

TORTOISE CAPITAL RESOURCES CORP  
Form 10-K  
February 12, 2009

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

**FORM 10-K**

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

**For the fiscal year ended November 30, 2008  
OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
COMMISSION FILE NUMBER: 001-33292**

**TORTOISE CAPITAL RESOURCES CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**Maryland**  
(State or Other Jurisdiction of Incorporation or Organization)

**20-3431375**  
(IRS Employer Identification No.)

**11550 Ash Street, Suite 300  
Leawood, Kansas**  
(Address of Principal Executive Offices)

**66211**  
(Zip Code)

**Registrant's Telephone Number, Including Area Code: (913) 981-1020**

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

| <u>Title of Each Class</u>                           | <u>Name Of Each Exchange On Which Registered</u> |
|--|--|
| <b>Common Stock, par value<br/>\$0.001 per share</b> | <b>New York Stock Exchange</b>                   |

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of common stock held by non-affiliates of the registrant on May 30, 2008 based on the closing price on that date of \$12.45 on the New York Stock Exchange was \$109,590,805. Common shares held by each executive officer and director and by each person who owns 10% or more of the outstanding common shares (as determined by information provided to the registrant) have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of January 31, 2009, the registrant had 8,962,147 common shares outstanding.

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### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Form 10-K.

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# Tortoise Capital Resources Corporation

## FORM 10-K

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**PART I**

**ITEM 1. BUSINESS**

**General**

We were organized as a Maryland corporation on September 8, 2005, commenced operations on December 8, 2005, and are a non-diversified closed-end management investment company focused on the U.S. energy infrastructure sector. We are regulated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Our common shares began trading on the New York Stock Exchange under the symbol "TTO" on February 2, 2007. We invest primarily in privately-held and micro-cap public companies operating in the midstream and downstream segments and to a lesser extent the upstream segment of the U.S. energy infrastructure sector. We seek to invest in companies in the energy infrastructure sector that generally produce stable cash flows as a result of their fee-based revenues and proactive hedging programs which help to limit direct commodity price risk. Our goal is to provide our stockholders with a high level of total return, with an emphasis on distributions and distribution growth. We invest primarily in the equity securities of companies that we expect to pay us distributions on a current basis and provide us distribution growth. These securities will generally be limited partner interests, including interests in master limited partnerships ("MLPs"), and limited liability company interests, and may also include, among others, general partner interests, common and preferred stock, convertible securities, warrants and depository receipts of companies that are organized as corporations, limited partnerships or limited liability companies. We may also invest in the securities of entities formed as joint ventures with companies in the energy infrastructure sector to spin off assets deemed to be better suited for ownership through a separate entity or to construct projects involving new energy infrastructure assets. We refer to such construction projects as greenfield projects.

Companies in the midstream segment of the energy infrastructure sector engage in the business of transporting, processing or storing natural gas, natural gas liquids, crude oil, refined petroleum products and renewable energy resources. Companies in the downstream segment of the energy infrastructure sector engage in distributing or marketing such commodities, and companies in the upstream segment of the energy infrastructure sector engage in exploring, developing, managing or producing such commodities. The energy infrastructure sector also includes producers and processors of coal and aggregates, two business segments that also are eligible for MLP status. Under normal conditions, we intend to invest at least 90% of our total assets (including assets obtained through leverage) in companies in the energy infrastructure sector. Companies in the energy infrastructure sector include (i) companies that derive a majority of their revenues from activities within the downstream, midstream and upstream segments of the energy infrastructure sector, (ii) companies that derive a majority of their revenues from providing products or services to such companies, and (iii) producers and processors of coal and aggregates, as described above. Our investments are expected to range between \$5,000,000 and \$30,000,000 per investment, although investment sizes may be smaller or larger than this targeted range.

Unlike most investment companies, we have not elected, and do not intend to elect, to be treated as a regulated investment company ("RIC") under the Internal Revenue Code of 1986, as amended (the "Code"). Therefore, we are, and intend to continue to be, obligated to pay federal and applicable state corporate income taxes on our taxable income.

