

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

**FORM 10-Q**

(Mark One)  
 **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2017**

**OR**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**COMMISSION FILE NUMBER: 814-00891**

**PENNANTPARK FLOATING RATE CAPITAL LTD.**

(Exact name of registrant as specified in its charter)

**MARYLAND**  
(State or other jurisdiction of incorporation or organization)

**27-3794690**  
(I.R.S. Employer Identification No.)

**590 Madison Avenue, 15th Floor**  
**New York, N.Y.**  
(Address of principal executive offices)

**10022**  
(Zip Code)

**(212) 905-1000**  
(Registrant's Telephone Number, Including Area Code)

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. 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). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of May 9, 2017 was 32,480,074.

PENNANTPARK FLOATING RATE CAPITAL LTD.  
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2017  
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**PART I—CONSOLIDATED FINANCIAL INFORMATION**

We are filing this Quarterly Report on Form 10-Q, or the Report, in compliance with Rule 13a-13 promulgated by the Securities and Exchange Commission, or the SEC. In this Report, except where the context suggests otherwise, the terms “Company,” “we,” “our” or “us” refer to PennantPark Floating Rate Capital Ltd. and its wholly-owned consolidated subsidiaries; “Funding I” refers to PennantPark Floating Rate Funding I, LLC; “Taxable Subsidiary” refers to PFLT Investment Holdings, LLC; “PennantPark Investment Advisers” or “Investment Adviser” refers to PennantPark Investment Advisers, LLC; “PennantPark Investment Administration” or “Administrator” refers to PennantPark Investment Administration, LLC; “1940 Act” refers to the Investment Company Act of 1940, as amended; “Code” refers to the Internal Revenue Code of 1986, as amended; “RIC” refers to a regulated investment company under the Code; “BDC” refers to a business development company under the 1940 Act. References to our portfolio, our investments, our multi-currency, senior secured revolving credit facility, as amended and restated, or the Credit Facility, and our business include investments we make through our subsidiaries.

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	March 31, 2017 (unaudited)	September 30, 2016
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—\$730,704,555 and \$597,910,267, respectively)	\$ 731,482,714	\$ 598,887,525
Cash and cash equivalents (cost—\$43,966,306 and \$28,903,359, respectively)	43,974,053	28,910,973
Interest receivable	3,216,920	2,480,406
Receivable for investments sold	1,421,888	—
Prepaid expenses and other assets	1,006,615	1,141,191
<b>Total assets</b>	<u>781,102,190</u>	<u>631,420,095</u>
<b>Liabilities</b>		
Distributions payable	3,085,607	2,539,357
Payable for investments purchased	16,745,000	14,935,970
Credit Facility payable (cost—\$299,909,500 and \$232,907,500, respectively) (See Notes 5 and 9)	300,420,904	232,389,498
Interest payable on Credit Facility	689,983	531,926
Base management fee payable (See Note 3)	1,731,418	1,458,625
Performance-based incentive fee payable (See Note 3)	2,202,588	3,454,914
Accrued other expenses	—	202,977
<b>Total liabilities</b>	<u>324,875,500</u>	<u>255,513,267</u>
Commitments and contingencies (See Note 10)		
<b>Net assets</b>		
Common stock, 32,480,074 and 26,730,074 shares issued and outstanding, respectively		
Par value \$0.001 per share and 100,000,000 shares authorized	32,480	26,730
Paid-in capital in excess of par value	451,705,066	371,194,366
Undistributed net investment income	3,081,419	4,559,646
Accumulated net realized gain (loss) on investments	1,133,223	(1,376,788)
Net unrealized appreciation on investments	785,906	984,872
Net unrealized (appreciation) depreciation on Credit Facility	(511,404)	518,002
<b>Total net assets</b>	<u>\$ 456,226,690</u>	<u>\$ 375,906,828</u>
<b>Total liabilities and net assets</b>	<u>\$ 781,102,190</u>	<u>\$ 631,420,095</u>
<b>Net asset value per share</b>	<u>\$ 14.05</u>	<u>\$ 14.06</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Investment income:</b>				
From non-controlled, non-affiliated investments:				
Interest	\$ 12,917,094	\$ 9,626,583	\$ 24,868,929	\$ 18,239,445
Other income	303,804	1,676,582	983,237	1,779,267
From controlled, affiliated investments:				
Interest	—	43,140	—	84,073
<b>Total investment income</b>	<u>13,220,898</u>	<u>11,346,305</u>	<u>25,852,166</u>	<u>20,102,785</u>
<b>Expenses:</b>				
Base management fee (See Note 3)	1,731,417	1,181,116	3,327,144	2,258,856
Performance-based incentive fee (See Note 3)	453,666	841,880	1,923,035	838,944
Interest and expenses on the Credit Facility (See Note 9)	1,998,347	1,122,893	3,799,072	2,062,575
Administrative services expenses (See Note 3)	561,250	200,001	1,122,500	400,001
Other general and administrative expenses	357,500	735,698	715,000	1,284,012
<b>Expenses before provision for taxes and amendment costs</b>	<u>5,102,180</u>	<u>4,081,588</u>	<u>10,886,751</u>	<u>6,844,388</u>
Provision for taxes	90,000	—	115,000	—
Credit Facility amendment costs (See Notes 5 and 9)	—	—	—	907,722
<b>Total expenses</b>	<u>5,192,180</u>	<u>4,081,588</u>	<u>11,001,751</u>	<u>7,752,110</u>
<b>Net investment income</b>	<u>8,028,718</u>	<u>7,264,717</u>	<u>14,850,415</u>	<u>12,350,675</u>
<b>Realized and unrealized (loss) gain on investments and Credit Facility:</b>				
Net realized gain (loss) on investments	1,960,610	1,068,288	2,510,011	(2,163,720)
Net change in unrealized depreciation on:				
Non-controlled, non-affiliated investments	(2,744,991)	(5,510,037)	(198,966)	(6,218,983)
Credit Facility depreciation (appreciation) (See Note 5 and 9)	38,808	(386,792)	(1,029,406)	215,083
<b>Net change in unrealized depreciation on investments and Credit Facility</b>	<u>(2,706,183)</u>	<u>(5,896,829)</u>	<u>(1,228,372)</u>	<u>(6,003,900)</u>
<b>Net realized and unrealized (loss) gain from investments and Credit Facility</b>	<u>(745,573)</u>	<u>(4,828,541)</u>	<u>1,281,639</u>	<u>(8,167,620)</u>
<b>Net increase in net assets resulting from operations</b>	<u>\$ 7,283,145</u>	<u>\$ 2,436,176</u>	<u>\$ 16,132,054</u>	<u>\$ 4,183,055</u>
Net increase in net assets resulting from operations per common share (See Note 6)	<u>\$ 0.25</u>	<u>\$ 0.09</u>	<u>\$ 0.57</u>	<u>\$ 0.16</u>
Net investment income per common share	<u>\$ 0.27</u>	<u>\$ 0.27</u>	<u>\$ 0.53</u>	<u>\$ 0.46</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
(Unaudited)

	<b>Six Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Net increase in net assets from operations:</b>		
Net investment income	\$ 14,850,415	\$ 12,350,675
Net realized gain (loss) on investments	2,510,011	(2,163,720)
Net change in unrealized depreciation on investments	(198,966)	(6,218,983)
Net change in unrealized (appreciation) depreciation on Credit Facility	(1,029,406)	215,083
<b>Net increase in net assets resulting from operations</b>	<b>16,132,054</b>	<b>4,183,055</b>
<b>Distributions to stockholders</b>	<b>(16,328,642)</b>	<b>(15,236,142)</b>
<b>Capital transactions</b>		
Public offering (See Note 1)	80,986,450	—
Offering costs	(470,000)	—
<b>Net increase in net assets resulting from capital transactions</b>	<b>80,516,450</b>	<b>—</b>
<b>Net increase (decrease) in net assets</b>	<b>80,319,862</b>	<b>(11,053,087)</b>
<b>Net assets:</b>		
Beginning of period	375,906,828	372,890,449
End of period	<u>\$ 456,226,690</u>	<u>\$ 361,837,362</u>
Undistributed net investment income, end of period	<u>\$ 3,081,419</u>	<u>\$ 4,106,006</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Six Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net increase in net assets resulting from operations	\$ 16,132,054	\$ 4,183,055
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net change in unrealized depreciation on investments	198,966	6,218,983
Net change in unrealized appreciation (depreciation) on Credit Facility	1,029,406	(215,083)
Net realized (gain) loss on investments	(2,510,011)	2,163,720
Net accretion of discount and amortization of premium	(914,309)	(764,619)
Purchases of investments	(271,128,128)	(156,467,790)
Payment-in-kind interest	(199,470)	(35,508)
Proceeds from dispositions of investments	141,939,924	56,804,571
Increase in interest receivable	(736,514)	(229,543)
Increase in receivable for investments sold	(1,421,888)	—
Decrease in prepaid expenses and other assets	134,576	339,328
Increase (decrease) in payable for investments purchased	1,809,030	(4,143,594)
Increase in interest payable on Credit Facility	158,057	155,001
Increase in base management fee payable	272,793	225,000
(Decrease) increase in performance-based incentive fee payable	(1,252,326)	838,944
Decrease in accrued other expenses	(202,977)	(539,347)
Net cash used in operating activities	<u>(116,690,817)</u>	<u>(91,466,882)</u>
<b>Cash flows from financing activities:</b>		
Public offering	80,986,450	—
Offering costs	(470,000)	—
Distributions paid to stockholders	(15,782,392)	(15,236,142)
Borrowings under Credit Facility (See Notes 5 and 9)	196,502,000	121,907,500
Repayments under Credit Facility (See Notes 5 and 9)	(129,500,000)	(23,300,000)
Net cash provided by financing activities	<u>131,736,058</u>	<u>83,371,358</u>
<b>Net increase (decrease) in cash equivalents</b>	<u>15,045,241</u>	<u>(8,095,524)</u>
Effect of exchange rate changes on cash	17,839	112,739
<b>Cash and cash equivalents, beginning of period</b>	<u>28,910,973</u>	<u>21,428,514</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 43,974,053</u>	<u>\$ 13,445,729</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<u>\$ 3,641,015</u>	<u>\$ 1,907,574</u>
Taxes paid	<u>\$ —</u>	<u>\$ 308,795</u>
Non-cash exchanges and conversions	<u>\$ 709,685</u>	<u>\$ 4,547,934</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**MARCH 31, 2017**  
**(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies—160.3% (3), (4)</b>							
<b>First Lien Secured Debt—149.5%</b>							
Advanced Cable Communications, LLC	08/09/2021	Telecommunications	6.90%	L+575	12,437,500	\$ 12,216,950	\$ 12,375,313
Advanced Cable Communications, LLC (8), (9)	08/09/2021	Telecommunications	—	—	4,000,000	—	(20,000)
Alera Group Holdings, Inc.	12/30/2022	Banking, Finance, Insurance and Real Estate	6.50%	L+550	8,674,633	8,593,570	8,674,633
Alera Group Holdings, Inc. (Revolver) (8), (9)	12/30/2021	Banking, Finance, Insurance and Real Estate	—	—	1,771,962	—	—
Alera Group Holdings, Inc. (8), (9)	12/30/2022	Banking, Finance, Insurance and Real Estate	—	—	3,510,000	—	—
Alvogen Pharma US, Inc. (6), (10)	04/04/2022	Healthcare and Pharmaceuticals	6.00%	L+500	3,837,808	3,821,843	3,805,839
American Auto Auction Group, LLC	11/30/2021	Transportation: Consumer	6.25%	L+525	11,000,000	10,845,697	10,835,000
American Gilsonite Company (8)	12/31/2021	Metals and Mining	15.00%	—	128,248	124,337	128,248
			(PIK 5.00%)				
American Scaffold	03/31/2022	Aerospace and Defense	7.65%	L+650	4,875,000	4,809,647	4,826,250
American Teleconferencing Services, Ltd.	12/08/2021	Telecommunications	7.50%	L+650	6,817,401	6,617,941	6,780,451
AMF Bowling Centers, Inc.	09/19/2023	Retail	6.00%	L+500	14,925,000	14,786,233	14,999,625
Anesthesia Consulting & Management, LP	10/31/2022	Healthcare and Pharmaceuticals	6.04%	L+500	3,990,000	3,952,062	3,999,975
Anesthesia Consulting & Management, LP (8), (9)	10/31/2022	Healthcare and Pharmaceuticals	—	—	1,000,000	—	2,500
API Technologies Corp.	04/22/2022	Aerospace and Defense	7.65%	L+650	9,925,000	9,752,707	9,776,125
Broder Bros., Co., Tranche A	06/03/2021	Consumer Goods: Non-Durable	7.00%	L+575	2,410,000	2,371,830	2,410,000
Broder Bros., Co., Tranche B	06/03/2021	Consumer Goods: Non-Durable	13.50%	L+1,225	2,440,000	2,399,960	2,440,000
Camin Cargo Control, Inc.	06/30/2021	Transportation: Cargo	5.90%	L+475	2,456,250	2,437,814	2,358,000
Canyon Valor Companies, Inc.	06/16/2023	Media: Broadcasting and Subscription	7.15%	L+600	7,443,753	7,173,228	7,474,346
(f/k/a GTCR Valor Companies, Inc.)							
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	6.90%	L+575	7,481,250	7,408,478	7,425,141
CBAC Borrower, LLC (8)	07/02/2020	Hotel, Gaming and Leisure	8.25%	L+700	4,937,500	4,911,706	4,937,500
CD&R TZ Purchaser, Inc.	07/21/2023	Consumer Goods: Durable	7.15%	L+600	12,437,500	12,137,722	12,437,500
Charming Charlie LLC	12/24/2019	Retail	9.16%	L+800	3,948,750	3,915,776	3,435,413
Chicken Soup for the Soul Publishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.50%	L+625	4,685,714	4,664,065	4,521,714
Clarus Glassboards LLC	03/16/2023	Construction and Building	6.25%	L+525	6,000,000	5,940,312	5,940,000
Corfin Industries LLC	11/25/2020	Aerospace and Defense	10.75%	L+975	6,241,000	6,143,440	6,178,590
Corfin Industries LLC (Revolver) (8), (9)	11/25/2020	Aerospace and Defense	—	—	518,033	—	—
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	6.50%	L+550	17,000,000	16,745,000	16,745,000
DBI Holding LLC	08/02/2021	Business Services	6.25%	L+525	9,950,025	9,858,590	9,950,025
DCS Business Services, Inc.	03/19/2018	Business Services	8.75%	L+725	1,963,397	1,955,120	1,963,396
Digital Room LLC	11/21/2022	Media: Advertising, Printing and Publishing	7.00%	L+600	6,912,500	6,780,434	6,774,250
DISA Global Solutions, Inc.	12/09/2020	Business Services	5.50%	L+450	4,900,000	4,868,172	4,851,000
Douglas Products and Packaging Company LLC	06/30/2020	Chemicals, Plastics and Rubber	5.90%	L+475	4,562,500	4,538,968	4,562,500
Driven Performance Brands, Inc. (8)	09/10/2020	Consumer Goods: Durable	5.75%	L+475	8,325,000	8,293,411	8,325,000
Driven Performance Brands, Inc. (Revolver) (8), (9)	09/10/2020	Consumer Goods: Durable	—	—	1,000,000	—	—
East Valley Tourist Development Authority	03/07/2022	Hotel, Gaming and Leisure	9.18%	L+800	15,000,000	14,775,877	14,700,000
Education Networks of America, Inc.	05/06/2021	Telecommunications	8.15%	L+700	8,358,696	8,321,862	8,358,696
Education Networks of America, Inc. (Revolver) (8), (9)	05/06/2021	Telecommunications	—	—	1,304,348	—	—
Efficient Collaborative Retail Marketing Company, LLC	06/15/2022	Media: Diversified and Production	7.90%	L+675	10,548,335	10,453,795	10,548,335
FHC Health Systems, Inc.	12/23/2021	Healthcare and Pharmaceuticals	5.00%	L+400	2,910,152	2,888,123	2,728,268
Hollander Sleep Products, LLC	10/21/2020	Consumer Goods: Non-Durable	9.00%	L+800	1,165,886	1,154,479	1,154,227
Hostway Corporation	12/13/2019	High Tech Industries	8.00%	L+675	2,551,012	2,538,458	2,244,604
Hunter Defense Technologies, Inc. (8)	08/05/2019	Aerospace and Defense	7.01%	L+600	5,993,750	5,967,542	5,394,375
Icynene U.S. Acquisition Corp. (6), (10)	11/04/2020	Construction and Building	7.28%	L+625	6,190,820	6,110,093	6,067,004
Idera, Inc.	04/09/2021	High Tech Industries	6.50%	L+550	7,902,489	7,316,024	7,902,489
iEnergizer Limited and Aptara, Inc. (6), (10)	05/01/2019	Business Services	7.25%	L+600	7,966,987	7,922,798	7,887,317
IGM RFE1 B.V. (6), (10), (11)	10/12/2021	Chemicals, Plastics and Rubber	8.00%	E+000	17,281,934	17,962,842	18,483,944
Imagine! Print Solutions, LLC	03/30/2022	Media: Advertising, Printing and Publishing	7.15%	L+600	5,944,962	5,889,938	5,989,550
Impact Sales, LLC	12/30/2021	Wholesale	8.15%	L+700	11,737,500	11,737,500	11,678,813
Impact Sales, LLC (8), (9)	12/30/2021	Wholesale	—	—	3,234,375	—	(16,172)
Innova Medical Ophthalmics Inc. (6), (10)	04/13/2022	Capital Equipment	7.90%	L+675	3,390,618	3,340,899	3,390,618
Innova Medical Ophthalmics Inc. (Revolver) (6), (8), (10)	04/13/2022	Capital Equipment	7.75%	L+675	53,097	53,097	53,097
Innova Medical Ophthalmics Inc. (Revolver) (6), (8), (9), (10)	04/13/2022	Capital Equipment	—	—	477,876	—	—
Instant Web, LLC, Term Loan A	03/28/2019	Media: Advertising, Printing and Publishing	5.65%	L+450	7,631,729	7,454,996	7,631,729
Instant Web, LLC, Term Loan B	03/28/2019	Media: Advertising, Printing and Publishing	12.15%	L+1,100	4,500,000	4,468,097	4,500,000
Interior Specialists, Inc.	06/30/2020	Construction and Building	9.00%	L+800	6,594,078	6,548,164	6,660,019
Inventus Power, Inc.	04/30/2020	Consumer Goods: Durable	7.50%	L+650	4,726,503	4,697,578	4,584,708
Jackson Hewitt Inc.	07/30/2020	Consumer Services	8.04%	L+700	4,900,000	4,830,235	4,630,500
K2 Pure Solutions NoCal, L.P. (8)	02/19/2021	Chemicals, Plastics and Rubber	10.00%	L+900	4,002,471	3,932,553	3,948,828
KHC Holdings, Inc.	10/31/2022	Wholesale	7.15%	L+600	12,343,750	12,162,958	12,343,750
KHC Holdings, Inc. (Revolver) (8), (9)	10/30/2020	Wholesale	—	—	1,209,677	—	—
Lago Resort & Casino, LLC	03/07/2022	Hotel, Gaming and Leisure	10.50%	L+950	10,200,000	10,024,705	10,187,250

