

**Unaudited Financial Statements for the Year Ended 31<sup>st</sup> December 2019**

**For**

**KNOT Offshore Partners UK LLC**

**Company Number: FC031286**  
**UK Establishment number: BR016352**



**KNOT Offshore Partners UK LLC Unaudited Financial Statements as of and for the Year Ended December 31, 2019**

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**KNOT Offshore Partners UK LLC**  
**Statement of Profit and Loss**  
For the Years Ended December 31, 2019 and December 31, 2018  
*(U.S. Dollars)*

		<b>Year Ended December 31,</b>	<b>Year Ended December 31,</b>
	<b>Notes</b>	<b>2019</b>	<b>2018</b>
<b>Revenue</b>			
Rendering of services	2(j), 4, 5, 13	\$ 1,428,204	\$ 1,394,724
<b>Total revenues</b>		<u>1,428,204</u>	<u>1,394,724</u>
 General and administrative expenses	 13	 <u>(1,404,664)</u>	 <u>(1,330,856)</u>
<b>Operating profit</b>		<u>23,540</u>	<u>63,868</u>
 Finance income (expense):			
Interest income	6(c)	39,963	750
Interest expense	6(a)	—	(187)
Other finance expense	6(b)	(1,233)	(1,394)
Net gain (loss) on foreign currency transactions	2(b)	<u>(10,097)</u>	<u>(19,004)</u>
<b>Total finance expense</b>		<u>28,633</u>	<u>(19,835)</u>
 <b>Profit (loss) before income taxes</b>		 52,173	 44,033
Income tax benefit (expense)	12	<u>(10,233)</u>	<u>(8,749)</u>
 <b>Profit for the Year</b>		 <u><u>\$ 41,940</u></u>	 <u><u>\$ 35,284</u></u>

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

**KNOT Offshore Partners UK LLC**  
**Statement of Comprehensive Income**  
For the Years Ended December 31, 2019 and December 31, 2018  
*(U.S. Dollars)*

	<b>Notes</b>	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>
<b>Profit for the Period</b>		\$ 41,940	\$ 35,284
Other comprehensive income, net of tax		—	—
<b>Comprehensive income</b>		<u>41,940</u>	<u>35,284</u>


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

**KNOT Offshore Partners UK LLC**  
**Statement of Financial Position**  
**As of December 31, 2019 and 2018**  
**(U.S. Dollars)**

		December 31,	
	Notes	2019	2018
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	2(g)	\$ 2,439,590	\$ 610,100
Trade accounts receivable	2(c), 7(a)	332,082	368,774
Amount due from related parties	13(c)	109,434	104,817
Other current assets	7(b)	9,938	6,496
<b>Total current assets</b>		2,891,044	1,090,187
Investment in subsidiaries	2(d), 3, 8	445,328,574	525,128,574
<b>Total assets</b>		<u>\$ 448,219,618</u>	<u>\$ 526,218,761</u>
<b>Equity and Liabilities</b>			
<b>Current liabilities:</b>			
Trade accounts payable	9	\$ 270,123	\$ 313,186
Accrued expenses		3,500	7,530
Other taxes & social security costs		58,815	51,343
Income tax payable	12	7,292	8,754
<b>Total current liabilities</b>		339,730	380,813
<b>Total liabilities</b>		339,730	380,813
<b>Equity:</b>			
Share capital	11	267,001,000	267,001,000
Other paid-in equity		180,628,574	258,628,574
Retained earnings		250,314	208,374
<b>Total equity</b>		447,879,888	525,837,948
<b>Total liabilities and equity</b>		<u>\$ 448,219,618</u>	<u>\$ 526,218,761</u>

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

Approved by the Board of Directors on *the 5<sup>th</sup> November 2020* and signed on its behalf by:

  
 \_\_\_\_\_  
 Name: Gary Chapman  
 Title: Director

**KNOT Offshore Partners UK LLC**  
**Statements of Change in Equity**  
For the Years Ended December 31, 2019 and December 31, 2018  
*(U.S. Dollars)*