**Our Adviser**

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We are externally managed by Tortoise Capital Advisors, L.L.C. (our "Adviser"), a registered investment adviser specializing in the energy sector that had approximately \$1.7 billion of assets under management as of January 31, 2009, including the assets of three other publicly traded and two privately-held closed-end management investment companies and separate accounts for institutions and high net worth individuals. Our Adviser's aggregate managed capital is among the largest of investment advisers managing closed-end management investment companies focused on the energy sector.

Our Adviser currently has six investment professionals who are responsible for the origination, structuring and managing of our investments:

- *Jeffrey Fulmer* Prior to joining our Adviser in September 2007, Mr. Fulmer was with the U.S. Department of Defense since 2002, where he headed a group of oil, gas, electric power, communications, transportation, chemical, and water infrastructure analysts engaged globally in critical infrastructure analysis, assessment, and protection. From 2000 to 2002, Mr. Fulmer served as President of Redland Energy, a natural gas property acquisition and exploitation company. From 1989 to 2000, Mr. Fulmer served as Senior Vice President and in other management capacities for Statoil Energy and its predecessor, responsible for exploration, development and land acquisition. Prior to joining Statoil Energy, Mr. Fulmer served six years in engineering and geological positions for ARCO Oil and Gas and Tenneco Oil Exploration and Production, working oil and gas field evaluation and exploitation projects.

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- *David Henriksen* Prior to joining our Adviser in August 2007, Mr. Henriksen held various positions with Great Plains Energy, an energy holding company, since 2001 where he most recently served as Vice President, Strategy and Investor Relations. His prior experience includes merger and acquisition advisory services, as well as corporate finance and corporate development positions with Koch Industries, a holder of a diverse group of companies engaged in trading, operations and investment worldwide, and CGF Industries, a multi-industry leveraged buyout and operating holding company.
- *Lisa Marquard* Prior to joining our Adviser in June 2007, Ms. Marquard was with Stifel, Nicolaus & Company, Incorporated ("Stifel Nicolaus") since 2002, where she worked in the Financial Institution Investment Banking Group. Her prior experience includes executing public and private capital offerings, merger and acquisition advisory services, as well as general advisory services including valuations, strategic alternatives and shareholder reduction transactions.
- *Terry Matlack* Mr. Matlack has been a Managing Director of our Adviser since 2002 and also serves as our Chief Financial Officer, and as a Director. Mr. Matlack is also the Chief Financial Officer and a Director of Tortoise Energy Infrastructure Corporation ("TYG"), Tortoise Energy Capital Corporation ("TYY"), Tortoise North American Energy Corporation ("TYN"), and the two privately held closed-end investment companies managed by our Adviser. From 2001 to 2002, Mr. Matlack was a full-time Managing Director at Kansas City Equity Partners, L.C. ("KCEP"). Prior to joining KCEP, Mr. Matlack was President of GreenStreet Capital and its affiliates, which invested primarily in the telecommunications service industry. Prior to 1995, he was Executive Vice President and a member of the Board of Directors of W. K. Communications, Inc., a cable television acquisition company, and Chief Operating Officer of W. K. Cellular, a rural cellular service area operator.
- *Edward Russell* Mr. Russell serves as our President, and also serves as President of one of the two privately held closed-end investment companies managed by our Adviser. Prior to joining our Adviser in March 2006, Mr. Russell was at Stifel Nicolaus since 1999, where he headed the Energy and Power Group as a Managing Director from 2003 to March 2006, and served as Vice President-Investment Banking before that. While a Managing Director at Stifel Nicolaus, Mr. Russell was responsible for all of the energy and power transactions, including all of the debt and equity transactions for TYG, TYY and

TYN and our first private placement transaction. Prior to joining Stifel Nicolaus, Mr. Russell worked for more than 15 years as an investment banker at Pauli & Company, Inc. and Arch Capital LLC and as a commercial banker with Magna Group and South Side National Bank.