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**  
**MARCH 31, 2017**  
**(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
LifeCare Holdings LLC (8)	11/30/2018	Healthcare and Pharmaceuticals	6.50%	L+525	5,376,431	\$ 5,345,690	\$ 4,506,148
Lombart Brothers, Inc.	04/13/2022	Capital Equipment	7.90%	L+675	6,276,319	6,194,719	6,307,701
Lombart Brothers, Inc. (Revolver) (8), (9)	04/13/2022	Capital Equipment	—	—	1,238,938	—	—
Long's Drugs Incorporated	08/19/2021	Healthcare and Pharmaceuticals	6.25%	L+525	4,975,000	4,932,118	4,925,250
LSF9 Atlantis Holdings, LLC	01/15/2021	Retail	10.02%	L+900	9,297,716	9,188,511	9,483,670
Marketplace Events LLC	01/27/2021	Media: Diversified and Production	6.40%	L+525	3,394,404	3,347,386	3,394,404
Marketplace Events LLC (11)	01/27/2021	Media: Diversified and Production	6.25%	P+275	C\$ 17,157,469	12,021,879	12,865,048
Marketplace Events LLC (Revolver) (8), (9)	01/27/2021	Media: Diversified and Production	—	—	1,703,163	—	—
Mission Critical Electronics, Inc. (8)	09/28/2022	Capital Equipment	6.15%	L+500	4,096,025	4,058,256	4,070,280
Mission Critical Electronics, Inc. (Revolver) (8), (9)	09/28/2021	Capital Equipment	—	—	883,392	—	(9,969)
Montreign Operating Company, LLC	01/24/2023	Hotel, Gaming and Leisure	9.31%	L+825	22,794,872	23,278,160	23,222,276
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	7.03%	L+600	20,000,000	19,454,802	19,700,000
New Trident HoldCorp, Inc.	07/31/2019	Healthcare and Pharmaceuticals	7.00%	L+575	8,767,647	8,728,341	7,759,368
One Sixty Over Ninety, LLC	03/03/2022	Media: Advertising, Printing and Publishing	10.22%	L+925	8,750,000	8,576,547	8,575,000
Pathway Partners Vet Management Company LLC (8)	08/19/2022	Healthcare and Pharmaceuticals	6.00%	L+500	9,042,275	8,984,329	9,042,275
Pathway Partners Vet Management Company LLC (8), (9)	08/19/2022	Healthcare and Pharmaceuticals	—	—	923,545	—	—
Precyse Acquisition Corp.	10/20/2022	Healthcare and Pharmaceuticals	6.50%	L+550	4,964,987	4,900,279	4,980,528
Premier Dental Services, Inc.	11/01/2018	Consumer Services	7.50%	L+650	7,528,230	7,482,942	7,490,588
Profile Products LLC	01/31/2023	Environmental Industries	6.15%	L+500	10,268,064	10,173,630	10,268,064
Profile Products LLC (8), (9)	01/31/2019	Environmental Industries	—	—	573,770	—	—
Profile Products LLC (Revolver) (8)	01/31/2022	Environmental Industries	8.00%	P+400	327,065	327,065	327,065
Profile Products LLC (Revolver) (8), (9)	01/31/2022	Environmental Industries	—	—	2,131,951	—	—
PT Network, LLC	11/30/2021	Healthcare and Pharmaceuticals	7.56%	L+650	8,489,400	8,417,909	8,489,400
PT Network, LLC (8), (9)	11/30/2021	Healthcare and Pharmaceuticals	—	—	2,291,100	—	—
Quick Weight Loss Centers, LLC	08/23/2021	Beverage, Food and Tobacco	5.81%	L+475	9,750,000	9,619,877	9,750,000
Research Now Group, Inc.	03/18/2021	High Tech Industries	5.65%	L+450	6,877,500	6,853,529	6,748,547
Robertshaw US Holding Corp.	06/18/2019	Consumer Goods: Durable	8.50%	L+700	4,235,958	4,220,194	4,221,230
Ryan, LLC	08/07/2020	Business Services	6.75%	L+575	3,981,623	3,937,806	3,931,853
Salient CRGT Inc.	02/28/2021	High Tech Industries	6.75%	L+575	20,000,000	19,604,187	19,650,000
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	6.00%	L+500	4,906,245	4,841,003	4,906,245
Snak Club, LLC (Revolver) (8)	07/19/2021	Beverage, Food and Tobacco	6.00%	L+500	416,667	416,667	416,667
Snak Club, LLC (Revolver) (8), (9)	07/19/2021	Beverage, Food and Tobacco	—	—	83,333	—	—
Softvision, LLC	05/21/2021	High Tech Industries	6.58%	L+550	9,138,889	9,059,711	9,138,889
Sotera Defense Solutions, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	5,668,843	5,663,421	5,583,810
Sundial Group Holdings LLC	10/19/2021	Consumer Goods: Non-Durable	7.25%	L+625	7,125,000	7,024,211	7,196,250
Survey Sampling International, LLC	12/16/2020	Business Services	6.15%	L+500	7,408,749	7,363,545	7,408,749
Tensar Corporation	07/09/2021	Construction and Building	5.90%	L+475	4,822,723	4,790,592	4,416,795
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	6.40%	L+525	14,906,250	14,765,327	14,906,250
The Original Cakerie, Co. (6), (10)	07/20/2021	Consumer Goods: Non-Durable	6.50%	L+550	3,076,833	3,049,786	3,076,833
The Original Cakerie Ltd. (6), (10)	07/20/2021	Consumer Goods: Non-Durable	6.00%	L+500	5,956,072	5,903,824	5,956,072
The Original Cakerie Ltd. (Revolver) (6), (8), (9), (10)	07/20/2021	Consumer Goods: Non-Durable	—	—	1,418,484	—	—
TOMS Shoes, LLC	11/02/2020	Consumer Goods: Non-Durable	6.55%	L+550	1,960,000	1,831,556	1,290,660
Triad Manufacturing, Inc.	12/28/2020	Capital Equipment	12.23%	L+1,125	9,352,467	9,203,255	9,352,467
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	11.23%	P+750	258,272	258,272	258,272
			(PIK 1.00%)				
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	9.65%	L+850	599,702	570,070	611,696
UniTek Global Services, Inc. (8), (9)	01/14/2019	Telecommunications	—	—	151,090	—	—
Universal Fiber Systems, LLC	10/04/2021	Chemicals, Plastics and Rubber	6.53%	L+550	8,917,343	8,869,107	8,917,343
U.S. Anesthesia Partners, Inc.	12/31/2019	Healthcare and Pharmaceuticals	6.00%	L+500	12,337,500	12,245,147	12,337,500
US Med Acquisition, Inc. (8)	08/13/2021	Healthcare and Pharmaceuticals	10.15%	L+900	3,074,219	3,074,219	3,043,476
Veterinary Specialists of North America, LLC	07/15/2021	Healthcare and Pharmaceuticals	6.27%	L+525	11,241,688	11,133,472	11,212,341
Veterinary Specialists of North America, LLC (8), (9)	07/15/2021	Healthcare and Pharmaceuticals	—	—	2,850,000	—	(7,440)
Veterinary Specialists of North America, LLC (Revolver) (8), (9)	07/15/2021	Healthcare and Pharmaceuticals	—	—	880,000	—	(2,297)
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	7.00%	L+600	12,500,000	12,437,602	12,593,750
Vistage Worldwide, Inc.	08/19/2021	Media: Broadcasting and Subscription	6.50%	L+550	5,092,831	5,053,008	5,105,563
Winchester Electronics Corporation	06/30/2022	Capital Equipment	7.50%	L+650	7,734,621	7,670,058	7,773,294
Winchester Electronics Corporation (8), (9)	06/30/2022	Capital Equipment	—	—	708,333	—	3,542
Worley Claims Services, LLC	10/30/2020	Banking, Finance, Insurance and Real Estate	9.00%	L+800	7,279,315	7,228,473	7,097,333
<b>Total First Lien Secured Debt</b>						<b>680,718,108</b>	<b>682,258,069</b>
<b>Second Lien Secured Debt—7.3%</b>							
Affinion Group, Inc. (8)	10/31/2018	Consumer Goods: Durable	8.50%	L+700	1,000,000	955,064	978,570
Douglas Products and Packaging Company LLC	12/31/2020	Chemicals, Plastics and Rubber	11.65%	L+1,050	2,000,000	1,973,926	2,020,000
Howard Berger Co. LLC	09/30/2020	Wholesale	11.15%	L+1,000	11,150,000	10,711,992	10,146,500
			(PIK 5.32%)				
MailSouth, Inc.	10/22/2021	Media: Advertising, Printing and Publishing	11.50%	L+1,050	3,775,000	3,709,264	3,812,750
Novitex Acquisition, LLC	07/07/2021	Business Services	12.32%	L+1,100	11,900,000	11,769,634	12,019,000
Sunshine Oilsands Ltd. (5), (6), (8), (10)	08/01/2017	Energy: Oil and Gas	— (7)	—	2,812,500	2,790,249	1,546,875
Veritext Corp. (i/k/a VT Buyer Acquisition Corp.)	01/30/2023	Business Services	10.15%	L+900	2,690,625	2,619,111	2,636,813
<b>Total Second Lien Secured Debt</b>						<b>34,529,240</b>	<b>33,160,508</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**  
**MARCH 31, 2017**  
**(Unaudited)**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
<b>Subordinated Debt/Corporate Notes—1.8% (8)</b>							
Affinion International Holdings Limited (5), (6), (10)	07/30/2018	Consumer Goods: Durable	7.50%	—	1,157,978	\$ 1,080,596	\$ 1,123,239
			(PIK 4.00%)				
American Gilsonite Company (5)	12/31/2021	Metals and Mining	17.00%	—	370,370	370,370	370,370
			(PIK 17.00%)				
Credit Infonet, Inc.	10/26/2020	High Tech Industries	13.00%	—	2,083,184	2,043,434	2,065,255
			(PIK 0.75%)				
Sonny's Enterprises, LLC	06/01/2023	Capital Equipment	11.00%	—	4,750,000	4,659,240	4,726,250
UniTek Global Services, Inc.	07/15/2019	Telecommunications	15.00%	—	158,355	158,355	161,522
			(PIK 15.00%)				
<b>Total Subordinated Debt/Corporate Notes</b>						<b>8,311,995</b>	<b>8,446,636</b>
<b>Preferred Equity—0.3% (7), (8)</b>							
UniTek Global Services, Inc.	—	Telecommunications	13.50%	—	1,047,317	670,283	1,410,905
<b>Common Equity/Warrants—1.4% (7), (8)</b>							
Affinion Group Holdings, Inc.	—	Consumer Goods: Durable	—	—	99,029	3,514,572	2,069,165
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Goods: Durable	—	—	4,298	1,186,649	4,567
American Gilsonite Company	—	Metals and Mining	—	—	1,000	215,182	215,182
Corfin InvestCo, L.P.	—	Aerospace and Defense	—	—	3,000	300,000	350,852
Corfin InvestCo, L.P. (9)	—	Aerospace and Defense	—	—	3,000	—	—
e.l.f. Beauty, Inc.	—	Consumer Goods: Durable	—	—	55,399	148,368	1,540,477
Faraday Holdings, LLC (Interior Specialists, Inc.)	—	Construction and Building	—	—	1,141	58,044	160,442
Gauge InfosoftColinvest, LLC (The Infosoft Group, LLC)	—	Media: Broadcasting and Subscription	—	—	500	500,000	609,851
Patriot National, Inc.	—	Banking, Finance, Insurance and Real Estate	—	—	11,867	27,995	33,465
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) (12)	—	Telecommunications	—	—	524,119	524,119	524,119
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) (9), (12)	—	Telecommunications	—	—	475,881	—	—
UniTek Global Services, Inc.	—	Telecommunications	—	—	149,617	—	698,476
<b>Total Common Equity/Warrants</b>						<b>6,474,929</b>	<b>6,206,596</b>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						<b>730,704,555</b>	<b>731,482,714</b>
<b>Cash and Cash Equivalents—9.7%</b>							
BlackRock Federal FD Instl 30						42,216,027	42,216,027
BNY Mellon Cash						1,750,279	1,758,026
<b>Total Cash and Cash Equivalents</b>						<b>43,966,306</b>	<b>43,974,053</b>
<b>Total Investments and Cash Equivalents—170.0%</b>						<b>\$ 774,670,861</b>	<b>\$ 775,456,767</b>
<b>Liabilities in Excess of Other Assets—(70.0)%</b>							<b>(319,230,077)</b>
<b>Net Assets—100.0%</b>							<b>\$ 456,226,690</b>

