UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period __________ from __________ to

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

Commission file number 001-35866

KNOT OFFSHORE PARTNERS LP

(Exact Name of Registrant as Specified in its Charter)

Republic of the Marshall Islands

(Jurisdiction of Incorporation or Organization)

2 Queens Cross

Aberdeen, Aberdeenshire

AB15 4YB, United Kingdom

(Address of Principal Executive Offices)

John Costain

2 Queens Cross

Aberdeen, Aberdeenshire

AB15 4YB, United Kingdom

E-mail: jco@knotoffshorepartners.com

Telephone: 44 (0) 1224 618420

Facsimile: 44 (0) 1224 624891

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common units representing limited partner interests	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

18,626,594 common units representing limited partner interests

8,567,500 subordinated units representing limited partner interests

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Table of Contents

KNOT Offshore Partners LP

INDEX TO REPORT ON FORM 20-F

Table of Contents

Table of Contents

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F for the year ended December 31, 2015 (this Annual Report) contains certain forward-looking statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto, including our financial forecast. In addition, we and our representatives may from time to time make other oral or written statements that are also forward-looking statements. Such statements include, in particular, statements about our plans, strategies, business prospects, changes and trends in our business, and the markets in which we operate as described in this Annual Report. In some cases, you can identify the forward-looking statements by the use of words such as may, could, should, would, expect, plan, anticipate, forecast, believe, estimate, predict, propose, potential, continue or the negative of these terms or other con terminology. These forward-looking statements reflect management s current views only as of the date of this Annual Report and are not intended to give any assurance as to future results. As a result, unitholders are cautioned not to rely on any forward-looking statements.

Forward-looking statements appear in a number of places in this Annual Report and 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 KNOT Offshore Partners ability to build shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers;
- forecasts of KNOT Offshore Partners ability to make or increase distributions on its units and the amount of any such distributions;
- KNOT Offshore Partners ability to integrate and realize the expected benefits from acquisitions;
- KNOT Offshore Partners 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 KNOT Offshore Partners operating expenses, including drydocking and insurance costs and bunker prices;

KNOT Offshore Partners future financial condition or results of operations and future revenues and expenses;

the repayment of debt and settling of any interest rate swaps;

KNOT Offshore Partners ability to make additional borrowings and to access debt and equity markets;

planned capital expenditures and availability of capital resources to fund capital expenditures;

KNOT Offshore Partners ability to maintain long-term relationships with major users of shuttle tonnage;

KNOT Offshore Partners ability to leverage KNOT s relationships and reputation in the shipping industry;

KNOT Offshore Partners ability to purchase vessels from KNOT in the future;

KNOT Offshore Partners continued ability to enter into long-term charters, which KNOT Offshore Partners defines as charters of five years or more;

KNOT Offshore Partners ability to maximize the use of its vessels, including the re-deployment or disposition of vessels no longer under long-term charter;

the financial condition of KNOT Offshore Partners 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 KNOT Offshore Partners vessels;

Table of Contents

- KNOT Offshore Partners ability to compete successfully for future chartering and newbuild opportunities;
- acceptance of a vessel by its charterer;
- termination dates and extensions of charters;
- the expected cost of, and KNOT Offshore Partners ability to, comply with governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by its charterers applicable to KNOT Offshore Partners business;
- availability of skilled labor, vessel crews and management;
- KNOT Offshore Partners general and administrative expenses and its fees and expenses payable under the technical management agreements, the management and administration agreements and the administrative services agreement;
- the anticipated taxation of KNOT Offshore Partners and distributions to KNOT Offshore Partners unitholders;
- estimated future maintenance and replacement capital expenditures;
- KNOT Offshore Partners 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 KNOT Offshore Partners securities in the public market; and
- KNOT Offshore Partners business strategy and other plans and objectives for future operations.

Forward-looking statements in this Annual Report are made 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 Item 3. Key Information Risk Factors. The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond KNOT Offshore Partners control. KNOT Offshore Partners cautions that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

KNOT Offshore Partners undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible to predict all of these factors. Further, KNOT Offshore Partners cannot assess the impact of each such factor on its 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. KNOT Offshore Partners makes no prediction or statement about the performance of its common units. The various disclosures included in this Annual Report and in KNOT Offshore Partners other filings made with the Securities and Exchange Commission (the SEC) that attempt to advise interested parties of the risks and factors that may affect KNOT Offshore Partners business, prospects and results of operations should be carefully reviewed and considered.

