PennantPark Floating Rate Capital Ltd.
Form 10-Q
February 09, 2017
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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 DECEMBER 31, 2016

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	**27-3794690**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

590 Madison Avenue, 15th Floor

New York, N.Y.	**10022**
(Address of principal executive offices)	**(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, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

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 February 9, 2017 was 26,730,074.

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PENNANTPARK FLOATING RATE CAPITAL LTD.

FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2016

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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.

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Item 1. Consolidated Financial Statements

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

	December 31, 2016 (unaudited)	September 30, 2016
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost $653,340,297 and $597,910,267, respectively)	$ 656,868,887	$ 598,887,525
Cash and cash equivalents (cost $24,201,258 and $28,903,359, respectively)	24,203,565	28,910,973
Interest receivable	3,088,719	2,480,406
Receivable for investments sold	11,357,601	
Prepaid expenses and other assets	1,088,475	1,141,191
Total assets	696,607,247	631,420,095
Liabilities		
Distributions payable	2,539,357	2,539,357
Payable for investments purchased	11,827,362	14,935,970
Credit Facility payable (cost $299,309,500 and $232,907,500, respectively) (See Notes 5 and 9)	299,859,712	232,389,498
Interest payable on Credit Facility	672,625	531,926
Management fee payable (See Note 3)	1,595,726	1,458,625
Performance-based incentive fee payable (See Note 3)	2,602,140	3,454,914
Accrued other expenses	372,659	202,977
Total liabilities	319,469,581	255,513,267
Commitments and contingencies (See Note 10)		
Net assets		
Common stock, 26,730,074 shares issued and outstanding Par value $0.001 per share and 100,000,000 shares authorized	26,730	26,730
Paid-in capital in excess of par value	371,194,366	371,194,366
Undistributed net investment income	3,763,272	4,559,646
Accumulated net realized loss on investments	(827,387)	(1,376,788)
Net unrealized appreciation on investments	3,530,897	984,872
Net unrealized (appreciation) depreciation on Credit Facility	(550,212)	518,002
Total net assets	$ 377,137,666	$ 375,906,828
Total liabilities and net assets	$ 696,607,247	$ 631,420,095
Net asset value per share	$ 14.11	$ 14.06

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31, 2016	2015
Investment income:		
From non-controlled, non-affiliated investments:		
Interest	$ 11,951,835	$ 8,612,862
Other income	679,433	102,685
From controlled, affiliated investments:		
Interest		40,933
Total investment income	12,631,268	8,756,480
Expenses:		
Base management fee (See Note 3)	1,595,727	1,077,741
Performance-based incentive fee (See Note 3)	1,469,369	(2,936)
Interest and expenses on Credit Facility (See Note 9)	1,800,725	939,682
Administrative services expenses (See Note 3)	561,250	200,000
Other general and administrative expenses	357,500	548,313
Expenses before provision for taxes and amendment costs	5,784,571	2,762,800
Provision for taxes	25,000	
Credit Facility amendment costs (See Notes 5 and 9)		907,722
Total expenses	5,809,571	3,670,522
Net investment income	6,821,697	5,085,958
Realized and unrealized gain (loss) on investments and Credit Facility:		
Net realized gain (loss) on investments	549,401	(3,232,008)
Net change in unrealized appreciation (depreciation) on:		
Non-controlled, non-affiliated investments	2,546,025	(708,946)
Credit Facility (appreciation) depreciation (See Notes 5 and 9)	(1,068,214)	601,875
Net change in unrealized appreciation (depreciation) on investments and Credit Facility	1,477,811	(107,071)
Net realized and unrealized gain (loss) from investments and Credit Facility	2,027,212	(3,339,079)

Net increase in net assets resulting from operations	$	8,848,909	$	1,746,879
Net increase in net assets resulting from operations per common share (See Note 6)	$	0.33	$	0.07
Net investment income per common share	$	0.26	$	0.19

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015
Net increase in net assets from operations:		
Net investment income	$ 6,821,697	$ 5,085,958
Net realized gain (loss) on investments	549,401	(3,232,008)
Net change in unrealized appreciation (depreciation) on investments	2,546,025	(708,946)
Net change in unrealized (appreciation) depreciation on Credit Facility	(1,068,214)	601,875
Net increase in net assets resulting from operations	8,848,909	1,746,879
Distributions to stockholders	(7,618,071)	(7,618,071)
Net increase (decrease) in net assets	1,230,838	(5,871,192)
Net assets:		
Beginning of period	375,906,828	372,890,449
End of period	$ 377,137,666	$ 367,019,257
Undistributed net investment income, end of period	$ 3,763,272	$ 4,459,360

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended December 31, 2016	2015
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 8,848,909	$ 1,746,879
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net change in unrealized (appreciation) depreciation on investments	(2,546,025)	708,946
Net change in unrealized appreciation (depreciation) on Credit Facility	1,068,214	(601,875)
Net realized (gain) loss on investments	(549,401)	3,232,008
Net accretion of discount and amortization of premium	(425,722)	(337,666)
Purchases of investments	(124,826,238)	(99,199,653)
Payment-in-kind interest	(39,085)	(18,135)
Proceeds from dispositions of investments	70,405,217	26,860,815
Increase in interest receivable	(608,313)	(314,572)
Increase in receivable for investments sold	(11,357,601)	
Decrease (increase) in prepaid expenses and other assets	52,716	(59,486)
(Decrease) increase in payable for investments purchased	(3,108,608)	1,435,162
Increase in interest payable on Credit Facility	140,699	115,221
Increase in management fee payable	137,101	121,626
Decrease in performance-based incentive fee payable	(852,774)	(2,936)
Increase (decrease) in accrued other expenses	169,682	(160,831)
Net cash used in operating activities	(63,491,229)	(66,474,497)
Cash flows from financing activities:		
Distributions paid to stockholders	(7,618,071)	(7,618,071)
Borrowings under Credit Facility (See Notes 5 and 9)	91,902,000	69,300,000
Repayments under Credit Facility (See Notes 5 and 9)	(25,500,000)	(2,600,000)
Net cash provided by financing activities	58,783,929	59,081,929
Net decrease in cash equivalents	(4,707,300)	(7,392,568)
Effect of exchange rate changes on cash	(108)	
Cash and cash equivalents, beginning of period	28,910,973	21,428,514
Cash and cash equivalents, end of period	$ 24,203,565	$ 14,035,946
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,660,026	$ 824,461