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR or "L," the Euro Interbank Offered Rate, or EURIBOR or "E," or Prime rate, or "P." All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.
- (2) Valued based on our accounting policy (See Note 2).
- (3) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be "non-controlled" when we own 25% or less of the portfolio company's voting securities and "controlled" when we own more than 25% of the portfolio company's voting securities.
- (4) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as "non-affiliated" when we own less than 5% of a portfolio company's voting securities and "affiliated" when we own 5% or more of a portfolio company's voting securities.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act of 1933, as amended, or the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-U.S. company or principal place of business outside the United States.
- (7) Non-income producing securities.
- (8) The securities, or a portion thereof, are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility and held through Funding I.
- (9) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (10) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of March 31, 2017, qualifying assets represent 93% of our total assets and non-qualifying assets represent 7% of our total assets.
- (11) Par amount is denominated in Canadian Dollars (C\$) or in Euros (€) as denoted.
- (12) Investment is held through our Taxable Subsidiary (See Note 1).

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**SEPTEMBER 30, 2016**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies—159.3% (3), (4)</b>							
<b>First Lien Secured Debt—145.9%</b>							
Advanced Cable Communications, LLC	08/09/2021	Telecommunications	6.75%	L+575	12,500,000	\$ 12,255,990	\$ 12,250,000
Advanced Cable Communications, LLC (10)	08/09/2021	Telecommunications	—	—	4,000,000	—	(80,000)
ALG USA Holdings, LLC	02/28/2019	Hotel, Gaming and Leisure	7.00%	L+575	12,064,454	12,037,105	12,064,454
Alvogen Pharma US, Inc. (6), (11)	04/04/2022	Healthcare and Pharmaceuticals	6.00%	L+500	3,943,925	3,925,777	3,946,410
American Bath Group, LLC	10/02/2023	Consumer Goods: Durable	6.75%	L+575	3,000,000	2,970,000	2,992,500
American Scaffold	03/31/2022	Aerospace and Defense	7.50%	L+650	4,937,500	4,866,801	4,888,125
AMF Bowling Centers, Inc.	09/19/2023	Retail	6.00%	L+500	15,000,000	14,850,608	14,931,300
AP Gaming I, LLC	12/21/2020	Hotel, Gaming and Leisure	9.25%	L+825	6,534,878	6,462,308	6,220,419
API Technologies Corp.	04/22/2022	Aerospace and Defense	7.50%	L+650	9,975,000	9,787,810	9,825,375
Azure Midstream Energy LLC	11/15/2018	Energy: Oil and Gas	7.50%	L+650	5,125,684	5,042,414	4,228,689
Blue Bird Body Company	06/29/2020	Automotive	6.50%	L+550	3,498,670	3,462,806	3,498,670
Broder Bros., Co., Tranche A	06/03/2021	Consumer Goods: Non-Durable	7.00%	L+575	2,440,000	2,397,229	2,422,820
Broder Bros., Co., Tranche B	06/03/2021	Consumer Goods: Non-Durable	13.50%	L+1,225	2,460,000	2,415,653	2,442,679
Camin Cargo Control, Inc.	06/30/2021	Transportation: Cargo	5.75%	L+475	2,468,750	2,448,157	2,370,000
CareCentrix, Inc.	07/08/2021	Healthcare and Pharmaceuticals	6.00%	L+500	4,950,000	4,847,215	4,863,375
CBAC Borrower, LLC (8)	07/02/2020	Hotel, Gaming and Leisure	8.25%	L+700	4,962,500	4,930,912	4,850,844
CD&R TZ Purchaser, Inc.	07/21/2023	Consumer Goods: Durable	7.00%	L+600	12,500,000	12,179,928	12,343,750
Charming Charlie LLC	12/24/2019	Retail	9.00%	L+800	4,098,750	4,061,551	3,750,357
Chicken Soup for the Soul Publishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.50%	L+625	4,828,571	4,801,254	4,732,000
Corfin Industries LLC	11/25/2020	Aerospace and Defense	10.75%	L+975	6,272,600	6,163,749	6,272,600
Corfin Industries LLC (Revolver) (10)	11/25/2020	Aerospace and Defense	—	—	518,033	—	—
CRGT Inc.	12/21/2020	High Tech Industries	7.50%	L+650	10,531,671	10,451,145	10,505,342
Curo Health Services Holdings, Inc.	02/07/2022	Healthcare and Pharmaceuticals	6.50%	L+550	1,970,000	1,953,997	1,970,000
DBI Holding LLC	08/02/2021	Business Services	6.25%	L+525	10,000,000	9,900,163	9,900,000
DCS Business Services, Inc.	03/19/2018	Business Services	8.75%	L+725	2,237,139	2,225,615	2,237,139
DISA Global Solutions, Inc.	12/09/2020	Business Services	5.50%	L+450	4,925,000	4,889,096	4,875,750
Douglas Products and Packaging Company LLC	06/30/2020	Chemicals, Plastics and Rubber	5.75%	L+475	4,687,500	4,659,016	4,687,500
Driven Performance Brands, Inc. (8)	09/10/2020	Consumer Goods: Durable	5.75%	L+475	8,550,000	8,513,835	8,507,250
Driven Performance Brands, Inc. (Revolver) (8), (10)	09/10/2020	Consumer Goods: Durable	—	—	1,000,000	—	—
Education Networks of America, Inc.	05/06/2021	Telecommunications	8.00%	L+700	8,641,304	8,599,431	8,598,098
Education Networks of America, Inc. (Revolver)	05/06/2021	Telecommunications	8.00%	L+700	434,783	434,783	434,783
Education Networks of America, Inc. (Revolver) (10)	05/06/2021	Telecommunications	—	—	869,565	—	—
Efficient Collaborative Retail Marketing Company, LLC	06/15/2022	Media: Diversified and Production	7.75%	L+675	10,972,500	10,864,398	10,972,500
Emerging Markets Communications, LLC	07/01/2021	Telecommunications	6.75%	L+575	4,937,500	4,875,844	4,702,969
FHC Health Systems, Inc.	12/23/2021	Healthcare and Pharmaceuticals	5.00%	L+400	4,925,000	4,884,041	4,798,821
GlobalLogic Holdings, Inc.	05/31/2019	High Tech Industries	6.25%	L+525	3,890,000	3,867,640	3,880,275
Greenway Health, LLC	11/04/2020	High Tech Industries	6.00%	L+500	6,807,500	6,765,938	6,620,294
GTCR Valor Companies, Inc.	06/16/2023	Media: Broadcasting and Subscription	7.00%	L+600	7,481,250	7,191,975	7,116,539
Harbortouch Payments, LLC	05/31/2022	Banking, Finance, Insurance and Real Estate	7.00%	L+600	6,956,250	6,889,369	7,025,812
Highline Aftermarket Acquisition, LLC (f/k/a DYK Prime Acquisition, LLC)	04/01/2022	Wholesale	5.75%	L+475	7,312,500	7,244,146	7,275,937
Hollander Sleep Products, LLC	10/21/2020	Consumer Goods: Non-Durable	9.00%	L+800	1,165,886	1,153,016	1,142,569
Hostway Corporation	12/13/2019	High Tech Industries	6.00%	L+475	2,624,730	2,610,592	2,183,890
Hunter Defense Technologies, Inc. (8)	08/05/2019	Aerospace and Defense	7.00%	L+600	6,256,250	6,218,559	5,505,500
Icynene U.S. Acquisition Corp. (6), (11)	11/04/2020	Construction and Building	7.25%	L+625	6,225,820	6,133,990	6,225,820
Idera, Inc.	04/09/2021	High Tech Industries	6.50%	L+550	7,942,494	7,293,179	7,684,363
iEnergizer Limited and Aptara, Inc. (6), (11)	05/01/2019	Business Services	7.25%	L+600	8,676,097	8,614,521	8,242,292
Imagine! Print Solutions, LLC	03/30/2022	Media: Advertising, Printing and Publishing	7.00%	L+600	5,974,987	5,914,562	6,027,269
Instant Web, LLC, Term Loan A	03/28/2019	Media: Advertising, Printing and Publishing	5.50%	L+450	5,277,938	5,235,239	5,277,938
Instant Web, LLC, Term Loan B	03/28/2019	Media: Advertising, Printing and Publishing	12.00%	L+1,100	4,500,000	4,460,571	4,500,000
Interior Specialists, Inc.	06/30/2020	Construction and Building	9.00%	L+800	6,662,719	6,609,864	6,662,719
Inventus Power, Inc. (f/k/a ICC-Nexergy, Inc.)	04/30/2020	Consumer Goods: Durable	6.50%	L+550	4,882,266	4,846,935	4,686,976
Jackson Hewitt Inc.	07/30/2020	Consumer Services	8.00%	L+700	4,900,000	4,820,995	4,753,000
K2 Pure Solutions NoCal, L.P. (8)	02/19/2021	Chemicals, Plastics and Rubber	10.00%	L+900	4,002,471	3,932,760	3,925,841
Kendra Scott, LLC	07/17/2020	Retail	7.00%	L+600	2,850,000	2,827,307	2,821,500
KHC Holdings, Inc.	10/31/2022	Wholesale	7.00%	L+600	12,406,250	12,210,683	12,344,219
KHC Holdings, Inc. (Revolver) (8), (10)	10/30/2020	Wholesale	—	—	1,209,677	—	—
Lago Resort & Casino, LLC	03/07/2022	Hotel, Gaming and Leisure	10.50%	L+950	10,174,500	9,984,965	9,971,010
Lanyon Solutions, Inc.	11/13/2020	High Tech Industries	5.50%	L+450	1,945,020	1,940,066	1,930,432
LifeCare Holdings LLC (8)	11/30/2018	Healthcare and Pharmaceuticals	6.50%	L+525	5,407,864	5,371,524	5,272,668
Lindblad Expeditions, Inc. (6), (11)	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	2,186,607	2,177,539	2,186,607
Lindblad Maritime Enterprises, Ltd. (6), (11)	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	282,143	280,973	282,143
Lombart Brothers, Inc.	04/13/2022	Capital Equipment	7.75%	L+675	5,985,000	5,901,046	6,014,925
Lombart Brothers, Inc. (Revolver) (8)	04/13/2022	Capital Equipment	7.75%	L+675	176,991	176,991	176,991