<i>(U.S. Dollars in thousands)</i>	<b>Issued Capital</b>	<b>Other Paid-in Equity</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
At December 31, 2017	267,001,000	270,128,574	173,090	537,302,664
Cash distributions to KNOP	—	(11,500,000)	—	(11,500,000)
Profit for the year	—	—	35,284	35,284
<b>At December 31, 2018</b>	<b>267,001,000</b>	<b>258,628,574</b>	<b>208,374</b>	<b>525,837,948</b>
Cash distributions to KNOP	—	(78,000,000)	—	(78,000,000)
Profit for the year	—	—	41,940	41,940
<b>At December 31, 2019</b>	<b><u>267,001,000</u></b>	<b><u>180,628,574</u></b>	<b><u>250,314</u></b>	<b><u>447,879,888</u></b>

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

## **NOTE 1 Basis for the Preparation of the financial information**

The financial statements of KNOT Offshore Partners UK LLC ("the Company") have been prepared in accordance with the provisions of section 396 and the accounting principles within Schedule 4 to The Overseas Companies Regulations 2009/1801. The financial statements of the Company are not audited.

The Company does not prepare consolidated accounts since it is not required by the Regulations (section 402a).

The Company and its investments are consolidated in KNOP's consolidated financial statements. The consolidated financial statements of the Company's parent company, KNOT Offshore Partners LP ("KNOP"), is available on the website ([www.knotoffshorepartners.com](http://www.knotoffshorepartners.com)).

## **NOTE 2 Accounting Principles**

### **(a) Reporting Entity**

The Company was formed as a limited liability company under the laws of the Republic of the Marshall Islands on 22<sup>nd</sup>, February 2013 and is the management entity of KNOT Shuttle Tankers AS and its subsidiaries, which are ship-owning entities. (See NOTE 3 – Subsidiaries) The Company is a wholly owned subsidiary of KNOP and provides KNOP with administrative services and subcontracts certain of those services to Knutsen NYK Offshore Tankers AS ("KNOT"), Knutsen OAS Shipping AS ("KOAS"), and Knutsen OAS(UK) Limited ("KOAS UK").

The parent entity of the Company, KNOP, is a master limited partnership listed on the New York Stock Exchange (NYSE), and owned 72.2% by public unitholders, 25.7% by KNOT, and 2.1% by KNOT Offshore Partners GP LLC ("KNOT GP") at 31 December 2019. KNOT is owned 50% by TS Shipping Invest AS ("TSSI") and 50% by Nippon Yusen Kabushiki Kaisha ("NYK"). KNOT Management AS, a 100% owned subsidiary of KNOT, assumes responsibility for the commercial and technical management of the Vessels owned by KNOP Group.

### **(b) Reporting Currency**

The financial statements are prepared in the reporting currency of US Dollars. Transactions involving other currencies during the period are converted into US Dollars using the exchange rates in effect at the time of the transactions. As of the statement of financial position date, monetary assets and liabilities that are denominated in currencies other than the US Dollar are translated to reflect the year-end exchange rates. Resulting gains and losses are reflected separately in the accompanying statement of profit and loss.

### **(c) Trade Accounts Receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company establishes provisions for doubtful accounts on a case-by-case basis when it is unlikely that required payments of specific amounts will occur. In establishing these provisions, the Company considers the financial condition of the customer as well as specific circumstances related to the receivable. Receivable amounts determined to be unrecoverable are written-off. There were no provisions regarding allowance for doubtful accounts or amounts written-off against the allowance for doubtful accounts as of December 31, 2019. The Company does not have any off-balance-sheet credit exposure related to its customers.

### **(d) Investment in subsidiaries and associated companies**

Investments in subsidiaries are accounted for at cost. The investments are measured at the lower of their carrying amount and fair value less costs to sell. Dividends from a subsidiary, joint venture or an associate are recognized in profit and loss in the Company's financial statements when its right to receive the dividend is established, or credited against the balance sheet account for investment in subsidiaries (other equity).

**(e) Current assets/current liabilities**

Current assets are valued at the lower of historical and market value in the statement of financial position. Current liabilities are in the same manner valued at the higher of cost and market value. This principle is not used for current items in foreign currency, which are valued at the rate of exchange at the year-end.

