

OHA INVESTMENT CORP

FORM 10-Q (Quarterly Report)

Filed 11/13/17 for the Period Ending 09/30/17

Address	1114 AVENUE OF THE AMERICAS 27TH FLOOR NEW YORK, NY, 10036
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Sector	Financials
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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 September 30, 2017

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: 814-00672

OHA Investment Corporation
(Exact name of registrant as specified in its
charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

20-1371499
(I.R.S. Employer
Identification No.)

1114 Avenue of the Americas,
27th Floor
New York, New York
(Address of principal executive
offices)

10036
(Zip Code)

(212) 852-1900

(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.

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

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

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

As of November 13, 2017, there were 20,172,392 shares of the registrant's common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

OHA INVESTMENT CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Investments in portfolio securities at fair value		
Affiliate investments (cost: \$22,298 and \$19,724, respectively)	\$ 18,258	\$ 17,150
Non-affiliate investments (cost: \$147,177 and \$154,772, respectively)	60,452	87,855
Total portfolio investments (cost: \$169,475 and \$174,496, respectively)	78,710	105,005
Investments in U.S. Treasury Bills at fair value (cost: \$34,995 and \$39,997, respectively)	34,995	39,997
Total investments	113,705	145,002
Cash and cash equivalents	16,613	16,533
Accounts receivable and other current assets	31	33
Interest receivable	337	1,313
Prepaid assets	28	17
Total current assets	17,009	17,896
Total assets	\$ 130,714	\$ 162,898
Liabilities		
Current liabilities		
Distributions payable	\$ 403	\$ 1,210
Accounts payable and accrued expenses	1,915	1,999
Due to broker	6,386	—
Due to affiliate (Note 4)	46	220
Management and incentive fees payable (Note 4)	544	635
Income taxes payable	19	28
Repurchase agreement	34,300	39,200
Short-term debt, net of debt issuance costs	39,990	—
Total current liabilities	83,603	43,292
Long-term debt, net of debt issuance costs	—	39,113
Total liabilities	83,603	82,405
Commitments and contingencies (Note 6)		
Net assets		
Common stock, \$.001 par value, 250,000,000 shares authorized; 20,172,392 and 20,172,392 shares issued and outstanding, respectively	20	20
Paid-in capital in excess of par	235,703	235,703
Undistributed net investment loss	(3,422)	(2,873)
Undistributed net realized capital loss	(97,539)	(85,979)
Net unrealized depreciation on investments	(87,651)	(66,378)
Total net assets	47,111	80,493
Total liabilities and net assets	\$ 130,714	\$ 162,898
Net asset value per share	\$ 2.34	\$ 3.99

(See accompanying notes to consolidated financial statements)

OHA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Investment income:				
Interest income:				
Affiliate investments	\$ 115	\$ 565	\$ 326	\$ 1,671
Payment-in-kind from Affiliate investments	894	128	2,527	377
Non-affiliate investments	1,735	2,617	4,760	8,471
Dividend income:				
Payment-in-kind from Non-affiliate investments	—	897	—	3,180
Other income	7	114	68	152
Total investment income	2,751	4,321	7,681	13,851
Operating expenses:				
Interest expense and bank fees	1,012	768	2,970	2,831
Management and incentive fees (Note 4)	544	888	1,610	2,585
Professional fees	394	584	1,066	1,973
Other general and administrative expenses	410	326	1,169	1,370
Directors fees	61	61	184	184
Total operating expenses	2,421	2,627	6,999	8,943
Income tax provision (benefit), net	7	(6)	21	19
Net investment income	323	1,700	661	4,889
Realized and unrealized gain (loss) on investments:				
Net realized capital gain (loss) on investments				
Control investments	—	—	1	(10,142)
Affiliate investments	—	—	—	—
Non-affiliate investments	1,004	—	(11,561)	223
Provision for taxes on realized gain	—	—	—	(91)
Total net realized capital gain (loss) on investments	1,004	—	(11,560)	(10,010)
Net unrealized appreciation (depreciation) on investments				
Control investments	—	—	—	10,578
Affiliate investments	(1,004)	(1,254)	(1,466)	(1,587)
Non-affiliate investments	(8,508)	(3,058)	(19,807)	(18,031)
Total net unrealized appreciation (depreciation) on investments	(9,512)	(4,312)	(21,273)	(9,040)
Net decrease in net assets resulting from operations	\$ (8,185)	\$ (2,612)	\$ (32,172)	\$ (14,161)
Net decrease in net assets resulting from operations per common share	\$ (0.40)	\$ (0.13)	\$ (1.59)	\$ (0.70)
Distributions declared per common share	\$ 0.02	\$ 0.06	\$ 0.06	\$ 0.18
Weighted average shares outstanding - basic and diluted	20,172	20,172	20,172	20,172

(See accompanying notes to consolidated financial statements)

OHA INVESTMENT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
(in thousands, except per share data)
(unaudited)

	For the nine months ended	
	September 30,	
	2017	2016
Increase (decrease) in net assets from operations		
Net investment income	\$ 661	\$ 4,889
Net realized capital loss on investments	(11,560)	(10,010)
Net unrealized depreciation on investments	(21,273)	(9,040)
Net decrease in net assets resulting from operations	(32,172)	(14,161)
Distributions to common stockholders		
Distributions from net investment income	(1,210)	(3,631)
Net decrease in net assets from distributions	(1,210)	(3,631)
Net decrease in net assets	(33,382)	(17,792)
Net assets, beginning of period	80,493	110,780
Net assets, end of period	\$ 47,111	\$ 92,988
Net asset value per common share at end of period	\$ 2.34	\$ 4.61
Common shares outstanding at end of period	20,172	20,172

(See accompanying notes to consolidated financial statements)

OHA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the nine months ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net decrease in net assets resulting from operations	\$ (32,172)	\$ (14,161)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by (used in) operating activities:		
Payment-in-kind interest	(3,180)	(3,909)
Net amortization of premiums, discounts and fees	(676)	(117)
Net realized capital (gain) loss on investments	11,560	9,919
Net unrealized depreciation on investments	21,273	9,040
Purchase of investments in portfolio securities	(21,941)	(1,756)
Proceeds from redemption or sale of investments in portfolio securities	19,260	30,414
Purchase of investments in U.S. Treasury Bills	(120,000)	(90,000)
Proceeds from redemption of investments in U.S. Treasury Bills	125,002	69,997
Amortization of debt issuance costs on Credit Facility	876	—
Effects of changes in operating assets and liabilities:		
Accounts receivable and other current assets	2	505
Interest receivable	976	471
Due to broker	6,386	(5,226)
Prepaid assets	(11)	425
Due to affiliate	(174)	—
Payables and accrued expenses	(184)	(1,558)
Net cash provided by operating activities	<u>6,997</u>	<u>4,044</u>
Cash flows from financing activities:		
Borrowings under credit facilities	—	49,000
Borrowings under repurchase agreement	117,593	88,200
Repayments on revolving credit facilities	—	(80,500)
Repayments on repurchase agreement	(122,493)	(68,600)
Distributions to common stockholders	(2,017)	(4,841)
Net cash used in financing activities	<u>(6,917)</u>	<u>(16,741)</u>
Net change in cash and cash equivalents	<u>80</u>	<u>(12,697)</u>
Cash and cash equivalents, beginning of period	<u>16,533</u>	<u>15,554</u>
Cash and cash equivalents, end of period	<u>\$ 16,613</u>	<u>\$ 2,857</u>

(See accompanying notes to consolidated financial statements)

OHA INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2017
(in thousands, except share amounts and percentages)
(unaudited)

Portfolio Company	Industry Segment	Investment ⁽¹⁾	Principal	Cost	Fair Value ⁽²⁾
Affiliate Investments - (5% to 25% owned)					
OCI Holdings, LLC	Home Health Services	Subordinated Note (LIBOR+ 12.0% cash with a 1.0% floor plus 3.0% PIK) ⁽⁷⁾ , 20.23%, due 8/15/2018	\$ 19,858	\$ 19,798	\$ 18,015
OCI Holdings, LLC	Home Health Services	100% of Class A Units in OHA/OCI Investments, LLC representing 20.8% diluted ownership of OCI Holdings, LLC ⁽¹²⁾		2,500	243
Subtotal Affiliate Investments - (5% to 25% owned)				\$ 22,298	\$ 18,258
Non-affiliate Investments - (Less than 5% owned)					
Appriss Holdings, Inc.	Information Services	Second Lien Term Loan (LIBOR+9.25% with a 1.0% floor) ⁽¹¹⁾ , 10.58%, due 5/21/2021	\$ 9,323	\$ 9,232	\$ 9,323
Talos Production, LLC	Oil & Natural Gas Production and Development	Senior Unsecured Notes, 9.75%, due 2/15/2018 ⁽³⁾	11,536	11,529	7,354
Equinox Holdings, Inc.	Leisure Goods, Activities, Movies	Second Lien Term Loan (LIBOR+7.0% with a 1.0% floor), 8.24%, due 9/8/2024 ⁽³⁾	7,000	6,950	7,140
PAE Holding Corporation	Aerospace and Defense	Second Lien Term Loan (LIBOR+9.50% with a 1.0% floor), 10.74%, due 10/20/2023 ⁽³⁾	6,888	6,724	6,931
Berlin Packaging	Packaging	Second Lien Term Loan (LIBOR+6.75% with a 1.0% floor), 7.99%, due 10/1/2022 ⁽³⁾	6,705	6,436	6,730
Royal Holdings, Inc.	Chemicals	Second Lien Term Loan (LIBOR+7.5% with a 1.0% floor), 8.83%, due 6/19/2023 ⁽³⁾	5,517	5,481	5,510
Avantor Performance Materials, Inc.	Chemicals	Senior Unsecured Notes, 9.0%, due 10/1/2025 ⁽³⁾	5,000	5,000	5,113
WASH Multifamily Acquisition, Inc.	Industrials - Laundry Equipment	Second Lien Term Loan (LIBOR+7.0% with a 1.0% floor), 8.24%, due 5/14/2023 ⁽³⁾	3,404	3,384	3,404
DexKo Global, Inc.	Automotive	Second Lien Term Loan (LIBOR+8.25% with a 1.0% floor), 9.56%, due 7/24/2025 ⁽³⁾	3,000	2,977	3,015
TIBCO Software, Inc.	Software	Senior Unsecured Notes, 11.38%, due 12/1/2021 ⁽³⁾	2,100	1,961	2,300
MW Industries, Inc. (Helix Acquisition)	Industrials	Second Lien Term Loan (LIBOR+8.0%), 9.24%, due 9/27/2025 ⁽³⁾	1,400	1,386	1,407
Hayward Industries, Inc.	Consumer Goods	Second Lien Term Loan (LIBOR+8.25%), 9.49%, due 8/04/2025 ⁽³⁾	1,302	1,279	1,295

(See accompanying notes to consolidated financial statements)

OHA INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2017
(in thousands, except share amounts and percentages)
(unaudited — continued)

Portfolio Company	Industry Segment	Investment ⁽¹⁾	Principal	Cost	Fair Value ⁽²⁾
<u>Non-affiliate Investments - (Less than 5% owned) - Continued</u>					
Coinamatic Canada, Inc. ⁽⁵⁾	Industrials - Laundry Equipment	Second Lien Term Loan (LIBOR+7.0% with a 1.0% floor), 8.24%, due 5/14/2023 ⁽³⁾	\$ 596	\$ 593	\$ 596
Gramercy Park CLO Ltd. ⁽⁵⁾	Financial Services	Subordinated Notes, Residual Interest, 13.46% based on cost, due 7/17/2023	9,000	85	334
Castex Energy 2005, LP	Oil & Natural Gas Production and Development	Redeemable Preferred LP Units (current pay 8.0% cash or 10.0% PIK) ⁽⁶⁾⁽⁸⁾	60,986	56,315	—
ATP Oil & Gas Corporation/Bennu Oil & Gas, LLC	Oil & Natural Gas Production and Development	Limited Term Royalty Interest (notional rate of 13.2%) ⁽⁹⁾		27,845	—
Globe BG, LLC	Coal Production	Contingent earn-out related to July 2011 sale of royalty interests in Alden Resources, LLC ⁽¹⁰⁾		—	—
Subtotal Non-affiliate Investments - (Less than 5% owned)				\$ 147,177	\$ 60,452
Subtotal Portfolio Investments (69.2% of total investments)				\$ 169,475	\$ 78,710
<u>GOVERNMENT SECURITIES</u>					
U.S. Treasury Bills ⁽⁴⁾			\$ 35,000	\$ 34,995	\$ 34,995
Subtotal Government Securities (30.8% of total investments)				\$ 34,995	\$ 34,995
TOTAL INVESTMENTS				\$ 204,470	\$ 113,705

(See accompanying notes to consolidated financial statements)

NOTES TO CONSOLIDATED SCHEDULE OF INVESTMENTS

- (1) We pledged all of our portfolio investments, except our investments in U.S. Treasury Bills, as collateral for obligations under our Credit Facility. See Note 3 of Notes to Consolidated Financial Statements. Percentages represent interest rates in effect as of September 30, 2017, and due dates represent the contractual maturity dates. Common stock, units and earn-outs are non-income producing securities, unless otherwise stated.
- (2) The Audit Committee recommends fair values of each asset to our Board of Directors, which in good faith determines the final fair value for each investment. Fair value is determined using unobservable inputs (Level 3 hierarchy), unless otherwise stated. See Note 7 of Notes to Consolidated Financial Statements.
- (3) Fair value is determined using prices with observable market inputs (Level 2 hierarchy). See Note 7 of Notes to Consolidated Financial Statements.
- (4) Fair value is determined using prices for identical securities in active markets (Level 1 hierarchy). See Note 7 of Notes to Consolidated Financial Statements.
- (5) We have determined that this investment is not a “qualifying asset” under Section 55(a) of the Investment Company Act of 1940, or the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. The status of these assets under the 1940 Act is subject to change. We monitor the status of these assets on an ongoing basis.
- (6) Investment on non-accrual status and therefore non-income producing.