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**  
**SEPTEMBER 30, 2016**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
Lombart Brothers, Inc. (Revolver) (8), (10)	04/13/2022	Capital Equipment	—	—	1,061,947	\$ —	\$ —
Long's Drugs Incorporated	08/19/2021	Healthcare and Pharmaceuticals	6.25%	L+525	5,000,000	4,951,874	4,950,000
LSF9 Atlantis Holdings, LLC	01/15/2021	Retail	10.00%	L+900	9,542,392	9,417,467	9,542,392
LTI Holdings, Inc.	04/18/2022	Chemicals, Plastics and Rubber	5.25%	L+425	5,431,250	4,973,326	5,254,734
Marketplace Events LLC	01/27/2021	Media: Diversified and Production	6.25%	L+525	1,362,530	1,342,162	1,342,092
Marketplace Events LLC (12)	01/27/2021	Media: Diversified and Production	6.25%	P+275	C\$ 17,244,188	12,065,652	13,078,215
Marketplace Events LLC (Revolver) (8)	01/27/2021	Media: Diversified and Production	6.25%	P+275	1,090,024	1,090,024	1,090,024
Marketplace Events LLC (Revolver) (8), (10)	01/27/2021	Media: Diversified and Production	—	—	613,139	—	—
Mission Critical Electronics, Inc. (8)	09/28/2022	Capital Equipment	6.00%	L+500	4,116,608	4,075,499	4,075,442
Mission Critical Electronics, Inc. (Revolver) (8), (10)	09/28/2021	Capital Equipment	—	—	883,392	—	—
New Trident HoldCorp, Inc.	07/31/2019	Healthcare and Pharmaceuticals	6.50%	L+525	8,817,647	8,767,669	8,288,588
Pathway Partners Vet Management Company LLC (8)	08/19/2022	Healthcare and Pharmaceuticals	6.00%	L+500	6,268,657	6,205,970	6,205,970
Pathway Partners Vet Management Company LLC (8), (10)	08/19/2022	Healthcare and Pharmaceuticals	—	—	3,731,343	—	—
Polycom, Inc.	09/27/2023	Telecommunications	7.50%	L+650	6,000,000	5,760,000	5,775,000
Precyse Acquisition Corp.	10/20/2022	Healthcare and Pharmaceuticals	6.50%	L+550	3,990,000	3,932,956	4,014,938
Premier Dental Services, Inc.	11/01/2018	Consumer Services	7.50%	L+650	7,528,230	7,473,587	7,490,588
Profile Products LLC	05/20/2021	Environmental Industries	5.75%	L+475	7,281,762	7,222,561	7,281,762
Profile Products LLC (Revolver) (8), (10)	05/20/2020	Environmental Industries	—	—	2,459,016	—	—
Quick Weight Loss Centers, LLC	08/23/2021	Beverage, Food and Tobacco	5.75%	L+475	10,000,000	9,852,456	9,900,000
Research Now Group, Inc.	03/18/2021	High Tech Industries	5.50%	L+450	6,895,000	6,867,800	6,688,150
Robertshaw US Holding Corp.	06/18/2019	Consumer Goods: Durable	8.50%	L+700	4,252,830	4,233,671	4,258,699
Ryan, LLC	08/07/2020	Business Services	6.75%	L+575	4,218,750	4,166,413	4,163,400
Sensus USA, Inc.	04/05/2023	Utilities: Water	6.50%	L+550	9,975,000	9,692,511	9,999,938
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	6.00%	L+500	4,968,748	4,896,623	4,919,060
Snak Club, LLC (Revolver) (10)	07/19/2021	Beverage, Food and Tobacco	—	—	500,000	—	—
Software Paradigms International Group, LLC	05/21/2021	High Tech Industries	6.50%	L+550	9,875,000	9,781,596	9,825,625
Sotera Defense Solutions, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	5,668,843	5,614,696	5,640,499
Sundial Group Holdings LLC	10/19/2021	Consumer Goods: Non-Durable	7.25%	L+625	7,312,500	7,200,786	7,312,500
Survey Sampling International, LLC	12/16/2020	Business Services	6.00%	L+500	7,446,562	7,395,200	7,409,329
Systems Maintenance Services Holding, Inc.	10/18/2019	High Tech Industries	5.00%	L+400	5,850,000	5,834,217	5,733,000
Tensar Corporation	07/09/2021	Construction and Building	5.75%	L+475	4,822,723	4,786,985	4,071,198
The Original Cakerie, Co. (6), (11)	07/20/2021	Consumer Goods: Non-Durable	6.50%	L+550	3,092,295	3,062,366	3,061,372
The Original Cakerie Ltd. (6), (11)	07/20/2021	Consumer Goods: Non-Durable	6.00%	L+500	5,986,002	5,928,120	5,926,142
The Original Cakerie Ltd. (Revolver) (6), (8), (10), (11)	07/20/2021	Consumer Goods: Non-Durable	—	—	1,418,484	—	(7,092)
TOMS Shoes, LLC	11/02/2020	Consumer Goods: Non-Durable	6.50%	L+550	1,970,000	1,825,559	1,576,000
Triad Manufacturing, Inc.	12/28/2020	Capital Equipment	11.27%	L+1,075 (9)	10,306,936	10,124,477	10,306,936
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	9.50%	L+850	256,971	256,971	256,971
			(PIK 1.00%)				
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	8.50%	L+750	599,702	562,432	590,706
UniTek Global Services, Inc. (8), (10)	01/14/2019	Telecommunications	—	—	151,090	—	—
Universal Fiber Systems, LLC	10/04/2021	Chemicals, Plastics and Rubber	6.50%	L+550	4,962,500	4,919,423	4,937,688
U.S. Anesthesia Partners, Inc.	12/31/2019	Healthcare and Pharmaceuticals	6.00%	L+500	9,900,000	9,818,407	9,850,500
US Med Acquisition, Inc. (8)	08/13/2021	Healthcare and Pharmaceuticals	10.00%	L+900	3,089,844	3,089,844	3,089,844
Vistage Worldwide, Inc.	08/19/2021	Media: Broadcasting and Subscription	6.50%	L+550	4,792,831	4,752,002	4,792,831
Winchester Electronics Corporation	06/30/2022	Capital Equipment	7.50%	L+650	7,773,579	7,703,094	7,668,171
Winchester Electronics Corporation (10)	06/30/2022	Capital Equipment	—	—	708,333	—	(9,605)
Worley Claims Services, LLC	10/30/2020	Banking, Finance, Insurance and Real Estate	9.00%	L+800	7,316,440	7,259,010	7,316,440
<b>Total First Lien Secured Debt</b>						<u>549,736,982</u>	<u>548,410,095</u>
<b>Second Lien Secured Debt—9.7%</b>							
Affinion Group, Inc. (8)	10/31/2018	Consumer Goods: Durable	8.50%	L+700	1,000,000	942,276	879,170
American Gilsonite Company (5), (8)	09/01/2017	Metals and Mining	— (7)	—	1,000,000	1,000,000	700,000
Douglas Products and Packaging Company LLC	12/31/2020	Chemicals, Plastics and Rubber	11.34%	L+1,050 (9)	2,000,000	1,971,030	2,020,000
Howard Berger Co. LLC	09/30/2020	Wholesale	11.00%	L+1,000	11,000,000	10,511,818	9,900,000
MailSouth, Inc.	10/22/2021	Media: Advertising, Printing and Publishing	11.50%	L+1,050	3,775,000	3,703,724	3,775,000
Novitex Acquisition, LLC	07/07/2021	Business Services	12.25%	L+1,100	11,000,000	10,914,618	11,000,000
Penton Media, Inc. (8)	10/02/2020	Media: Diversified and Production	9.00%	L+775	4,872,042	4,826,926	4,853,772
Sunshine Oilsands Ltd. (5), (6), (8), (11)	08/01/2017	Energy: Oil and Gas	12.50%	—	2,812,500	2,756,732	1,631,250
VT Buyer Acquisition Corp.	01/30/2023	Business Services	10.75%	L+975	1,837,500	1,777,304	1,837,500
<b>Total Second Lien Secured Debt</b>						<u>38,404,428</u>	<u>36,596,692</u>
<b>Subordinated Debt/Corporate Notes—0.8% (8)</b>							
Affinion International Holdings Limited (5), (6), (11)	07/30/2018	Consumer Goods: Durable	7.50%	—	1,135,273	1,030,320	1,035,937
Credit Infonet, Inc.	10/26/2018	High Tech Industries	13.00%	—	2,069,078	2,050,767	1,975,969
			(PIK 1.75%)				
UniTek Global Services, Inc.	07/15/2019	Telecommunications	15.00%	—	146,996	146,996	148,466
			(PIK 15.00%)				
<b>Total Subordinated Debt/Corporate Notes</b>						<u>3,228,083</u>	<u>3,160,372</u>
<b>Preferred Equity—0.4% (7), (8)</b>							
UniTek Global Services, Inc.	—	Telecommunications	13.50%	—	1,047,317	670,283	1,319,308
<b>Common Equity/Warrants—2.5% (7), (8)</b>							
Affinion Group Holdings, Inc.	—	Consumer Goods: Durable	—	—	99,029	3,514,572	3,700,216

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**  
**SEPTEMBER 30, 2016**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Goods: Durable	—	—	4,298	\$ 1,186,649	\$ 20,096
Corfin InvestCo, L.P.	—	Aerospace and Defense	—	—	3,000	300,000	621,550
Corfin InvestCo, L.P. (10)	—	Aerospace and Defense	—	—	3,000	—	—
e.l.f. Beauty, Inc. (f/k/a J.A. Cosmetics US, Inc.)	—	Consumer Goods: Durable	—	—	110,399	295,670	2,957,767
Faraday Holdings, LLC (Interior Specialists, Inc.)	—	Construction and Building	—	—	1,141	58,044	94,560
Patriot National, Inc.	—	Banking, Finance, Insurance and Real Estate	—	—	11,867	27,995	106,922
TPC Broadband Investors, LP (Advanced Cable Communications, LLC)	—	Telecommunications	—	—	430,666	430,666	430,666
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) (10)	—	Telecommunications	—	—	569,334	—	—
UniTek Global Services, Inc.	—	Telecommunications	—	—	149,617	—	892,276
Vestcom Parent Holdings, Inc.	—	Media: Advertising, Printing and Publishing	—	—	15,179	56,895	577,005
<b>Total Common Equity/Warrants</b>						<u>5,870,491</u>	<u>9,401,058</u>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						<u>597,910,267</u>	<u>598,887,525</u>
<b>Cash and Cash Equivalents—7.7%</b>							
BlackRock Liquidity Funds, Temp Cash and Temp Fund, Institutional Shares						28,212,041	28,212,041
BNY Mellon Cash Reserve and Cash						<u>691,318</u>	<u>698,932</u>
<b>Total Cash and Cash Equivalents</b>						<u>28,903,359</u>	<u>28,910,973</u>
<b>Total Investments and Cash Equivalents—167.0%</b>						<u>\$ 626,813,626</u>	<u>\$ 627,798,498</u>
<b>Liabilities in Excess of Other Assets—(67.0)%</b>							(251,891,670)
<b>Net Assets—100.0%</b>							<u>\$ 375,906,828</u>

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or "L," or Prime rate, or "P." All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- (2) Valued based on our accounting policy (See Note 2).
- (3) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be "non-controlled" when we own 25% or less of the portfolio company's voting securities and "controlled" when we own more than 25% of the portfolio company's voting securities.
- (4) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as "non-affiliated" when we own less than 5% of a portfolio company's voting securities and "affiliated" when we own 5% or more of a portfolio company's voting securities.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-U.S. company or principal place of business outside the United States.
- (7) Non-income producing securities.
- (8) The securities, or a portion thereof, are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility and held through Funding I.
- (9) Coupon is not subject to a LIBOR or Prime rate floor.
- (10) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (11) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets.
- (12) Par amount is denominated in Canadian Dollars.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2017**  
**(Unaudited)**

## 1. ORGANIZATION

PennantPark Floating Rate Capital Ltd. was organized as a Maryland corporation in October 2010. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act.