**(f) Income tax**

The tax expense in the income statement includes both tax payable and changes in deferred tax. Deferred tax is calculated on the basis of temporary differences between accounting and tax values and tax loss carried forward at the year end. Tax increasing and tax reducing temporary differences which reverse or may be reversed in the same period are assessed and netted.

**(g) Cash and short-term deposits**

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less.

**(h) Commitments and Contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. The Company does not have any commitments or contingencies as of December 31, 2019. See Note 14 – Commitments and Contingencies.

**(i) Fair Value Measurements**

The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. 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.

**(j) Revenue Recognition**

Revenue is recognized to the extent it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty.

**NOTE 3 Subsidiaries**

The following is the Company's only direct subsidiary, and its purpose, as of December 31, 2019.

<u>Company Name</u>	<u>Jurisdiction of Formation</u>	<u>Purpose</u>
KNOT Shuttle Tankers AS ("KST")	Norway	Holding company



**NOTE 4 Significant Risks and Uncertainties Including Business and Credit Concentrations**

The Company is a 100% owned subsidiary of KNOP and the Company's revenue is earned by providing administrative services to KNOP.

The following table presents revenues and percentage of combined revenues for customers that accounted for more than 10% of the combined revenues during the year ended December 31, 2019 and December 31, 2018.

<i>(U.S. Dollars)</i>	<b>Year Ended December 31, 2019</b>		<b>Year Ended December 31, 2018</b>	
KNOT Offshore Partners LP	\$	1,428,204 100%	\$	1,394,724 100%

**NOTE 5 Segment Information**

The Company has not presented segment information as the Company's operation is only administrative services to KNOP.

**NOTE 6 Finance Income (Expense)*****(a) Interest Expense***

The total interest expense as reported in the statement of profit and loss for the year ended December 31, 2019 and year ended December 31, 2018 is as follows:

<i>(U.S. Dollars )</i>	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>
Bank interest	\$ —	\$ —
Tax authority interest	—	187
Total interest expense	<u>\$ —</u>	<u>\$ 187</u>

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

The following table presents the other finance expense for the year ended December 31, 2019 and year ended December 31, 2018:

<i>(U.S. Dollars )</i>	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>
Bank charges and foreign exchange fees	\$ 1,233	\$ 1,394
Total other finance expense	<u>\$ 1,233</u>	<u>\$ 1,394</u>

**(c) Interest Income**

The total interest income as reported in the statement of profit and loss for the year ended December 31, 2019 and year ended December 31, 2018 is as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
(U.S. Dollars)		
Bank Interest	\$ 39,963	\$ 750
Total interest income	<u>\$ 39,963</u>	<u>\$ 750</u>

**NOTE 7 Trade Accounts Receivable and Other Current Assets**

**(a) Trade Accounts Receivable**

Trade accounts receivable consist of the following:

	December 31,	
(U.S. Dollars)	2019	2018
Receivable from KNOP	\$ 332,082	\$ 368,774
Total trade accounts receivable	<u>\$ 332,082</u>	<u>\$ 368,774</u>

The amount is presented net of provisions for doubtful accounts. As of December 31, 2019, there was no provision for doubtful accounts.

**(b) Other Current Assets**

Other current assets consist of the following:

	December 31,	
(U.S. Dollars)	2019	2018
Refund of value added tax	\$ 6,299	\$ 6,496
Other receivable	3,639	—
Total other current assets	<u>\$ 9,938</u>	<u>\$ 6,496</u>

**NOTE 8 Investments in Subsidiaries**

The following is the Company's investment in its direct subsidiary as of December 31, 2019, and 2018.

	Jurisdiction of formation	Percentage of shares held by the Company	Number of shares	Book value of investment	
				December 31,	
				2019	2018
KNOT Shuttle Tankers AS-share capital	Norway	100%	3,000	\$ 326,400,000	\$ 326,400,000
-other equity				\$ <u>118,928,574</u>	\$ <u>198,728,574</u>
				\$ <u>445,328,574</u>	\$ <u>525,128,574</u>

During the year, the company received dividends of \$79,800,000 from KNOT Shuttle Tankers AS ("KST") which were credited to its investment in KST other equity, as above.

