel are expensed when the work is executed.

The fixed assets are valued according to the lowest of the depreciated value and the market value unless the fall in value is assumed to be temporary.

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### **Interest-bearing loan and borrowings**

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

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

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

### **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.

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.

### **Cash flow statement**

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

### **Related party transactions**

The Company has undertaken several agreements and transactions with related parties in the KNOT. The level of fees are based on market terms and are in accordance with the arm's length principle. KNOT Management AS delivers ship management services for the Company's vessel. Ship management fee includes services like technical management, crewing management, IT and energy management.

## 2 **Bank deposits**

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

## 3 **Contracts**

The company has entered into a construction contract with Hyundai Heavy Industries, South Korea, with hull number 2818. The company has paid 40 % of the contract sum per 31.12.2016. The remaining adjusted contract sum with changes amounted to USD 73 million. In addition to the contract sum, construction supervision and company specific adjustments to construction contract are incurred. The company has secured employment of the vessel with a 5 year fixed charter contract with charterer option to extend the fixed period to 7 year or 10 year with 5+5 years options to Brazil Shipping I Limited from delivery in 2nd quarter 2017.

The company has signed a contract regarding a construction supervision of the newbuilding with Knutsen OAS Shipping AS. KNOT Management AS operates as manager on behalf of the company in accordance with management agreement.

## 4 **Fixed Assets**

	2016	2015
<b><u>Vessel under construction</u></b>		
Book value 01.01.	208 279 709	0
Additions	240 726 356	208 279 709
Book value 31.12.	449 006 065	208 279 709

## 5 Mortgage Debt and Financial Instruments

<u>31.12.2016</u>	<u>USD</u>	<u>Historical rate</u>	<u>Rate as at 31.12.</u>	<u>NOK</u>
USD-loan	33 750 000	8,3236	8,3236	280 921 500
NYK loan	21 671 081	8,2337	8,2337	178 432 419
Deferred debt issuance				-10 512 338
				448 841 581
Current portion:				
USD-loan	4 537 000	8,3236	8,3236	37 764 173
Deferred debt issuance				-2 016 582
				35 747 591
<u>31.12.2015</u>	<u>USD</u>	<u>Historical rate</u>	<u>Rate as at 31.12.</u>	<u>NOK</u>
USD-loan	6 750 000	8,7244	8,7244	58 889 700
Deferred debt issuance				-12 191 678
				46 698 022
Current portion:				
USD-loan	0			0
Deferred debt issuance				-1 963 393
				-1 963 393

The USDNOK exchange rate at the year-end was 8,6456 (8,7986 in 2015).

The estimated outstanding debt per 31.12.2021 is USD 74 million.

The company has aimed to reduce the market risk by entering financial contracts. Hedge accounting has been applied for revenue in USD (cash flow hedge). Loans in USD are used as hedging instrument. The profit and loss impact of the hedging instrument (loan in USD) is presented together with the hedged risk. This implies that realized currency gain/losses on the loans are presented as an increase/reduction of operating income.

Future income flows from anticipated fixed contracts in USD exceed debt in USD. Therefore it is not recognized foreign exchange gains/losses on USD debt on the basis of the year-end exchange rate. Per 31.12.2016 the not recorded foreign exchange loss (i.e. off-balance) is NOK 19.8 million compared to a loss of NOK 0.5 million as per 31.12.2015.

Security for the loan is made through a first priority in the vessel, transportation of income, pledged bank deposit, factoring agreement, pledged shares in the company and guarantees from the owner.

Book value of mortgaged assets is NOK 643 million (NOK 416 million in 2015).

## 6 Financial Income and -Expenses

	2016	2015
<b>Financial Income:</b>		
Interest income fra group companies	4 266 895	0
Other interest income	11 536	708
Total financial income	4 278 431	708
<b>Financial expenses:</b>		
Interest expenses to group companies	1 736 802	0
Other financial expenses	651 233	2 537 328
Total financial expenses	2 388 035	2 537 328

## 7 Intercompany balances

	2016	2015
<b>Accounts payable</b>		
Knutsen OAS Shipping AS	6 700	0

## 8 Equity

Specification of the equity per 31.12.