2

Table of Contents

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following selected financial data should be read in conjunction with Item 5. Operating and Financial Review and Prospects and the consolidated and combined carve-out financial statements and accompanying notes included in this Annual Report. Unless the context otherwise requires, references herein to KNOT Offshore Partners, we, our, us ar the Partnership or similar terms refer to KNOT Offshore Partners LP, a Marshall Islands limited partnership, or any one or more of its subsidiaries, or to all such entities. References to KNOT refer, depending on the context, to Knutsen NYK Offshore Tankers AS and to any one or more of its direct and indirect subsidiaries. References to KNOT Management refer to KNOT Management AS, the entity that provides us with crew, technical and commercial management services. References to our general partner refer to KNOT Offshore Partners GP LLC, the general partner of the Partnership. References to KNOT UK refer to KNOT Offshore Partners UK LLC, a wholly owned subsidiary of the Partnership. References to TSSI refer to TS Shipping Invest AS, and references to NYK refer to Nippon Yusen Kaisha, each of which holds a 50% interest in KNOT. References to KOAS UK refer to Knutsen OAS (UK) Ltd., a wholly owned subsidiary of TSSI. References to KOAS refer to Knutsen OAS Shipping AS, a wholly owned subsidiary of TSSI.

The following table presents, in each case for the periods and as of the dates indicated, our selected consolidated and combined carve-out financial and operating data, which includes, for periods prior to the closing of our initial public offering (IPO) on April 15, 2013, selected consolidated and combined carve-out financial and operating data of the Partnership and its subsidiaries that had interests in the *Windsor Knutsen*, the *Bodil Knutsen*, the *Recife Knutsen* and the *Fortaleza Knutsen*.

Pursuant to our partnership agreement, our general partner has irrevocably delegated to our 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 our IPO until the time of our first annual meeting of unitholders on June 25, 2013, our general partner retained the sole power to appoint, remove and replace all members of our board of directors. At our first annual meeting of unitholders, four of the seven board members became electable by the common unitholders and accordingly, from this date, KNOT, as the owner of our general partner, no longer retained the power to control our board of directors and hence us. As a result, we are no longer considered to be under common control with KNOT, and, as a consequence, we no longer account for any vessel acquisitions from KNOT after June 25, 2013 as a transfer of equity interests between entities under common control.

In August 2013, June 2014, December 2014, June 2015 and October 2015 we acquired KNOT s 100% interest in the companies that own and operate the shuttle tankers, the *Carmen Knutsen*, the *Hilda Knutsen* and *Torill Knutsen,* the *Dan Cisne*, the *Dan Sabia* and the *Ingrid Knutsen* respectively, each of which we accounted for as an acquisition of a business. Accordingly, the results of these acquisitions are included in our results from the dates of their respective acquisition. There has been no retroactive restatement of our financial statements to reflect the historical results of the *Carmen Knutsen*, the *Hilda Knutsen,* the *Torill Knutsen,* the *Dan Cisne,* the *Dan Sabia* and the *Ingrid Knutsen* prior to their respective acquisition.

The following financial data should be read in conjunction with Item 5. Operating and Financial Review and Prospects and the consolidated and combined carve-out financial statements and accompanying notes included in this Annual Report.

Our financial position, results of operations and cash flows could differ from those that would have resulted if we operated autonomously or as an entity independent of KNOT in the periods prior to our IPO for which historical financial and operating data are presented below, and such data may not be indicative of our future operating results or financial performance.

Table of Contents

	Year Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(U.S. Dollars in thousands, except per unit amounts and fleet data)				
Statement of Operations Data:					
Total revenues	$ 155,024	$ 112,841	$ 73,401	$ 65,653	$ 43,909
Voyage expenses (1)					2,653
Net voyage revenues	155,024	112,841	73,401	65,653	41,256
Vessel operating expenses(2)	27,543	23,879	14,288	13,000	10,795
Depreciation	48,844	34,322	23,768	21,181	16,229
General and administrative expenses	4,290	4,323	5,361	4,834	927
Goodwill impairment charge	6,217				
Operating income	68,130	50,317	29,984	26,638	13,305
Interest income	8	13	30	19	34
Interest expense	(17,451)	(15,271)	(10,773)	(13,471)	(9,650)
Other finance expense	(504)	(1,271)	(2,048)	(3,378)	(2,741)
Realized and unrealized gain (loss) on derivative instruments	(9,695)	(6,407)	505	(6,031)	(15,489)
Net gain (loss) on foreign currency transactions	(105)	26	193	(1,771)	(3,037)
Income (loss) before income taxes	40,383	27,407	17,891	2,006	(17,578)
Income tax benefit (expense)	59	(15)	(2,827)	(1,261)	1,240
Net income (loss)	$ 40,442	$ 27,392	$ 15,064	$ 745	$ (16,338)
Earnings Per Unit (Basic and Diluted):					
Common units	$ 1.499	$ 1.369	$ 1.063	$	$
Subordinated units	1.708	1.343	1.065		
General partner units	1.487	1.329	1.063		
Cash distributions declared and paid per unit	2.030	1.795	0.752		
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 23,573	$ 30,746	$ 28,836	$ 1,287	$ 3,189
Vessels and equipment, net	1,192,927	1,021,857	617,785	496,768	517,897
Total assets	1,223,870	1,070,748	660,173	511,811	534,603
Long-term debt (including current portion and seller s credits)	671,690	613,221	349,977	347,850	375,933
Owners equity				97,194	67,370
Partners capital	520,770	419,365	281,927		
Cash Flows Data:					
Net cash provided by operating activities	$ 89,160	$ 59,339	$ 44,160	$ 19,307	$ 11,473
Net cash used in investing activities	(46,488)	(121,946)	(55,468)	(52)	(138,104)
Net cash provided by (used in) financing activities	(49,575)	64,768	38,890	(21,156)	126,445
Fleet Data:					
Number of shuttle tankers in operation at end of period	10	8	5	4	4
Average age of shuttle tankers in operation at end of period (years)	4.1	3.3	3.1	2.7	1.7