Taxes paid	$		$	1,190
Non-cash exchanges and conversions	$	709,685	$	4,547,934

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

DECEMBER 31, 2016

(Unaudited)

Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares		Cost		Fair Va
ents in Non-Controlled, Non-Affiliated Portfolio Companies			**174.2%(3), (4)**						
en Secured Debt 159.1%									
ed Cable nications,	08/09/2021	Telecommunications	6.75%	L+575	12,468,750	$	12,236,628	$	12,34
ed Cable nications, (10)	08/09/2021	Telecommunications			4,000,000				(4
roup s, Inc.	12/30/2022	Banking, Finance, Insurance and Real Estate	8.25%	P+450	8,696,374		8,609,642		8,60
roup s, Inc. er) (10)	12/30/2021	Banking, Finance, Insurance and Real Estate			1,771,962				
roup s, Inc. (10)	12/30/2022	Banking, Finance, Insurance and Real Estate			3,510,000				
SA s, LLC	02/28/2019	Hotel, Gaming and Leisure	7.00%	L+575	12,064,454		12,041,216		12,06
n Pharma (6), (11)	04/04/2022	Healthcare and Pharmaceuticals	6.00%	L+500	3,890,867		3,873,800		3,75
an Auto Group,	11/30/2021	Transportation: Consumer	6.25%	L+525	11,000,000		10,838,502		10,83
an Bath LLC	10/02/2023	Consumer Goods: Durable	6.75%	L+575	2,992,500		2,963,304		2,98
an e ny (8)	12/31/2021	Metals and Mining	15.00% (PIK 5.00%)		128,248		124,139		12
an l	03/31/2022	Aerospace and Defense	7.50%	L+650	4,906,250		4,838,361		4,85
an ferencing s, Ltd.	12/08/2021	Telecommunications	7.50%	L+650	6,997,280		6,787,362		6,80
owling Inc.	09/19/2023	Retail	6.00%	L+500	14,962,500		14,818,503		14,91
	10/31/2022	Healthcare and Pharmaceuticals	6.00%	L+500	4,000,000		3,960,604		3,97

sia ing & ment, LP							
sia ing & ment, LP	10/31/2022	Healthcare and Pharmaceuticals			1,000,000		
ning I,	12/21/2020	Hotel, Gaming and Leisure	9.25%	L+825	6,518,078	6,444,893	6,4
chnologies	04/22/2022	Aerospace and Defense	7.50%	L+650	9,950,000	9,770,591	9,8
Bros., Co., A	06/03/2021	Consumer Goods: Non-Durable	7.00%	L+575	2,425,000	2,384,579	2,4
Bros., Co., B	06/03/2021	Consumer Goods: Non-Durable	13.50%	L+1,225	2,450,000	2,407,862	2,4
Cargo Inc.	06/30/2021	Transportation: Cargo	5.75%	L+475	2,462,500	2,442,994	2,3
s Markets	11/29/2023	Beverage, Food and Tobacco	6.75%	L+575	7,500,000	7,425,830	7,5
Borrower,	07/02/2020	Hotel, Gaming and Leisure	8.25%	L+700	4,950,000	4,921,411	4,9
TZ er, Inc.	07/21/2023	Consumer Goods: Durable	7.00%	L+600	12,468,750	12,158,895	12,5
ng Charlie	12/24/2019	Retail	9.00%	L+800	3,948,750	3,916,040	3,4
Soup for ng, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.50%	L+625	4,757,143	4,732,576	4,5
ndustries	11/25/2020	Aerospace and Defense	10.75%	L+975	6,256,800	6,153,773	6,2
ndustries evolver)	11/25/2020	Aerospace and Defense			518,033		
nc.	12/21/2020	High Tech Industries	7.50%	L+650	9,712,731	9,642,729	9,6
ealth s, Inc.	02/07/2022	Healthcare and Pharmaceuticals	6.50%	L+550	1,965,000	1,949,694	1,9
lding LLC	08/02/2021	Business Services	6.25%	L+525	9,975,000	9,879,526	9,9
siness s, Inc.	03/19/2018	Business Services	8.75%	L+725	1,971,104	1,962,737	1,9
lobal s, Inc.	12/09/2020	Business Services	5.50%	L+450	4,912,500	4,878,704	4,8
Room	11/21/2022	Media: Advertising, Printing and Publishing	7.00%	L+600	7,000,000	6,861,733	6,8
Products kaging y LLC	06/30/2020	Chemicals, Plastics and Rubber	5.75%	L+475	4,625,000	4,598,277	4,6
ance Inc. (8)	09/10/2020	Consumer Goods: Durable	5.75%	L+475	8,437,500	8,403,778	8,4
	09/10/2020	Consumer Goods: Durable			1,000,000		

ance Inc. er) (8), (10)							
on ks of a, Inc.	05/06/2021	Telecommunications	8.00%	L+700	8,586,957	8,546,784	8,54
on ks of a, Inc. er) (8), (10)	05/06/2021	Telecommunications			1,304,348		
t rative Marketing ay, LLC	06/15/2022	Media: Diversified and Production	7.75%	L+675	10,548,335	10,449,705	10,54
ng nications,	07/01/2021	Telecommunications	6.75%	L+575	4,925,000	4,866,496	4,80
ealth , Inc.	12/23/2021	Healthcare and Pharmaceuticals	5.00%	L+400	2,917,576	2,894,365	2,83
ay Health,	11/04/2020	High Tech Industries	6.00%	L+500	6,618,092	6,577,992	6,55
Valor nies, Inc.	06/16/2023	Media: Broadcasting and Subscription	7.00%	L+600	7,462,500	7,182,715	7,37
e rket tion, LLC	04/01/2022	Wholesale	5.75%	L+475	7,218,750	7,154,171	7,23
er Sleep s, LLC	10/21/2020	Consumer Goods: Non-Durable	9.00%	L+800	1,165,886	1,153,558	1,14
y tion	12/13/2019	High Tech Industries	8.00%	L+675	2,587,871	2,573,570	2,20
Defense ogies, Inc.	08/05/2019	Aerospace and Defense	7.00%	L+600	6,125,000	6,093,462	5,51
U.S. tion Corp.	11/04/2020	Construction and Building	7.25%	L+625	6,208,320	6,121,045	6,20
nc.	04/09/2021	High Tech Industries	6.50%	L+550	7,922,492	7,305,337	7,90
zer and Inc. (6), (11)	05/01/2019	Business Services	7.25%	L+600	8,321,542	8,268,965	7,98
FE1 B.V. 2)	10/12/2021	Chemicals, Plastics and Rubber	8.00%	E+000	17,390,625	18,075,816	18,34
! Print ns, LLC	03/30/2022	Media: Advertising, Printing and Publishing	7.00%	L+600	5,959,975	5,902,236	6,04
Sales,	12/30/2021	Wholesale	8.00%	L+700	11,250,000	11,250,000	11,25
Sales,	12/31/2018	Wholesale			3,750,000		
	03/28/2019		5.50%	L+450	5,256,439	5,218,146	5,25