**NOTE 9 Trade Accounts Payable**

Trade accounts payable consist of the following:

	December 31,	
	2019	2018
<i>(U.S. Dollars)</i>		
Payable to KNOT	\$ 50,574	\$ 56,279
Payable to KOAS	147,312	146,465
Payable to KOAS UK	67,982	110,390
Payable to non-related parties	4,255	52
Total trade accounts payable	\$ <u>270,123</u>	\$ <u>313,186</u>

**NOTE 10 Long-Term Debt**

The Company does not have any long-term debt as of December 31, 2019 and 2018.

**NOTE 11 Share Capital**

Share capital of the Company consists of the following:

*(U.S. Dollars)*

Owner	Share Capital	Number of units	Percentage of share held by KNOP	Equity at 31.12.2019
KNOT Offshore Partners LP	267,001,000	2,560	100%	447,879,888

**NOTE 12 Income Tax****Components of Current and Deferred Tax Expense**

<i>(U.S. Dollars)</i>	<b>Year ended December 31, 2019</b>	<b>Year ended December 31, 2018</b>
Income before income taxes	52,173	44,033
Income tax expense at standard UK tax rate of 19% (2018: 19%)	9,913	8,366
Effect of:		
Expenses not deductible	518	457
Amounts not recognised	(198)	(69)
Tax charge for the year	10,233	8,754
Prior year re-allocation from HMRC	-	(5)
Tax charge in statement of profit and loss	<u>\$ 10,233</u>	<u>\$ 8,749</u>

The balance sheet figure for income tax payable at year ended December 31, 2019 consists of the 2019 charge of \$ 10,233, less a refund of \$ 2,941 relating to 2018, resulting in a net liability of \$ 7,292.

**NOTE 13 Related Party Transactions****(a) Related Parties transactions in profit and loss statement.**

The Company has charged KNOP for administrative services, and this constitutes its only source of earned income.

The Company has been charged by KNOT, KOAS and KOAS UK for administrative services. The amounts of such income and expenses included in statement of profit and loss for the year ended December 31, 2019 and the year ended December 31, 2018 are as follows:

<i>(U.S. Dollars )</i>	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>
<b>Statement of Profit and Loss:</b>		
<i>Rendering of services:</i>		
General administration service fee charged to KNOP (1)	1,428,204	1,394,724
<i>General and administrative expenses:</i>		
Administration fee from KNOT (2)	277,231	161,702
Administration fee from KOAS (3)	663,302	583,056
Administration fee from KOAS UK (4)	116,434	122,503
Total	<u>\$ 371,237</u>	<u>\$ 527,463</u>

- (1) *General administration service fee charged to KNOP:* The Company provides KNOP with administrative services.
- (2) *Administration fee from KNOT:* The Company subcontracts certain of the administrative services provided under administrative agreement to KNOT.
- (3) *Administration fee from KOAS:* The Company subcontracts certain of the administrative services provided under administrative agreement to KOAS.
- (4) *Administration fee from KOAS UK:* The Company subcontracts certain of the administrative services provided under administrative agreement to KOAS UK.

***(b) Transactions with Management and Directors***

On the 1 June 2019, John Costain resigned as the Company's CEO/CFO. Gary Chapman was then appointed, as from 1 June 2019, to serve as the Company's Chief Executive Officer and Chief Financial Officer. His annualized base salary is 240,000 British Pounds. The Company paid directors' fees of \$10,000 each for Richard Beyer and Andrew Beveridge in the year ended December 31, 2019.

***(c) Amounts Due from/(to) Related Parties***

Balances with related parties consisted of the following:

<i>(U.S. Dollars)</i>	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Balance Sheets:</b>		
Trading balances due from KNOP	\$ 109,434	\$ 104,817
Amount due from related parties	<u>\$ 109,434</u>	<u>\$ 104,817</u>

Amounts due from/(to) related parties are unsecured and intended to be settled in the ordinary course of business. They primarily relate to administrative service and other receivables due from KNOP.

**NOTE 14 Commitments and Contingencies**

As of December 31, 2019 and 2018, the Company does not have any asset that is pledged as security or held as guarantee for any obligation, and is not involved in any legal litigation or settlement that could adversely affect financial position, results of profit and loss, or cash flows.