Total calendar days for fleet	3,197	2,209	1,613	1,464	988.7
Total operating days for fleet(3)	3,193	2,196	1,606	1,377	973.6
Other Financial Data:					
EBITDA(4)	$ 106,670	$ 76,987	$ 52,402	$ 36,639	$ 8,267
Adjusted EBITDA(4)	116,974	84,639	53,752	47,819	29,534

(1) Voyage expenses are all expenses unique to a particular voyage, including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees.

(2) Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses.

(3) The operating days for our fleet is the total number of days in a given period that the vessels were in our possession less the total number of days off-hire. We define days off-hire as days lost to, among other things, operational deficiencies, drydocking for repairs, maintenance or inspection, equipment breakdowns, special surveys and vessel upgrades, delays due to accidents, crewing strikes, certain vessel detentions or similar problems, our failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew, or periods of commercial waiting time during which we do not earn hire rates.

(4) Please read Non-U.S. GAAP Financial Measures below.

Table of Contents

Non-U.S. GAAP Financial Measures

EBITDA and Adjusted EBITDA. EBITDA is defined as earnings before interest, depreciation and taxes. Adjusted EBITDA is defined as earnings before interest, depreciation, taxes, goodwill impairment charges and other financial items (including other finance expense, realized and unrealized gain (loss) on derivative instruments and net loss on foreign currency transactions). EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as our lenders, to assess our financial and operating performance and our compliance with the financial covenants and restrictions contained in our financing agreements. Adjusted EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as investors, to assess our financial and operating performance. We believe that Adjusted EBITDA assists our management and investors by increasing the comparability of our performance from period to period and against the performance of other companies in our industry that provide Adjusted EBITDA information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest, other financial items, goodwill impairment charges, depreciation and taxes, which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. We believe that including Adjusted EBITDA as a financial and operating measure benefits investors in (1) selecting between investing in us and other investment alternatives and (2) monitoring our ongoing financial and operational strength in assessing whether to continue to hold common units.

EBITDA and Adjusted EBITDA should not be considered alternatives to net income, operating income, cash flow from operating activities or any other measure of financial performance presented in accordance with accounting principles generally accepted in the United States (U.S. GAAP). EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies. The following tables reconcile EBITDA and Adjusted EBITDA to net cash provided by operating activities and net income, the most directly comparable financial measures presented in accordance with U.S. GAAP, for the periods presented.

	Year Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(dollars in thousands)				
Reconciliation to net cash provided by operating activities:					
Net cash provided by operating activities	$ 89,160	$ 59,339	$ 44,160	$ 19,307	$ 11,473
Interest income	(8)	(13)	(30)	(19)	(34)
Interest expense	17,451	15,271	10,773	13,471	9,650
Amortization of contract intangibles / liabilities	1,518	1,518	1,518	1,518	868
Amortization of deferred revenue	1,913	1,170	427	427	285
Amortization of deferred debt issuance cost	(1,149)	(3,021)	(1,741)	(982)	(658)
Goodwill impairment charge	(6,217)				
Income taxes paid	348	731			
Unrealized gain (loss) on derivative instruments	(390)	(3,910)	1,770	(549)	(8,923)
Unrealized gain (loss) on foreign currency transactions	(22)	136	(32)	(579)	(3,056)

Other items		16		(1)	(2,962)
Change in operating assets and liabilities:					
Decrease (increase) in trade accounts receivable			(99)	6	93
Decrease (increase) in receivables from owners and affiliates					(386)
Decrease (increase) in amounts due from related parties	(1,008)	49	77		
Decrease (increase) in inventories	(210)	(58)	(197)	71	(218)
Decrease (increase) in other current assets	(1,222)	172	(2,555)	1,609	211
Increase (decrease) in trade accounts payable	(45)	(337)	(662)	334	7,874
Increase (decrease) in accrued expenses	737	2,092	(771)	342	(324)
Increase (decrease) in prepaid revenue	4,306	(793)	(101)	1,684	(5,626)
Increase (decrease) in amounts due to related parties	1,508	4,625	(109)		
Increase (decrease) in other liabilities			(26)		
EBITDA	$ 106,670	$ 76,987	$ 52,402	$ 36,639	$ 8,267
Other financial items[(a)]	10,304	7,652	1,350	11,180	21,267
Adjusted EBITDA	$ 116,974	$ 84,639	$ 53,752	$ 47,819	$ 29,534