OHA INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2017
(in thousands, except share amounts and percentages)
(unaudited — continued)

- (7) During the fourth quarter of 2016, we executed a series of amendments to our note purchase and security agreement with OCI Holdings, LLC, or OCI, to allow the company to PIK its LIBOR+12% cash interest for November and December 2016. Also, default interest of \$0.1 million and current unpaid interest of \$0.4 million was added to the principal balance in the fourth quarter of 2016. OCI remains in financial covenant default and while in default, we are earning an additional 2% cash interest and 2% PIK interest. In 2017, we have executed a number of amendments to our note purchase and security agreement with OCI that allows the company to continue to PIK its LIBOR +12% cash interest through December 31, 2017.
- (8) By the terms of our original investment, upon redemption, we were due the outstanding face amount of \$50 million, any unpaid and accrued dividends, plus an option to elect to receive either: a) a cash payment resulting in a total 12% return or make-whole (inclusive of the 8% cash distributions even if not paid), or b) our pro rata share of 2% of the outstanding regular limited partner interests in Castex Energy 2005, LP, or Castex, (0.67% net to us). Castex elected to pay us in PIK for more than two consecutive quarters, causing the return on the initial make-whole calculation to first increase from 12% to 13.5%. Preferred unit holders had a put right starting on July 1, 2016, which we exercised on that date with respect to all of our preferred units. Castex had 90 days from the receipt of the put notice to redeem. Castex did not redeem the preferred units within 90 days of the receipt of the put notice. As a result, the make-whole of 13.5% further increased by 4.5%, to 18%, we are entitled to board observation rights as a preferred unit holder, and other covenants apply. If the preferred units are not redeemed within one year from the originally scheduled put closing date (which would be September 29, 2017), Castex and the limited partners must use commonly reasonable efforts to enter into, within 90 days, a 12% dollar denominated production payment transaction with the preferred unit holders exercising the put right, with a 3 year term for such production payment. If such production payment transaction is not consummated within 90 days, Castex must use all available resources to repay preferred units and the preferred return steps up to 25% from that point forward. Amounts shown for principal and cost include PIK dividends that have been added to the principal balance. During the first quarter of 2017, we placed our investment in Castex on non-accrual status based on our March 31, 2017 valuation, which reflects a determination that future payments received from this investment will no longer be sufficient to cover all of the contractual principal and dividend amounts on this investment. On October 16, 2017, Castex announced that it (together with certain affiliates) has filed bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. According to the filing, Castex and its affiliates in bankruptcy have entered into a restructuring support agreement ("RSA") with pre-petition lenders holding approximately 86% in principal amount of claims under the pre-petition credit facility. The RSA outlines a plan of reorganization for Castex and its affiliates in bankruptcy. As currently proposed, the RSA does not provide for any recovery to the holder of the preferred limited partnership units of Castex, including those preferred limited partnership unit holders who have exercised their put rights. OHAI is not a party to the RSA and is exploring all available options in and out of bankruptcy for recovery on its investment in Castex. At this time we are unable to determine the form and value of a recovery, if any, we expect to receive due in large part to the inherent risks and uncertainty associated with bankruptcy and litigation. Therefore, until we are in a position to determine the form, value, and likelihood of a recovery, we are estimating \$0 fair market value of our investment in Castex at September 30, 2017 for financial statement purposes.
- (9) Effective July 1, 2015, ATP was placed on non-accrual status based on estimated future production payments and income is recognized to the extent cash received. For more information on ATP, refer to the discussion of the ATP litigation in Note 6 to the Consolidated Financial Statements.
- (10) Contingent payment of up to \$6.8 million is dependent upon Alden Resources, LLC's achievement of certain sales volume and operating efficiency levels during the three-year period ended July 2014. The reporting and review mechanism to conclude the ultimate value of the earn-out has not yet been completed. Globe BG, LLC has informally advised us that the company's relative cost of production has not improved since July 2011.
- (11) On August 10, 2016, the margin was amended to be increased from LIBOR+8.25% with a 1% floor to LIBOR+9.25% with a 1% floor.
- (12) Non-income producing equity security.

OHA INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(in thousands, except share amounts and percentages)

Portfolio Company	Industry Segment	Investment ⁽¹⁾	Principal	Cost	Fair Value ⁽²⁾
Affiliate Investments - (5% to 25% owned)					
OCI Holdings, LLC	Home Health Services	Subordinated Note (LIBOR+ 12.0% cash with a 1% floor plus 3% PIK) ⁽⁷⁾ , 20.0%, due 8/15/2018	\$ 17,330	\$ 17,224	\$ 16,464
OCI Holdings, LLC	Home Health Services	100% of Class A Units in OHA/OCI Investments, LLC representing 20.8% diluted ownership of OCI Holdings, LLC ⁽¹⁵⁾		2,500	686
Subtotal Affiliate Investments - (5% to 25% owned)				\$ 19,724	\$ 17,150
Non-affiliate Investments - (Less than 5% owned)					
Castex Energy 2005, LP	Oil & Natural Gas Production and Development	Redeemable Preferred LP Units, current pay 8% cash or 10% PIK, due 7/1/2016 ⁽⁸⁾	\$ 56,625	\$ 55,662	\$ 32,876
TIBCO Software, Inc.	Software	Senior Unsecured Notes, 11.38%, due 12/1/2021 ⁽³⁾	10,100	9,754	10,100
Royal Holdings, Inc.	Chemicals	Second Lien Term Loan (LIBOR+7.5% with a 1% floor), 8.50%, due 6/19/2023 ⁽³⁾	10,000	9,929	9,938
Appriss Holdings, Inc.	Information Services	Second Lien Term Loan (LIBOR+8.25% with a 1% floor) ⁽¹⁴⁾ , 10.25% due 5/21/2021	9,323	9,217	9,137
Berlin Packaging	Packaging	Second Lien Term Loan (LIBOR+6.75% with a 1%) 7.75%, floor, due 10/1/2022 ⁽³⁾	7,205	6,886	7,295
Talos Production, LLC	Oil & Natural Gas Production and Development	Senior Unsecured Notes, 9.75%, due 2/15/2018 ⁽³⁾	12,000	11,980	7,140
PAE Holding Corporation	Aerospace and Defense	Second Lien Term Loan (LIBOR+9.50% with a 1.0% floor), 10.50%, due 10/20/2023 ⁽³⁾	5,500	5,337	5,596
WASH Multifamily Acquisition, Inc.	Industrials - Laundry Equipment	Second Lien Term Loan (LIBOR+7.0% with a 1% floor), 8.0%, due 5/14/2023 ⁽³⁾	3,404	3,382	3,404
Gramercy Park CLO Ltd. ⁽⁵⁾	Financial Services	Subordinated Notes, Residual Interest, 11.95% based on cost, due 7/17/2023 ⁽³⁾	9,000	1,529	1,773
Coinamatic Canada, Inc ⁽⁵⁾	Industrials - Laundry Equipment	Second Lien Term Loan (LIBOR+7.0% with a 1% floor), 8.0%, due 5/14/2023 ⁽³⁾	596	592	596

(See accompanying notes to consolidated financial statements)

OHA INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(in thousands, except share amounts and percentages)
(continued)

Portfolio Company	Industry Segment	Investment ⁽¹⁾	Principal	Cost	Fair Value ⁽²⁾
<u>Non-affiliate Investments - (Less than 5% owned) - Continued</u>					
ATP Oil & Gas Corporation/Bennu Oil & Gas, LLC	Oil & Natural Gas Production and Development	Limited Term Royalty Interest (notional rate of 13.2%) ⁽⁹⁾⁽¹⁰⁾		27,845	—
Shoreline Energy, LLC	Oil & Natural Gas Production and Development	Second Lien Term Loan (greater of LIBOR+9.25% with a 1.25% floor plus 2.0% PIK, or prime+8.25%), 12.50%, due 3/30/2019 ⁽⁶⁾⁽¹¹⁾⁽¹²⁾	13,182	12,659	—
Globe BG, LLC	Coal Production	Contingent earn-out related to July 2011 sale of royalty interests in Alden Resources, LLC ⁽¹³⁾		—	—
Subtotal Non-affiliate Investments - (Less than 5% owned)				\$ 154,772	\$ 87,855
Subtotal Portfolio Investments (72.4% of total investments)				\$ 174,496	\$ 105,005
<u>GOVERNMENT SECURITIES</u>					
U.S. Treasury Bills ⁽⁴⁾			\$ 40,000	\$ 39,997	\$ 39,997
Subtotal Government Securities (27.6% of total investments)				\$ 39,997	\$ 39,997
TOTAL INVESTMENTS				\$ 214,493	\$ 145,002

(See accompanying notes to consolidated financial statements)

OHA INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(in thousands, except share amounts and percentages)
(continued)

NOTES TO CONSOLIDATED SCHEDULE OF INVESTMENTS

- (1) We pledged all of our portfolio investments, except our investments in U.S. Treasury Bills, as collateral for obligations under our Credit Facility. See Note 3 of Notes to Consolidated Financial Statements. Percentages represent interest rates in effect as of December 31, 2016, and due dates represent the contractual maturity dates. Common stock, units and earn-outs are non-income producing securities, unless otherwise stated.
- (2) The Audit Committee recommends fair values of each asset to our Board of Directors, which in good faith determines the final fair value for each investment. Fair value is determined using unobservable inputs (Level 3 hierarchy), unless otherwise stated. See Note 7 of Notes to Consolidated Financial Statements.
- (3) Fair value is determined using prices with observable market inputs (Level 2 hierarchy). See Note 7 of Notes to Consolidated Financial Statements.
- (4) Fair value is determined using prices for identical securities in active markets (Level 1 hierarchy). See Note 7 of Notes to Consolidated Financial Statements.
- (5) We have determined that this investment is not a “qualifying asset” under Section 55(a) of the Investment Company Act of 1940, or the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. The status of these assets under the 1940 Act is subject to change. We monitor the status of these assets on an ongoing basis.
- (6) Investment on non-accrual status.
- (7) During the fourth quarter of 2016, we executed a series of amendments to our note purchase and security agreement with OCI Holdings, LLC, or OCI, to allow the company to PIK its LIBOR+12% cash interest for November and December 2016. Also, default interest of \$0.1 million and current unpaid interest of \$0.4 million was added to the principal balance in the fourth quarter 2016. Effective January 31, 2017, we executed a seventh amendment to our note purchase and security agreement with OCI to allow the company to PIK its LIBOR+12% cash interest through March 31, 2017. OCI remains in financial covenant default and while in default, we are earning an additional 2% cash interest and 2% PIK interest.
- (8) By the terms of our original investment, upon redemption, we were due the outstanding face amount of \$50 million, any unpaid and accrued dividends, plus an option to elect to receive either: a) a cash payment resulting in a total 12% return or make-whole (inclusive of the 8% cash distributions even if not paid), or b) our pro rata share of 2% of the outstanding regular limited partner interests in Castex Energy 2005, LP, or Castex, (0.67% net to us). Castex elected to pay us in PIK for more than two consecutive quarters, causing the return on the initial make-whole calculation to first increase from 12% to 13.5%. Preferred unit holders had a put right starting on July 1, 2016, which we exercised on that date with respect to all of our preferred units. Castex had 90 days from the receipt of the put notice to redeem. Castex did not redeem the preferred units within 90 days of the receipt of the put notice. As a result, the make-whole of 13.5% further increased by 4.5%, to 18%, we are entitled to board observation rights as a preferred unit holder, and other covenants apply. If the preferred units are not redeemed within one year from the originally scheduled put closing date (which would be September 29, 2017), Castex and the limited partners must use commonly reasonable efforts to enter into, within 90 days, a 12% dollar denominated production payment transaction with the preferred unit holders exercising the put right, with a 3 year term for such production payment. If such production payment transaction is not consummated within 90 days, Castex must use all available resources to repay preferred units and the preferred return steps up to 25% from that point forward. Amounts shown for principal and cost include PIK dividends that have been added to the principal balance.
- (9) Effective July 1, 2015, ATP was placed on non-accrual status based on estimated future production payments and income is recognized to the extent cash received.
- (10) For more information on ATP, refer to the discussion of the ATP litigation in Note 7 to the Consolidated Financial Statements.
- (11) Effective June 24, 2015, we executed a third amendment to our credit agreement with Shoreline Energy, LLC, or Shoreline, to amend certain covenant limits in exchange for increases in Shoreline's interest to the greater of LIBOR+9.25% with a 1.25% floor or prime+8.25% with a 1.25% floor, effective after March 31, 2015. The third amendment also included the addition of 0.50% payment-in-kind, or PIK, interest effective after June 30, 2015. Effective September 23, 2015, we executed a fourth amendment to our credit agreement with Shoreline to increase PIK interest to 1.75%.

OHA INVESTMENT CORPORATION
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(in thousands, except share amounts and percentages)
(continued)

- (12) On November 2, 2016, Shoreline and seven affiliated debtors (collectively, the "Debtors") each filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas. The Debtors have requested that their cases be jointly administered under Case No. 16-35571.
- (13) Contingent payment of up to \$6.8 million is dependent upon Alden Resources, LLC's achievement of certain sales volume and operating efficiency levels during the three-year period ended July 2014. The reporting and review mechanism to conclude the ultimate value of the earn-out has not yet been completed. Globe BG, LLC has informally advised us that the company's relative cost of production has not improved since July 2011.
- (14) On August 10, 2016, the margin was amended to be increased from LIBOR+8.25% with a 1% floor to LIBOR+9.25% with a 1% floor.
- (15) Non-income producing equity security.

(See accompanying notes to consolidated financial statements)

OHA INVESTMENT CORPORATION
CONSOLIDATED FINANCIAL HIGHLIGHTS
(unaudited)

Per Share Data ⁽¹⁾	For the nine months ended September 30,	
	2017	2016
Net asset value, beginning of period	\$ 3.99	\$ 5.49
Net investment income, net of tax	0.03	0.24
Net realized and unrealized loss on investments ⁽²⁾	(1.62)	(0.94)
Net decrease in net assets resulting from operations	(1.59)	(0.70)
Distributions to common stockholders		
Distributions from net investment income	(0.06)	(0.18)
Net decrease in net assets from distributions	(0.06)	(0.18)
Net asset value, end of period	\$ 2.34	\$ 4.61
Market value, beginning of period	\$ 1.72	\$ 3.80
Market value, end of period	\$ 1.25	\$ 3.14
Market value return ⁽³⁾⁽⁴⁾	(24.9)%	(12.0)%
Ratios and Supplemental Data		
(\$ and shares in thousands)		
Net assets, end of period	\$ 47,111	\$ 92,988
Average net assets	\$ 64,280	\$ 102,171
Common shares outstanding, end of period	20,172	20,172
Total operating expenses and taxes/average net assets ⁽⁵⁾	14.5 %	11.7 %
Net investment income, net of tax/average net assets ⁽⁵⁾	1.4 %	6.4 %
Portfolio turnover rate	19.9 %	1.1 %
Expense Ratios (as a percentage of average net assets) ⁽⁵⁾		
Interest expense and bank fees	6.1 %	3.7 %
Management and incentive fees	3.3 %	3.4 %
Other operating expenses and taxes	5.1 %	4.6 %
Total operating expenses	14.5 %	11.7 %

(1) Per share data is based on weighted average number of common shares outstanding for the period.

(2) May include a balancing amount necessary to reconcile the change in net asset value per share with other per share information presented. This amount may not agree with the aggregate gains and losses for the period because the difference in the net asset value at the beginning and end of the period may not equal the per share changes of the line items disclosed.

(3) Total return is based on the change in market price per share during the respective periods. Total return calculations take into account distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan and do not reflect brokerage commissions.

(4) Not annualized.

(5) Annualized.

(See accompanying notes to consolidated financial statements)

OHA INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017
(unaudited)

Note 1: Organization

These consolidated financial statements present the financial position, results of operations and cash flows of OHA Investment Corporation and its consolidated subsidiaries (collectively "we," "us," "our" and "OHAI"). We are a specialty finance company that was organized in July 2004 as a Maryland corporation. Our investment objective is to generate both current income and capital appreciation primarily through debt investments that at times may have certain equity components. We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company, or a BDC, under the Investment Company Act of 1940, or the 1940 Act. For federal income tax purposes we operate so as to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code. We have several direct and indirect subsidiaries that are single-member limited liability companies and wholly-owned limited partnerships established to hold certain portfolio investments or provide services to us in accordance with specific rules prescribed for a company operating as a RIC. We consolidate the financial results of our wholly-owned subsidiaries for financial reporting purposes, and we do not consolidate the financial results of our portfolio companies.

On September 30, 2014, our stockholders approved the appointment of Oak Hill Advisors, L.P., or OHA, as our investment advisor, replacing NGP Investment Advisor, LP, which had been our investment advisor since our inception. In connection with this change in investment advisor, we changed our name from NGP Capital Resources Company to OHA Investment Corporation. OHA is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act. OHA acts as our investment advisor and administrator pursuant to an investment advisory agreement and an administration agreement, respectively, each dated as of September 30, 2014, which we refer to as the Investment Advisory Agreement and the Administration Agreement, respectively. See Note 4.

Note 2: Basis of Presentation

These interim unaudited consolidated financial statements include the accounts of OHAI and its consolidated subsidiaries. The effects of all intercompany transactions between OHAI and its subsidiaries have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to current period presentation.

We prepare the interim consolidated financial statements in accordance with accounting principles generally accepted in United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The Company is an investment company following the accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946, *Financial Services - Investment Company* ("ASC 946"). Under the investment company rules and regulations pursuant to Article 6 of Regulation S-X and ASC 946, the Company is precluded from consolidating portfolio company investments, including those in which it has a controlling interest, unless the portfolio company is another investment company. An exception to the general principle occurs if the Company holds a controlling interest in an operating company that provides all or substantially all of its services directly to the Company or to its portfolio companies. None of the portfolio investments made by the Company qualify for this exception. Therefore, the Company's investment portfolio is carried on the Consolidated Balance Sheets at fair value.