Our investment objectives are to generate current income and capital appreciation while seeking to preserve capital. We seek to achieve our investment objective by investing primarily in loans bearing a variable-rate of interest, or Floating Rate Loans, and other investments made to U.S. middle-market companies whose debt is rated below investment grade. Floating Rate Loans pay interest at variable rates, which are determined periodically, on the basis of a floating base lending rate such as LIBOR, with or without a floor, plus a fixed spread. Under normal market conditions, we generally expect that at least 80% of the value of our Managed Assets, which means our net assets plus any borrowings for investment purposes, will be invested in Floating Rate Loans and other investments bearing a variable rate of interest, which may include, from time to time, variable rate derivative instruments. We generally expect that senior secured debt, or first lien loans, will represent at least 65% of our overall portfolio. We generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including mezzanine debt, which we define as second lien secured and subordinated debt, and, to a lesser extent, equity investments.

In February 2017, we completed a follow-on public offering of 5,750,000 shares of common stock, which resulted in proceeds to us of \$14.08 per share, including the exercise of the underwriters' option to purchase additional shares, for gross proceeds of \$81.0 million and net proceeds of \$80.5 million after offering expenses. Our Investment Adviser paid \$5.0 million in connection with this offering, which included the sales load and an additional supplemental payment.

We entered into an investment management agreement, or the Investment Management Agreement, with the Investment Adviser, an external adviser that manages our day-to-day operations. We also entered into an administration agreement, or the Administration Agreement, with the Administrator, which provides the administrative services necessary for us to operate.

Funding I, our wholly owned subsidiary and a special purpose entity, was organized in Delaware as a limited liability company in May 2011. We formed Funding I in order to establish our Credit Facility. The Investment Adviser serves as the collateral manager to Funding I and has irrevocably directed that the management fee owed with respect to such services is to be paid to us so long as the Investment Adviser remains the collateral manager. This arrangement does not increase our consolidated management fee. The Credit Facility allows Funding I to borrow up to \$350 million at LIBOR plus 200 basis points during the revolving period. The Credit Facility is secured by all of the assets held by Funding I. See Note 9.

We have formed and expect to continue to form certain taxable subsidiaries, including the Taxable Subsidiary, which are subject to tax as corporations. The Taxable Subsidiary allows us to hold equity securities of certain portfolio companies treated as pass-through entities for U.S. federal income tax purposes while allowing us to maintain our ability to qualify as a RIC under the Code.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the Financial Accounting Standards Board's Accounting Standards Codification, as amended, or ASC, serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued.

Our Consolidated Financial Statements are prepared in accordance with GAAP, consistent with ASC 946, Financial Services – Investment Companies, and pursuant to the requirements for reporting on Form 10-K/Q and Article 6 or 10 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders' Equity.

Our significant accounting policies consistently applied are as follows:

### (a) Investment Valuations

We expect that there may not be readily available market values for many of our investments, which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described in this Report. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference may be material. See Note 5.

Our portfolio generally consists of illiquid securities, including debt and equity investments. With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management's

preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

- (4) The audit committee of our board of directors reviews the preliminary valuations of our Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at bid prices obtained from at least two brokers or dealers, if available, or otherwise from a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If our board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

**(b) Security Transactions, Revenue Recognition, and Realized/Unrealized Gains or Losses**

Security transactions are recorded on a trade-date basis. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair values of our portfolio investments and Credit Facility during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, original issue discount, or OID, market discount or premium and deferred financing costs on liabilities, which we do not fair value, are capitalized and then accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or if there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

**(c) Income Taxes**

We have complied with the requirements of Subchapter M of the Code and expect to be treated as a RIC for federal income tax purposes. As a result, we account for income taxes using the asset and liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon our qualification and election to be treated as a RIC for federal income tax purposes, we typically do not incur any material level of federal income taxes. Although we generally do not incur federal income taxes as a RIC, we may elect to retain a portion of our calendar year income, which may result in the imposition of an excise tax, or we may incur taxes through our Taxable Subsidiaries. For both the three and six months ended March 31, 2017, we recorded a provision for taxes of \$0.1 million pertaining to U.S. federal excise tax. For both the three and six months ended March 31, 2016, we did not record a provision for taxes.

We recognize the effect of a tax position in our Consolidated Financial Statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. Tax positions not considered to satisfy the "more-likely-than-not" threshold would be recorded as a tax expense or benefit. We did not have any material uncertain tax positions or any unrecognized tax benefits that met the recognition or measurement criteria of ASC 740-10-25 as of the periods presented herein.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and net realized gain recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

**(d) Distributions and Capital Transactions**

Distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid, if any, as a distribution is determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually. The tax attributes for distributions will generally include ordinary income and capital gains, but may also include qualified dividends and/or a return of capital.

Capital transactions, in connection with our dividend reinvestment plan or through offerings of our common stock, are recorded when issued and offering costs are charged as a reduction of capital upon issuance of our common stock.

**(e) Foreign Currency Translation**

Our books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

1. Fair value of investment securities, other assets and liabilities – at the exchange rates prevailing at the end of the applicable period; and
2. Purchases and sales of investment securities, income and expenses – at the exchange rates prevailing on the respective dates of such transactions.

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Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments, other assets and debt from the fluctuations arising from changes in fair values of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices to be more volatile than those of comparable U.S. companies or U.S. government securities.

**(f) Consolidation**

As permitted under Regulation S-X and as explained by ASC 946-810-45, PennantPark Floating Rate Capital Ltd. will generally not consolidate its investment in a company other than an investment company subsidiary or a controlled operating company whose business consists of providing services to us. Accordingly, we have consolidated the results of our taxable subsidiaries in our Consolidated Financial Statements.

**(g) Asset Transfers and Servicing**

Asset transfers that do not meet ASC 860, Transfers and Servicing, requirements for sale accounting treatment are reflected in the Consolidated Statement of Assets and Liabilities as investments. The creditors of Funding I have received a security interest in all of its assets and such assets are not intended to be available to the creditors of PennantPark Floating Rate Capital Ltd. or any of its affiliates.

**3. AGREEMENTS**

The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2017. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to us. The Investment Adviser serves as the collateral manager to Funding I and has irrevocably directed that the management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager. This arrangement does not increase our consolidated management fee. For providing these services, the Investment Adviser receives a fee from us consisting of two components—a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.00% of our “average adjusted gross assets,” which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the three and six months ended March 31, 2017, the Investment Adviser earned base management fees of \$1.7 million and \$3.3 million, respectively, from us. For the three and six months ended March 31, 2016, the Investment Adviser earned base management fees of \$1.2 million and \$2.3 million, respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees (other than fees for providing managerial assistance), such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies, accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense or amendment fees under any credit facility and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 50% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.9167% in any calendar quarter (11.67% annualized) (we refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle but is less than 2.9167%) as the “catch-up,” which is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income, as if a hurdle did not apply, if this net investment income exceeds 2.9167% in any calendar quarter), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.9167% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the three and six months ended March 31, 2017, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$0.6 million and \$1.4 million, respectively, from us. For the three and six months ended March 31, 2016, the Investment Adviser earned an incentive fee on net investment income as calculated under the Investment Management Agreement of \$0.8 million and \$0.8 million, respectively, from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For the three and six months ended March 31, 2017 and 2016, the Investment Adviser did not earn an incentive fee on capital gains, as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation, if any, will be realized in the future. For the three and



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six months ended March 31, 2017, the Investment Adviser accrued an incentive fee on our unrealized and realized capital gains as calculated under GAAP of \$(0.1) million and \$0.5 million, respectively. For the three and six months ended March 31, 2016, the Investment Adviser did not accrue an incentive fee on our unrealized and realized capital gains as calculated under GAAP.

The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of the directors who are not interested persons of us, in February 2017. Under the Administration Agreement, the Administrator provides administration services and office facilities to us. For providing these services, facilities and personnel, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers, on our behalf, managerial assistance to portfolio companies to which we are required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the three and six months ended March 31, 2017, the Investment Adviser was reimbursed approximately \$0.7 million and \$1.0 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above. For the three and six months ended March 31, 2016, the Investment Adviser was reimbursed approximately \$0.3 million and \$0.5 million, respectively, from us, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above.

#### 4. INVESTMENTS

Purchases of investments, including PIK interest, for the three and six months ended March 31, 2017 totaled \$146.5 million and \$271.3 million, respectively. For the same periods in the prior year, purchases of investments, including PIK interest, totaled \$57.3 million and \$156.5 million, respectively. Sales and repayments of investments for the three and six months ended March 31, 2017 totaled \$71.5 million and \$141.9 million, respectively. For the same periods in the prior year, sales and repayments of investments totaled \$29.9 million and \$56.8 million, respectively. For the three and six months ended March 31, 2017, the Company purchased \$38.1 million and \$38.1 million, respectively, and sold zero and \$5.0 million in total investments, respectively, to an affiliated fund managed by our Investment Adviser in accordance with, and pursuant to procedures adopted under, Rule 17a-7 of the 1940 Act. Realized gains on those sales amounted to less than \$0.1 million.

Investments, cash and cash equivalents consisted of the following:

Investment Classification	March 31, 2017		September 30, 2016	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 680,718,108	\$ 682,258,069	\$ 549,736,982	\$ 548,410,095
Second lien	34,529,240	33,160,508	38,404,428	36,596,692
Subordinated debt / corporate notes	8,311,995	8,446,636	3,228,083	3,160,372
Equity	7,145,212	7,617,501	6,540,774	10,720,366
Total investments	<u>730,704,555</u>	<u>731,482,714</u>	<u>597,910,267</u>	<u>598,887,525</u>
Cash and cash equivalents	43,966,306	43,974,053	28,903,359	28,910,973
Total investments, cash and cash equivalents	<u>\$ 774,670,861</u>	<u>\$ 775,456,767</u>	<u>\$ 626,813,626</u>	<u>\$ 627,798,498</u>

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets (excluding cash and cash equivalents) in such industries:

Industry Classification	March 31, 2017	September 30, 2016
Healthcare and Pharmaceuticals	11%	10%
Business Services	7	8
Consumer Goods: Durable	7	7
High Tech Industries	7	10
Hotel, Gaming and Leisure	7	6
Consumer Goods: Non-Durable	6	4
Media: Advertising, Printing and Publishing	6	4
Beverage, Food and Tobacco	5	2
Capital Equipment	5	5
Chemicals, Plastics and Rubber	5	3
Wholesale	5	5
Aerospace and Defense	4	5
Media: Broadcasting and Subscription	4	2
Media: Diversified and Production	4	5
Retail	4	5
Telecommunications	4	6
Construction and Building	3	3
Banking, Finance, Insurance and Real Estate	2	2
Consumer Services	2	2
Utilities: Water	—	2
All Other	2	4
Total	<u>100%</u>	<u>100%</u>

#### 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value, as defined under ASC 820, Fair Value Measurement, or ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting date.

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ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information, disorderly transactions or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence was available. Corroborating evidence that would result in classifying these non-binding broker/dealer bids as a Level 2 asset includes observable orderly market-based transactions for the same or similar assets or other relevant observable market-based inputs that may be used in pricing an asset.

Our investments are generally structured as Floating Rate Loans, mainly senior secured debt, but also may include second lien, high yield, mezzanine and distressed debt securities and equity investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. These non-public investments valued using unobservable inputs are included in Level 3 of the fair value hierarchy.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. During the six months ended March 31, 2017 and 2016, our ability to observe valuation inputs resulted in no reclassifications and one reclassification of an asset from Level 2 to 1, respectively.

In addition to using the above inputs in cash equivalents, investments and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value. See Note 2.

As outlined in the table below, some of our Level 3 investments using a market approach valuation technique are valued using the average of the bids from brokers or dealers. The bids typically include a disclaimer, may not have corroborating evidence, may be the result of a disorderly transaction and may be the result of consensus pricing. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

The remainder of our portfolio and our long-term Credit Facility are valued using a market comparable or an enterprise market value technique. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the pricing indicated by the external event, excluding transaction costs, is used to corroborate the valuation. When using earnings multiples to value a portfolio company, the multiple used requires the use of judgment and estimates in determining how a market participant would price such an asset. These non-public investments using unobservable inputs are included in Level 3 of the fair value hierarchy. Generally, the sensitivity of unobservable inputs or combination of inputs such as industry comparable companies, market outlook, consistency, discount rates and reliability of earnings and prospects for growth, or lack thereof, affects the multiple used in pricing an investment. As a result, any change in any one of those factors may have a significant impact on the valuation of an investment. Generally, an increase in a market yield will result in a decrease in the valuation of a debt investment, while a decrease in a market yield will have the opposite effect. Generally, an increase in an EBITDA multiple will result in an increase in the valuation of an investment, while a decrease in an EBITDA will have the opposite effect.