- *David J. Schulte* □ Mr. Schulte has been a Managing Director of our Adviser since 2002 and also serves as our Chief Executive Officer. In addition, Mr. Schulte serves as Chief Executive Officer and President of TYG and TYY, Chief Executive Officer of TYN and one of the two privately held closed-end investment companies managed by our Adviser, and President of the other of the two privately held closed-end investment companies managed by our Adviser. From 1993 to 2002, Mr. Schulte was a full-time Managing Director at KCEP. While a partner at KCEP, Mr. Schulte led private financings for two growth MLPs in the energy infrastructure sector, Inergy, L.P., where he served as a director, and MarkWest Energy Partners, L.P., where he was a board observer. Prior to joining KCEP, Mr. Schulte had over five years of experience completing acquisition and public equity financings as an investment banker at the predecessor of Oppenheimer & Co., Inc.

Our Adviser has retained Kenmont Investments Management, L.P. (□Kenmont□) as a sub-adviser. Kenmont is a Houston, Texas based registered investment adviser with experience investing in privately-held and public companies in the U.S. energy and power sectors. Kenmont provides additional contacts to us and enhances our number and range of potential investment opportunities. The principals of Kenmont have collectively created and managed private equity portfolios in excess of \$1.5 billion and collectively have over 50 years of experience working for investment banks, accounting firms, operating companies and money management firms. Our Adviser compensates Kenmont for the services it provides to us. Our Adviser also indemnifies and holds us harmless from any obligation to pay or reimburse Kenmont for any fees or expenses incurred by Kenmont in providing such services to us. Entities managed by Kenmont own approximately 5.6 percent of our outstanding common shares and warrants to purchase an additional 281,666 of our common shares.

## Staffing

We do not currently have or expect to have any employees. Services necessary for our business are provided by individuals who are employees of our Adviser, pursuant to the terms of the Investment Advisory Agreement and the Administration Agreement. Our Adviser currently has 33 employees. Our executive officers, our six investment professionals and our Valuation Officer (whose primary responsibility is oversight of the fair valuation process for our private investments) are employees of our Advisor.

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## License Agreement

Pursuant to the Investment Advisory Agreement, our Adviser has consented to our use on a non-exclusive, royalty-free basis, of □Tortoise□ in our name. We will have the right to use the □Tortoise□ name so long as our Adviser or one of its approved affiliates remains our investment adviser. Other than with respect to this limited right, we will have no legal right to the □Tortoise□ name. This right will remain in effect for so long as the Investment Advisory Agreement with our Adviser is in effect and will automatically terminate if the Investment Advisory Agreement were to terminate for any reason, including upon its assignment.

## Our Investments

We pursue our investment objective by investing principally in a portfolio of privately-held and micro-cap public companies in the U.S. energy infrastructure sector. The energy infrastructure sector can be broadly categorized as follows:

- *Midstream* □ the gathering, processing, storing and transmission of energy resources and their byproducts in a form that is usable by wholesale power generation, utility, petrochemical, industrial and gasoline customers, including pipelines, gas processing plants, liquefied natural gas facilities and other energy infrastructure companies.

- *Downstream* □ the refining, marketing and distribution of refined energy sources, such as customer-ready natural gas, natural gas liquids, propane and gasoline, to end-user customers, and customers engaged in the generation, transmission and distribution of power and electricity.
- *Upstream* □ the exploitation and extraction of energy resources, including natural gas and crude oil from onshore and offshore geological reservoirs as well as from renewable sources, including agricultural, thermal, solar, wind and biomass.
- *Other* □ includes production and processing of coal and aggregates.

We focus our investments in the midstream and downstream segments, and to a lesser extent the upstream segment, of the U.S. energy infrastructure sector. We also intend to allocate our investments among asset types and geographic regions within the U.S. energy infrastructure sector.