Web, erm Loan		Media: Advertising, Printing and Publishing					
Web, erm Loan	03/28/2019	Media: Advertising, Printing and Publishing	12.00%	L+1,100	4,500,000	4,464,349	4,50
sts, Inc.	06/30/2020	Construction and Building	9.00%	L+800	6,628,398	6,579,255	6,62
s Power,	04/30/2020	Consumer Goods: Durable	6.50%	L+550	4,882,266	4,849,446	4,63
Hewitt	07/30/2020	Consumer Services	8.00%	L+700	4,900,000	4,825,770	4,69
Solutions L.P. (8)	02/19/2021	Chemicals, Plastics and Rubber	10.00%	L+900	4,002,471	3,934,894	3,92
Scott,	07/17/2020	Retail	7.00%	L+600	2,812,500	2,791,567	2,78
oldings,	10/31/2022	Wholesale	7.00%	L+600	12,375,000	12,186,813	12,37

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Va
oldings, volver)	10/30/2020	Wholesale			1,209,677	$	$
sort & LLC	03/07/2022	Hotel, Gaming and Leisure	10.50%	L+950	10,200,000	10,017,217	10,2
e s LLC	11/30/2018	Healthcare and Pharmaceuticals	6.50%	L+525	5,392,148	5,356,439	5,2
t , Inc.	04/13/2022	Capital Equipment	7.50%	L+650	5,970,000	5,889,619	5,9
t , Inc. er) (8),	04/13/2022	Capital Equipment			1,238,938		
Drugs rated	08/19/2021	Healthcare and Pharmaceuticals	6.25%	L+525	4,987,500	4,941,570	4,9
lantis s, LLC	01/15/2021	Retail	10.00%	L+900	9,420,054	9,301,704	9,4
lace LLC	01/27/2021	Media: Diversified and Production	6.25%	L+525	3,402,920	3,353,135	3,3
lace LLC (12)	01/27/2021	Media: Diversified and Production	6.25%	P+275	C$ 17,200,829	12,043,641	12,7
lace LLC er) (8),	01/27/2021	Media: Diversified and Production			1,703,163		
Critical ics, Inc.	09/28/2022	Capital Equipment	6.00%	L+500	4,106,316	4,067,156	4,0
Critical ics, Inc. er)	09/28/2021	Capital Equipment			883,392		(
dent rp, Inc.	07/31/2019	Healthcare and Pharmaceuticals	7.00%	L+575	8,792,647	8,748,099	7,8

Vet ment y LLC	08/19/2022	Healthcare and Pharmaceuticals	6.00%	L+500	6,463,433	6,402,888	6,4
Vet ment y (10)	08/19/2022	Healthcare and Pharmaceuticals			3,520,896		
, Inc.	09/27/2023	Telecommunications	7.50%	L+650	5,802,500	5,575,908	5,8
ion	10/20/2022	Healthcare and Pharmaceuticals	6.50%	L+550	4,977,494	4,910,610	5,0
Dental , Inc.	11/01/2018	Consumer Services	7.50%	L+650	7,528,230	7,474,965	7,4
roducts	05/20/2021	Environmental Industries	5.75%	L+475	7,234,631	7,178,888	7,2
roducts evolver)	05/20/2020	Environmental Industries			2,459,016		
ork,	11/30/2021	Healthcare and Pharmaceuticals	7.50%	L+650	7,800,000	7,723,967	7,7
ork, (10)	11/30/2021	Healthcare and Pharmaceuticals			3,000,000		(
eight nters,	08/23/2021	Beverage, Food and Tobacco	5.75%	L+475	10,000,000	9,858,256	9,9
Now nc.	03/18/2021	High Tech Industries	5.50%	L+450	6,877,500	6,851,967	6,7
haw US	06/18/2019	Consumer Goods: Durable	8.50%	L+700	4,245,684	4,228,328	4,1
LC	08/07/2020	Business Services	6.75%	L+575	4,162,500	4,114,022	4,1
ub,	07/19/2021	Beverage, Food and Tobacco	6.00%	L+500	4,937,495	4,868,948	4,9
ub, evolver)	07/19/2021	Beverage, Food and Tobacco	6.00%	L+500	350,000	350,000	3
ub, evolver)	07/19/2021	Beverage, Food and Tobacco			150,000		
on, LLC ftware ns onal LC)	05/21/2021	High Tech Industries	6.50%	L+550	9,750,000	9,661,870	9,7
efense s, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	5,668,843	5,639,737	5,5
Group s LLC	10/19/2021	Consumer Goods: Non-Durable	7.25%	L+625	7,218,750	7,112,700	7,2