[Table of Contents](#)

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands)				
Reconciliation to net income (loss):					
Net income (loss)	$ 40,442	$ 27,392	$ 15,064	$ 745	$ (16,338)
Interest income	(8)	(13)	(30)	(19)	(34)
Interest expense	17,451	15,271	10,773	13,471	9,650
Depreciation	48,844	34,322	23,768	21,181	16,229
Income tax (benefit) expense	(59)	15	2,827	1,261	(1,240)
EBITDA	$ 106,670	$ 76,987	$ 52,402	$ 36,639	$ 8,267
Other financial items[(a)]	10,304	7,652	1,350	11,180	21,267
Adjusted EBITDA	$ 116,974	$ 84,639	$ 53,752	$ 47,819	$ 29,534

(a) Other financial items consist of other finance expense, realized and unrealized (gain) loss on derivative instruments, and net (gain) loss on foreign currency transactions.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common units. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results or cash available for distributions or the trading price of our common units.

Risks Inherent in Our Business

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses to enable us to pay the minimum quarterly distribution on our common units and subordinated units.

We may not have sufficient cash from operations to pay the minimum quarterly distribution of $0.375 per unit on our common units and subordinated units. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which may fluctuate from quarter to quarter based on the risks described in this section, including, among other things:

- the charter rates we obtain from our customers;

the number of off-hire days for our fleet and the timing of, and number of days required for, drydocking of vessels;

Table of Contents

- the level of our operating costs, such as the cost of crews and insurance;
- currency exchange rate fluctuations;
- the supply of shuttle tankers;
- the demand for shuttle tankers;
- the price and level of production of, and demand for, crude oil;
- prevailing global and regional economic and political conditions;
- changes in local income tax rates; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business.

In addition, the actual amount of cash we have available for distribution depends on other factors, including:

- the level of capital expenditures we make, including for maintaining or replacing vessels, building new vessels, acquiring existing vessels and complying with regulations;
- the level of debt we will incur if we exercise our option to purchase the *Raquel Knutsen* or acquire additional vessels from KNOT;
- fluctuations in our working capital needs;
- our ability to make, and the level of, working capital borrowings; and
- the amount of any cash reserves, including reserves for future maintenance and replacement capital expenditures, working capital and other matters, established by our board of directors.

The amount of cash we generate from our operations may differ materially from our profit or loss for the period, which is affected by non-cash items. As a result of this and the other factors mentioned above, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Our ability to grow and to meet our financial needs may be adversely affected by our cash distribution policy.

Our cash distribution policy, which is consistent with our partnership agreement, requires us to distribute all of our available cash (as defined in our partnership agreement) each quarter. Accordingly, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations.

In determining the amount of cash available for distribution, our board of directors approves the amount of cash reserves to set aside, including reserves for future maintenance and replacement capital expenditures, working capital and other matters. We also rely upon external financing sources, including commercial borrowings, to fund our capital expenditures. Accordingly, to the extent we do not have sufficient cash reserves or are unable to obtain financing, our cash distribution policy may significantly impair our ability to meet our financial needs or to grow.

We must make substantial capital expenditures to maintain the operating capacity of our fleet, which reduces cash available for distribution. In addition, each quarter we are required to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted.

We must make substantial capital expenditures to maintain and replace, over the long-term, the operating capacity of our fleet. Maintenance and replacement capital expenditures include capital expenditures associated with the removal of a vessel from the water for inspection, maintenance and/or repair of submerged parts (or drydocking) and modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain or replace the operating capacity of our fleet. These expenditures could vary significantly from quarter to quarter and could increase as a result of changes in:

- the cost of labor and materials;
- customer requirements;
- the size of our fleet;
- the cost of replacement vessels;

Table of Contents

length of charters;

governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and

competitive standards.

Our partnership agreement requires our board of directors to deduct estimated, rather than actual, maintenance and replacement capital expenditures from operating surplus each quarter in an effort to reduce fluctuations in operating surplus (as defined in our partnership agreement). The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our conflicts committee at least once a year. In years when estimated maintenance and replacement capital expenditures are higher than actual maintenance and replacement capital expenditures, the amount of cash available for distribution to unitholders may be lower than if actual maintenance and replacement capital expenditures were deducted from operating surplus. If our board of directors underestimates the appropriate level of estimated maintenance and replacement capital expenditures, we may have less cash available for distribution in future periods when actual capital expenditures exceed our previous estimates.

If capital expenditures are financed through cash from operations or by issuing debt or equity securities, our ability to make cash distributions may be diminished, our financial leverage could increase or our unitholders may be diluted.

Use of cash from operations to expand or maintain our fleet reduces cash available for distribution to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for future capital expenditures could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay cash distributions to unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to maintain our current level of quarterly distributions to unitholders, both of which could have a material adverse effect on our ability to make cash distributions.