We omit certain information and footnote disclosures normally included in audited financial statements prepared in accordance with GAAP pursuant to such rules and regulations. We believe we include all adjustments which are of a normal recurring nature, so that these financial statements fairly present our financial position, results of operations and cash flows. Interim results are not necessarily indicative of results for a full year or any other interim period. You should read these unaudited consolidated financial statements in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016 .

Preparing interim consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes thereto, including the estimated fair values of our investment portfolio discussed in Note 7. Although we believe our estimates and assumptions are reasonable, actual results could differ materially from these estimates.

Distributions

We record distributions to stockholders on the ex-dividend date. We currently intend that our distributions each year will be sufficient to maintain our status as a RIC for federal income tax purposes and to eliminate federal excise tax liability. We currently intend to make distributions to stockholders on a quarterly basis so that substantially all of our net taxable income is

OHA INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
September 30, 2017
(unaudited)

distributed on an annual basis. We also intend to make distributions of net realized capital gains, if any, at least annually. However, we may in the future decide to retain such capital gains for investment and designate such retained amounts as deemed distributions. Each quarter, we estimate our annual taxable earnings. The Board of Directors considers this estimate and determines the distribution amount, if any. We generally declare our distributions each quarter and pay them shortly thereafter. The following table summarizes our recent distribution history:

Declaration Date	Per Share Amount	Record Date	Payment Date
June 7, 2016	\$ 0.06	June 30, 2016	July 8, 2016
September 15, 2016	0.06	September 30, 2016	October 7, 2016
December 8, 2016	0.06	December 31, 2016	January 9, 2017
March 14, 2017	0.02	March 31, 2017	April 7, 2017
June 16, 2017	0.02	June 30, 2017	July 10, 2017
September 18, 2017	0.02	September 30, 2017	October 9, 2017

Note 3: Credit Facilities and Borrowings

We are party to a Credit Agreement (the "Credit Facility"), dated September 9, 2016, with MidCap Financial Trust, as administrative agent, which replaced our prior Third Amended and Restated Revolving Credit Agreement (the "Investment Facility"), as amended, with SunTrust Bank, as administrative agent. The \$56.5 million Credit Facility has a maturity date of March 9, 2018, which can be extended for a six-month period at our option, subject to certain conditions. The initial proceeds of \$40.5 million from the Credit Facility were used to pay off the \$38.5 million outstanding balance on the Investment Facility, pay transaction expenses and provide balance sheet cash. The remaining \$16.0 million consisted of a delayed draw term loan, which was committed for one year, expired on September 9, 2017 and is no longer available.

As of September 30, 2017 and December 31, 2016, the total amount outstanding under the Credit Facility was \$40.5 million with \$0.0 million available to draw. The total amount outstanding on the Credit Facility is shown net of unamortized debt issuance costs of \$0.5 million and \$1.4 million on our Consolidated Balance Sheet as of September 30, 2017 and December 31, 2016, respectively. Substantially all of our assets, except our investments in U.S. Treasury Bills, are pledged as collateral for the obligations under the Credit Facility. The Credit Facility bears an interest rate of Adjusted LIBOR plus 5.35% for Eurodollar Loans, subject to a 1% LIBOR floor, and Base Rate plus 4.35% for Base Rate Loans. As of September 30, 2017, the interest rate on our outstanding principal balance of \$40.5 million was 6.59%.

On November 10, 2017, we entered into an amendment to the Credit Facility whereby we agreed to make a voluntary principal prepayment in the amount of \$4.5 million, reducing the total principal amount outstanding to \$36.0 million, and the lenders agreed not to test certain covenants at certain determination dates.

The Credit Facility contains affirmative and reporting covenants and certain financial ratio and restrictive covenants. We have complied with these covenants from the date of the Credit Agreement through September 30, 2017, and had no existing defaults or events of default under the Credit Facility, as of that date. The financial covenants, with terms as defined in the Credit Agreement, are:

- maintain a Debt to Tangible Net Worth Ratio of not more than 0.80:1.00 as determined on the last day of each calendar month,
- maintain at all times a minimum liquidity in the form of Cash or Cash Equivalents of at least \$1.0 million,
- maintain a Debt to Fair Market Value Ratio of not more than 0.50:1.00 at any time, and
- maintain the Fair Market Value of Liquid Portfolio Investments as a percentage of outstanding aggregate principal balance to not be less than 80% through March 9, 2017, 90% through September 9, 2017 and 100% through March 9, 2018.

At the end of each quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which includes purchasing U.S. Treasury Bills, by utilizing repurchase agreements on a temporary basis. On September 27, 2017, we purchased \$35.0 million of U.S. Treasury Bills and contemporaneously entered into a \$34.3 million repurchase arrangement with a global financial institution to finance such purchase. Under the repurchase arrangement, we transferred \$35.0 million of U.S. Treasury Bills and \$0.7 million of cash as collateral under the repurchase agreement. We

OHA INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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repaid the \$34.3 million borrowed under the repurchase agreement, and was returned the \$0.7 million cash collateral, net of a \$9 thousand financing fee, upon maturity of the U.S. Treasury Bills on October 5, 2017. We account for the transfer of the U.S. Treasury Bills under the repurchase agreement as a secured borrowing in accordance with GAAP. As a result, the U.S. Treasury Bills are recorded on our books as investments in U.S. Treasury Bills, and the amount outstanding under the repurchase agreement is recorded as short-term debt at September 30, 2017.

On December 27, 2016, we purchased \$40.0 million of U.S. Treasury Bills and contemporaneously entered into a \$39.2 million repurchase arrangement with a global financial institution to finance such purchase. Under the repurchase arrangement, we transferred \$40.0 million of U.S. Treasury Bills and \$0.8 million of cash as collateral under the repurchase agreement. We repaid the \$39.2 million borrowed under the repurchase agreement, and was returned the \$0.8 million cash collateral, net of a \$10 thousand financing fee, upon maturity of the U.S. Treasury Bills on January 5, 2017. We account for the transfer of the U.S. Treasury Bills under the repurchase agreement as a secured borrowing in accordance with GAAP. As a result, the U.S. Treasury Bills are recorded on our books as investments in U.S. Treasury Bills, and the amount outstanding under the repurchase agreement is recorded as short-term debt at December 31, 2016.

Note 4: Investment Management

Investment Advisory Agreement

On September 30, 2014, we entered into the Investment Advisory Agreement with OHA, an investment adviser registered under the Investment Advisers Act of 1940, or Advisers Act, pursuant to which OHA replaced NGP Investment Advisor, LP as our investment advisor. The Investment Advisory Agreement was most recently approved by our Board of Directors, a majority of whom are not “interested” persons (as defined in the 1940 Act) of us, on August 3, 2017. Pursuant to the Investment Advisory Agreement, OHA implements our business strategy on a day-to-day basis and performs certain services for us subject to the supervision of our Board of Directors. Under the Investment Advisory Agreement, we pay OHA a fee consisting of two components — a base management fee and an incentive fee.

Base Management Fee: The base management fee is paid quarterly in arrears and is calculated by multiplying the average value of our total assets (excluding cash, cash equivalents and U.S. Treasury Bills that are purchased with borrowed funds solely for the purpose of satisfying quarter-end diversification requirements related to our election to be taxed as a RIC under the Code), as of the end of the two immediately prior fiscal quarters, by a rate of 1.75% per annum, with a 0.25% reduction in this 1.75% annual rate for the first year following September 30, 2014. Three months ended September 30, 2017 and 2016, we incurred \$0.4 million and \$0.7 million, respectively, in base management fees. For the nine months ended September 30, 2017 and 2016, we incurred \$1.5 million and \$2.3 million, respectively, in base management fees.

Incentive Fee: The incentive fee consists of two parts. The first part, the investment income incentive fee, is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the fiscal quarter for which the fee is being calculated. Pre-incentive fee net investment income means interest income, dividend income, royalty payments, net profits interest payments, and any other income (including any other fees, such as commitment, origination, syndication, structuring, diligence, monitoring and consulting fees or other fees that we receive from portfolio companies) accrued during the fiscal quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement, and any interest expense and distributions 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 original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Accordingly, we may pay an incentive fee based partly on accrued investment income, the collection of which is uncertain or deferred. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses, or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less liabilities at the end of the immediately preceding fiscal quarter) is compared to a “hurdle rate” of 1.75% per quarter (7% annualized). OHA receives no incentive fee for any fiscal quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate. OHA receives an incentive fee equal to 100% of our pre-incentive fee net investment income for any fiscal quarter in which our pre-incentive fee net investment income exceeds the hurdle rate but is less than 2.1875% (8.75% annualized) of net assets (also referred to as the “catch up” provision) plus 20% of our pre-incentive fee net investment income for such fiscal quarter greater than 2.1875% (8.75% annualized) of net assets. For the three months ended September 30, 2017, we did not incur any investment income incentive fees. For the three months ended September 30, 2016, we incurred \$0.2 million of investment income incentive fees. For the nine months ended September 30, 2017 we did not incur any investment income incentive fees. For the nine months ended September 30, 2016, we incurred \$0.3 million of investment income incentive fees.

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The second part of the incentive fee, the capital gains fee, is determined and payable in arrears as of the end of each fiscal year (or, upon termination of the Investment Advisory Agreement, as of the termination date). The capital gains fee is equal to 20% of our cumulative aggregate realized capital gains from September 30, 2014 through the end of that fiscal year, computed net of our cumulative aggregate realized capital losses and cumulative aggregate unrealized depreciation on investments for the same time period. The aggregate amount of any previously paid capital gains incentive fees to OHA is subtracted from the capital gains incentive fee calculated. If such amount is negative, then there is no capital gains fee for such year. For the purposes of the capital gains fee, any gains and losses associated with our investment portfolio as of September 30, 2014 shall be excluded from the capital gains fee calculation. For the three months ended September 30, 2017, we accrued \$104,000 of capital gains fees. This is the first quarter we have accrued any capital gains fees since the Investment Advisory Agreement went into effect on September 30, 2014.

On November 10 2017, we entered into an Incentive Fee Waiver Agreement with OHA whereby OHA agreed to waive any incentive fees earned relating to fiscal years 2017 and 2018. Under the Incentive Fee Waiver Agreement, any capitalized gains fees that would have been earned and accrued during 2017 and 2018, which under our investment advisory agreement would not have been paid until 2018 and 2019, respectively, will be waived.

The Investment Advisory Agreement may be terminated at any time, without the payment of any penalty, by a vote of our Board of Directors or a vote of the holders of at least a majority of our outstanding voting securities (within the meaning of the 1940 Act) on 60 days' written notice to OHA, and would automatically terminate in the event of its "assignment" (within the meaning of the 1940 Act). OHA may terminate the Investment Advisory Agreement without penalty by providing us at least 60 days' written notice.

Administration Agreement

Under the Administration Agreement, OHA furnishes us with certain administrative services, personnel and facilities. The Administration Agreement was most recently approved by our Board of Directors on August 3, 2017. Payments under the Administration Agreement are equal to our allocable portion of OHA's overhead in performing its obligations under the Administration Agreement, including all administrative services necessary for our operation and the conduct of our business. The Administration Agreement may be terminated at any time, without penalty, by a vote of our Board of Directors or by OHA upon 60 days' written notice to the other party.

We owed \$0.0 million and \$0.2 million to OHA under the Administration Agreement as of September 30, 2017 and December 31, 2016, respectively, for expenses incurred on our behalf for the final month of the respective quarterly period. We include these amounts in due to affiliate on our Consolidated Balance Sheets.

Note 5: Federal Income Taxes

We operate so as to qualify, for tax purposes, as a RIC under Subchapter M of Chapter 1 of the Code. As a RIC, we are generally not subject to corporate-level U.S. federal income taxes on the portion of our investment company taxable income and net capital gain (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) that we distribute to our stockholders. To qualify as a RIC, we are required, among other things, to distribute to our stockholders each year at least 90% of investment company taxable income, as defined by the Code, and to meet certain asset-diversification requirements.

Certain of our wholly-owned subsidiaries, or Taxable Subsidiaries, have elected to be taxed as corporations for federal income tax purposes. The Taxable Subsidiaries hold certain of our portfolio investments and are consolidated for financial reporting purposes, but not for income tax reporting purposes. These Taxable Subsidiaries permit us to hold equity investments in portfolio companies that are "pass through" entities for tax purposes, in order to comply with the "source-of-income" requirements that must be satisfied to maintain our qualification as a RIC. The Taxable Subsidiaries may generate net income tax expense or benefit, which is reflected on our consolidated statements of operations.

We have total capital loss carry forwards at the RIC entity level of \$82.2 million, of which \$22.4 million expire at December 31, 2018, and of which the remainder do not expire. Our Taxable Subsidiaries have federal net operating loss carryforwards ("NOLs") of \$31.0 million that expire in various years through 2037. Federal and state laws impose limitations on the utilization of capital losses and NOLs in the event of an "ownership" change for tax purposes, as defined by Sections 382 and 383 of the Internal Revenue Code. An ownership change at either the RIC entity or Taxable Subsidiary level, if one were to occur, would limit our ability to use pre-ownership change NOLs to offset post-ownership change taxable income. An

OHA INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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ownership change would also limit our ability to use pre-ownership change capital losses to offset post-ownership change capital gains.

Note 6: Commitments and Contingencies

As of September 30, 2017, we had investments in 16 portfolio companies totaling \$169.5 million. Of these 16 investments, the Company had already funded investments in the amount of \$163.1 million and there were outstanding unfunded commitments of \$6.4 million. As of December 31, 2016, we had investments in 12 portfolio companies totaling \$174.5 million. Of these 12 portfolio companies, the Company had already funded investments in the amount of \$174.5 million and there were no remaining outstanding unfunded commitments.

We have continuing obligations under the Investment Advisory Agreement and the Administration Agreement with OHA. See Note 4. The agreements provide that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or the reckless disregard of its duties and obligations, OHA and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with OHA will be entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of services under the agreements or otherwise as our investment advisor or administrator. The agreements also provide that OHA and its affiliates will not be liable to us or any stockholder for any error of judgment, mistake of law, any loss or damage with respect to any of our investments or any action taken or omitted to be taken by OHA in connection with the performance of any of its duties or obligations under the agreements or otherwise as investment advisor or administrator to us, except to the extent specified in Section 36(b) of the 1940 Act concerning loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services. In the normal course of business, we enter into a variety of undertakings containing a variety of representations that may expose us to some risk of loss. We do not expect significant losses, if any, from such undertakings.

Legal Proceedings

From time to time, we are involved in various legal proceedings arising in the normal course of business. While we cannot predict the outcome of these proceedings with certainty, we do not believe that an adverse result in any pending legal proceeding, other than those described below, individually or in the aggregate, would be material to our business, financial condition or cash flows.

ATP Litigation. On August 17, 2012, ATP Oil & Gas Corporation, or ATP, filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. Prior to the bankruptcy filing, we purchased limited term overriding royalty interests, or ORRIs, in certain offshore oil and gas producing properties operated by ATP (generally, the Gomez and Telemark properties). On August 23, 2012, on a motion filed by ATP, the bankruptcy judge presiding over ATP's case signed an order (Bankr. Dkt. No. 191) requiring ATP to pay amounts received after August 17, 2012 to those parties it believes are entitled to receive them, including the ORRI holders, provided that the ORRI holders execute a disgorgement agreement providing for the repayment of any amounts that the bankruptcy court later finds to have been inappropriately paid. We executed the disgorgement agreement and began receiving monthly distributions in September 2012 from ATP of our share of production proceeds received by ATP after August 17, 2012.