g onal,	12/16/2020	Business Services	6.00%	L+500	7,427,655	7,379,369	7,3
tion	07/09/2021	Construction and Building	5.75%	L+475	4,822,723	4,788,808	4,3
osoft LLC	12/02/2021	Media: Broadcasting and Subscription	6.25%	L+525	15,000,000	14,853,374	14,8
ginal Co. (6),	07/20/2021	Consumer Goods: Non-Durable	6.50%	L+550	3,084,564	3,056,154	3,0
ginal Ltd. (6),	07/20/2021	Consumer Goods: Non-Durable	6.00%	L+500	5,971,037	5,916,117	5,9
ginal Ltd. er) (6), 1)	07/20/2021	Consumer Goods: Non-Durable			1,418,484		
Shoes,	11/02/2020	Consumer Goods: Non-Durable	6.50%	L+550	1,965,000	1,828,667	1,4
cturing,	12/28/2020	Capital Equipment	12.02%	L+1,125(9)	9,655,810	9,493,124	9,6
Global , Inc. (8)	01/14/2019	Telecommunications	9.50% (PIK 1.00%)	L+850	257,621	257,621	2
Global , Inc. (8)	01/14/2019	Telecommunications	8.50%	L+750	599,702	566,344	5
Global , Inc.	01/14/2019	Telecommunications			151,090		
al Fiber , LLC	10/04/2021	Chemicals, Plastics and Rubber	6.50%	L+550	8,939,921	8,889,413	8,9
esthesia , Inc.	12/31/2019	Healthcare and Pharmaceuticals	6.00%	L+500	12,368,750	12,268,500	12,3
ion,	08/13/2021	Healthcare and Pharmaceuticals	10.00%	L+900	3,082,031	3,082,031	3,0
ide, Inc.	08/19/2021	Media: Broadcasting and Subscription	6.50%	L+550	5,092,831	5,051,051	5,1
ster ics tion	06/30/2022	Capital Equipment	7.50%	L+650	7,754,100	7,686,604	7,8
ster ics tion (8),	06/30/2022	Capital Equipment			708,333		
Claims , LLC	10/30/2020	Banking, Finance, Insurance and Real Estate	9.00%	L+800	7,297,877	7,243,917	7,1
rst cured						599,327,868	600,0

Lien **8%**							
Group,	10/31/2018	Consumer Goods: Durable	8.50%	L+700	1,000,000	948,800	9
s and ng y LLC	12/31/2020	Chemicals, Plastics and Rubber	11.34%	L+1,050[9]	2,000,000	1,972,437	2,0
Berger C	09/30/2020	Wholesale	11.00%	L+1,000	11,000,000	10,537,088	9,7
th, Inc.	10/22/2021	Media: Advertising, Printing and Publishing	11.50%	L+1,050	3,775,000	3,706,653	3,7
ion,	07/07/2021	Business Services	12.25%	L+1,100	11,900,000	11,763,956	11,9
e s Ltd. [11]	08/01/2017	Energy: Oil and Gas	12.50%		2,812,500	2,772,451	1,5
er ion	01/30/2023	Business Services	10.75%	L+975	1,837,500	1,778,941	1,8
lverine s, LLC	10/17/2024	Healthcare and Pharmaceuticals	10.50%	L+950	5,250,000	5,040,000	5,0
econd cured						38,520,326	36,9

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

ssuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares		Cost		Fair Value (2)
ubordinated Debt/Corporate Notes 2.2% (8)									
ffinion International Holdings Limited (5), (6), 1)	07/30/2018	Consumer Goods: Durable	7.50% (PIK 4.00%)		1,157,978	$	1,067,044	$	1,111,659
merican Gilsonite ompany (5)	12/31/2021	Metals and Mining	17.00% (PIK 17.00%)		370,370		370,370		370,370
redit Infonet, Inc.	10/26/2018	High Tech Industries	13.25% (PIK 2.00%)		2,079,296		2,039,546		2,023,013
onny s Enterprises, LC	06/01/2023	Capital Equipment	11.00%		4,750,000		4,656,141		4,655,000
niTek Global Services, nc.	07/15/2019	Telecommunications	15.00% (PIK 15.00%)		152,509		152,509		154,797
otal Subordinated Debt/Corporate Notes							8,285,610		8,314,839
referred Equity 0.4%), (8)									
niTek Global Services, nc.		Telecommunications	13.50%		1,047,317		670,283		1,364,841
ommon quity/Warrants 2.7%), (8)									
ffinion Group oldings, Inc.		Consumer Goods: Durable			99,029		3,514,572		3,889,552
ffinion Group oldings, Inc., Series C nd Series D		Consumer Goods: Durable			4,298		1,186,649		28,641
merican Gilsonite ompany		Metals and Mining			1,000		215,182		215,182
orfin InvestCo, L.P.		Aerospace and Defense			3,000		300,000		694,987
		Aerospace and Defense			3,000				

orfin InvestCo, L.P. 0)				
.l.f. Beauty, Inc.	Consumer Goods: Durable	110,399	295,670	3,102,473
araday Holdings, LLC nterior Specialists, nc.)	Construction and Building	1,141	58,044	110,766
auge InfosoftCoInvest, LC The Infosoft Group, LC)	Media: Broadcasting and Subscription	500	500,000	500,000
atriot National, Inc.	Banking, Finance, Insurance and Real Estate	11,867	27,995	55,182
PC Broadband nvestors, LP Advanced Cable ommunications, LLC) 3)	Telecommunications	438,098	438,098	438,098
PC Broadband nvestors, LP Advanced Cable ommunications, LLC) 0), (13)	Telecommunications	561,902		
niTek Global Services, nc.	Telecommunications	149,617		1,188,670
otal Common quity/Warrants			6,536,210	10,223,551
otal Investments in Non-Controlled, Non-Affiliated Portfolio ompanies			653,340,297	656,868,887
ash and Cash quivalents 6.4%				
lackRock Federal FD nstl 30			22,526,563	22,526,563
NY Mellon Cash			1,674,695	1,677,002
otal Cash and Cash quivalents			24,201,258	24,203,565
otal Investments and Cash Equivalents 180.6%			$ 677,541,555	$ 681,072,452
iabilities in Excess of ther Assets (80.6)%				(303,934,786)
et Assets 100.0%				$ 377,137,666

(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) 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 (C$) or in Euros ( ) as denoted.

(13) Investment is held through our Taxable Subsidiary (See Note 1).