	Share capital	Share premium	Additional paid-in capital	Other equity	Total equity
Equity 01.01.	100 000	2 064	186 382 639	0	186 484 704
Group contribution, net	0	0	0	0	0
Result for the year	0	0	0	4 190 807	4 190 807
Equity 31.12.	100 000	2 064	186 382 639	4 190 807	190 675 512

Share capital consist of 100 shares à NOK 1,000

Knutsen NYK Offshore Tankers AS owns all the shares in the company. Financial statements for the group can be obtained at company's registered office, Smedasundet 40, 5529 Haugesund.

## 9 Shares Owned by Board Members and Affiliates

Trygve Seglem controls TS Shipping Invest AS, which owns 50% of the parent company Knutsen NYK Offshore Tankers AS.

## 10 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.

	2016	2015
<b>Auditors remuneration (excl. VAT):</b>		
Audit	0	0
Tax advice	0	0
Other services besides audit	0	2 306
	0	2 306



## 11 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.

## 12 Tax

The company is taxed based on the shipping tax regime after entrance to the regime in 2016. This means that companies are not taxed on the basis of its operating results. There are however ordinary tax of 25% on the company's net financial income. At the same time the company is within the tonnage tax scheme, the tonnage tax is calculated, which in 2016 amounted to NOK 0. Tonnage tax is classified as an operating expense.

There are a number of requirements to be within the scheme, including ownership of ship or shares in shipping companies and only certain types of financial assets.

Temporary differences relating to financial items are assessed when calculating deferred tax / benefit, which is 24% of net temporary differences. The accounting treatment follows the general valuation rules for capitalization.

Entrance to the tonnage tax regime resulted in an entrance tax. Entrance tax is calculated as the difference between the market value and the tax value.

### Entrance tax

Difference between market value and tax value	4 095 250
Short-term tax payable basis (20%)	819 050
Long-term tax payable basis (80%)	3 276 200
Tax payable short-term, 25% tax rate	204 763
Tax payable long-term, 24% tax rate	786 288
<b>Payable tax costs calculated</b>	<b>991 051</b>

### Specification on the temporary differences:

	<u>31.12.2016</u>	<u>Change</u>	<u>31.12.2015</u>
Temporary differences vessel	0	4 095 250	4 095 250
Temporary differences mortgage debt	0	12 692 528	12 692 528
Gain and loss account	-3 276 200	3 276 200	0
Loss carried forward	-11 730 906	11 730 906	0
Temporary differences	-15 007 106	31 794 884	16 787 778
Calculated deferred tax	3 601 705	-595 238	4 196 944
Deferred tax in balance	786 288	-3 410 656	4 196 944

Deferred tax assets related to losses carried forward are only recognized to the extent that there is convincing evidence that these will be utilized in the future.

	2016
<b>Tax cost</b>	
Financial Results	1 470 562
Capitalized interest rate swaps and guarantee provisions	-8 185 914
Part of taxable income in the underlying KS	0
Non-deductible interest / taxable interest	-5 466 136
Foreign exchange gain/loss, not taxable	450 583
<b>Tax base prior losses carried forward</b>	<b>-11 730 906</b>
Change in tax losses carried forward	-11 730 906
<b>Base for tax payable</b>	<b>0</b>
Tax payable	204 763
Change deferred tax	-3 410 656
<b>Tax costs calculated</b>	<b>-3 205 893</b>

## INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of KNOT Shuttle Tankers 26 AS

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of KNOT Shuttle Tankers 26 AS, which comprise the balance sheet as at 31 December 2016, 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 of KNOT Shuttle Tankers 26 AS 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 2016 and its financial performance 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, 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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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**

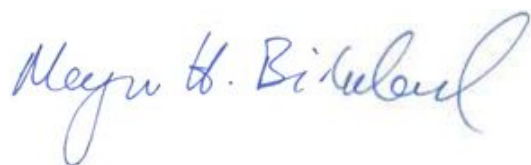
##### **Opinion on the Board of Directors' report**

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 have fulfilled their 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, 6 March 2017  
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Magnus H. Birkeland  
State Authorised Public Accountant (Norway)

Independent auditor's report - KNOT Shuttle Tankers 26 AS

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