Our debt levels may limit our flexibility in obtaining additional financing, pursuing other business opportunities and paying distributions to our unitholders.

As of December 31, 2015, we had consolidated debt of approximately $671.7 million. We have the ability to incur additional debt. Please read Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources. Our level of debt could have important consequences to us, including the following:

our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

- we will need a substantial portion of our cash flows to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

- our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally;

- our debt level may limit our flexibility in responding to changing business and economic conditions; and

- if we are unable to satisfy the restrictions included in any of our financing agreements or are otherwise in default under any of those agreements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to our unitholders, notwithstanding our stated cash distribution policy.

Our ability to service our debt depends upon, among other things, our future financial and operating performance, which is affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

Table of Contents

Financing agreements containing operating and financial restrictions may restrict our business and financing activities.

The operating and financial restrictions and covenants in our financing agreements and any future financing agreements could adversely affect our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, the financing agreements may restrict the ability of us and our subsidiaries to:

- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- make dividends or distributions;
- make certain negative pledges and grant certain liens;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into a new line of business.

In addition, our financing agreements require us to comply with certain financial ratios and tests, including, among others, maintaining a minimum liquidity, maintaining positive working capital, ensuring that EBITDA exceeds interest payable, maintaining a minimum collateral value, and maintaining a minimum book equity ratio. Our ability to comply with the restrictions and covenants, including financial ratios and tests, contained in our financing agreements is dependent on future performance and may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired.

If we are unable to comply with the restrictions and covenants in the agreements governing our indebtedness or in current or future debt financing agreements, there could be a default under the terms of those agreements. If a default occurs under these agreements, lenders could terminate their commitments to lend and/or accelerate the outstanding loans and declare all amounts borrowed due and payable. We have pledged our vessels as security for our outstanding indebtedness. If our lenders were to foreclose on our vessels in the event of a default, this may adversely affect our ability to finance future operations or capital needs or to engage in, expand or pursue our business activities. If any of these events occur, we cannot guarantee that our assets will be sufficient to repay in full all of our outstanding indebtedness, and we may be unable to find alternative financing. Even if we could obtain alternative financing, that financing might not be on terms that are favorable or acceptable. Any of these events would adversely affect our ability to make cash distributions to our unitholders and cause a decline in the market price of our common units. Please read Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

Restrictions in our debt agreements may prevent us or our subsidiaries from paying distributions.

The payment of principal and interest on our debt reduces cash available for distribution to us and on our units. In addition, our and our subsidiaries financing agreements prohibit the payment of distributions upon the occurrence of the following events, among others:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure to notify the lenders of any material oil spill or discharge of hazardous material, or of any action or claim related thereto;
- breach or lapse of any insurance with respect to vessels securing the facilities;
- breach of certain financial covenants;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;
- default under other indebtedness;
- bankruptcy or insolvency events;
- failure of any representation or warranty to be correct;
- a change of ownership, as defined in the applicable agreement; and
- a material adverse change, as defined in the applicable agreement.

For more information regarding our financing agreements, please read Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

The failure to consummate or integrate acquisitions in a timely and cost-effective manner could have an adverse effect on our financial condition and results of operations.

Acquisitions that expand our fleet are an important component of our strategy. For example, we have an option to purchase the *Raquel Knutsen* from KNOT if we are able to reach an agreement with KNOT regarding its purchase price. Pursuant to the omnibus agreement we entered into with KNOT in connection with our IPO (the Omnibus Agreement), we have the right to purchase the *Raquel Knutsen* at any time within 24 months after KNOT notifies our board of directors of its acceptance by its charterer. We are not obligated to purchase the *Raquel Knutsen* at the applicable determined price, and, accordingly, we may not complete the purchase of the vessel. Furthermore, even if we are able to agree on a price with KNOT, there are no assurances that we will be able to obtain adequate financing on terms that are acceptable to us.

We believe that other acquisition opportunities may arise from time to time, and any such acquisition could be significant. Any acquisition of a vessel or business may not be profitable after the time of acquisition and may not generate cash flows sufficient to justify the investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;
- be unable to attract, hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

In addition, unlike newbuilds, existing vessels typically do not carry warranties as to their condition. While we generally inspect existing vessels prior to purchase, such an inspection would normally not provide us with as much knowledge of a vessel s condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flows and reduce our liquidity.

Certain acquisition and investment opportunities may not result in the consummation of a transaction. In addition, we may not be able to obtain acceptable terms for the required financing for any such acquisition or investment that arises. We cannot predict the effect, if any, that any announcement or consummation of an acquisition would have on the trading price of our common units. Our future acquisitions could present a number of risks, including the risk of incorrect assumptions regarding the future results of acquired vessels or businesses or expected cost reductions or other synergies expected to be realized as a result of acquiring vessels or businesses, the risk of failing to successfully and timely integrate the operations or management of any acquired vessels or businesses and the risk of diverting management s attention from existing operations or other priorities. We may also be subject to additional costs related to compliance with various international laws in connection with such acquisition. If we fail to consummate and integrate our acquisitions in a timely and cost-effective manner, our business, financial condition, results of operations and cash available for distribution could be adversely affected.