### **Targeted Investment Characteristics**

We anticipate that our targeted investments will have the following characteristics:

- *Long-Life Assets with Stable Cash Flows and Limited Commodity Price Sensitivity.* We anticipate that most of our investments will be made in companies with assets having the potential to generate stable cash flows over long periods of time. We intend to invest a portion of our assets in companies that own and operate assets with long useful lives and that generate cash flows by providing critical services primarily to the producers or end-users of energy. We expect to limit the direct exposure to energy commodity price risk in our portfolio. We intend to target companies that have a majority of their cash flows generated by contractual obligations.
- *Experienced Management Teams with Energy Infrastructure Focus.* We target investments in companies with management teams that have a track record of success and that often have substantial knowledge and focus in particular segments of the energy infrastructure sector or with certain types of assets. We expect that our management team's extensive experience and network of business relationships in the energy infrastructure sector will enable us to identify and attract portfolio company management teams that meet these criteria.
- *Fixed Asset-Intensive Investments.* We anticipate that most of our investments will be made in companies with a relatively significant base of fixed assets that we believe will provide for reduced downside risk compared to making investments in companies with lower relative fixed asset levels. As fixed asset-intensive companies typically have less variable cost requirements, we expect they will generate attractive cash flow growth even with limited demand-driven or supply-driven growth.

- *Limited Technological Risk.* We do not intend to target investment opportunities involving the application of new technologies or significant geological, drilling or development risk.
- *Exit Opportunities.* We focus our investments on prospective portfolio companies that we believe will generate a steady stream of cash flow to generate returns on our investments as well as allow such companies to reinvest in their respective businesses. We expect that such internally generated cash flow will lead to distributions or the repayment of the principal of our investments in portfolio companies and will be a key means by which we monetize our investments over time. In addition, we seek to invest in companies whose business models and expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay, or provide liquidity for, our investments through an initial public offering of common stock or

other capital markets transactions. We believe our Adviser's investment experience will help us identify such companies.

### **Investment Structure and Types of Investments**

Once our Adviser's investment committee has determined that a prospective portfolio company is suitable for investment, for those transactions in which we buy securities in a private transaction, we work with the management of that company, its advisers, and its other capital providers, including other senior and junior debt and equity capital providers, if any, to structure an investment. As a BDC, we are subject to numerous regulations and restrictions. We may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, or "qualifying assets," unless at the time the acquisition is made qualifying assets represent at least 70 percent of our total assets. We may invest up to 30 percent of our total assets in assets that are non-qualifying assets in, among other things, high yield bonds, bridge loans, distressed debt, commercial loans, private equity and securities of public companies or secondary market purchases of securities of target portfolio companies.

The types of securities in which we may invest include, but are not limited to, the following:

#### ***Equity Investments***

We expect our equity investments will likely consist of common or preferred equity (generally limited partner interests, including interests in MLPs, and limited liability company interests) that is expected to pay distributions on a current basis. Preferred equity generally has a preference over common equity as to distributions during operations and upon liquidation. In general, we expect that our equity investments will not be control-oriented investments and we may acquire equity securities as part of a group of private equity investors in which we are not the lead investor. In many cases, we also may obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

In addition to limited partner interests and limited liability company interests, we may also purchase, among others, general partner interests, common and preferred stock, convertible securities, warrants and depository receipts of companies that are organized as corporations, limited partnerships or limited liability companies. We may also invest in the securities of entities formed as joint ventures with companies in the energy infrastructure sector to spin off assets deemed to be better suited for ownership through a separate entity or to construct greenfield projects.

#### ***Debt Investments***

Our debt investments may be secured or unsecured. In general, our debt investments will not be control-oriented investments and we may acquire debt securities as a part of a group of investors in which we are not the lead investor. We anticipate structuring a significant amount of our debt investments as mezzanine loans. Mezzanine loans typically are not secured by assets of the company, and usually rank subordinate in priority of payment to senior debt, such as senior bank debt, but senior to common and preferred equity, in a borrower's capital structure. We expect to invest in a range of debt investments generally having a term of five to ten years and bearing interest at either a fixed or floating rate. These loans typically will have interest-only payments in the early years, with amortization of principal deferred to the later years of the term of the loan.