Phase 1. On October 17, 2012, we filed a lawsuit against ATP styled: *OHA Investment Corporation v. ATP Oil & Gas Corporation*, Adv. Proc. No. 12-03443, in the U.S. Bankruptcy Court for the Southern District of Texas, seeking a declaration that the ORRIs are our property and not property of ATP and that the conveyance and purchase and sale documents are not executory contracts that may be rejected in order to remove or recharacterize our interests in the properties (the "Adversary Proceeding"). Also, certain service companies claiming statutory liens or privileges intervened for the purpose of establishing that their alleged statutory liens and privileges are superior to our rights in the ORRIs and asserting related claims for disgorgement of royalties paid to us by ATP. The issues in the Adversary Proceeding were bifurcated such that the issues of (i) whether the conveyances and transactions between us and ATP constituted outright transfers of ownership and (ii) whether the conveyances are executory contracts or leases that ATP may reject, would be tried first as "Phase 1" of the proceeding. And, any additional claims, including the service company statutory lien claims and related issues, would be decided later in "Phase 2." Phase 1 of the litigation proceeded into the discovery stage and dispositive motion practice.

On October 17, 2013, the bankruptcy court entered its Final Sale Order approving the sale of the Telemark properties (Bankr. Dkt. No. 2706) to Bennu Oil & Gas, LLC, or Bennu, a newly formed company owned by the DIP Lenders. (The Gomez properties were abandoned by ATP.)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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After the bankruptcy case was converted to a case under Chapter 7 of the Bankruptcy Code, we settled Phase 1 of the litigation with the Trustee, Benu and Credit Suisse AG, as agent to the DIP Lenders (Adv. Dkt. No. 270, 271). On February 4, 2016, an Agreed Final Judgment [Adv. Dkt. No. 276] was entered determining that, among other things, the ORRIs are a real property interest and a “production payment” within the meaning of Sections 101(42A) and 541(b) of the United States Bankruptcy Code. Likewise, our claims against ATP were dismissed without prejudice. The Agreed Judgment resolved Phase 1 of the Adversary Proceeding. It did not address any disputes between us and Benu with respect to the proper calculation of the investment balance under the terms of the ORRIs, including our legal fees, default interest, or the claims asserted by the statutory lien claimants. Additional detail on Phase 1 and the ATP bankruptcy is set forth in our Form 10Q for the quarter ending March 31, 2016.

Phase 2. On February 3, 2016, we filed our Amended Motion to Dismiss the Complaints in Intervention Filed by the Statutory Lien Claimants, which was subsequently amended [Adv. Dkt. No. 284]. The Amended Motion to Dismiss asserted, among other things, that under the terms of the applicable Louisiana Oil Well Lien Statute, the alleged statutory liens of the lien claimants either cannot attach to overriding royalties, or alternatively, that OHA purchased the ORRIs free and clear of the statutory liens because the lien claimants did not provide notice of the liens as required under the statute. We also filed a Motion to Withdraw the Reference of the Phase II Claims from the Bankruptcy Court to the District Court. On May 13, 2016, the Court entered its order granting in part and denying in part OHA’s Motion to Dismiss and Motion to Withdraw Reference [Adv. Dkt. No. 294] and its Report and Recommendation and Memorandum Opinion [Adv. Dkt. No. 293]. Pursuant to the Memorandum Opinion and the Order, the Court determined that under the Louisiana statute, if we purchased our ORRIs without notice of the lien claimants’ liens, in a bona fide transaction, we would take the ORRIs free and clear of the lien claimants’ rights. The Court granted the lien claimants leave to file amended complaints to specifically plead whether we had notice of their alleged privileges at the time we paid the purchase price. To that end, the Court stated that the Amended Motion to Dismiss was denied as to all issues other than the issue of whether we had notice of the lien claimants’ liens and that the Court would review the amended complaints (to determine whether they sufficiently pleaded a claim) [Adv. Dkt. No. 294]. The Bankruptcy Court recommended that the District Court grant the Motion to Withdraw the Reference, but that the Adversary Proceeding remain in the Bankruptcy Court until the time of trial. The District Court entered an order consistent with the Bankruptcy Court’s recommendation on the Motion to Withdraw the Reference.

On May 27, 2016, the Intervenor filed their amended complaints, which made new allegations with respect to the issue of notice. Accordingly, on June 9, 2016, we filed our Motion to Dismiss the amended complaints [Adv. Dkt. No. 310] asserting that the allegations regarding notice are insufficient to state a claim under the statute.

On August 19, 2016, the Bankruptcy Court entered its order [Adv. Dkt. No. 325] and its related Report and Recommendation [Adv. Dkt. No. 326] dismissing, with prejudice, the Intervenor’s amended complaints. The Bankruptcy Court’s order and the related Report and Recommendation recommends, to the District Court, that Phase II of the lawsuit be fully resolved in our favor. The Report and Recommendation was docketed in the United States District Court for the Southern District of Texas, Case No. 4:16-CV-02556. On September 2, 2016, certain of the Intervenor filed their Objection to Judge Isgur’s Report and Recommendation [Dist. Dkt. No. 3] arguing that the Bankruptcy Court’s conclusions were erroneous, and that the Intervenor were not required to give notice to OHA in order for their alleged liens to attach. We filed a limited objection to the Report and Recommendation arguing that the Report and Recommendation should be affirmed, but even if notice were not required under the statute, the Intervenor’s alleged liens could not have attached to the ORRIs in the first instance. On March 9, 2017, the District Court entered a Memorandum Opinion and Order [Dist. Dkt. No. 17] (the “District Court’s Order”) adopting the Bankruptcy Court’s Report and Recommendation and dismissing the Intervenor’s claims with prejudice.

On April 3, 2017, the Intervenor filed their notice to appeal the District Court’s Order to the United States Court of Appeals for the Fifth Circuit. On April 11, 2017, we filed a notice of (protective) cross appeal in order to preserve our alternative bases for dismissal which were denied by the Bankruptcy Court and District Court. The matter remains pending before the Fifth Circuit under Case No. 17-20224. The parties briefed the issues for appellate review. As of this time, oral argument has not been scheduled.

As of September 30, 2017, our unrecovered investment was \$34.4 million, and we had received aggregate royalty payments of \$37.8 million since the date of ATP’s bankruptcy filing. As of September 30, 2017, we had incurred legal and consulting fees totaling \$6.2 million in connection with the enforcement of our rights under the ORRIs. On various occasions, we have provided notice that such legal expenses will be added to our unrecovered investment balance to the extent they are not reimbursed. To date, we have not received any payments on account of legal expenses aside from our receipt of regular monthly production payments. As a result, we add our legal expenses to the unrecovered investment balance in accordance with our

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transaction documents. As of September 30, 2017, \$5.4 million of the \$6.2 million in legal and consulting fees have been added to, and are thus included in the unrecovered investment balance under the terms of our transaction documents. No legal expenses have been added to our unrecovered investment balance during the three months and nine months ended September 30, 2017. We note that the fair value of our investment in ATP ORRI remains at \$0 as of September 30, 2017 due to the cessation of monthly production payments beginning in December 2016.

Through September 30, 2017, we received post-petition royalty payments from the Gomez properties and the Telemark properties in the amount of \$8.3 million and \$0.3 million, respectively. It is estimated that the statutory lien claims asserted by the intervenors in the Adversary Proceeding against our ORRIs are in the principal amount of approximately \$35.2 million. At this time, we estimate that there are potential statutory lien claims (including the claims of the intervenors in the Adversary Proceeding, without regard to the validity of such claims) in the principal amount of approximately \$54.2 million. To the extent the District Court's Order is reversed on appeal, we have or will assert that we have viable defenses with respect to all of the claims of the statutory lien claimants or any other claim which seeks to avoid or disgorge any pre-petition or post-petition royalty payment which we received in respect of the Telemark or Gomez properties. In the event that the District Court's Order is reversed on appeal, and to the extent we do not prevail on our defenses to the statutory lien claims or any other claim seeking to avoid or disgorge pre-petition or post-petition royalty payments, we contend that, pursuant to the terms of our transaction documents, we are entitled to include any amounts disgorged on account of any such claims into the unrecovered investment balance of our ORRIs. Moreover, to the extent we do not prevail on our defenses to any action brought by the holder of a statutory lien claim, we contend that we would be permitted to seek contribution from other ORRI and net profits interest holders with respect to any disgorged amounts.

However, in the event the District Court's Order is reversed on appeal and our defenses to the claims of the statutory lien claimants are unsuccessful or we otherwise become liable for disgorgement of any pre-petition or post-petition royalty payments which we have received from either the Gomez or Telemark properties, the remaining oil and gas reserves associated with the Telemark properties may be insufficient to provide for a full recovery on our investment. In the event that it is determined that we are not entitled to include amounts disgorged on account of statutory lien claims or other claims, if any, into the unrecovered investment balance of our ORRIs, any disgorged amounts will result in a failure to achieve our anticipated return and/or a loss on our investment.

While we intend to vigorously defend our legal positions in the Adversary Proceeding, there can be no assurance that we will ultimately prevail in any or all of these matters.

Bennu Titan Bankruptcy. On August 11, 2016, an involuntary Chapter 11 bankruptcy petition was filed by Beal Bank USA against Bennu Titan LLC (formerly known as ATP Titan LLC), an indirect subsidiary of Bennu Oil & Gas, LLC, and the owner of the floating production platform in the Gulf of Mexico that processes and transports hydrocarbons produced from the Telemark properties, in which OHA owns the ORRI. An order for relief was entered on September 9, 2016, in the case styled *In re Bennu Titan LLC (f/k/a ATP Titan LLC)*, Case No. 16-11870, in the United States Bankruptcy Court for the District of Delaware. We are not a creditor in this bankruptcy case.

Bennu Oil & Gas Bankruptcy. On November 30, 2016, Bennu Oil & Gas, LLC filed a Chapter 7 bankruptcy in the Bankruptcy Court for the Southern District of Texas, Case No. 16-35930. Two of its affiliates, Bennu Blocker, Inc., Case No. 16-35931, and Bennu Holdings, LLC, Case No. 16-35932, likewise filed on that date.

On November 30, 2016, Bennu Oil & Gas, LLC moved to reject the Platform Use Agreement with Bennu Titan, LLC for the drilling and production platform commonly known as the Titan Platform. On January 4, 2017, the Bankruptcy Court entered an order approving the rejection of the Platform Use Agreement effective November 30, 2016.

On January 26, 2017, the Delaware Bankruptcy Court entered an order transferring the Bennu Titan case to the Bankruptcy Court for the Southern District of Texas so that the affiliated cases will be in the same court.

On July 12, 2017, the Chapter 7 Trustee filed a motion to approve auction and bidding procedures and for other relief relating to a proposed sale of the "Clipper Assets" [Bankr. Dkt. No. 144], which do not include Telemark properties. The motion provides an overview of the Trustee's efforts to market and sell the estate's assets. The Telemark properties are comprised of three leases: Mississippi Canyon Block 942 known as OCS-G 24130 ("MC 942"); Mississippi Canyon Block 941 known as OCS-G 16661 ("MC 941"); and Atwater Valley Block 63 known as OCS-G 13198 ("AT 63"). At the meeting of creditors, Bennu officers testified that the well on the AT 63 lease stopped producing in May 2016. Prior to filing bankruptcy, Bennu Oil & Gas shut in all of the wells on the other two Telemark leases on November 30, 2016. The leases will expire in 180 days from the date of last production unless production is resumed or the BOEM grants a deferral of the requirement to produce (known as

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a Suspende of Operations (“SOO”) or Suspende of Production (“SOP”). Bennu Oil & Gas applied for SOPs on MC 941, MC942 and AT 63.

In July 2017 and August 2017, the Company received \$220 thousand and \$76 thousand, respectively, in monthly royalty payments from the Trustee related to October 2016 and November 2016 production. These production payments were reflected as interest income in the period received.

On August 17, 2017, the Trustee filed a motion to authorize a sale of certain assets including MC 941 and MC 942 to Statoil USA E&P, Inc.[Bankr. Dkt. No. 179] for \$.5 million and the assumption of the decommissioning obligations related to those leases that were owed by Bennu Oil & Gas to the United States of America. The Court authorized the sale by order entered on September 14, 2017 [Bankr. Dkt. No. 187]. It is possible that Statoil will resume oil and gas production from one or more wells on the MC 941 and MC 942 leases. If production resumes, the Company expects that Statoil will distribute monthly royalty payments due under the ORRIs during the period that production occurs.

On August 25, 2017, the Trustee filed an Emergency Motion to abandon certain oil and gas leases and rights-of-way including AT 63. Although, the request was granted, the Trustee subsequently obtained authority to amend the order as a result of a “contingent offer” from Energy Resource Technology, LLC to purchase certain interests from the Trustee, including AT 63 [Bankr. Dkt. No. 192]. To date, the Trustee has not sought authorization to sell AT 63 or any other assets to Energy Resource Technology, LLC. Accordingly, any interest of Bennu Oil & Gas in the AT 63 lease remains property of the bankruptcy estate.

On October 4, 2017, Statoil filed a notice in the Bennu Titan bankruptcy case that it had acquired the senior secured claim of Beal Bank USA, in the amount of \$187.4 million. On November 1, 2017, the Bankruptcy Court approved the sale of the Titan production facility to Statoil. The Company believes that Statoil is in the process of seeking easements and regulatory approvals necessary to operate the Titan production facility.

Note 7: Fair Value

Our investments consisted of the following as of September 30, 2017 and December 31, 2016 :

(Dollar amounts in thousands)	September 30, 2017				December 31, 2016			
	Cost	% of total	Fair Value	% of total	Cost	% of total	Fair Value	% of total
Portfolio investments								
Second lien debt	\$ 44,442	21.8%	\$ 45,351	39.9%	\$ 48,002	22.3%	\$ 35,966	24.8%
Subordinated debt	38,288	18.8%	32,782	28.8%	38,958	18.2%	33,704	23.2%
Limited term royalties	27,845	13.6%	—	—%	27,845	13.0%	—	—%
Redeemable preferred units	56,315	27.5%	—	—%	55,662	26.0%	32,876	22.7%
CLO residual interests	85	—%	334	0.3%	1,529	0.7%	1,773	1.2%
Equity securities	2,500	1.2%	243	0.2%	2,500	1.2%	686	0.5%
Total portfolio investments	169,475	82.9%	78,710	69.2%	174,496	81.4%	105,005	72.4%
Government securities								
U.S. Treasury Bills	34,995	17.1%	34,995	30.8%	39,997	18.6%	39,997	27.6%
Total investments	\$ 204,470	100.0%	\$ 113,705	100.0%	\$ 214,493	100.0%	\$ 145,002	100.0%

We account for all of the assets in our investment portfolio at fair value, following the provisions of the FASB ASC *Fair Value Measurements* , or ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

On a quarterly basis, the investment team of our investment advisor prepares fair value recommendations for all of the assets in our portfolio in accordance with ASC 820 and presents them to the Audit Committee of our Board of Directors. The Audit Committee recommends fair values of each asset for which market quotations are not readily available to our Board of Directors, which in good faith determines the final fair value for each investment.

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- *Investment Team Valuation.* The investment professionals of our investment advisor prepare fair value recommendations for each investment.
- *Investment Team Valuation Documentation.* The investment team documents and discusses its preliminary fair value recommendations with the investment committee and senior management of our investment advisor.
- *Third Party Valuation Activity.* We may, at our discretion, retain an independent valuation firm to review any or all of the valuation analyses and fair value recommendations provided by the investment team of our investment advisor. Our general practice is that we have an independent valuation firm review all Level 3 investments (those whose value is determined using significant unobservable inputs) with recommended fair values in excess of \$10 million on a quarterly basis, and review all Level 3 investments with recommended fair values greater than zero at least annually to provide positive assurance on our valuations.
- *Presentation to Audit Committee.* Our investment advisor and senior management present the valuation analyses and fair value recommendations to the Audit Committee of our Board of Directors.
- *Board of Directors and Audit Committee.* The Board of Directors and the Audit Committee review and discuss the valuation analyses and fair value recommendations provided by the investment team of our investment advisor and the independent valuation firm, if applicable.
- *Final Valuation Determination.* Our Board of Directors discusses the fair values recommended by the Audit Committee and determines the fair value of each investment in our portfolio for which market quotations are not readily available, in good faith, based on the input of the investment team of our investment advisor, our Audit Committee and the independent valuation firm, if applicable.