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2016

er Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index [1]	Par / Shares	Cost	Fair Value
stments in Non-Controlled, Non-Affiliated Portfolio Companies 159.3%[3], [4]							
t Lien Secured Debt 145.9%							
anced Cable munications,	08/09/2021	Telecommunications	6.75%	L+575	12,500,000	$ 12,255,990	$ 12,250,0
anced Cable munications, [10]	08/09/2021	Telecommunications			4,000,000		(80,0
G USA lings, LLC	02/28/2019	Hotel, Gaming and Leisure	7.00%	L+575	12,064,454	12,037,105	12,064,4
ogen Pharma Inc. [6], [11]	04/04/2022	Healthcare and Pharmaceuticals	6.00%	L+500	3,943,925	3,925,777	3,946,4
erican Bath up, LLC	10/02/2023	Consumer Goods: Durable	6.75%	L+575	3,000,000	2,970,000	2,992,5
erican fold	03/31/2022	Aerospace and Defense	7.50%	L+650	4,937,500	4,866,801	4,888,1
F Bowling ers, Inc.	09/19/2023	Retail	6.00%	L+500	15,000,000	14,850,608	14,931,3
Gaming I,	12/21/2020	Hotel, Gaming and Leisure	9.25%	L+825	6,534,878	6,462,308	6,220,4
Technologies o.	04/22/2022	Aerospace and Defense	7.50%	L+650	9,975,000	9,787,810	9,825,3
re Midstream rgy LLC	11/15/2018	Energy: Oil and Gas	7.50%	L+650	5,125,684	5,042,414	4,228,6
Bird Body npany	06/29/2020	Automotive	6.50%	L+550	3,498,670	3,462,806	3,498,6
ler Bros., Co., che A	06/03/2021	Consumer Goods: Non-Durable	7.00%	L+575	2,440,000	2,397,229	2,422,8
ler Bros., Co., che B	06/03/2021	Consumer Goods: Non-Durable	13.50%	L+1,225	2,460,000	2,415,653	2,442,6
in Cargo trol, Inc.	06/30/2021	Transportation: Cargo	5.75%	L+475	2,468,750	2,448,157	2,370,0
Centrix, Inc.	07/08/2021	Healthcare and Pharmaceuticals	6.00%	L+500	4,950,000	4,847,215	4,863,3
AC Borrower, [8]	07/02/2020	Hotel, Gaming and Leisure	8.25%	L+700	4,962,500	4,930,912	4,850,8
&R TZ haser, Inc.	07/21/2023	Consumer Goods: Durable	7.00%	L+600	12,500,000	12,179,928	12,343,7

rming Charlie	12/24/2019	Retail	9.00%	L+800	4,098,750	4,061,551	3,750,3
ken Soup for Soul ishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.50%	L+625	4,828,571	4,801,254	4,732,0
in Industries	11/25/2020	Aerospace and Defense	10.75%	L+975	6,272,600	6,163,749	6,272,6
in Industries (Revolver)	11/25/2020	Aerospace and Defense			518,033		
GT Inc.	12/21/2020	High Tech Industries	7.50%	L+650	10,531,671	10,451,145	10,505,3
Health ices lings, Inc.	02/07/2022	Healthcare and Pharmaceuticals	6.50%	L+550	1,970,000	1,953,997	1,970,0
Holding LLC	08/02/2021	Business Services	6.25%	L+525	10,000,000	9,900,163	9,900,0
Business ices, Inc.	03/19/2018	Business Services	8.75%	L+725	2,237,139	2,225,615	2,237,1
A Global tions, Inc.	12/09/2020	Business Services	5.50%	L+450	4,925,000	4,889,096	4,875,7
glas Products Packaging pany LLC	06/30/2020	Chemicals, Plastics and Rubber	5.75%	L+475	4,687,500	4,659,016	4,687,5
en ormance nds, Inc. (8)	09/10/2020	Consumer Goods: Durable	5.75%	L+475	8,550,000	8,513,835	8,507,2
en ormance nds, Inc. rolver) (8), (10)	09/10/2020	Consumer Goods: Durable			1,000,000		
cation works of erica, Inc.	05/06/2021	Telecommunications	8.00%	L+700	8,641,304	8,599,431	8,598,0
cation works of erica, Inc. rolver)	05/06/2021	Telecommunications	8.00%	L+700	434,783	434,783	434,7
cation works of erica, Inc. rolver) (10)	05/06/2021	Telecommunications			869,565		
cient aborative il Marketing pany, LLC	06/15/2022	Media: Diversified and Production	7.75%	L+675	10,972,500	10,864,398	10,972,5
rging kets munications,	07/01/2021	Telecommunications	6.75%	L+575	4,937,500	4,875,844	4,702,9
Health ems, Inc.	12/23/2021	Healthcare and Pharmaceuticals	5.00%	L+400	4,925,000	4,884,041	4,798,8
	05/31/2019	High Tech Industries	6.25%	L+525	3,890,000	3,867,640	3,880,2

oalLogic lings, Inc.							
enway Health,	11/04/2020	High Tech Industries	6.00%	L+500	6,807,500	6,765,938	6,620,2
CR Valor panies, Inc.	06/16/2023	Media: Broadcasting and Subscription	7.00%	L+600	7,481,250	7,191,975	7,116,5
portouch nents, LLC	05/31/2022	Banking, Finance, Insurance and Real Estate	7.00%	L+600	6,956,250	6,889,369	7,025,8
aline rmarket uisition, LLC a DYK ne uisition, LLC)	04/01/2022	Wholesale	5.75%	L+475	7,312,500	7,244,146	7,275,9
ander Sleep ucts, LLC	10/21/2020	Consumer Goods: Non-Durable	9.00%	L+800	1,165,886	1,153,016	1,142,5
way poration	12/13/2019	High Tech Industries	6.00%	L+475	2,624,730	2,610,592	2,183,8
ter Defense anologies, Inc.	08/05/2019	Aerospace and Defense	7.00%	L+600	6,256,250	6,218,559	5,505,5
ene U.S. uisition Corp. 1)	11/04/2020	Construction and Building	7.25%	L+625	6,225,820	6,133,990	6,225,8
a, Inc.	04/09/2021	High Tech Industries	6.50%	L+550	7,942,494	7,293,179	7,684,3
rgizer ted and ara, Inc. [(6), (11)]	05/01/2019	Business Services	7.25%	L+600	8,676,097	8,614,521	8,242,2
gine! Print tions, LLC	03/30/2022	Media: Advertising, Printing and Publishing	7.00%	L+600	5,974,987	5,914,562	6,027,2
ant Web, , Term Loan	03/28/2019	Media: Advertising, Printing and Publishing	5.50%	L+450	5,277,938	5,235,239	5,277,9
ant Web, , Term Loan	03/28/2019	Media: Advertising, Printing and Publishing	12.00%	L+1,100	4,500,000	4,460,571	4,500,0
rior cialists, Inc.	06/30/2020	Construction and Building	9.00%	L+800	6,662,719	6,609,864	6,662,7
ntus Power, (f/k/a -Nexergy,	04/30/2020	Consumer Goods: Durable	6.50%	L+550	4,882,266	4,846,935	4,686,9
son Hewitt	07/30/2020	Consumer Services	8.00%	L+700	4,900,000	4,820,995	4,753,0
Pure Solutions al, L.P. [(8)]	02/19/2021	Chemicals, Plastics and Rubber	10.00%	L+900	4,002,471	3,932,760	3,925,8
dra Scott,	07/17/2020	Retail	7.00%	L+600	2,850,000	2,827,307	2,821,5
C Holdings,	10/31/2022	Wholesale	7.00%	L+600	12,406,250	12,210,683	12,344,2
	10/30/2020	Wholesale			1,209,677		