Our Level 3 valuation techniques, unobservable inputs and ranges were categorized as follows for ASC 820 purposes:

<u>Asset Category</u>	<u>Fair Value at March 31, 2017</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range of Input (Weighted Average)</u>
First lien	\$ 328,369,312	Market Comparable	Broker/Dealer bids or quotes	N/A
Second lien	2,525,445	Market Comparable	Broker/Dealer bids or quotes	N/A
Subordinated debt / corporate notes	1,123,239	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	353,888,757	Market Comparable	Market Yield	5.4% – 17.0% (8.6%)
Second lien	30,635,063	Market Comparable	Market Yield	12.3% – 13.6% (13.3%)
Subordinated debt / corporate notes	7,323,397	Market Comparable	Market Yield	11.7% – 19.9% (13.0%)
Equity	6,043,559	Enterprise Market Value	EBITDA multiple	4.7x – 11.5x (7.5x)
Total Level 3 investments	<u>\$ 729,908,772</u>			
Long-Term Credit Facility	<u>\$ 300,420,904</u>	Market Comparable	Market Yield	3.7%

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Asset Category	Fair Value at September 30, 2016	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)
First lien	\$ 264,299,729	Market Comparable	Broker/Dealer bids or quotes	N/A
Second lien	8,064,192	Market Comparable	Broker/Dealer bids or quotes	N/A
Subordinated debt / corporate notes	1,035,937	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	284,110,366	Market Comparable	Market Yield	5.3% – 13.9% (8.3%)
Second lien	28,532,500	Market Comparable	Market Yield	10.2% – 15.9% (13.7%)
Subordinated debt / corporate notes	2,124,435	Market Comparable	Market Yield	15.7% – 16.5% (15.8%)
Equity	7,655,677	Enterprise Market Value	EBITDA multiple	4.3x – 9.0x (7.2x)
Total Level 3 investments	\$ 595,822,836			
Long-Term Credit Facility	\$ 232,389,498	Market Comparable	Market Yield	3.4%

Our investments, cash and cash equivalents and Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes:

Description	Fair Value Measurements at March 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
First lien	\$ 682,258,069	\$ —	\$ —	\$ 682,258,069
Second lien	33,160,508	—	—	33,160,508
Subordinated debt / corporate notes	8,446,636	—	—	8,446,636
Equity	7,617,501	33,465	1,540,477	6,043,559
Total investments	731,482,714	33,465	1,540,477	729,908,772
Cash and cash equivalents	43,974,053	43,974,053	—	—
Total investments, cash and cash equivalents	\$ 775,456,767	\$ 44,007,518	\$ 1,540,477	\$ 729,908,772
Long-Term Credit Facility	\$ 300,420,904	\$ —	\$ —	\$ 300,420,904

Description	Fair Value Measurements at September 30, 2016			
	Fair Value	Level 1	Level 2	Level 3
First lien	\$ 548,410,095	\$ —	\$ —	\$ 548,410,095
Second lien	36,596,692	—	—	36,596,692
Subordinated debt / corporate notes	3,160,372	—	—	3,160,372
Equity	10,720,366	106,922	2,957,767	7,655,677
Total investments	598,887,525	106,922	2,957,767	595,822,836
Cash and cash equivalents	28,910,973	28,910,973	—	—
Total investments, cash and cash equivalents	\$ 627,798,498	\$ 29,017,895	\$ 2,957,767	\$ 595,822,836
Long-Term Credit Facility	\$ 232,389,498	\$ —	\$ —	\$ 232,389,498

The tables below show a reconciliation of the beginning and ending balances for fair valued investments measured using significant unobservable inputs (Level 3):

Description	Six Months Ended March 31, 2017		
	First Lien	Second lien, subordinated debt and equity investments	Totals
Beginning Balance	\$ 548,410,095	\$ 47,412,741	\$ 595,822,836
Net realized gains	951,500	266,219	1,217,719
Net unrealized appreciation (depreciation)	2,866,849	(1,722,503)	1,144,346
Purchases, PIK interest, net discount accretion and non-cash exchanges	259,894,855	12,347,053	272,241,908
Sales, repayments and non-cash exchanges	(129,865,230)	(10,652,807)	(140,518,037)
Transfers in and/or out of Level 3	—	—	—
Ending Balance	\$ 682,258,069	\$ 47,650,703	\$ 729,908,772
Net change in unrealized appreciation (depreciation) reported within the net change in unrealized depreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	\$ 2,343,073	\$ (1,475,547)	\$ 867,526

  

Description	Six Months Ended March 31, 2016		
	First Lien	Second lien, subordinated debt and equity investments	Totals
Beginning Balance	\$ 334,957,341	\$ 56,163,940	\$ 391,121,281
Net realized gains (losses)	209,522	(2,447,359)	(2,237,837)
Net unrealized (depreciation) appreciation	(6,292,525)	134,146	(6,158,379)
Purchases, PIK interest, net discount accretion and non-cash exchanges	152,501,262	4,766,656	157,267,918
Sales, repayments and non-cash exchanges	(55,367,543)	(1,437,022)	(56,804,565)
Transfers in and/or out of Level 3	—	—	—
Ending Balance	\$ 426,008,057	\$ 57,180,361	\$ 483,188,418
Net change in unrealized depreciation reported within the net change in unrealized depreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	\$ (6,030,964)	\$ (2,335,281)	\$ (8,366,245)

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The table below shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3):

	<b>Six Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Long-Term Credit Facility</b>		
Beginning Balance (cost – \$232,907,500 and \$29,600,000, respectively)	\$ 232,389,498	\$ 29,600,000
Net change in unrealized appreciation (depreciation) included in earnings	1,029,406	(215,083)
Borrowings	196,502,000	121,907,500
Repayments	(129,500,000)	(23,300,000)
Transfers in and/or out of Level 3	—	—
Ending Balance (cost – \$299,909,500 and \$128,207,500, respectively)	<u>\$ 300,420,904</u>	<u>\$ 127,992,417</u>

As of March 31, 2017, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

<b>Foreign Currency</b>	<b>Amount Borrowed</b>	<b>Borrowing Cost</b>	<b>Current Value</b>	<b>Reset Date</b>	<b>Change in Fair Value</b>
Canadian Dollar	C\$ 17,500,000	\$ 12,407,501	\$ 13,121,885	April 3, 2017	\$ 714,384
Euro	€ 18,000,000	18,702,000	19,251,954	April 3, 2017	549,954
		<u>\$ 31,109,501</u>	<u>\$ 32,373,839</u>		<u>\$ 1,264,338</u>

As of September 30, 2016, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

<b>Foreign Currency</b>	<b>Amount Borrowed</b>	<b>Borrowing Cost</b>	<b>Current Value</b>	<b>Reset Date</b>	<b>Change in Fair Value</b>
Canadian Dollar	C\$ 17,500,000	\$ 12,407,501	\$ 13,338,920	October 3, 2016	\$ 931,419

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility. We elected to use the fair value option for our Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we had no expenses relating to amendment fees on the Credit Facility during the three and six months ended March 31, 2017. For the same periods in the prior year, we incurred expenses of zero and \$0.9 million, respectively, relating to amendment fees on the Credit Facility. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities. For the three and six months ended March 31, 2017, our Credit Facility had a net change in unrealized depreciation (appreciation) of less than \$0.1 million and \$(1.0) million, respectively. For the three and six months ended March 31, 2016, our Credit Facility had a net change in unrealized (appreciation) depreciation of \$(0.4) million and \$0.2 million, respectively. As of March 31, 2017 and September 30, 2016, the net unrealized (appreciation) depreciation on our Credit Facility totaled \$(0.5) million and \$0.5 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our investments.

#### 6. CHANGE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

The following information sets forth the computation of basic and diluted per share net increase in net assets resulting from operations:

	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Numerator for net increase in net assets resulting from operations	\$ 7,283,145	\$ 2,436,176	\$ 16,132,054	\$ 4,183,055
Denominator for basic and diluted weighted average shares	29,413,407	26,730,074	28,056,997	26,730,074
Basic and diluted net increase in net assets per share resulting from operations	\$ 0.25	\$ 0.09	\$ 0.57	\$ 0.16

#### 7. CASH AND CASH EQUIVALENTS

Cash equivalents represent cash in money market funds pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter-end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing the Investment Adviser's management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of March 31, 2017 and September 30, 2016, cash and cash equivalents consisted of money market funds in the amounts of \$44.0 million and \$28.9 million, respectively, at fair value.

## 8. FINANCIAL HIGHLIGHTS

Below are the financial highlights:

	Six Months Ended March 31,	
	2017	2016
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 14.06	\$ 13.95
Net investment income (1)	0.53	0.46
Net change in realized and unrealized gain (loss) (1)	0.04	(0.30)
Net increase in net assets resulting from operations (1)	0.57	0.16
Distributions to stockholders (1), (2)	(0.58)	(0.57)
Net asset value, end of period	<u>\$ 14.05</u>	<u>\$ 13.54</u>
Per share market value, end of period	<u>\$ 13.94</u>	<u>\$ 11.70</u>
Total return* (3)	9.81%	2.93%
Shares outstanding at end of period	<u>32,480,074</u>	<u>26,730,074</u>
<b>Ratios** / Supplemental Data:</b>		
Ratio of operating expenses to average net assets (4)	3.60%	2.61%
Ratio of Credit Facility related expenses to average net assets (5)	1.90%	1.37%
Ratio of total expenses to average net assets (5)	5.50%	3.98%
Ratio of net investment income to average net assets (5)	7.43%	6.98%
Net assets at end of period	\$ 456,226,690	\$ 361,837,362
Weighted average debt outstanding	<u>\$ 260,949,248</u>	<u>\$ 87,841,257</u>
Weighted average debt per share (1)	\$ 9.30	\$ 3.29
Asset coverage per unit (6)	\$ 2,519	\$ 3,827
Portfolio turnover ratio	43.76%	25.53%

\* Not annualized for periods less than one year.

\*\* Annualized for periods less than one year.

(1) Based on the weighted average shares outstanding for the respective periods.

(2) The tax status of distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP, and reported on Form 1099-DIV each calendar year.

(3) Based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan.

(4) Excludes Credit Facility related costs.

(5) Credit Facility amendment costs, if any, are not annualized.

(6) The asset coverage ratio for a class of senior securities representing indebtedness is calculated on our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by the senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the asset coverage per unit.

## 9. CREDIT FACILITY

Funding I's multi-currency Credit Facility with affiliates of SunTrust Bank, or the Lenders, was \$350.0 million as of March 31, 2017, subject to satisfaction of certain conditions and the regulatory restrictions that the 1940 Act imposes on us as a BDC, has an interest rate spread above LIBOR of 200 basis points, a maturity date of August 2020 and a revolving period that ends in August 2018. As of March 31, 2017 and September 30, 2016, Funding I had \$299.9 million and \$232.9 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had an interest rate of 2.93% and 2.57%, as of March 31, 2017 and September 30, 2016, respectively, excluding the undrawn commitment fees of 0.375%. The annualized weighted average cost of debt for the six months ended March 31, 2017 and 2016, inclusive of the fee on the undrawn commitment and amendment costs on the Credit Facility, was 2.91% and 5.73%, respectively.

During the revolving period, the Credit Facility bears interest at LIBOR plus 200 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in August 2020. The Credit Facility is secured by all of the assets of Funding I. Both PennantPark Floating Rate Capital Ltd. and Funding I have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

The Credit Facility contains covenants, including, but not limited to, restrictions of loan size, industry requirements, average life of loans, geographic and individual portfolio concentrations, minimum portfolio yield and loan payment frequency. Additionally, the Credit Facility requires the maintenance of a minimum equity investment in Funding I and income ratio as well as restrictions on certain payments and issuance of debt. For instance, we must maintain at least \$25 million in equity and must maintain an interest coverage ratio of at least 125%. The Credit Facility compliance reporting is prepared on a basis of accounting other than GAAP. As of March 31, 2017, we were in compliance with the covenants relating to our Credit Facility.

We own 100% of the equity interest in Funding I and treat the indebtedness of Funding I as our leverage. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing. Our Investment Adviser serves as collateral manager to Funding I under the Credit Facility.

Our interest in Funding I (other than the management fee) is subordinate in priority of payment to every other obligation of Funding I and is subject to certain payment restrictions set forth in the Credit Facility. We may receive cash distributions on our equity interests in Funding I only after it has made all required payments of (1) cash interest and, if applicable, principal to the Lenders, (2) administrative expenses and (3) claims of other unsecured creditors of Funding I. The Investment Adviser has irrevocably directed that any management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager.

#### 10. COMMITMENTS AND CONTINGENCIES

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt investments, if any, are disclosed in the Consolidated Schedules of Investments. As of March 31, 2017 and September 30, 2016, we had \$34.6 million and \$20.0 million, respectively, in commitments to fund investments.