ASC 820 defines fair value as the price that a seller would receive for an asset or pay to transfer a liability in an orderly transaction between independent, knowledgeable and willing market participants at the measurement date. The fair value definition focuses on exit price in the principal, or most advantageous, market and prioritizes the use of observable market inputs over unobservable entity-specific inputs. In accordance with ASC 820, we categorize our investments based on the inputs to our valuation methodologies as follows:

- *Level 1* — Quoted unadjusted prices for identical instruments in active markets to which we have access at the date of measurement.
- *Level 2* — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers.
- *Level 3* — Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect our own assumptions regarding what market participants would use to price the asset or liability based on the best available information.

Fair value accounting classifies financial assets and liabilities in their entirety based on the lowest level of input that is significant to the estimated fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment that may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels. We did not have any liabilities measured at fair value at September 30, 2017 or December 31, 2016. Amounts outstanding under our Credit Facility are carried at amortized cost in the Consolidated Balance Sheets. As of September 30, 2017, the estimated fair value of our Credit Facility approximated its carrying value of \$40.0 million. As of December 31, 2016, the fair value of our Credit Facility approximated its carry value of \$39.1 million. The estimated fair value of the Credit Facility is determined by discounting projected remaining payments using market interest rates for borrowings of the Company.

We record investments in securities for which market quotations are readily available at such market quotations in our financial statements as of the valuation date. For investments in securities for which market quotations are unavailable, or which have various degrees of trading restrictions, the investment team of our investment advisor prepares valuation analyses and fair value estimates, using the most recently available financial statements, forecasts and, when applicable, comparable transaction data. These valuation analyses rely on estimates of the asset values and enterprise values of portfolio companies issuing securities.

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The methodologies for determining asset valuations include estimates based on: the liquidation or sale value of a portfolio company's assets, the discounted value of expected future net cash flows from the assets and third party valuations of a portfolio company's assets, such as asset appraisal reports, futures prices and engineering reserve reports of oil and natural gas properties. The investment team of our investment advisor considers some or all of the above valuation methods to determine the estimated asset value of a portfolio company.

The methodologies for determining enterprise valuations include estimates based on: valuations of comparable companies, recent sales of comparable companies, the value of recent investments in the equity securities of a portfolio company and on the methodologies used for asset valuations. The investment team of our investment advisor considers some or all of the above valuation methods to determine the estimated enterprise value of a portfolio company.

The methodologies for determining estimated current market values of comparable securities include estimates based on: recent initial offerings of comparable securities of public and private companies; recent secondary market sales of comparable securities of public and private companies; current market implied interest rates for comparable securities in general; and current market implied interest rates for non-comparable securities in general, with adjustments for such elements as size of issue, terms, and liquidity. The investment team of our investment advisor considers some or all of the above valuation methods to determine the estimated current market value of a comparable security.

For some of our securities, quoted prices in active markets for identical assets (Level 1 valuation inputs) or other significant observable inputs, including quoted prices of similar securities, interest rates, prepayments, credit risk, etc. (Level 2 valuation inputs) are readily available from independent sources and are used to value such securities. For other securities, there will be no readily available Level 1 or Level 2 pricing information, and therefore significant unobservable inputs (Level 3 valuation inputs), including the assumptions of OHA, must be relied upon in determining fair value for these securities.

If prices or quotes for securities are either not readily available, or a price or quote is deemed not reflective of the security's fair market value, we employ a fair valuation technique for that security. In determining the fair value of a security, we may take into consideration (either individually or in combination) the financial condition and operating results of the underlying portfolio company, nature of the investment, restrictions on marketability, liquidity, market conditions, earnings multiple analyses using comparable companies, discounted cash flow analyses, appraisals, and other factors we deem appropriate.

Due to the inherent uncertainty in the valuation process, the fair values of our investments may differ materially from the values that would have been used had a ready market for the securities existed. Additionally, changes in the market environment, portfolio company performance and other events that may occur over the lives of the investments may cause the gains or losses ultimately realized on our investments to be materially different than the valuations currently assigned.

We occasionally have investments in our portfolio that contain payment-in-kind, or PIK, interest or dividend provisions. We compute PIK interest income or PIK dividend income at the contractual rate specified in each investment agreement, and we add that amount to the principal balance of the investment. For investments with PIK interest or PIK dividends, we calculate our income accruals on the principal balance plus any PIK amounts. If the portfolio company's projected cash flows, further supported by estimated total enterprise value, are not sufficient to cover the contractual principal and interest or dividend amounts, as applicable, we do not accrue PIK interest income or PIK dividend income on the investment. To maintain our RIC status, we must pay out this non-cash income to stockholders in the form of distributions, even though we have not yet collected the cash. We recorded net PIK interest income of \$0.9 million and \$0.1 million in the three months ended September 30, 2017 and 2016, respectively, and \$2.5 million and \$0.4 million in the nine months ended September 30, 2017 and 2016, respectively. We recorded PIK dividend income from our investment in Castex Energy 2005, LP, of \$0.0 million and \$1.0 million for the three months ended September 30, 2017, and 2016, respectively, and \$0.0 million and \$3.5 million in the nine months ended September 30, 2017 and 2016, respectively. During the first quarter of 2017, we placed our investment in Castex on non-accrual status based on our March 31, 2017 valuation, which reflected a determination that future payments received from this investment will no longer be sufficient to cover all of the contractual principal and dividend amounts on this investment.

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The following tables set forth the fair value of our investments by level within the fair value hierarchy as of September 30, 2017 and December 31, 2016 (in thousands):

September 30, 2017	Total	Level 1	Level 2	Level 3
Portfolio investments				
Affiliate investments				
Subordinated debt	\$ 18,015	\$ —	\$ —	\$ 18,015
Equity securities	243	—	—	243
Total affiliate investments	18,258	—	—	18,258
Non-affiliate investments				
Second lien debt	45,351	—	36,028	9,323
Subordinated debt	14,767	—	14,767	—
Limited term royalties	—	—	—	—
Redeemable preferred units	—	—	—	—
CLO residual interests	334	—	—	334
Total non-affiliate investments	60,452	—	50,795	9,657
Total portfolio investments	78,710	—	50,795	27,915
Government securities				
U.S. Treasury Bills	34,995	34,995	—	—
Total investments	\$ 113,705	\$ 34,995	\$ 50,795	\$ 27,915
December 31, 2016	Total	Level 1	Level 2	Level 3
Portfolio investments				
Affiliate investments				
Subordinated debt	\$ 16,464	\$ —	\$ —	\$ 16,464
Equity securities	686	—	—	686
Total affiliate investments	17,150	—	—	17,150
Non-affiliate investments				
First lien secured debt	—	—	—	—
Second lien debt	35,966	—	26,829	9,137
Subordinated debt	17,240	—	17,240	—
Limited term royalties	—	—	—	—
Redeemable preferred units	32,876	—	—	32,876
CLO residual interests	1,773	—	—	1,773
Total non-affiliate investments	87,855	—	44,069	43,786
Total portfolio investments	105,005	—	44,069	60,936
Government securities				
U.S. Treasury Bills	39,997	39,997	—	—
Total investments	\$ 145,002	\$ 39,997	\$ 44,069	\$ 60,936

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The following tables present roll-forwards of the changes in fair value for all investments for which we determine fair value using unobservable (Level 3) factors for the periods indicated (in thousands):

	First Lien Secured Debt and Limited Term Royalties	Second Lien Debt	Subordinated Debt and Redeemable Preferred Units	Equity Securities	CLO Residual Interests	Total Investments
For the three months ended September 30, 2017						
Fair value at June 30, 2017	\$ —	\$ 9,323	\$ 25,641	\$ 336	\$ 352	\$ 35,652
Total gains, (losses) and amortization:						
Net realized losses	—	—	—	—	—	—
Net unrealized gains (losses)	—	(6)	(8,538)	(93)	23	(8,614)
Net amortization of premiums, discounts and fees		6	17	—	—	23
New investments, repayments and settlements, net:						
New investments	—	—	—	—	—	—
PIK	—	—	895	—	—	895
Repayments and settlements	—	—	—	—	(41)	(41)
Fair value at September 30, 2017	\$ —	\$ 9,323	\$ 18,015	\$ 243	\$ 334	\$ 27,915
For the nine months ended September 30, 2017						
Fair value at December 31, 2016	\$ —	\$ 9,137	\$ 49,340	\$ 686	\$ 1,773	\$ 60,936
Total gains, (losses) and amortization:						
Net realized losses	—	(12,659)	—	—	—	(12,659)
Net unrealized gains (losses)	—	12,830	(34,552)	(443)	5	(22,160)
Net amortization of premiums, discounts and fees	—	15	47	—	—	62
New investments, repayments and settlements, net:						
New investments	—	—	—	—	—	—
PIK	—	—	3,180	—	—	3,180
Repayments and settlements	—	—	—	—	(1,444)	(1,444)
Fair value at September 30, 2017	\$ —	\$ 9,323	\$ 18,015	\$ 243	\$ 334	\$ 27,915
Net change in unrealized gains (losses) from investments still held as of reporting date:						
September 30, 2017	\$ —	\$ 12,830	\$ (34,552)	\$ (443)	\$ 5	\$ (22,160)
September 30, 2016	10,256	(8,523)	(11,007)	(1,545)	—	(10,819)

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	First Lien Secured Debt and Limited Term Royalties	Second Lien Debt	Subordinated Debt and Redeemable Preferred Units	Equity Securities	Total Investments
For the three months ended September 30, 2016					
Fair value at June 30, 2016	\$ 16,117	\$ 12,814	\$ 55,645	\$ 2,277	\$ 86,853
Total gains, (losses) and amortization:					
Net realized gains (losses)	—	—	—	—	—
Net unrealized gains (losses)	(1,313)	49	(5,371)	(1,239)	(7,874)
Net amortization of premiums, discounts and fees	2	51	14	—	67
New investments, repayments and settlements, net:					
New investments	—	—	—	—	—
PIK	—	—	1,104	—	1,104
Repayments and settlements	—	(3,777)	—	—	(3,777)
Fair value at September 30, 2016	<u>\$ 14,806</u>	<u>\$ 9,137</u>	<u>\$ 51,392</u>	<u>\$ 1,038</u>	<u>\$ 76,373</u>
For the nine months ended September 30, 2016					
Fair value at December 31, 2015	\$ 15,185	\$ 21,354	\$ 68,169	\$ 2,583	\$ 107,291
Total gains, (losses) and amortization:					
Net realized gains	(10,777)	—	(800)	1,435	(10,142)
Net unrealized gains (losses)	10,256	(8,523)	(11,007)	(1,545)	(10,819)
Net amortization of premiums, discounts and fees	6	68	136	—	210
New investments, repayments and settlements, net:					
New investments	—	—	—	—	—
PIK	136	15	3,894	—	4,045
Repayments and settlements	—	(3,777)	(9,000)	(1,435)	(14,212)
Fair value at September 30, 2016	<u>\$ 14,806</u>	<u>\$ 9,137</u>	<u>\$ 51,392</u>	<u>\$ 1,038</u>	<u>\$ 76,373</u>

During the three and nine months ended September 30, 2017 and 2016, none of our investments in portfolio companies changed among the categories of Control Investments, Affiliate Investments and Non-Affiliate Investments, and there were no transfers among Levels 3, 2 or 1.

We present net unrealized gains (losses) on our consolidated statements of operations as “Net unrealized appreciation (depreciation) on investments.”

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The following table summarizes the significant unobservable inputs in the fair value measurements of our Level 3 investments by category of investment and valuation technique as of September 30, 2017 (dollars in thousands):

Type of Investment	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs	Weighted Average
<u>Non-Energy Investments:</u>					
Second lien debt	\$ 9,323	Market comparables	EBITDA multiples	11.0x - 16.0x	12.5x
Subordinated debt	18,015	Market comparables	EBITDA multiples	5.0x - 6.0x	5.5x
CLO residual interest	334	Net asset value with discount rate	Discount rate	15.0%	15.0%
Equity securities	243	Market comparables	EBITDA multiples	6.0x - 7.0x	6.5x
	<u>27,915</u>				
<u>Energy Investments:</u>					
Redeemable preferred units	—	Estimated recovery analysis	Residual value ⁽¹⁾		
	<u>—</u>				
Total Level 3 investments	<u>\$ 27,915</u>				

⁽¹⁾ On October 16, 2017, Castex announced that it (together with certain affiliates) had filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. According to the filing, Castex and its affiliates in bankruptcy have entered into a restructuring support agreement ("RSA") with pre-petition lenders holding approximately 86% in principal amount of claims under the pre-petition credit facility. The RSA outlines a plan of reorganization for Castex and its affiliates in bankruptcy. As currently proposed, the RSA does not provide for any recovery to the holder of the preferred limited partnership units of Castex, including those preferred limited partnership unit holders who have exercised their put rights. OHAI is not a party to the RSA and is exploring all available options in and out of bankruptcy for recovery on its investment in Castex. At this time we are unable to determine the form and value of a recovery, if any, we expect to receive due in large part to the inherent risks and uncertainty associated with bankruptcy and litigation. Therefore, until we are in a position to determine the form, value, and likelihood of a recovery, we are estimating \$0 fair market value of our investment in Castex at September 30, 2017 for financial statement purposes.

As noted above, the income and market approaches were used in the determination of fair value of certain Level 3 assets as of September 30, 2017. The significant unobservable inputs used in the income approach are the discount rate or market yield used to discount the estimated future cash flows expected to be received from the underlying investment, which include future principal and interest payments. An increase in the discount rate or market yield would result in a decrease in the fair value. The significant unobservable inputs used in the market approach are based on market comparable transactions and market multiples of publicly traded comparable companies. Increases or decreases in market multiples would result in an increase or decrease, respectively in the fair value.

Note 8: Common Stock

On October 31, 2011, our Board of Directors approved a stock repurchase plan, pursuant to which we may, from time to time, repurchase up to \$10.0 million of our common stock in the open market at prices not to exceed the net asset value of our shares. During 2012 and 2013, we repurchased an aggregate of 1,129,014 shares of our common stock in the open market at an average price of \$6.71 per share, totaling \$7.6 million, in accordance with the stock repurchase plan. These repurchases were made at approximate discounts to our most recently published net asset value of 30%, 26% and 28% in May and November 2012 and May 2013, respectively.

In March 2015, our Board of Directors authorized the Company to repurchase up to the remaining \$ 2.4 million available to be repurchased under this plan. As of July 14, 2015, we completed the stock repurchases under the stock repurchase plan. During 2015, we repurchased a total of 444,030 shares for \$ 2.4 million at a weighted average price of \$ 5.46 per share, a 27% discount to net asset value at December 31, 2014. Repurchases initiated after March 31, 2015 were made pursuant to a plan executed in accordance with Rule 10 b5-1 under the Securities Exchange Act of 1934. Our current Credit Facility does not allow us to repurchase common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following analysis of our financial condition and results of operations in conjunction with management's discussion and analysis contained in our 2016 Annual Report on Form 10-K, as well as our consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q. The terms "we," "us," "our" and "OHAI" refer to OHA Investment Corporation and its consolidated subsidiaries. The term "OHA" refers to Oak Hill Advisors, L.P., our investment adviser.

Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q that relate to estimates or expectations of our future performance or financial condition may constitute "forward-looking statements." These forward-looking statements are subject to various risks and uncertainties, which could cause actual results and conditions to differ materially from those projected, including, but not limited to:

- uncertainties associated with the timing and likelihood of investment transaction closings;
- changes in interest rates;
- the future operating results of our portfolio companies and their ability to achieve their objectives;
- regional, national or international economic conditions and changes thereto as well as their impact on the industries in which we invest;
- disruptions in the credit and capital markets;
- changes in the conditions of the industries in which we invest;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of OHA to locate suitable investments for us and to monitor and administer our investments;
- our ability to refinance or further extend our credit facility upon maturity;
- other factors enumerated in our filings with the Securities and Exchange Commission, or the SEC;
- further decrease in oil and gas prices for an extended period causing further losses in E&P holdings; and
- effects of current and pending legislation.

We may use words such as "anticipates," "believes," "intends," "plans," "expects," "projects," "estimates," "will," "should," "may" and similar expressions to identify forward-looking statements. These forward-looking statements are subject to various risks and uncertainties. Certain factors could cause actual results and conditions to differ materially from those projected and our historical experience. You should not place undue reliance on such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update our forward-looking statements made herein, unless required by law.

Overview

We are a specialty finance company designed to provide our investors with current income and capital appreciation. We focus primarily on providing creative direct lending solutions to middle market private companies across industry sectors. Our investment objective is to generate both current income and capital appreciation primarily through debt investments that at times may have certain equity components. Our investment activities are managed by OHA and supervised by our Board of Directors, the majority of whose members are independent of OHA and its affiliates.

OHA (and its affiliated investment advisors and predecessor firms) continues to build on its over 25-year history of investing in various asset classes and believes that its past success is a reflection of the firm's consistent investment philosophy, strategy and process. As our investment advisor, OHA seeks to expand our portfolio's exposure to a broader range of industries beyond energy, focusing on the middle market. OHA believes that middle market companies are generally less able to secure financing from public financial markets than larger companies and that such companies offer favorable return opportunities for firms like OHA that are able to source, originate and structure these investments, as well as conduct the necessary diligence to appropriately evaluate these opportunities.

OHA expects that most of our investments will be in senior and junior secured, unsecured and subordinated debt securities in U.S. private and small public middle market companies with maturities ranging from three to seven years. However, OHA seeks to identify attractive investments throughout the capital structure and thus may invest in equity, distressed debt, residual

interests of collateralized loan obligation funds, or CLOs, and other assets. We may invest in newly issued securities and acquire investments in the secondary market. We do not currently intend to invest in mortgage-related structured products.

On September 30, 2014, our stockholders approved the appointment of OHA as our investment advisor, replacing NGP Investment Advisor, LP, which had been our investment advisor since our inception. In connection with this change in investment advisor, we changed our name from NGP Capital Resources Company to OHA Investment Corporation. OHA is a registered investment adviser under the Investment Advisers Act of 1940. OHA acts as our investment advisor and administrator pursuant to an investment advisory agreement and an administration agreement, respectively, each dated as of September 30, 2014, which we refer to as the Investment Advisory Agreement and the Administration Agreement, respectively.

OHA seeks to leverage the firm's strong reputation and deep relationships, that it has developed over more than 25 years with financial sponsors, company management teams, bankers, attorneys, consultants, and other industry participants to be a partner of choice and source of attractive investment opportunities. We are advantaged by OHA's integrated approach to investing, which means that all relevant industry analysts and OHA's broad team of U.S. portfolio managers and traders participate, as warranted, in the origination, selection and monitoring of investments for our portfolio. In addition, because services are provided across a larger investment platform, we benefit from the back-office infrastructure of OHA that is utilized across OHA's client base.

The aggregate fair value of our investment portfolio at September 30, 2017 was \$78.7 million, with such value comprised of 16 active portfolio investments compared to 10 active portfolio investments at September 30, 2014. Under our previous investment advisor, we focused our investments primarily on small and mid-size companies engaged in the upstream sector of the energy industry, which includes businesses that find, develop and extract energy resources, such as natural gas, crude oil and coal.

Part of our current investment approach is to reduce our exposure to the energy industry and to diversify our portfolio with investments in debt securities of U.S. private and small public middle market companies across various industry sectors. The exposure of our investment portfolio to the energy sector decreased to 9% at September 30, 2017 from 74% at September 30, 2014, on a fair value basis.

A historical focus in the energy sector causes our portfolio to be particularly influenced by commodity prices for oil and natural gas, which declined dramatically during the fourth quarter of 2014 and remain significantly lower than they have been in recent years. Further decline in commodity prices or increased volatility in the energy markets, particularly in North America, may further significantly affect the business, financial condition, results of operations and cash flows of our energy-related portfolio companies and their ability to meet financial commitments, which would negatively impact the fair values of our energy-related investments in such companies and, in turn, our net asset value. These factors may also extend the holding period for such investments, thus impacting our ability to reduce the portfolio exposure to energy investments. Notwithstanding these challenges, OHA believes that given its broad based below investment grade credit expertise, it is well positioned to monitor these legacy investments and to determine the optimal resolution strategy for them.

Our level of investment activity can and does vary substantially from period to period depending on many factors. Some of these factors are the amount of debt and equity capital available to middle market companies, the level of acquisition and divestiture activity for such companies, the general economic environment and the competitive environment for the types of investments we make, and our own ability to raise capital to fund our investments, both through the issuance of debt and equity securities. If a substantial portion of our investment portfolio were to be realized in the near term, no assurance can be given that OHA will be able to source sufficient appropriate investments for us to timely replace the investment income from the realized investments.

Portfolio and 2017 Investment Activity

In February 2017, Royal Holdings, Inc. repaid part of its second lien term loan in the amount of \$4.5 million. We recorded previously unamortized discount of \$30,000 and 1% call premium of \$45,000 as additional interest income and other investment income, respectively, as a result of this repayment.

In March 2017, we purchased a \$10.0 million second lien term loan to Equinox Holdings, Inc., or Equinox, a leading operator of upscale fitness clubs and spas. The Equinox second lien term loan was purchased at a 0.75% discount to par, earns interest payable in cash at a rate of LIBOR+7.0% with a 1% floor and matures in September 2024. Subsequently in March 2017, we sold \$3.0 million of the second lien at an average price of 101.5% of par resulting in a realized capital gain of \$68,000.

Also in March 2017, we sold \$0.5 million of the second lien term loan of Berlin Packaging, LLC at a price of 101.0% of par, resulting in a realized capital gain of \$23,000 or \$0.00 per share.

In May 2017, Talos Production, LLC repaid a portion of its senior unsecured notes in the amount of \$0.5 million at par.

In June 2017, we purchased a \$1.4 million second lien term loan to PAE Holding Corporation, or PAE, adding to our \$5.5 million position that was previously acquired in November 2016. The \$1.4 million PAE loan was purchased at a 1% discount to par and earns interest payable in cash at a rate of LIBOR+9.50% with a 1% floor and matures in October 2023.

In July 2017, we sold \$8.0 million of the senior unsecured notes of TIBCO Software, Inc. at an average price of 110.38% of par, resulting in realized capital gains of \$1.0 million or \$0.05 per share.

Also in July 2017, we purchased a \$1.8 million second lien term loan to DexKo Global, Inc., or DexKo, a global supplier of highly engineered running gear technology, chassis assemblies, and related components. The DexKo second lien term loan earns interest payable in cash at a rate of LIBOR+8.25% with a 1% floor and matures in July 2025. In August 2017 and September 2017, we purchased an additional \$0.8 million and \$0.4 million, respectively, in the DexKo second lien term loan at par. In aggregate, we purchased \$3.0 million of the DexKo second lien term loan an average discount of 0.78% to par.

In August 2017, we purchased a \$1.3 million second lien term loan to Hayward Industries, Inc., or Hayward, a leading global manufacturer of residential and commercial pool equipment, automation and accessories. The Hayward second lien term loan was purchased at a 1.75% discount to par, earns interest payable in cash at a rate of LIBOR+8.25% and matures in August 2025.

In September 2017, we purchased a \$5.0 million of the senior unsecured notes of Avantor Performance Materials, Inc., or Avantor, a leading global provider of ultra-high purity materials and customized solutions for the biopharmaceutical, biomaterials, research, diagnostics, electronics, aerospace and defense industries. The Avantor senior unsecured notes were purchased at par, earns interest payable in cash at a rate of 9.0% per annum and matures in October 2025.

Also in September 2017, we purchased a \$1.4 million second lien term loan to Helix Acquisition Holdings, Inc., an affiliate of MW Industries, Inc., or MWI, a leading manufacturer of highly engineered, mission critical springs and fasteners for original equipment manufacturer and after-market applications serving a wide range of end-markets, including medical, heavy equipment, military and automotive. The MWI second lien term loan was purchased at 1.0% discount to par, earns interest payable in cash at a rate of LIBOR+ 8.00% and matures in September 2025.

The table below shows our portfolio investments by type for the periods indicated. We compute yields on investments using interest rates as of the balance sheet date and include amortization of original issue discount and market premium or discount, royalty income and other similar investment income, weighted by their respective costs when averaged. Such weighted average yields are not necessarily indicative of expected total returns on a portfolio.

	September 30, 2017			December 31, 2016		
	Weighted Average Yields ⁽¹⁾	Percentage of Portfolio		Weighted Average Yields ⁽¹⁾	Percentage of Portfolio	
		Cost	Fair Value		Cost	Fair Value
Second lien debt	9.6%	26.2%	57.7%	9.5%	27.5%	34.2%
Subordinated debt	15.5%	22.6%	41.6%	15.2%	22.3%	32.1%
Limited term royalties	—%	16.4%	—%	5.3%	16.0%	—%
Redeemable preferred units	—%	33.2%	—%	5.8%	31.9%	31.3%
CLO residual interests	13.5%	0.1%	0.4%	13.5%	0.9%	1.7%
Equity securities	—	1.5%	0.3%	—	1.4%	0.7%
Total portfolio investments	12.4%	100.0%	100.0%	9.7%	100.0%	100.0%

⁽¹⁾ Yielding portfolio investments only.

As of September 30, 2017 and December 31, 2016, the total fair value of our portfolio investments was \$78.7 million and \$105.0 million, respectively. Of those fair value totals, approximately \$27.9 million, or 35.5%, as of September 30, 2017, and \$60.9 million, or 58.0%, as of December 31, 2016 are determined using significant unobservable (i.e., Level 3) inputs.

Results of Operations

Investment Income

Investment income includes interest on our investments and dividend income. Dividend income is income we receive from certain of our equity investments. Other income includes prepayment fees and modification fees we receive in connection with

certain of our investments. These fees are recognized as earned.

Investment Income (in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
	Interest income	\$ 2,744	\$ 3,310	\$ 7,613
Dividend income	—	897	—	3,180
Other income	7	114	68	152
Total investment income	\$ 2,751	\$ 4,321	\$ 7,681	\$ 13,851

For the three months ended September 30, 2017, total investment income was \$2.8 million, a 36% decrease from \$4.3 million of total investment income for the three months ended September 30, 2016. The decrease was primarily attributable to a \$1.2 million decrease in investment income related to non-accrual energy related assets and a decrease in average portfolio balance for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016.

For the nine months ended September 30, 2017, total investment income was \$7.7 million, a 45% decrease from \$13.9 million for the nine months ended September 30, 2016. The decrease was primarily attributable to a \$4.7 million decrease in investment income related to non-accrual energy related assets and a decrease in average portfolio balance for the for the nine months ended September 30, 2017 as compared to the for the nine months ended September 30, 2016.

Operating Expenses

Operating expenses include interest expense and our allocable portion of operating expenses incurred on our behalf by our investment advisor and our administrator. Other general and administrative expenses include our allocated share of employee, facilities, and stockholder services incurred by our administrator.

Operating Expenses (in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
	Interest expense and bank fees	\$ 1,012	\$ 768	\$ 2,970
Management and incentive fees	544	888	1,610	2,585
Professional fees	394	584	1,066	1,973
Other general and administrative expenses	410	326	1,169	1,370
Directors fees	61	61	184	184
Total operating expenses	\$ 2,421	\$ 2,627	\$ 6,999	\$ 8,943

For the three months ended September 30, 2017, operating expenses decreased by 7.8% to \$2.4 million from \$2.6 million compared to the three months ended September 30, 2016. Interest expense and bank fees increased by 31.8% to \$1.0 million from \$0.8 million compared to the same period in the prior year largely due to higher borrowing costs. Management and incentive fees decreased by 38.7% to \$0.5 million from \$0.9 million due to lower base management fees as a result of lower average asset base subject to the base management fee. Professional fees decreased by 32.5% to \$0.4 million from \$0.6 million due to lower legal fees and audit related expenses in the 2017 period. Other general and administrative expenses increased by 25.8% to \$0.4 million from \$0.3 million primarily due to an increase in employee related expenses in the 2017 period.

For the nine months ended September 30, 2017, operating expenses decreased by 21.7% to \$7.0 million from \$8.9 million. Interest expense and bank fees increased by 4.9% to \$3.0 million from \$2.8 million compared to the same period in the prior year largely due to higher borrowing costs partially offset by a decreased weighted average debt outstanding of \$14.3 million. Management and incentive fees decreased by 37.7% to \$1.6 million from \$2.6 million primarily due to lower base management fees as a result of lower average asset base subject to the base management fee part. Professional fees decreased by 46.0% to \$1.1 million from \$2.0 million due to lower legal fees and audit related expenses in the 2017 period. Other general and administrative expenses decreased by 14.7% to \$1.2 million from \$1.4 million primarily due to a decrease in employee related expenses in the 2017 period.

Under the Investment Advisory Agreement, the investment income incentive fee is calculated quarterly at a rate of 20% of quarterly net investment income above a “hurdle rate” of 1.75% per quarter (7% annualized) with a “catch up” provision. For the three months ended September 30, 2017 we did not incur any investment income incentive fees. For the three months ended September 30, 2016 we incurred \$181,000 in investment income incentive fees. we did not incur any investment income

incentive fees. For the nine months ended September 30, 2017 and September 30, 2016, we incurred investment income incentive fees of \$0 and \$281,000, respectively.

The second part of the incentive fee, the capital gains fee, is determined and payable in arrears as of the end of each fiscal year (or, upon termination of the Investment Advisory Agreement, as of the termination date). The capital gains fee is equal to 20% of our cumulative aggregate realized capital gains from September 30, 2014 through the end of that fiscal year, computed net of our cumulative aggregate realized capital losses and cumulative aggregate unrealized depreciation on investments for the same time period. The aggregate amount of any previously paid capital gains incentive fees to OHA is subtracted from the capital gains incentive fee calculated. If such amount is negative, then there is no capital gains fee for such year. For the purposes of the capital gains fee, any gains and losses associated with our investment portfolio as of September 30, 2014 shall be excluded from the capital gains fee calculation. For the three months ended September 30, 2017, we accrued \$104,000 of capital gains fees.

On November 10 2017, we entered into an Incentive Fee Waiver Agreement with OHA whereby OHA agreed to waive any incentive fees earned relating to fiscal years 2017 and 2018. Under the Incentive Fee Waiver Agreement, any capitalized gains fees that would have been earned and accrued during 2017 and 2018, which under our investment advisory agreement would not have been paid until 2018 and 2019, respectively, will be waived.

Net Investment Income (in thousands, except per share data)	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net investment income	\$ 323	\$ 1,700	\$ 661	\$ 4,889
Net investment income per common share	\$ 0.02	\$ 0.08	\$ 0.03	\$ 0.24

During the three month period ended September 30, 2017, the decrease in net investment income compared to the three month period ended September 30, 2016 was driven by lower investment income, partially offset by lower operating expenses in 2017.

During the nine months ended September 30, 2017, the decrease in net investment income compared to the nine month period ended September 30, 2016 was driven by lower investment income, partially offset by lower operating expenses in 2017.

Net Realized Gains and Losses

Net realized gains and losses is the difference between the net proceeds received from dispositions of portfolio investments and their stated costs. Realized losses may also be recorded in connection with our determination that certain investments are considered worthless securities and/or meet the conditions for loss recognition per the applicable tax rules.