Our charters are subject to early termination under certain circumstances and any such termination could have a material adverse effect on our results of operations and cash available for distribution to unitholders.

Our fleet consists of ten shuttle tankers. If any of our vessels are unable to generate revenues as a result of the expiration or termination of its charter or sustained periods of off-hire time, our results of operations and financial condition could be materially adversely affected. Each of our charters terminates automatically if the applicable vessel is lost or missing or damage to the vessel results in a constructive total loss. The customer, under certain circumstances, may also have an option to terminate a time charter if the vessel is requisitioned by any government for a period of time in excess of the time period specified in the time charter or if at any time we are in default under the time charter. In addition, either party may usually terminate a charter in the event of the outbreak of war between specified countries. Under our bareboat charters, the charter is deemed terminated as of the date of any compulsory acquisition of the vessel or requisition for title by any governmental or other competent authority. For more information regarding the termination of our charters, please read Item 4. Information on the Partnership Business Overview Charters Termination.

We may experience operational problems with vessels that reduce revenue and increase costs.

Shuttle tankers are complex and their operation technically challenging. Marine transportation operations are subject to mechanical risks and problems. Operational problems may lead to loss of revenue or higher than anticipated operating expenses or require additional capital expenditures. Any of these results could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

We currently derive all of our time charter and bareboat revenues from six customers, and the loss of any such customers could result in a significant loss of revenues and cash flow.

We currently derive all of our time charter and bareboat revenues from six customers. For the year ended December 31, 2015, Fronape International Company, a subsidiary of Petrobras Transporte S.A. (Transpetro), Eni Trading and Shipping S.p.A. (ENI), Statoil ASA (Statoil), Repsol Sinopec Brasil, S.A. (Repsol), Brazil Shipping I Limited, a subsidiary of BG Group Plc (BG Group), Standard Marine Tønsberg AS, a Norwegian subsidiary of ExxonMobil (ExxonMobil), and KNOT accounted for approximately 26%, 30%, 15%, 13%, 3%, 2% and 11%, respectively, of our revenues.

Petrobras, the Brazil state-controlled oil company and the parent company of Transpetro, is alleged to have participated in a widespread corruption scandal involving billions of dollars of improper payments to Brazilian politicians and political parties. Petrobras has also announced significant decreases in its five-year capital expenditure budget and that it is reducing the pace of some projects and cancelling others. It is uncertain at this time how this scandal may affect Petrobras, its performance of its existing charters or the development of new projects. Any adverse effect on Petrobras ability to perform under existing charters with us could harm us.

If we lose a key customer, we may be unable to obtain replacement long-term charters and may become subject to the volatile spot market, which is highly competitive and subject to significant price fluctuations. In addition, if a customer exercises its right to terminate a charter, we may be unable to re-charter such vessel on terms as favorable to us as those of the terminated charter. The loss of any of our key customers could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Due to the recent decline in oil prices, the equity value of many of our customers substantially declined in 2015. The combination of a reduction of cash flow resulting from the declining oil prices, a reduction in borrowing bases under any credit facilities and the limited or lack of availability of debt or equity financing could potentially reduce the ability of our customers to make charter payments. Any further decline in the price of oil, or sustained current prices, could result in similar effects on our customers or other third parties with which we do business, which in turn could harm our business, results of operations and financial condition.

We depend on subsidiaries of KNOT to assist us in operating our businesses and competing in our markets.

We and our operating subsidiaries have entered into various services agreements with certain subsidiaries of KNOT, including KNOT Management. Under these agreements the subsidiaries provide us with certain administrative, financial and other services. Our operating subsidiaries are provided with substantially all of their crew, technical and commercial management services (including vessel maintenance, periodic drydocking, cleaning and painting, performing work required by regulations and human resources and financial services) and other advisory and technical services, including the sourcing of new contracts and renewals of existing contracts. Our operational success and ability to execute our growth strategy depends significantly upon the satisfactory performance of these services by the KNOT subsidiaries. Our business will be harmed if such subsidiaries fail to perform these services satisfactorily or if they stop providing these services to us or our operating subsidiaries.

Our ability to compete to enter into new charters and expand our customer relationships depends largely on our ability to leverage our relationship with KNOT and its reputation and relationships in the shipping industry. If KNOT suffers material damage to its reputation or relationships, it may harm the ability of us or our subsidiaries to:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully contract with shipyards;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with suppliers and other third parties.

If our ability to do any of the things described above is impaired, it could have a materially adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Table of Contents

Our growth depends on continued growth in demand for shuttle tanker transportation services.