#### 11. SUBSEQUENT EVENTS

On May 9, 2017, we and Trinity Universal Insurance Company ("Trinity"), a subsidiary of Kemper Corporation (NYSE: KMPR) formed a joint venture: PennantPark Senior Secured Loan Fund I, LLC ("SSLF"). We and Trinity have committed to provide \$100 million of subordinated notes and equity to the joint venture, with us providing \$87.5 million and Trinity providing \$12.5 million. In addition, SSLF intends to seek up to \$200 million in third party financing. SSLF is expected to invest primarily in middle market and other corporate debt securities consistent with our strategy.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
PennantPark Floating Rate Capital Ltd. and its Subsidiaries

We have reviewed the accompanying consolidated statements of assets and liabilities of PennantPark Floating Rate Capital Ltd. and its Subsidiaries (collectively referred to as the "Company"), including the consolidated schedule of investments, as of March 31, 2017, the consolidated statements of operations for the three and six months ended March 31, 2017 and 2016, and the consolidated statements of changes in net assets and cash flows for the six months ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated statement of assets and liabilities of the Company, including the consolidated schedule of investments, as of September 30, 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated November 22, 2016, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated statements of assets and liabilities as of March 31, 2017, is fairly stated, in all material respects, in relation to the consolidated statements of assets and liabilities for which it has been derived.

/s/ RSM US LLP  
New York, New York  
May 9, 2017

**FORWARD-LOOKING STATEMENTS**

This Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements, which relate to us and our consolidated subsidiaries regarding future events or our future performance or future financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our Company, our industry, our beliefs and our assumptions. The forward-looking statements contained in this Report involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of investments that we expect to make;
- the impact of fluctuations in interest rates and foreign exchange rates on our business and our portfolio companies;
- our contractual arrangements and relationships with third parties;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- the ability of our prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our prospective portfolio companies;
- the impact of price and volume fluctuations in the stock market;
- the ability of our Investment Adviser to locate suitable investments for us and to monitor and administer our investments;
- the impact of future legislation and regulation on our business and our portfolio companies; and
- the impact of European sovereign debt, Brexit and other world economic and political issues.

We use words such as "anticipates," "believes," "expects," "intends," "seeks," "plans," "estimates" and similar expressions to identify forward-looking statements. You should not place undue influence on the forward-looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Report should not be regarded as a representation by us that our plans and objectives will be achieved.

We have based the forward-looking statements included in this Report on information available to us on the date of this Report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements in this Report, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including reports on Form 10-Q/K and current reports on Form 8-K.

You should understand that under Section 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in periodic reports we file under the Exchange Act.

The following analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes thereto contained elsewhere in this Report.

**Overview**

PennantPark Floating Rate Capital Ltd. is a BDC whose objectives are to generate current income and capital appreciation while seeking to preserve capital by investing primarily in Floating Rate Loans and other investments made to U.S. middle-market companies.

We believe that Floating Rate Loans to U.S. middle-market companies offer attractive risk-reward to investors due to a limited amount of capital available for such companies and the potential for rising interest rates. We use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$1 billion. Our investments are typically rated below investment grade. Securities rated below investment grade are often referred to as "leveraged loans" or "high yield" securities or "junk bonds" and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. However, when compared to junk bonds and other non-investment grade debt, senior secured Floating Rate Loans typically have more robust capital-preserving qualities, such as historically lower default rates than junk bonds, represent the senior source of capital in a borrower's capital structure and often have certain of the borrower's assets pledged as collateral. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

Under normal market conditions, we generally expect that at least 80% of the value of our Managed Assets will be invested in Floating Rate Loans and other investments bearing a variable-rate of interest. We generally expect that senior secured debt, or first lien loans, will represent at least 65% of our overall portfolio. We also



generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including mezzanine debt and, to a lesser extent, equity investments. We seek to create a diversified portfolio by generally targeting an investment size between \$3 million and \$15 million, on average, although we expect that this investment size will vary proportionately with the size of our capital base.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use our Credit Facility, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

#### **Organization and Structure of PennantPark Floating Rate Capital Ltd.**

PennantPark Floating Rate Capital Ltd., a Maryland corporation organized in October 2010, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes we elected to be treated, and intend to qualify annually, as a RIC under the Code.

Our investment activities are managed by the Investment Adviser. Under our Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross total assets as well as an incentive fee based on our investment performance. We have also entered into an Administration Agreement with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. Our board of directors, a majority of whom are independent of us, provides overall supervision of our activities, and the Investment Adviser supervises our day-to-day activities.

#### **Revenues**

We generate revenue in the form of interest income on the debt securities we hold and capital gains and dividends, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of senior secured debt or mezzanine debt, typically have a term of three to ten years and bear interest at a fixed or floating rate. Interest on debt securities is generally payable quarterly or semiannually. In some cases, our investments provide for deferred interest payments or PIK interest. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of amendment, commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. Loan origination fees, OID, market discount or premium are capitalized and accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and loan waiver and amendment fees, and are recorded as investment income when earned.

#### **Expenses**

Our primary operating expenses include the payment of a management fee and the payment of an incentive fee to our Investment Adviser, if any, our allocable portion of overhead under our Administration Agreement and other operating costs as detailed below. Our management fee compensates our Investment Adviser for its work in identifying, evaluating, negotiating, consummating and monitoring our investments. Additionally, we pay interest expense on the outstanding debt and unused commitment fees on undrawn amounts, under our Credit Facility. We bear all other direct or indirect costs and expenses of our operations and transactions, including:

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence and reviews of prospective investments or complementary businesses;
- expenses incurred by the Investment Adviser in performing due diligence and reviews of investments;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees and any exchange listing fees;
- federal, state, local and foreign taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- fidelity bond, directors and officers, errors and omissions liability insurance and other insurance premiums;
- direct costs such as printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act, the 1958 Act and applicable federal and state securities laws; and
- all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon our allocable portion of overhead, and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

Generally, during periods of asset growth, we expect our general and administrative expenses to be relatively stable or to decline as a percentage of total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities would be additive to the expenses described above.

## PORTFOLIO AND INVESTMENT ACTIVITY

As of March 31, 2017, our portfolio totaled \$731.5 million and consisted of \$682.3 million of senior secured debt, \$33.2 million of second lien secured debt and \$16.0 million of subordinated debt, preferred and common equity. Our debt portfolio consisted of 98% variable-rate investments (including 98% with a floor) and 2% fixed-rate investments. As of March 31, 2017, we had one company on non-accrual, representing 0.4% and 0.2% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized appreciation of \$0.8 million. Our overall portfolio consisted of 96 companies with an average investment size of \$7.6 million, had a weighted average yield on debt investments of 7.9%, and was invested 93% in senior secured debt, 5% in second lien secured debt and 2% in subordinated debt, preferred and common equity.

As of September 30, 2016, our portfolio totaled \$598.9 million and consisted of \$548.4 million of senior secured debt, \$36.6 million of second lien secured debt and \$13.9 million of subordinated debt, preferred and common equity. Our debt portfolio consisted of 99% variable-rate investments (including 94% with a floor) and 1% fixed-rate investments. As of September 30, 2016, we had one company on non-accrual, representing 0.2% and 0.1% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized appreciation of \$1.0 million. Our overall portfolio consisted of 98 companies with an average investment size of \$6.1 million, had a weighted average yield on debt investments of 7.8%, and was invested 92% in senior secured debt, 6% in second lien secured debt and 2% in subordinated debt, preferred and common equity.

For the three months ended March 31, 2017, we invested \$146.3 million in nine new and 10 existing portfolio companies with a weighted average yield on debt investments of 7.8%. Sales and repayments of investments for the three months ended March 31, 2017 totaled \$71.5 million. For the six months ended March 31, 2017, we invested \$271.1 million in 21 new and 23 existing portfolio companies with a weighted average yield on debt investments of 7.7%. Sales and repayments of investments for the six months ended March 31, 2017 totaled \$141.9 million.

For the three months ended March 31, 2016, we invested \$57.3 million in five new and five existing portfolio companies with a weighted average yield on debt investments of 8.7%. Sales and repayments of investments for the three months ended March 31, 2016 totaled \$29.9 million. For the six months ended March 31, 2016, we invested \$156.5 million in 15 new and 10 existing portfolio companies with a weighted average yield on debt investments of 8.6%. Sales and repayments of investments for the six months ended March 31, 2016 totaled \$56.8 million.

## CRITICAL ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to the ASC serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. In addition to the discussion below, we describe our critical accounting policies in the notes to our Consolidated Financial Statements.

### Investment Valuations

We expect that there may not be readily available market values for many of the investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described in this Report. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference may be material.

Our portfolio generally consists of illiquid securities, including debt and equity investments. With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management's preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;
- (4) The audit committee of our board of directors reviews the preliminary valuations of our Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two brokers or dealers, if available, or otherwise from a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If our board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability,

including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting date.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

In addition to using the above inputs in cash equivalents, investments and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility. We elected to use the fair value option for our Credit Facility to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we had no expenses relating to amendment fees on the Credit Facility during the three and six months ended March 31, 2017. For the same periods in the prior year, we incurred expenses of zero and \$0.9 million, respectively, relating to amendment fees on the Credit Facility. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities. For the three and six months ended March 31, 2017, our Credit Facility had a net change in unrealized depreciation (appreciation) of less than \$0.1 million and \$(1.0) million, respectively. For the three and six months ended March 31, 2016, our Credit Facility had a net change in unrealized (appreciation) depreciation of \$(0.4) million and \$0.2 million, respectively. As of March 31, 2017 and September 30, 2016, the net unrealized (appreciation) depreciation on our Credit Facility totaled \$(0.5) million and \$0.5 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our investments.

#### **Revenue Recognition**

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, OID, market discount or premium and deferred financing costs on liabilities, which we do not fair value, are capitalized and then accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned.

#### **Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation**

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair values of our portfolio investments and Credit Facility during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

#### **Foreign Currency Translation**

Our books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

1. Fair value of investment securities, other assets and liabilities – at the exchange rates prevailing at the end of the applicable period; and
2. Purchases and sales of investment securities, income and expenses – at the exchange rates prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments, other assets and debt from the fluctuations arising from changes in fair values of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

#### **Payment-in-Kind Interest or PIK**

We have investments in our portfolio which contain a PIK interest provision. PIK interest is added to the principal balance of the investment and is recorded as income. In order for us to maintain our ability to be treated as a RIC for federal income tax purposes, substantially all of this income must be paid out to stockholders in the form of dividends for U.S. federal income tax purposes, even though we have not collected any cash with respect to interest on PIK securities.

#### **Federal Income Taxes**

We have elected to be treated, and intend to qualify annually to maintain our election to be treated, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain annual source-of-income and quarterly asset diversification requirements. We also must annually distribute

dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount generally at least equal to 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, or investment company taxable income, determined without regard to any deduction for dividends paid.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of the excess, if any, of our capital gains over our capital losses, or capital net gain income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we did not incur any federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may continue to retain such net capital gains or investment company taxable income, contingent on maintaining our ability to be subject to tax as a RIC, in order to provide us with additional liquidity.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and net realized gain recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their appropriate tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

We have formed and expect to continue to form certain taxable subsidiaries, including the Taxable Subsidiary, which are subject to tax as corporations. The Taxable Subsidiary allows us to hold equity securities of certain portfolio companies treated as pass-through entities for U.S. federal income tax purposes while allowing us to maintain our ability to qualify as a RIC under the Code.

## **RESULTS OF OPERATIONS**

Set forth below are the results of operations for the three and six months ended March 31, 2017 and 2016.

### ***Investment Income***

Investment income for the three and six months ended March 31, 2017 was \$13.2 million and \$25.9 million, respectively, and was attributable to \$12.0 million and \$23.3 million from senior secured loans and \$1.2 million and \$2.6 million from second lien secured debt and subordinated debt. This compares to investment income for the three and six months ended March 31, 2016, which was \$11.3 million and \$20.1 million, respectively, and was attributable to \$9.7 million and \$17.0 million from senior secured loans and \$1.6 million and \$3.1 million from second lien secured debt and subordinated debt. The increase in investment income compared to the same periods in the prior year was primarily due to the growth of our portfolio.

### ***Expenses***

Expenses for the three and six months ended March 31, 2017 totaled \$5.2 million and \$11.0 million, respectively. Base management fee for the same periods totaled \$1.7 million and \$3.3 million, incentive fee totaled \$0.5 million (including \$(0.1) million on unrealized gains accrued but not payable) and \$1.9 million (including \$0.5 million on unrealized gains accrued but not payable), Credit Facility expenses totaled \$2.0 million and \$3.8 million, general and administrative expenses totaled \$0.9 million and \$1.9 million and provision for taxes totaled \$0.1 million and \$0.1 million, respectively. This compares to expenses for the three and six months ended March 31, 2016, which totaled \$4.1 million and \$7.8 million, respectively. Base management fee for the same periods totaled \$1.2 million and \$2.3 million, incentive fee totaled \$0.8 million and \$0.8 million, Credit Facility expenses totaled \$1.1 million and \$3.0 million (including \$0.9 million of amendment expenses) and general and administrative expenses totaled \$1.0 million and \$1.7 million, respectively. The increase in expenses compared with the same periods in the prior year was primarily due to increases in base management and incentive fees as a result from the growth of our portfolio.

### ***Net Investment Income***

Net investment income totaled \$8.0 million and \$14.9 million, or \$0.27 and \$0.53 per share, for the three and six months ended March 31, 2017, respectively. Net investment income totaled \$7.3 million and \$12.4 million, or \$0.27 and \$0.46 per share, for the three and six months ended March 31, 2016, respectively. The increase in net investment income compared to the same period in the prior year was primarily due to the growth of our portfolio.

### ***Net Realized Gains or Losses***

Sales and repayments of investments for the three and six months ended March 31, 2017 totaled \$71.5 million and \$141.9 million and net realized gains totaled \$2.0 million and \$2.5 million, respectively. Sales and repayments of investments totaled \$29.9 million and \$56.8 million and realized gains (losses) totaled \$1.1 million and \$(2.2) million for the three and six months ended March 31, 2016, respectively. The change in realized gains/losses was primarily due to changes in the market conditions of our investments and the values at which they were realized.