C Holdings, (Revolver) (8),							
o Resort & no, LLC	03/07/2022	Hotel, Gaming and Leisure	10.50%	L+950	10,174,500	9,984,965	9,971,0
von Solutions,	11/13/2020	High Tech Industries	5.50%	L+450	1,945,020	1,940,066	1,930,4
Care lings LLC (8)	11/30/2018	Healthcare and Pharmaceuticals	6.50%	L+525	5,407,864	5,371,524	5,272,6
blad editions, Inc. 1)	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	2,186,607	2,177,539	2,186,6
blad time rprises, Ltd. 1)	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	282,143	280,973	282,1
bart Brothers,	04/13/2022	Capital Equipment	7.75%	L+675	5,985,000	5,901,046	6,014,9
bart Brothers, (Revolver) (8)	04/13/2022	Capital Equipment	7.75%	L+675	176,991	176,991	176,9

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2016

	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	
ver) (8), (10)	04/13/2022	Capital Equipment			1,061,947	$
	08/19/2021	Healthcare and Pharmaceuticals	6.25%	L+525	5,000,000	
	01/15/2021	Retail	10.00%	L+900	9,542,392	
	04/18/2022	Chemicals, Plastics and Rubber	5.25%	L+425	5,431,250	
	01/27/2021	Media: Diversified and Production	6.25%	L+525	1,362,530	
	01/27/2021	Media: Diversified and Production	6.25%	P+275	C$ 17,244,188	
volver) (8)	01/27/2021	Media: Diversified and Production	6.25%	P+275	1,090,024	
volver) (8), (10)	01/27/2021	Media: Diversified and Production			613,139	
nc. (8)	09/28/2022	Capital Equipment	6.00%	L+500	4,116,608	
nc. (Revolver) (8), (10)	09/28/2021	Capital Equipment			883,392	
	07/31/2019	Healthcare and Pharmaceuticals	6.50%	L+525	8,817,647	
ement Company LLC (8)	08/19/2022	Healthcare and Pharmaceuticals	6.00%	L+500	6,268,657	
ement Company LLC (8), (10)	08/19/2022	Healthcare and Pharmaceuticals			3,731,343	
	09/27/2023	Telecommunications	7.50%	L+650	6,000,000	
	10/20/2022	Healthcare and Pharmaceuticals	6.50%	L+550	3,990,000	
	11/01/2018	Consumer Services	7.50%	L+650	7,528,230	
	05/20/2021	Environmental Industries	5.75%	L+475	7,281,762	
er) (8), (10)	05/20/2020	Environmental Industries			2,459,016	
LC	08/23/2021	Beverage, Food and Tobacco	5.75%	L+475	10,000,000	
	03/18/2021	High Tech Industries	5.50%	L+450	6,895,000	
.	06/18/2019	Consumer Goods: Durable	8.50%	L+700	4,252,830	
	08/07/2020	Business Services	6.75%	L+575	4,218,750	
	04/05/2023	Utilities: Water	6.50%	L+550	9,975,000	
	07/19/2021	Beverage, Food and Tobacco	6.00%	L+500	4,968,748	
0)	07/19/2021	Beverage, Food and Tobacco			500,000	
onal Group, LLC	05/21/2021	High Tech Industries	6.50%	L+550	9,875,000	
	04/21/2017	Aerospace and Defense	9.00%	L+750	5,668,843	
	10/19/2021	Consumer Goods: Non-Durable	7.25%	L+625	7,312,500	
l, LLC	12/16/2020	Business Services	6.00%	L+500	7,446,562	
s Holding, Inc.	10/18/2019	High Tech Industries	5.00%	L+400	5,850,000	
	07/09/2021	Construction and Building	5.75%	L+475	4,822,723	
11)	07/20/2021	Consumer Goods: Non-Durable	6.50%	L+550	3,092,295	
11)	07/20/2021	Consumer Goods: Non-Durable	6.00%	L+500	5,986,002	
volver) (6), (8), (10), (11)	07/20/2021	Consumer Goods: Non-Durable			1,418,484	
	11/02/2020	Consumer Goods: Non-Durable	6.50%	L+550	1,970,000	
	12/28/2020	Capital Equipment	11.27%	L+1,075 (9)	10,306,936	
8)	01/14/2019	Telecommunications	9.50%	L+850	256,971	

			(PIK 1.00%)			
[8]	01/14/2019	Telecommunications	8.50%	L+750	599,702	
[8], [10]	01/14/2019	Telecommunications			151,090	
C	10/04/2021	Chemicals, Plastics and Rubber	6.50%	L+550	4,962,500	
	12/31/2019	Healthcare and Pharmaceuticals	6.00%	L+500	9,900,000	
	08/13/2021	Healthcare and Pharmaceuticals	10.00%	L+900	3,089,844	
	08/19/2021	Media: Broadcasting and Subscription	6.50%	L+550	4,792,831	
ration	06/30/2022	Capital Equipment	7.50%	L+650	7,773,579	
ration [10]	06/30/2022	Capital Equipment			708,333	
	10/30/2020	Banking, Finance, Insurance and Real Estate	9.00%	L+800	7,316,440	
bt						5
.7%						
	10/31/2018	Consumer Goods: Durable	8.50%	L+700	1,000,000	
[5], [8]	09/01/2017	Metals and Mining	[7]		1,000,000	
ing Company LLC	12/31/2020	Chemicals, Plastics and Rubber	11.34%	L+1,050[9]	2,000,000	
	09/30/2020	Wholesale	11.00%	L+1,000	11,000,000	
	10/22/2021	Media: Advertising, Printing and Publishing	11.50%	L+1,050	3,775,000	
	07/07/2021	Business Services	12.25%	L+1,100	11,000,000	
	10/02/2020	Media: Diversified and Production	9.00%	L+775	4,872,042	
[8], [11]	08/01/2017	Energy: Oil and Gas	12.50%		2,812,500	
	01/30/2023	Business Services	10.75%	L+975	1,837,500	
Debt						