Our growth strategy focuses on expansion in the shuttle tanker sector. Accordingly, our growth depends on continued growth in the demand for offshore oil transportation services. Factors beyond our control that affect the offshore oil transportation industry may have a significant impact on our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Fluctuations in the hire rate we can charge our customers result from changes in the supply of carrying capacity and demand for the crude oil carried. In particular, continued reduced demand for crude oil and offshore oil transportation services would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition. The factors affecting supply and demand for shuttle tankers and supply and demand for crude oil transported by shuttle tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

The factors that influence the demand for shuttle tanker capacity include:

- changes in the actual or projected price of oil, which could impact the exploration for or development of new offshore oil fields or the production of oil at certain fields we service;
- delayed production start on offshore fields under development;
- levels of demand for and production of oil, which, among other things, is affected by competition from alternative sources of energy, other factors making consumption of oil more or less attractive or energy conservation measures;
- changes in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;
- changes in laws and regulations affecting the shuttle tanker industry;
- global and regional economic and political conditions, particularly in oil-consuming regions, as well as environmental concerns and regulations, which could impact the supply of oil and gas as well as the demand for various types of vessels; and
- changes in trading patterns, including changes in the distances that cargoes are transported.

The factors that influence the supply of shuttle tanker capacity include:

- the number of deliveries of new vessels under construction or on order;

- the scrapping rate of older vessels;
- oil and gas company policy with respect to technical vessel requirements; and
- the number of vessels that are off-hire.

A continuation of the recent significant declines in oil prices may adversely affect our growth prospects and results of operations.

In 2015, global crude oil prices were volatile and declined significantly. A continuation of lower oil prices or a further decline in oil prices may adversely affect our business, results of operations and financial condition and our ability to make cash distributions, as a result of, among other things:

- a reduction in exploration for or development of new offshore oil fields, or the delay or cancelation of existing offshore projects as energy companies lower their capital expenditures budgets, which may reduce our growth opportunities;
- lower demand for shuttle tankers, which may reduce available charter rates and revenue to us upon redeployment of our vessels following expiration or termination of existing contracts or upon the initial chartering of vessels;
- customers potentially seeking to renegotiate or terminate existing vessel contracts, or failing to extend or renew contracts upon expiration;
- the inability or refusal of customers to make charter payments to us due to financial constraints or otherwise; or
- declines in vessel values, which may result in losses to us upon vessel sales or impairment charges against our earnings.

Table of Contents

The current state of the global financial markets and current economic conditions may impair our customers and suppliers ability to pay for our services and could have a material adverse effect on our revenue, profitability and financial position.

We depend on our customers willingness and ability to fund operating and capital expenditures to provide crude oil shuttle tankers for new or expanding offshore projects. Existing and future adverse economic conditions, including current low oil prices, may lead to a decline in our customers operations or ability to pay for our services, which could result in decreased demand for our vessels. There has historically been a strong link between the development of the world economy and demand for energy, including oil and natural gas.

Global financial markets and economic conditions have been severely disrupted and volatile in recent years and remain subject to significant vulnerabilities, such as the deterioration of fiscal balances and the rapid accumulation of public debt, continued deleveraging in the banking sector and a limited supply of credit. Credit markets as well as the equity and debt capital markets were exceedingly distressed during 2008 and 2009 and have been volatile since that time. Uncertainty surrounding the continuing sovereign debt crisis in Greece and other European Union member countries and turmoil and unrest in the Middle East, Africa, Korea, the Ukraine and elsewhere, have led to increased volatility in global credit and equity markets. An extended period of adverse development in the outlook for European countries or Brazil could reduce the overall demand for oil and have a negative impact on our customers. Potential developments, or market perceptions concerning these and related issues, could affect our business, financial position, results of operations and ability to make cash distributions to our unitholders.

Any global financial or credit crisis or disruption may further reduce the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. Shortage of liquidity and credit combined with uncertainty in worldwide equity markets could lead to an extended worldwide economic recession. Such deterioration of the worldwide economy could result in reduced demand for oil and natural gas, exploration and production activity and transportation of oil and natural gas that could lead to a decrease in the hire rate earned by our vessels and a decrease in new charter activity. In addition, any adverse development in the global financial markets or deterioration in economic conditions might adversely impact our ability to issue additional equity at prices that will not be dilutive to our existing unitholders or preclude us from issuing equity at all.

We also cannot be certain that additional financing will be available if needed and to the extent required, on acceptable terms or at all. As a result of the disruptions in the credit markets and higher capital requirements, many lenders have increased margins on lending rates, enacted tighter lending standards, required more restrictive terms (including higher collateral ratios for advances, shorter maturities and smaller loan amounts), or have refused to refinance existing debt at all. Furthermore, certain banks that have historically been significant lenders to the shipping industry have reduced or ceased lending activities in the shipping industry. If additional financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to expand our existing business, complete shuttle tanker acquisitions or otherwise take advantage of business opportunities as they arise.

Furthermore, any uncertainty in the financial markets could have an impact on our customers and/or suppliers including, among other things, causing them to fail to meet their obligations to us. Similarly, any shortage of credit could affect lenders participating in our financing agreements, making them unable to fulfill their commitments and obligations to us. Any reductions in activity owing to such conditions or failure by our customers, suppliers or lenders to meet their contractual obligations to us could adversely affect our business, financial position, results of operation and ability to make cash distributions to our unitholders.

Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we face substantial competition.

One of our principal objectives is to enter into additional long-term, fixed-rate charters. The process of obtaining new long-term charters is highly competitive, usually involving an intensive screening process and competitive bids and extending for several months. Shuttle tanker charters are awarded based upon a variety of factors relating to the vessel operator, including:

- industry relationships and reputation for customer service and safety;
- experience and quality of ship operations;
- quality, experience and technical capability of the crew;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new vessels according to customer specifications;
- willingness to accept operational risks pursuant to the charter, among other things such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

Table of Contents

Our ability to win new charters depends upon a number of factors, including our ability to:

- leverage our relationship with KNOT and its reputation and relationships in the shipping industry;
- successfully manage our liquidity and obtain the necessary financing to fund our growth;
- attract, hire, train and retain qualified personnel and ship management companies to manage and operate our fleet;
- identify and consummate desirable acquisitions, joint ventures or strategic alliances; and
- identify and capitalize on opportunities in new markets.

We expect substantial competition for providing services for potential shuttle tanker projects from a number of experienced companies. This increased competition may cause greater price competition for charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

An increase in the global supply of shuttle tanker capacity without a commensurate increase in demand may have an adverse effect on hire rates and the values of our vessels, which could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

The supply of shuttle tankers in the industry is affected by, among other things, assessments of the demand for these vessels by oil companies. Any over-estimation of demand for vessels may result in an excess supply of new shuttle tankers. This may, in the long term when existing contracts expire, result in lower hire rates and depress the values of our vessels. In such an event, our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected.

During periods of high utilization and high hire rates, industry participants may increase the supply of shuttle tankers by ordering the construction of new vessels. This may result in an over-supply of shuttle tankers and may cause a subsequent decline in utilization and hire rates when the vessels enter the market. Lower utilization and hire rates could adversely affect revenues and profitability. Prolonged periods of low utilization and hire rate could also result in the recognition of impairment charges on shuttle tankers if future cash flow estimates, based upon information available at the time, indicate that the carrying value of these shuttle tankers may not be recoverable. Such impairment charge may cause lenders to accelerate loan payments under our financing agreements, which could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

The required drydocking of our vessels could be more expensive and time consuming than we anticipate, which could adversely affect our cash available for distribution to unitholders.

We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications required to comply with industry certification or governmental requirements. Generally, we drydock each vessel every

60 months until the vessel is 15 years old and every 30 months thereafter. The required drydocking of our vessels could be more expensive and time consuming than we anticipate, which could adversely affect our cash available for distribution. The drydocking of our vessels requires significant capital expenditures and results in loss of revenue while our vessels are off-hire. Any significant increase in the number of days of off-hire due to such drydocking or in the costs of any repairs could have a material adverse effect on our ability to pay distributions to our unitholders. Although we do not anticipate that more than one of the vessels in our current fleet will be out of service at any given time, we may underestimate the time required to drydock any of our vessels or unanticipated problems may arise. If more than one of our vessels is required to be out of service at the same time, if a vessel is drydocked longer than expected or if the cost of repairs during drydocking is greater than budgeted, our cash available for distribution to unitholders could be adversely affected.

We may be unable to re-charter our vessels upon termination or expiration of their existing charters.

We are dependent upon charters for our vessels to generate revenues and we may be adversely affected if we fail to renew or are unsuccessful in winning new charters, or if our existing charters are terminated. Our ability to re-charter our shuttle tankers following expiration of existing charters and the rates payable upon any renewal or replacement charters depends upon, among other things, the state of the shuttle tanker market. For example, an oversupply of shuttle tankers can significantly reduce their charter rates. A termination or renegotiation of our existing charters or a failure to secure new employment at the expiration of our current charters may have a negative effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Table of Contents

Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business.

The hull and machinery of every large, oceangoing commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the International Convention for Safety of Life at Sea (SOLAS). All our vessels are certified by DNV GL Group AS (DNV GL).

As part of the certification process, a vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel s machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Each of the vessels in our existing fleet is on a planned maintenance system approval, and as such the classification society attends onboard once every year to verify that the maintenance of the equipment onboard is done correctly. Each of the vessels in our existing fleet is required to be qualified within its respective classification society for drydocking once every five years subject to an intermediate underwater survey done using an approved diving company in the presence of a surveyor from the classification society.

If any vessel does not maintain its class or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between certain ports and will be unemployable. We would lose revenue while the vessel was off-hire and incur costs of compliance. This would negatively impact our revenues and reduce our cash available for distribution to unitholders.

The value of our vessels may decline, which could adversely affect our operating results.

Vessel values for shuttle tankers can fluctuate substantially over time due to a number of different factors, including:

- the cost of newbuildings;
- prevailing economic conditions in oil and energy markets;
- a substantial or extended decline i