### ***Unrealized Appreciation or Depreciation on Investments and Credit Facility***

For the three and six months ended March 31, 2017, we reported a net change in unrealized depreciation on investments of \$2.7 million and \$0.2 million, respectively. For the three and six months ended March 31, 2016, we reported a net change in unrealized depreciation on investments of \$5.5 million and \$6.2 million, respectively. As of March 31, 2017 and September 30, 2016, our net unrealized appreciation on investments totaled \$0.8 million and \$1.0 million, respectively. The net change in unrealized appreciation on our investments was driven primarily by changes in capital market conditions, the financial performance of certain portfolio companies and the reversal of unrealized depreciation (appreciation) on investments that were sold.

For the three and six months ended March 31, 2017, our Credit Facility had a net change in unrealized depreciation (appreciation) of less than \$0.1 million and \$(1.0) million, respectively. For the three and six months ended March 31, 2016, our Credit Facility had a net change in unrealized (appreciation) depreciation of \$(0.4) million and \$0.2 million, respectively. As of March 31, 2017 and September 30, 2016, net unrealized (appreciation) depreciation on our Credit Facility totaled \$(0.5) million and \$0.5 million, respectively. The change in net unrealized depreciation compared to the same periods in the prior year was primarily due to changes in the capital markets.

### ***Net Change in Net Assets Resulting from Operations***

Net change in net assets resulting from operations totaled \$7.3 million and \$16.1 million, or \$0.25 and \$0.57 per share, respectively, for the three and six months ended March 31, 2017. This compares to a net change in net assets resulting from operations which totaled \$2.4 million and \$4.2 million, or \$0.09 and \$0.16 per share, respectively, for the three and six months ended March 31, 2016. The increase in the change in net assets from operations compared to the same periods in the prior year was primarily due to changes in portfolio investment values during the reporting periods.

## LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are derived from public offerings, our Credit Facility, cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our Credit Facility, the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

Funding I's multi-currency Credit Facility with the Lenders was \$350 million as of March 31, 2017, subject to satisfaction of certain conditions and regulatory restrictions that the 1940 Act imposes on us as a BDC, has an interest rate spread above LIBOR of 200 basis points, a maturity date of August 2020 and a revolving period that ends in August 2018. As of March 31, 2017 and September 30, 2016, Funding I had \$299.9 million and \$232.9 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had an interest rate of 2.93% and 2.57%, as of March 31, 2017 and September 30, 2016, respectively, excluding the undrawn commitment fees of 0.375%. The annualized weighted average cost of debt for the six months ended March 31, 2017 and 2016, inclusive of the fee on the undrawn commitment and amendment costs on the Credit Facility, was 2.91% and 5.73%, respectively. As of March 31, 2017 and September 30, 2016, we had \$50.1 million and \$117.1 million of unused borrowing capacity under our Credit Facility, respectively, subject to the regulatory restrictions.

During the revolving period, the Credit Facility bears interest at LIBOR plus 200 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in August 2020. The Credit Facility is secured by all of the assets of Funding I. Both PennantPark Floating Rate Capital Ltd. and Funding I have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

The Credit Facility contains covenants, including but not limited to, restrictions of loan size, currency types and amounts, industry requirements, average life of loans, geographic and individual portfolio concentrations, minimum portfolio yield and loan payment frequency. Additionally, the Credit Facility requires the maintenance of a minimum equity investment in Funding I and income ratio as well as restrictions on certain payments and issuance of debt. For instance, we must maintain at least \$25 million in equity and must maintain an interest coverage ratio of at least 125%. The Credit Facility compliance reporting is prepared on a basis of accounting other than GAAP. As of March 31, 2017, we were in compliance with the covenants relating to our Credit Facility.

We own 100% of the equity interest in Funding I and treat the indebtedness of Funding I as our leverage. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing. Our Investment Adviser serves as collateral manager to Funding I under the Credit Facility.

Our interest in Funding I (other than the management fee) is subordinate in priority of payment to every other obligation of Funding I and is subject to certain payment restrictions set forth in the Credit Facility. We may receive cash distributions on our equity interests in Funding I only after it has made (1) all required cash interest and, if applicable, principal payments to the Lenders, (2) required administrative expenses and (3) claims of other unsecured creditors of Funding I. We cannot assure you that there will be sufficient funds available to make any distributions to us or that such distributions will meet our expectations from Funding I. The Investment Adviser has irrevocably directed that the management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager.

We may raise equity or debt capital through both registered offerings and private offerings of securities, securitizing a portion of our investments among other considerations or mergers and acquisitions. Furthermore, our Credit Facility availability depends on various covenants and restrictions as discussed in the preceding paragraphs. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate purposes. In February 2017, we completed a follow-on public offering of 5,750,000 shares of common stock, which resulted in proceeds to us of \$14.08 per share, including the exercise of the underwriters' option to purchase additional shares, for gross proceeds of \$81.0 million and net proceeds of \$80.5 million after offering expenses. Our Investment Adviser paid \$5.0 million in connection with this offering, which included the sales load and an additional supplemental payment.

At March 31, 2017 and September 30, 2016, we had cash equivalents of \$44.0 million and \$28.9 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities used cash of \$116.7 million for the six months ended March 31, 2017, and our financing activities provided cash of \$131.7 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from our recent equity offering and net borrowings under the Credit Facility.

Our operating activities used cash of \$91.5 million for the six months ended March 31, 2016, and our financing activities provided cash of \$83.4 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from net borrowings under the Credit Facility.

### Contractual Obligations

A summary of our significant contractual payment obligations at cost as of March 31, 2017, including borrowings under our Credit Facility and other contractual obligations, is as follows:

	Payments due by period (millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	\$ 299.9	\$ —	\$ —	\$ 299.9	\$ —
Unfunded investments (1)	34.6	—	0.7	25.3	8.6
Total contractual obligations	\$ 334.5	\$ —	\$ 0.7	\$ 325.2	\$ 8.6

(1) Unfunded investments are disclosed in the Consolidated Schedule of Investments and Note 10 of our Consolidated Financial Statements.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2017, PennantPark Investment Advisers serves as our Investment Adviser. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2017, the Administrator furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. If requested to provide

managerial assistance to our portfolio companies, we or the Administrator will be paid an additional amount based on the services provided. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

If any of our contractual obligations discussed above are terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Management Agreement and our Administration Agreement. Any new investment management agreement would also be subject to approval by our stockholders.

#### **Recent Developments**

On May 9, 2017, we and Trinity Universal Insurance Company ("Trinity"), a subsidiary of Kemper Corporation (NYSE: KMPR) formed a joint venture: PennantPark Senior Secured Loan Fund I, LLC ("SSLF"). We and Trinity have committed to provide \$100 million of subordinated notes and equity to the joint venture, with us providing \$87.5 million and Trinity providing \$12.5 million. In addition, SSLF intends to seek up to \$200 million in third party financing. SSLF is expected to invest primarily in middle market and other corporate debt securities consistent with our strategy.

#### **Off-Balance Sheet Arrangements**

We currently engage in no off-balance sheet arrangements other than our funding requirements for the unfunded investments described above.

#### **Distributions**

In order to be treated as a RIC for federal income tax purposes and to not be subject to corporate-level tax on undistributed income or gains, we are required, under Subchapter M of the Code, to annually distribute dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount generally at least equal to 90% of our investment company taxable income, determined without regard to any deduction for dividends paid.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of the excess, if any, of our capital gains over our capital losses, or capital gain net income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we did not incur any federal income tax. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may continue to retain such net capital gains or investment company taxable income, contingent on maintaining our ability to be subject to tax as a RIC, in order to provide us with additional liquidity.

During the three and six months ended March 31, 2017, we declared distributions of \$0.285 and \$0.570 per share, respectively, for total distributions of \$8.7 million and \$16.3 million, respectively. For the same periods in the prior year, we declared distributions of \$0.285 and \$0.570 per share, respectively, for total distributions of \$7.6 million and \$15.2 million, respectively. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, common stockholders will be notified of the portion of those distributions deemed to be a tax return of capital. Tax characteristics of all distributions will be reported to stockholders subject to information reporting on Form 1099-DIV after the end of the calendar year and in our periodic reports filed with the SEC.

We intend to continue to make monthly distributions to our stockholders. Our monthly distributions, if any, are determined by the board of directors quarterly.

We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders' cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash distributions.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage ratio for borrowings applicable to us as a BDC under the 1940 Act and/or due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our ability to be subject to tax as a RIC. We cannot assure stockholders that they will receive any distributions at a particular level.

**Item 3. Quantitative And Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of March 31, 2017, our debt portfolio consisted of 98% variable-rate investments (including 98% with a floor) and 2% fixed-rate investments. The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months, after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates since it has no floor.

Assuming that the most recent Consolidated Statements of Assets and Liabilities was to remain constant, and no actions were taken to alter the existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates:

Change In Interest Rates	Change In Interest Income, Net Of Interest Expense (in thousands)		Change In Interest Income, Net Of Interest Expense Per Share	
Up 1%	\$	3,593	\$	0.11
Up 2%	\$	7,845	\$	0.24
Up 3%	\$	12,097	\$	0.37
Up 4%	\$	16,349	\$	0.50

Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the Consolidated Statements of Assets and Liabilities and other business developments that could affect net increase in net assets resulting from operations or net investment income. Accordingly, no assurances can be given that actual results would not differ materially from those shown above.

Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds, as well as our level of leverage. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income or net assets.

We may hedge against interest rate and foreign currency fluctuations by using standard hedging instruments such as futures, options and forward contracts or our Credit Facility subject to the requirements of the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates and foreign currencies, they may also limit our ability to participate in benefits of lower interest rates or higher exchange rates with respect to our portfolio of investments with fixed interest rates. During the periods covered by this Report, we did not engage in interest rate hedging activities.

**Item 4. Controls and Procedures**

As of the period covered by this Report, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None of us, our Investment Adviser or our Administrator, is currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us, or against our Investment Adviser or Administrator. From time to time, we, our Investment Adviser or Administrator, may be a party to certain legal proceedings, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. MCG Capital Corporation, or MCG, was a party to certain legal proceedings, including the enforcement of its rights under contracts with its portfolio companies. We inherited this litigation upon the closing of our acquisition of MCG. While the outcome of these and any future legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations, although we cannot assure you that amounts received in settlement may not be requested to be returned or that we may not be found liable in any such litigation.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this Report, you should consider carefully the factors discussed in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing PennantPark Floating Rate Capital Ltd. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not Applicable.

### **Item 5. Other Information**

None.



**Item 6. Exhibits**

Unless specifically indicated otherwise, the following exhibits are incorporated by reference to exhibits previously filed with the SEC:

- 3.1 Articles of Amendment and Restatement of the Registrant (Incorporated by reference to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-170243), filed on March 29, 2011).
- 3.2 Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 814-00891), filed on December 2, 2015).
- 4.1 Form of Share Certificate (Incorporated by reference to the Registrant's Pre-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-170243), filed on April 5, 2011).
- 11 Computation of Per Share Earnings (included in the notes to the Consolidated Financial Statements contained in this Report).
- 31.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 31.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
- 32.1\* Certification of Chief Executive Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
- 99.1 Privacy Policy of the Registrant (Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 814-00891), filed on November 17, 2011).

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\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

PENNANTPARK FLOATING RATE CAPITAL LTD.

Date: May 9, 2017

By: \_\_\_\_\_  
*/s/ Arthur H. Penn*  
**Arthur H. Penn**  
**Chief Executive Officer and Chairman of the Board of Directors**  
**(Principal Executive Officer)**

Date: May 9, 2017

By: \_\_\_\_\_  
*/s/ Aviv Efrat*  
**Aviv Efrat**  
**Chief Financial Officer and Treasurer**  
**(Principal Financial and Accounting Officer)**

**CERTIFICATION PURSUANT TO SECTION 302  
CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, Arthur H. Penn, Chief Executive Officer of PennantPark Floating Rate Capital Ltd., certify that:

1. I have reviewed this Report on Form 10-Q of PennantPark Floating Rate Capital Ltd.;

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared; and

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

d) Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 9, 2017

/s/ Arthur H. Penn

Name: Arthur H. Penn

Title: Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302  
CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Aviv Efrat, Chief Financial Officer of PennantPark Floating Rate Capital Ltd., certify that:

1. I have reviewed this Report on Form 10-Q of PennantPark Floating Rate Capital Ltd.;

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared; and

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

d) Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 9, 2017

/s/ Aviv Efrat

Name: Aviv Efrat

Title: Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

In connection with this Report on Form 10-Q for the three and six months ended March 31, 2017, or the Report, of PennantPark Floating Rate Capital Ltd., or the Registrant, as filed with the Securities and Exchange Commission on the date hereof, I, Arthur H. Penn, Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Arthur H. Penn

Name: Arthur H. Penn

Title: Chief Executive Officer

Date: May 9, 2017

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

In connection with this Report on Form 10-Q for the three and six months ended March 31, 2017, or the Report, of PennantPark Floating Rate Capital Ltd., or the Registrant, as filed with the Securities and Exchange Commission on the date hereof, I, Aviv Efrat, Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Aviv Efrat

Name: Aviv Efrat  
Title: Chief Financial Officer  
Date: May 9, 2017