Net Realized Gains and Losses (in thousands, except per share data)	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net realized capital gain (loss) on investments	\$ 1,004	\$ —	\$ (11,560)	\$ (9,919)
Benefit for taxes on realized loss	—	—	—	(91)
Net realized capital gains (losses)	\$ 1,004	\$ —	\$ (11,560)	\$ (10,010)
Net realized capital gains (losses) per common share	\$ 0.05	\$ —	\$ (0.57)	\$ (0.50)

For the three months ended September 30, 2017, we realized a capital gain of \$1.0 million related to our investment in TIBCO Software, Inc., or TIBCO, unsecured notes. For the three months ended September 30, 2016, we did not realize a capital gain or loss on our investments.

For the nine months ended September 30, 2017, we realized a capital loss of \$12.7 million related to our investment in Shoreline Energy, LLC, or Shoreline, second lien term loan. This realized capital loss was partially offset by the realized capital gain of \$1.0 million related to our investment in TIBCO's unsecured notes. For the nine months ended September 30, 2016, we realized a capital loss of \$10.1 million related to the sale of our equity interest in Contour and the extinguishment of the associated senior secured term loan. This realized capital loss was partially offset by a realized capital gain related to the sale of the \$5.8 million Hanson second lien term loan.

Net Unrealized Appreciation (Depreciation) on Investments

Net unrealized appreciation or depreciation is the net change in the fair value of our investments during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

Net Unrealized Appreciation (Depreciation) on Investments (in thousands, except per share data)	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Control investments	\$ —	\$ —	\$ —	\$ 10,578
Affiliate investments	(1,004)	(1,254)	(1,466)	(1,587)
Non-affiliate investments	(8,508)	(3,058)	(19,807)	(18,031)
Net unrealized appreciation (depreciation) on investments	\$ (9,512)	\$ (4,312)	\$ (21,273)	\$ (9,040)
Net unrealized appreciation (depreciation) on investments per common share	\$ (0.47)	\$ (0.21)	\$ (1.05)	\$ (0.45)

Control Investments

For the three months ended September 30, 2017 and 2016 there were no changes in the unrealized depreciation or appreciation of our control investments.

For the nine months ended September 30, 2016, the increase in net unrealized depreciation in our control investment was attributable to the reversal of unrealized depreciation, due to realization, on our investments in Contour.

Affiliate Investments

For the three months ended September 30, 2017 and September 30, 2016, the increase in net unrealized depreciation on our affiliate investments was attributable to a decrease in the fair value of our investments in OCI.

For the nine months ended September 30, 2017 and September 30, 2016, the increase in net unrealized depreciation our affiliate investments was attributable to a decrease in the fair value of our investments in OCI.

Non-Affiliate Investments

For the three months ended September 30, 2017, the increase in net unrealized depreciation on our non-affiliate investments was primarily attributable to \$7.6 million write down of our investment in Castex and the reversal of \$1.0 million unrealized depreciation, due to realization, of our investment in TIBCO. For the three months ended September 30, 2016, the increase in net unrealized depreciation on our non-affiliate investments was primarily due to a decrease in the fair value of our investments in Castex of \$5.4 million, ATP of \$1.4 million and Shoreline of \$0.5 million. This was partially offset by increase in fair value of our investments in Talos Production LLC, or Talos, of \$1.3 million, TIBCO of \$0.9 million, Gramercy Park CLO Ltd., Gramercy, of \$0.6 million, Royal Adhesives, Inc., or Royal, of \$0.6 million, Appriss Holdings, or Appriss, of \$0.5 million and other investments totaling \$0.4 million.

For the nine months ended September 30, 2017, the increase in net unrealized depreciation on our non-affiliate investments was primarily attributable to a decrease in the fair value of our investments in Castex of \$33.5 million and by the reversal of \$1.0 million unrealized appreciation of our investment in TIBCO. This was partially offset by the reversal of \$12.7 million unrealized depreciation, due to realization, of our investment in Shoreline. For the nine months ended September 30, 2016, the increase in net unrealized depreciation on our non-affiliate investments was primarily due to a decrease in the fair value of our investments in Castex of \$12.7 million and Shoreline of \$9.1 million. This was partially offset by an increase in fair value of our investment in Appriss of \$0.5 million, TIBCO of \$0.5 million, Talos of \$0.4 million, Berlin of \$0.4 million, ATP of \$0.3 million, Gramercy of \$0.3 million and a reversal due to realization related to KOVA of \$1.0 million.

Net Increase (Decrease) in Net Assets Resulting from Operations (in thousands, except per share data)	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net increase (decrease) in net assets resulting from operations	\$ (8,185)	\$ (2,612)	\$ (32,172)	\$ (14,161)
Net increase (decrease) in net assets resulting from operations per common share	\$ (0.40)	\$ (0.13)	\$ (1.59)	\$ (0.70)

For the three months ended September 30, 2017, the net decrease in net assets resulting from operations compared to the three months ended September 30, 2016 primarily is attributable net unrealized appreciation on investments totaling \$9.5 million and a decrease in net investment income of \$1.4 million, partially offset by realized capital gains of \$1.0 million.

For the nine months ended September 30, 2017, the net decrease in net assets resulting from operations compared to the nine months ended September 30, 2016 is primarily attributable to \$4.2 million decrease in net investment income, \$1.6 million increase in realized capital losses and \$12.2 million increase in net unrealized depreciation on investments.

Financial Condition, Liquidity and Capital Resources

Cash Flows

At September 30, 2017, we had cash and cash equivalents totaling \$16.6 million. Our portfolio may consist of temporary investments in U.S. Treasury Bills, 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, drawing down on an investment or 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 base management fee.

During the nine months ended September 30, 2017, we experienced a net decrease in cash and cash equivalents in the amount of \$0.1 million. During the period, our operating activities provided \$7.0 million in cash, consisting of \$22.0 million purchases of new investments in portfolio securities of which \$6.4 million was not yet settled at September 30, 2017, partially offset by \$19.3 million provided by proceeds from redemptions of investments in portfolio securities. Financing activities used cash of \$6.9 million, consisting net borrowings under repurchase agreement of \$4.9 million partially offset by cash distributions paid to our stockholders in the amount of \$2.0 million.

During the nine months ended September 30, 2016, we experienced a net decrease in cash and cash equivalents in the amount of \$12.7 million. During the period, our operating activities provided \$4.0 million in cash, consisting of \$30.4 million from proceeds from redemptions of investments in portfolio securities, net proceeds from investments in US Treasury Bills of \$20.0 million, partially offset by \$6.8 million used to settle payables and \$1.8 million purchases of new investments in portfolio securities. Financing activities used cash of \$16.7 million, consisting of \$80.5 million repayments on revolving credit facilities, net repayments of \$19.6 million under repurchase agreement and \$4.8 million of cash distributions paid to our shareholders partially offset by borrowings of \$49.0 million under credit facilities.

Credit Facilities and Borrowings

We are party to a Credit Agreement (the "Credit Facility"), dated September 9, 2016, with MidCap Financial Trust, as administrative agent, which replaced our prior Third Amended and Restated Revolving Credit Agreement (the "Investment Facility"), as amended, with SunTrust Bank, as administrative agent. The \$56.5 million Credit Facility has a maturity date of March 9, 2018, which can be extended for a six-month period at our option, subject to certain conditions. The initial proceeds of \$40.5 million from the Credit Facility were used to pay off the \$38.5 million outstanding balance on the Investment Facility, pay transaction expenses and provide balance sheet cash. The remaining \$16.0 million consisted of a delayed draw term loan, which was committed for one year, expired on September 9, 2017 and is no longer available.

As of September 30, 2017 and December 31, 2016, the total amount outstanding under the Credit Facility was \$40.5 million with \$0.0 million available to draw. The total amount outstanding on the Credit Facility is shown net of unamortized debt issuance costs of \$0.5 million and \$1.4 million on our Consolidated Balance Sheet as of September 30, 2017 and

December 31, 2016, respectively. Substantially all of our assets, except our investments in U.S. Treasury Bills, are pledged as collateral for the obligations under the Credit Facility. The Credit Facility bears an interest rate of Adjusted LIBOR plus 5.35% for Eurodollar Loans, subject to a 1% LIBOR floor, and Base Rate plus 4.35% for Base Rate Loans. As of September 30, 2017, the interest rate on our outstanding principal balance of \$40.5 million was 6.59%.

On November 10, 2017, we entered into an amendment to the Credit Facility whereby we agreed to make a voluntary principal prepayment in the amount of \$4.5 million, reducing the total principal amount outstanding to \$36.0 million, and the lenders agreed not to test certain covenants at certain determination dates.

The Credit Facility contains affirmative and reporting covenants and certain financial ratio and restrictive covenants. We have complied with these covenants from the date of the Credit Agreement through September 30, 2017, and had no existing defaults or events of default under the Credit Facility. The financial covenants, with terms as defined in the Credit Agreement, are:

- maintain a Debt to Tangible Net Worth Ratio of not more than 0.80:1.00 as determined on the last day of each calendar month,
- maintain at all times a minimum liquidity in the form of Cash or Cash Equivalents of at least \$1.0 million,
- maintain a Debt to Fair Market Value Ratio of not more than 0.50:1.00 at any time, and
- maintain the Fair Market Value of Liquid Portfolio Investments as a percentage of outstanding aggregate principal balance to not be less than 80% through March 9, 2017, 90% through September 9, 2017 and 100% through March 9, 2018.

At the end of each quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which includes purchasing U.S. Treasury Bills, by utilizing repurchase agreements on a temporary basis. On September 27, 2017, we purchased of U.S. Treasury Bills and contemporaneously entered into a \$34.3 million repurchase arrangement with a global financial institution to finance such purchase. Under the repurchase arrangement, we transferred \$35.0 million of U.S. Treasury Bills and \$0.7 million of cash as collateral under the repurchase agreement. We repaid the \$34.3 million borrowed under the repurchase agreement, and was returned the \$0.7 million cash collateral, net of a \$9 thousand financing fee, upon maturity of the U.S. Treasury Bills on October 5, 2017. We account for the transfer of the U.S. Treasury Bills under the repurchase agreement as a secured borrowing in accordance with GAAP. As a result, the U.S. Treasury Bills are recorded on our books as investments in U.S. Treasury Bills, and the amount borrowed under the repurchase agreement is recorded as short-term debt at September 30, 2017.

On December 27, 2016, we purchased \$40.0 million of U.S. Treasury Bills and contemporaneously entered into a \$39.2 million repurchase arrangement with a global financial institution to finance such purchase. Under the repurchase arrangement, we transferred \$40.0 million of U.S. Treasury Bills and \$0.8 million of cash as collateral under the repurchase agreement. We repaid the \$39.2 million borrowed under the repurchase agreement, and was returned the \$0.8 million cash collateral, net of a \$10 thousand financing fee, upon maturity of the U.S. Treasury Bills on January 5, 2017. We account for the transfer of the U.S. Treasury Bills under the repurchase agreement as a secured borrowing in accordance with GAAP. As a result, the U.S. Treasury Bills are recorded on our books as investments in U.S. Treasury Bills, and the amount outstanding under the repurchase agreement is recorded as short-term debt at December 31, 2016.

Distributions

We have elected to operate our business to be taxed as a RIC for federal income tax purposes. As a RIC, we generally are not required to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as distributions. To maintain our RIC status, we must meet specific source-of-income and asset diversification requirements and distribute annually an amount equal to at least 90% of our “investment company taxable income” (which generally consists of ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses) and net tax-exempt interest. In order to avoid certain excise taxes imposed on RICs, we must distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gain net income (i.e., realized capital gains in excess of realized capital losses) for the one-year period ended on October 31 of that calendar year, and (3) 100% of any ordinary income or capital gain net income not distributed in prior years and on which we did not pay corporate-level federal income taxes. We currently intend to make sufficient distributions to satisfy the annual distribution requirement and to avoid the excise taxes.

We determine the tax characteristics of our distributions to stockholders as of the end of the fiscal year, based on the taxable income for the full year and distributions paid during the year. Taxable income available for distribution differs from consolidated net investment income under GAAP due to (i) temporary and permanent differences in income and expense recognition, (ii) capital gains and losses, (iii) activity at taxable subsidiaries, and (iv) the timing and period of recognition regarding distributions declared in December of one year and paid in January of the following year. We (or the applicable

withholding agent) report the tax characteristics of distributions paid annually to each stockholder on Form 1099-DIV after the end of the year.

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

Portfolio Credit Quality

At September 30, 2017, a significant portion of our portfolio investments were in illiquid securities of middle market businesses with a significant exposure to the energy industry. As of September 30, 2017, we had certain investments related to two portfolio companies on non-accrual status with an aggregate cost and fair value of \$84.2 million and \$0.0 million, respectively. Effective July 1, 2015, ATP was placed on non-accrual status based on estimated future production payments, and income is recognized to the extent cash received. During the first quarter of 2017, we placed our investment in Castex on non-accrual status based on our March 31, 2017 valuation, which reflects a determination that future payments received from this investment will no longer be sufficient to cover all of the contractual principal and dividend amounts on this investment.

Our portfolio investments at fair value were approximately 46.4% and 60.2% of the related cost basis as of September 30, 2017 and December 31, 2016, respectively.

Non-accruing and non-income producing investments (in thousands)	September 30, 2017		December 31, 2016	
	Cost	Fair Value	Cost	Fair Value
Non-accruing investments				
Castex Energy 2005, LP (non-accrual January 2017)	\$ 56,315	\$ —	\$ —	\$ —
ATP Oil & Gas Corporation/Bennu Oil & Gas, LLC (non-accrual July 2015)	27,845	—	27,845	—
Shoreline Energy, LLC (non-accrual January 2016)	—	—	12,659	—
Total non-accruing investments	84,160	—	40,504	—
Non-income producing investments				
OHA/OCI Investments, LLC Class A Units	2,500	243	2,500	686
Total non-income producing investments	2,500	243	2,500	686
Total non-accruing and non-income producing investments	\$ 86,660	\$ 243	\$ 43,004	\$ 686

Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes our contractual payment obligations at September 30, 2017 (in thousands):

Credit facilities ⁽¹⁾	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Credit Facility	\$ 40,500	\$ 40,500	\$ —	\$ —	\$ —
Repurchase Agreement ⁽²⁾	34,300	34,300	—	—	—
Total	\$ 74,800	\$ 74,800	\$ —	\$ —	\$ —

⁽¹⁾ Excludes accrued interest and unamortized debt issuance costs.

⁽²⁾ Amount outstanding under the Repurchase Agreement was repaid on October 5, 2017.

On November 10, 2017, we entered into an amendment to the Credit Facility whereby we agreed to make a voluntary principal prepayment in the amount of \$4.5 million, reducing the total principal amount outstanding to \$36.0 million, and the lenders agreed not to test certain covenants at certain determination dates.

From time to time we could have unused commitments to extend credit to our portfolio companies. Generally, the commitments have fixed expiration dates, and we do not fund the entire amounts before they expire. Therefore, these commitment amounts do not necessarily represent future cash requirements, and we do not report the unused portions of these commitments on our Consolidated Balance Sheets. We did not have any unused credit commitments at September 30, 2017 .

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from the information provided in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2016 .

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act) designed to ensure that information required to be disclosed in our reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Quarterly Report on Form 10-Q, as of the end of the fiscal period covered by this Quarterly Report on Form 10-Q (September 30, 2017), we performed an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(b) and 15d-15(b) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2017 , our disclosure controls and procedures were effective in providing reasonable assurance (i) that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and (ii) that such information is accumulated and communicated to management in a manner that allows timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No changes in internal control over financial reporting occurred during the quarter ended September 30, 2017 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act).

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the heading “Legal Proceedings” in Note 6 to our interim consolidated financial statements is incorporated herein by reference.