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

SEPTEMBER 30, 2016

suer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
ubordinated ebt/Corporate otes 0.8%(8)							
ffinion International oldings Limited (5), (6),)	07/30/2018	Consumer Goods: Durable	7.50% (PIK 4.00%)		1,135,273	$ 1,030,320	$ 1,035,937
redit Infonet, Inc.	10/26/2018	High Tech Industries	13.00% (PIK 1.75%)		2,069,078	2,050,767	1,975,969
niTek Global Services, c.	07/15/2019	Telecommunications	15.00% (PIK 15.00%)		146,996	146,996	148,466
otal Subordinated ebt/Corporate Notes						3,228,083	3,160,372
referred Equity 0.4% , (8)							
niTek Global Services, c.		Telecommunications	13.50%		1,047,317	670,283	1,319,308
ommon quity/Warrants 2.5% , (8)							
ffinion Group oldings, Inc.		Consumer Goods: Durable			99,029	3,514,572	3,700,216
ffinion Group oldings, Inc., Series C d Series D		Consumer Goods: Durable			4,298	1,186,649	20,096
orfin InvestCo, L.P.		Aerospace and Defense			3,000	300,000	621,550
orfin InvestCo, L.P. 0)		Aerospace and Defense			3,000		
l.f. Beauty, Inc. (f/k/a A. Cosmetics US, Inc.)		Consumer Goods: Durable			110,399	295,670	2,957,767
araday Holdings, LLC nterior Specialists,		Construction and Building			1,141	58,044	94,560

c.)				
triot National, Inc.	Banking, Finance, Insurance and Real Estate	11,867	27,995	106,922
PC Broadband vestors, LP Advanced Cable ommunications, LLC)	Telecommunications	430,666	430,666	430,666
PC Broadband vestors, LP Advanced Cable ommunications, LLC) 0)	Telecommunications	569,334		
niTek Global Services, c.	Telecommunications	149,617		892,276
estcom Parent oldings, Inc.	Media: Advertising, Printing and Publishing	15,179	56,895	577,005
otal Common quity/Warrants			5,870,491	9,401,058
otal Investments in Non-Controlled, Non-Affiliated Portfolio Companies			597,910,267	598,887,525
ash and Cash quivalents 7.7%				
lackRock Liquidity Funds, Temp Cash and Temp Fund, Institutional Shares			28,212,041	28,212,041
NY Mellon Cash eserve and Cash			691,318	698,932
otal Cash and Cash quivalents			28,903,359	28,910,973
otal Investments and ash quivalents 167.0%			$ 626,813,626	$ 627,798,498
iabilities in Excess of ther Assets (67.0)%				(251,891,670
et Assets 100.0%				$ 375,906,828

(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

DECEMBER 31, 2016

(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.

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;

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

(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. We record prepayment penalties on loans and debt investments as income. 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.

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 an excise tax or we may incur taxes through our taxable subsidiaries. For the three months ended December 31, 2016 and 2015, we recorded a provision for taxes of less than $0.1 million and zero, respectively.

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 ratified 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.

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.

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

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 months ended December 31, 2016 and 2015, the Investment Adviser earned a base management fee of $1.6 million and $1.1 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 months ended December 31, 2016 and 2015, the Investment Adviser earned $0.9 million and zero, respectively, in incentive fees on net investment income 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 months ended December 31, 2016 and 2015, 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. The incentive fee accrued for under GAAP on our unrealized and realized capital gains for the three months ended December 31, 2016 and 2015 was $0.6 million and zero, respectively.

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

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 months ended December 31, 2016 and 2015, the Investment Adviser was reimbursed approximately $0.3 million and $0.1 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 months ended December 31, 2016 and 2015 totaled $124.9 million and $99.2 million, respectively. Sales and repayments of investments for the same periods totaled $70.4 million and $26.9 million, respectively. For the three months ended December 31, 2016, the Company sold $5.0 million in total investments 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 gain on that transaction amounted to less than $0.1 million.

Investments, cash and cash equivalents consisted of the following:

	December 31, 2016		September 30, 2016	
Investment Classification	**Cost**	**Fair Value**	**Cost**	**Fair Value**
First lien	$ 599,327,868	$ 600,052,593	$ 549,736,982	$ 548,410,095
Second lien	38,520,326	36,913,063	38,404,428	36,596,692
Subordinated debt / corporate notes	8,285,610	8,314,839	3,228,083	3,160,372
Equity	7,206,493	11,588,392	6,540,774	10,720,366
Total investments	653,340,297	656,868,887	597,910,267	598,887,525
Cash and cash equivalents	24,201,258	24,203,565	28,903,359	28,910,973

Total investments, cash and cash equivalents	$	677,541,555	$	681,072,452	$	626,813,626	$	627,798,498

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

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

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.

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 three months ended December 31, 2016 and 2015, 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.

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

Asset Category	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)	
First lien	$ 284,513,256	Market Comparable	Broker/Dealer bids or quotes	N/A	
Second lien	7,590,563	Market Comparable	Broker/Dealer bids or quotes	N/A	
Subordinated debt / corporate notes	1,111,659	Market Comparable	Broker/Dealer bids or quotes	N/A	
First lien	315,539,337	Market Comparable	Market Yield	5.3%	16.4% (8.5%)
Second lien	29,322,500	Market Comparable	Market Yield	12.2%	17.0% (14.5%)
Subordinated debt / corporate notes	7,203,180	Market Comparable	Market Yield	12.1%	18.6% (13.4%)
Equity	8,430,737	Enterprise Market Value	EBITDA multiple	4.5x	11.5x (7.5x)
Total Level 3 investments	$ 653,711,232				
Long-Term Credit Facility	$ 299,859,712	Market Comparable	Market Yield	3.2%	

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:

	Fair Value Measurements at December 31, 2016			
Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
First lien	$ 600,052,593	$	$	$ 600,052,593
Second lien	36,913,063			36,913,063
Subordinated debt / corporate notes	8,314,839			8,314,839
Equity	11,588,392	55,182	3,102,473	8,430,737
Total investments	656,868,887	55,182	3,102,473	653,711,232
Cash and cash equivalents	24,203,565	24,203,565		
Total investments, cash and cash equivalents	$ 681,072,452	$ 24,258,747	$ 3,102,473	$ 653,711,232
Long-Term Credit Facility	$ 299,859,712	$	$	$ 299,859,712

	Fair Value Measurements at September 30, 2016			
Description	**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	$	2,957,757	$	595,822,836
Long-Term Credit Facility	$	232,389,498	$		$		$	232,389,498

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

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

	Three Months Ended December 31, 2016		
Description	**First Lien**	**Second lien, subordinated debt and equity investments**	**Totals**
Beginning Balance	$ 548,410,095	$ 47,412,741	$ 595,822,836
Net realized gains	280,208	263,993	544,201
Net unrealized appreciation	2,051,612	406,754	2,458,366
Purchases, PIK interest, net discount accretion and non-cash exchanges	109,256,025	16,035,021	125,291,046
Sales, repayments and non-cash exchanges	(59,945,347)	(10,459,870)	(70,405,217)
Transfers in and/or out of Level 3			
Ending Balance	$ 600,052,593	$ 53,658,639	$ 653,711,232
Net change in unrealized appreciation reported within the net change in unrealized appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	$ 1,927,211	$ 653,710	$ 2,580,921

	Three Months Ended December 31, 2015		
Description	**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)		53,300		(3,285,308)		(3,232,008)
Net unrealized (depreciation) appreciation		(2,864,750)		2,266,779		(597,971)
Purchases, PIK interest, net discount accretion and non-cash exchanges		97,970,469		1,584,985		99,555,454
Sales, repayments and non-cash exchanges		(26,887,251)		26,442		(26,860,809)
Transfers in and/or out of Level 3						
Ending Balance	$	403,229,109	$	56,756,838	$	459,985,947
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.	$	(2,963,079)	$	(758,129)	$	(3,721,208)

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

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

	Three Months Ended December 31,	
Long-Term Credit Facility [1]	**2016**	**2015**
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	1,068,214	(601,875)
Borrowings	91,902,000	69,300,000
Repayments	(25,500,000)	(2,600,000)
Transfers in and/or out of Level 3		
Ending Balance (cost $299,309,500 and $96,300,000, respectively)	$ 299,859,712	$ 95,698,125

(1) The carrying value of our consolidated financial liabilities approximates fair value.

As of December 31, 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:

Foreign Currency	**Amount Borrowed**	**Borrowing Cost**	**Current Value**	**Reset Date**	**Change in Fair Value**
Canadian Dollar	C$ 17,500,000	$ 12,407,501	$ 13,049,470	January 3, 2017	$ 641,969
Euro	18,000,000	18,702,000	18,985,536	January 3, 2017	283,536
		$ 31,109,501	$ 32,035,006		$ 925,505

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:

Foreign Currency	**Amount Borrowed**	**Borrowing Cost**	**Current Value**	**Reset Date**

						Change in Fair Value
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 expenses of zero and $0.9 million, respectively, relating to amendment fees on the Credit Facility during the three months ended December 31, 2016 and 2015. 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 months ended December 31, 2016 and 2015, our Credit Facility had a net change in unrealized (appreciation) depreciation of $(1.1) million and $0.6 million, respectively. As of December 31, 2016 and September 30, 2016, the net unrealized (appreciation) depreciation on our Credit Facility totaled $(0.6) 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:

	Three Months Ended December 31, 2016		Three Months Ended December 31, 2015	
Numerator for net increase in net assets resulting from operations	$	8,848,909	$	1,746,879
Denominator for basic and diluted weighted average shares		26,730,074		26,730,074
Basic and diluted net increase in net assets per share resulting from operations	$	0.33	$	0.07

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 December 31, 2016 and September 30, 2016, cash and cash equivalents consisted of money market funds in the amounts of $24.2 million and $28.9 million, respectively, at fair value.

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

8. FINANCIAL HIGHLIGHTS

Below are the financial highlights:

	Three Months Ended December 31, 2016		Three Months Ended December 31, 2015	
Per Share Data:				
Net asset value, beginning of period	$	14.06	$	13.95
Net investment income [1]		0.26		0.19
Net change in realized and unrealized gain (loss) [1]		0.07		(0.12)
Net increase in net assets resulting from operations [1]		0.33		0.07
Distributions to stockholders [1], [2]		(0.28)		(0.29)
Net asset value, end of period	$	14.11	$	13.73
Per share market value, end of period	$	14.11	$	11.25
Total return* [3]		8.90%		(3.48)%
Shares outstanding at end of period		26,730,074		26,730,074
Ratios / Supplemental Data:**				
Ratio of operating expenses to average net assets [4]		4.25%		1.98%
Ratio of Credit Facility related expenses to average net assets [5]		1.91%		1.26%
Ratio of total expenses to average net assets [5]		6.16%		3.24%
Ratio of net investment income to average net assets [5]		7.24%		6.25%
Net assets at end of period	$	377,137,666	$	367,019,257

Weighted average debt outstanding	$	247,183,783	$	63,132,609
Weighted average debt per share (1)	$	9.25	$	2.36
Asset coverage per unit (6)	$	2,258	$	4,835
Portfolio turnover ratio		44.82%		25.35%

* 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 December 31, 2016, 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 December 31, 2016 and September 30, 2016, Funding I had $299.3 million and $232.9 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had an interest rate of 2.74% and 2.57%, as of December 31, 2016 and September 30, 2016, respectively, excluding the undrawn commitment fees of 0.375%. The annualized weighted average cost of debt for the three months ended December 31, 2016 and 2015, inclusive of the fee on the undrawn commitment on the Credit Facility but excluding amendment costs, was 2.91% and 5.95%, 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 December 31, 2016, 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.

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2016

(Unaudited)

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 December 31, 2016 and September 30, 2016, we had $34.2 million and $20.0 million, respectively, in commitments to fund investments.

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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 December 31, 2016, and the consolidated statements of operations, changes in net assets and cash flows for the three months ended December 31, 2016 and 2015. 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 review, 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 December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated statements of assets and liabilities.

/s/ RSM US LLP

New York, New York

February 9, 2017

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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;