Item 1A. Risk Factors

During the nine months ended September 30, 2017, there were no material changes to the risk factors disclosed under Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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

The information set forth in Note 8 to our interim consolidated financial statements is incorporated herein by reference. There were no shares of common stock repurchased during the nine months ended September 30, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See “Index to Exhibits” following the signature page for a description of the exhibits furnished as part of this Quarterly Report on Form 10-Q.

SIGNATURES

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

OHA INVESTMENT CORPORATION

Date: November 13, 2017

By: /s/ STEVEN T. WAYNE
Steven T. Wayne
President and Chief Executive Officer

Date: November 13, 2017

By: /s/ CORY E. GILBERT
Cory E. Gilbert
Chief Financial Officer and Treasurer

Index to Exhibits

<u>Exhibit No.</u>	<u>Exhibit</u>
10.11	<u>Amendment No. 1 to Credit Agreement dated September 9, 2016, between the Registrant, the lenders and from time to time party thereto and MidCap Financial Trust, as administrative agent</u>
10.12	<u>Incentive Fee Waiver in connection with the Investment Advisory Agreement between the Registrant and Oak Hill Advisors, L.P., as advisor</u>
31.1	<u>Certification required by Rule 13a-14(a)/15d-14(a) by the Chief Executive Officer</u>
31.2	<u>Certification required by Rule 13a-14(a)/15d-14(a) by the Chief Financial Officer</u>
32.1	<u>Section 1350 Certification by the Chief Executive Officer</u>
32.2	<u>Section 1350 Certification by the Chief Financial Officer</u>

**AMENDMENT NO. 1 TO
CREDIT AGREEMENT**

THIS AMENDMENT NO. 1 TO CREDIT AGREEMENT (this “ Amendment ”), dated as of November 10, 2017 (the “ Amendment No. 1 Effective Date ”), is made by and among OHA Investment Corporation, a Maryland corporation, as borrower (the “ Borrower ”), the Loan Parties party hereto, the Lenders party hereto, MidCap Financial Trust, a Delaware statutory trust, as administrative agent for each of the Lenders (in such capacity, the “ Administrative Agent ”), and amends that certain Credit Agreement, dated as of September 9, 2016 (as amended or otherwise modified prior to the date hereof, the “ Credit Agreement ”), by and among the Borrower, the Lenders from time to time party thereto and the Administrative Agent. All terms used and not otherwise defined herein shall have the meaning set forth in the Credit Agreement.

WHEREAS, the parties hereto desire to amend the Credit Agreement as set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby conclusively acknowledged, the parties hereto agree as follows:

Section 1. Acknowledgment. The Borrower hereby confirms, and the Administrative Agent and the Lenders hereby acknowledge and agree, that the Borrower is in compliance with the covenant set forth in Section 6.1 of the Credit Agreement as of September 30, 2017.

Section 2. Amendments to the Credit Agreement. The Credit Agreement shall be amended as follows:

(a) The following new defined terms are hereby inserted alphabetically in Section 1.1 of the Credit Agreement:

“ ‘ **Amendment No. 1 Effective Date** ’ shall have the meaning set forth in Amendment No. 1 to Credit Agreement. ”

“ ‘ **Amendment No. 1 Prepayment** ’ shall have the meaning set forth in Amendment No. 1 to Credit Agreement. ”

“ ‘ **Amendment No. 1 to Credit Agreement** ’ shall mean that certain Amendment No. 1 to Credit Agreement, dated as of the Amendment No. 1 Effective Date, by and among Borrower, the other Loan Parties party thereto, the Lenders party thereto and the Administrative Agent.”

(b) The following definition in Section 1.1 is hereby amended and restated in its entirety as follows:

“ ‘ **Applicable Distribution Percentage** ’ means, as of any date upon which the Borrower desires to make a Restricted Payment pursuant to Section 7.4(c), (a) 110%, if as of such date no Payment Default or Event of Default has occurred and is continuing, (b) 102%, if an Event of Default has occurred and is continuing as of such date but no Material Event of Default has occurred and is continuing as of

such date, and (c) 0%, if a Material Event of Default has occurred and is continuing as of such date; provided, however, that notwithstanding the foregoing, with respect to calendar year 2017 only, the Borrower may instead elect to apply the percentage that would result from Restricted Payments being made pursuant to Section 7.4(c) in the aggregate amount of \$2,420,687.04.”

(c) The last sentence of Section 2.5(a) of the Credit Agreement is hereby amended and restated in its entirety as follows:

“Each prepayment of a Loan shall be applied to the Lenders based on their Pro Rata Share, provided that 100% of the Amendment No. 1 Prepayment shall be applied towards the Loans held by Fortress Credit Opportunities VI CLO Limited, Fortress Credit Opportunities VII CLO Limited and Drawbridge Special Opportunities Fund LP in the respective amounts to each such Lender as such Lenders shall indicate to the Administrative Agent on or prior to the Amendment No. 1 Effective Date.”

(d) Section 6.1 of the Credit Agreement is hereby amended and restated in its entirety as follows:

“ **Section 6.1. Maximum Debt to Tangible Net Worth Ratio** . The Borrower shall not permit the Debt to Tangible Net Worth Ratio to exceed 0.80:1.00 as determined on the last day of each calendar month (other than the months ending October 31, 2017 and November 30, 2017, for which months no measurement shall be made hereunder).”

Section 3. Representations and Warranties; No Default . The Borrower hereby represents and warrants to the Administrative Agent and each Lender as follows:

(a) both before and after giving effect to this Amendment, the representations and warranties contained in the Credit Agreement and each other Loan Document are true, accurate and complete in all material respects as of the date hereof (except to the extent that such representations and warranties relate expressly to an earlier date, in which case, such representations and warranties shall have been true and correct in all material respects as of such earlier date); provided, that (i) all references therein to the Credit Agreement shall refer to the Credit Agreement as amended hereby and (ii) such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality or Material Adverse Effect in the text thereof;

(b) each of the Loan Parties party hereto has the power and authority to execute and deliver this Amendment and perform its obligations under the Credit Agreement as amended hereby;

(c) the execution and delivery of this Amendment is within the corporate or other organizational authority of each Loan Party party hereto and have been duly authorized by all necessary corporate or other organizational action on the part of such Loan Party;

(d) when executed and delivered by each Loan Party party hereto, this Amendment will constitute the valid and legally binding obligations of such Loan Party, enforceable against such Loan Party in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally and general principles of equity;

(e) that no Default or Event of Default has occurred and is continuing after giving effect to this Amendment; and

(f) no right of offset, defense, counterclaim, claim, cause of action or objection in favor of any Loan Party against Administrative Agent or any Lender exists arising out of or with respect to this Amendment, the Credit Agreement or any other Loan Document.

Section 4. Conditions Precedent.

This Amendment and the amendments to the Credit Agreement contained in Section 2 hereof, shall become effective for all purposes as of the Amendment No. 1 Effective Date upon the satisfaction of each of the following conditions, in each case in a manner reasonably satisfactory in form and substance to the Administrative Agent:

(a) this Amendment shall have been duly executed and delivered by the Borrower, the other Loan Parties, the Lenders and the Administrative Agent;

(b) the Borrower shall have made a voluntary prepayment of the Loans in an amount not less than \$4,500,000 (the "Amendment No. 1 Prepayment"), which prepayment shall be applied as set forth in the last sentence of Section 2.5(a) of the Credit Agreement (as amended hereby);

(c) the Borrower shall have paid on demand all reasonable and documented out-of-pocket fees, charges and disbursements of one outside counsel to the Administrative Agent, plus such additional amounts of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings of this Amendment to the extent invoiced on or prior to the date hereof; and

(d) delivery of such other items, documents, agreements and/or actions as the Administrative Agent may reasonably request in order to effectuate the transactions contemplated hereby.

Section 5. Ratification, etc. Except as expressly amended or otherwise modified hereby, the Credit Agreement, the Subsidiary Guarantee Agreement, the Security Agreement, any Deeds of Trust, and all other Loan Documents are hereby ratified and confirmed in all respects and shall continue in full force and effect. This Amendment shall constitute a Loan Document. Each Loan Party hereby ratifies and reaffirms the validity and enforceability of all of the Liens and security interests heretofore granted and pledged by such Loan Party pursuant to the Loan Documents to the Administrative Agent, on behalf and for the benefit of the Lenders, as collateral security for the Obligations, and acknowledges that all of such Liens and security interests, granted, pledged or

otherwise created as security for the Obligations continue to be and remain collateral security for the Obligations from and after the date hereof.

Section 6. RELEASE. IN CONSIDERATION OF THE FOREGOING AND FOR OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND SUFFICIENCY OF WHICH ARE HEREBY ACKNOWLEDGED, EACH LOAN PARTY HEREBY IRREVOCABLY RELEASES AND FOREVER DISCHARGES THE ADMINISTRATIVE AGENT, EACH LENDER AND EACH OF THEIR RESPECTIVE AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, REPRESENTATIVES AND ATTORNEYS (EACH, A "RELEASED PERSON") OF AND FROM ALL DAMAGES, LOSSES, CLAIMS, DEMANDS, LIABILITIES, OBLIGATIONS, ACTIONS AND CAUSES OF ACTION WHATSOEVER THAT EXIST OR HAVE OCCURRED ON OR PRIOR TO THE DATE OF THIS AMENDMENT, ARISING OUT OF OR RELATED TO THIS AMENDMENT OR THE OTHER LOAN DOCUMENTS, WHICH SUCH LOAN PARTY MAY NOW HAVE OR CLAIM TO HAVE ON AND AS OF THE DATE HEREOF AGAINST ANY RELEASED PERSON, WHETHER PRESENTLY KNOWN OR UNKNOWN, LIQUIDATED OR UNLIQUIDATED, SUSPECTED OR UNSUSPECTED, CONTINGENT OR NON-CONTINGENT, AND OF EVERY NATURE AND EXTENT WHATSOEVER (COLLECTIVELY, "CLAIMS") OTHER THAN ANY CLAIM ARISING SOLELY OUT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH RELEASED PERSON. EACH LOAN PARTY REPRESENTS AND WARRANTS TO THE ADMINISTRATIVE AGENT AND EACH LENDER THAT IT HAS NOT GRANTED OR PURPORTED TO GRANT TO ANY OTHER PERSON ANY INTEREST WHATSOEVER IN ANY CLAIM, AS SECURITY OR OTHERWISE.

Section 7. Miscellaneous.

(a) Reference to and Effect on the Credit Agreement.

(i) Upon the effectiveness of this Amendment, (A) each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import shall mean and be a reference to the Credit Agreement as amended or otherwise modified hereby and (B) each reference in any other document, instrument or agreement executed and/or delivered in connection with the Credit Agreement shall mean and be a reference to the Credit Agreement as amended or otherwise modified hereby.

(ii) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of any Lender under the Credit Agreement or any other Loan Document, nor constitute a waiver of any provision contained therein, in each case except as specifically set forth herein.

(b) Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Amendment. Delivery of an executed counterpart of this Amendment by

telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Amendment.

(c) GOVERNING LAW. THE VALIDITY OF THIS AMENDMENT, THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF, THE RIGHTS OF THE PARTIES HERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR RELATED HERETO, AND ANY CLAIMS, CONTROVERSIES OR DISPUTES ARISING HEREUNDER OR RELATED HERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED THEREIN. SECTION 5-1401 AND SECTION 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW SHALL BE APPLICABLE.

(d) Section Headings. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each Section applies equally to this entire Amendment.

[*Signature Pages Follow*]

IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date set forth above.

OHA INVESTMENT CORPORATION

By: /s/ Steven Wayne
Name: Steven Wayne
Title: President

OHA FUNDING GP, LLC
OHA NEVADA, LLC
OHA ASSET HOLDINGS GP, LLC
OHA FUNDING, LP
OHA ASSET HOLDINGS, LP
OHA ASSET HOLDINGS II, LP
OHA ASSET HOLDINGS III, LP
OHA ASSET HOLDINGS V, LP

By: /s/ Steven Wayne
Name: Steven Wayne
Title: President

OHA INVESTMENT CORPORATION SUB, LLC

By: OHA Investment Corporation, as sole member

By: /s/ Steven Wayne
Name: Steven Wayne
Title: President

MIDCAP FINANCIAL TRUST, as Administrative Agent and Lender

By: Apollo Capital Management, L.P., its investment manager

By: Apollo Capital Management GP, LLC, its general partner

By: /s/ Michael Levin

Name: Michael Levin

Title: Authorized Signatory

WOODMONT 2017-2 TRUST , as Lender

By: MidCap Financial Services Capital Management, LLC, as Collateral Manager

By: /s/ John O'Dea

Name: John O'Dea

Title: Authorized Signatory

FORTRESS CREDIT OPPORTUNITIES VI CLO LIMITED , as Lender

By: FCO VI CLO CM LLC, its collateral manager

By: /s/ Constantine M. Dakolias

Name: Constantine M. Dakolias

Title: President

FORTRESS CREDIT OPPORTUNITIES VII CLO LIMITED , as Lender

By: FCO VI CLO CM LLC, its collateral manager

By: /s/ Constantine M. Dakolias

Name: Constantine M. Dakolias

Title: President

DRAWBRIDGE SPECIAL OPPORTUNITIES FUND LP , as Lender

By: Drawbridge Special Opportunities GP LLC, its general partner

By: /s/ Constantine M. Dakolias

Name: Constantine M. Dakolias

Title: President



1114 Avenue of the Americas, 27th Floor
New York, NY 10036

November 10, 2017

OHA Investment Corporation
1114 Avenue of the Americas, 27th Floor
New York, NY 10036

Re: Incentive Fee Waiver

Dear Members of the Board of Directors of OHA Investment Corporation:

Reference is hereby made to the Investment Advisory Agreement (the “*Agreement*”) dated September 30, 2014, by and between Oak Hill Advisors, L.P. (the “*Adviser*”) and OHA Investment Corporation (the “*Company*”). Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Agreement.

The Adviser hereby agrees to waive any Incentive Fee that would otherwise be paid by the Company to the Adviser under Section 5.3 of the Agreement relating to fiscal years ending December 31, 2017 and December 31, 2018. Thereafter, such waiver may be extended solely by means of a written agreement between both parties.

OAK HILL ADVISORS, L.P.

By: Oak Hill Advisors GenPar, L.P., its general partner

By: Oak Hill Advisors MGP, Inc., its managing general partner

By: /s/ Michael Blumstein

Name: Michael Blumstein

Title: Authorized Signatory

Your signature below acknowledges acceptance of this Agreement:

OHA INVESTMENT CORPORATION

By: /s/ Steven Wayne

Name: Steven Wayne

Title: President

Oak Hill Advisors, L.P. 1114 Avenue of the Americas, 27th Floor New York, New York 10036 T(212) 326 1500

www.oakhilladvisors.com

**Certification Required by Rule 13a-14(a)
or Rule 15d-14(a)**

I, Steven T. Wayne, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OHA Investment Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2017

/s/ Steven T. Wayne

Steven T. Wayne

President and Chief Executive Officer

**Certification Required by Rule 13a-14(a)
or Rule 15d-14(a)**

I, Cory E. Gilbert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OHA Investment Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2017

/s/ Cory E. Gilbert

Cory E. Gilbert

Chief Financial Officer and Treasurer

**Certification required by Rule 13a-14(b) or
Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code**

In connection with the Quarterly Report of OHA Investment Corporation (the "Company") on Form 10-Q for the period ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven T. Wayne, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: November 13, 2017

/s/ Steven T. Wayne

Steven T. Wayne

President and Chief Executive Officer

**Certification required by Rule 13a-14(b) or
Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code**

In connection with the Quarterly Report of OHA Investment Corporation (the "Company") on Form 10-Q for the period ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Cory E. Gilbert, Chief Financial Officer and Treasurer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: November 13, 2017

/s/ Cory E. Gilbert

Cory E. Gilbert

Chief Financial Officer and Treasurer