In addition to bearing fixed or variable rates of interest, mezzanine loans also may provide an opportunity to participate in the capital appreciation of a borrower through an equity interest. We expect this equity interest will typically be in the form of a warrant. Due to the relatively higher risk profile and often less restrictive covenants, as compared to senior loans, mezzanine loans generally earn a higher return than senior loans. The warrants associated with mezzanine loans are typically detachable, which allows lenders to receive repayment of principal while retaining their equity interest in the borrower. In some cases, we anticipate that mezzanine loans may be collateralized by a subordinated lien on some or all of the assets of the borrower.

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In some cases, our debt investments may provide for a portion of the interest payable to be payment-in-kind interest. To the extent interest is payment-in-kind, it will likely be payable through the increase of the principal amount of the loan by the amount of interest due on the then-outstanding aggregate principal amount of such loan.

We tailor the terms of our debt investments to the facts and circumstances of the transaction and the prospective portfolio company, creating a structure that aims to protect our rights and manage risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a position senior to common and preferred equity in the capital structure of our portfolio companies, we will seek, where appropriate, to limit the downside potential of our debt investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for our credit risk;
- incorporating "put" rights and "call" protection into the investment structure; and
- structuring covenants in connection with our investments that afford portfolio companies as much flexibility in managing their businesses as possible, consistent with preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

### **Warrants**

Our investments may include warrants or options to establish or increase an equity interest in the portfolio company. Warrants we receive in connection with an investment may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the portfolio company, upon the occurrence of specified events. In certain cases, we also may obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

### **Market Opportunity**

We believe the environment for investing in privately-held and micro-cap public companies in the energy infrastructure sector has the potential to be attractive for the following reasons:

- *Increased Demand Among Small and Middle Market Private Companies for Capital.* We believe many private and micro-cap public companies have faced increased difficulty accessing the capital markets due to a continuing preference by investors for issuances in larger companies with more liquid securities. Such difficulties have been magnified in asset-focused and capital intensive industries such as the energy infrastructure sector. We believe that the U.S. energy infrastructure sector's high level of projected capital expenditures and continuing acquisition and divestiture activity will provide us with numerous attractive investment opportunities.
- *Finance Market for Small and Middle Market Energy Companies is Underserved by Many Capital Providers.* We believe that many lenders have, in recent years, de-emphasized their service and product offerings to small and middle market energy companies in favor of lending to large corporate clients and managing capital markets transactions. We believe, in addition, that many capital providers lack the necessary technical expertise to evaluate the quality of the underlying assets of small and middle market private companies and micro-cap public companies in the energy infrastructure sector and lack a network of relationships with such companies.
- *Attractive Companies with Limited Access to Other Capital.* We believe there are, and will continue to be, attractive companies that will benefit from private equity investments prior to a public offering of their equity, whether as an MLP or otherwise. We also believe that there are a number of companies in the midstream and downstream segments of the U.S. energy infrastructure sector with the same stable cash flow characteristics as those being acquired by MLPs or funded by private equity capital in anticipation of contribution to an MLP. We believe that many such companies are not being acquired by MLPs or attracting private equity capital because they do not produce income that qualifies for inclusion in an MLP pursuant to the applicable U.S. Federal income tax laws, are perceived by such investors as too small, or are in areas of the midstream energy infrastructure segment in which most MLPs do not have specific expertise. We believe that these companies represent attractive investment candidates for us.

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## Competition

We compete with public and private funds, commercial and investment banks and commercial financing companies to make the types of investments that we plan to make in the U.S. energy infrastructure sector. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than us. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, allowing them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. These competitive conditions may adversely affect our ability to make investments in the energy infrastructure sector and could adversely affect our distributions to stockholders.

As investors in privately-held companies, we seek to make investments at valuation metrics that are more favorable than those of comparable public entities (often MLPs) to account for, among other things, the lack of liquidity. Under normal market conditions, such valuation metrics often result in pricing and transaction values that are acceptable to sellers of interests in private companies. With the recent volatility and lower valuations in the MLP market, our desired pricing for private equity investments may be unattractive to sellers, dampening or limiting the market opportunities that otherwise might be available to us.

## Competitive Advantages

We believe that we are well positioned to meet the financing needs of companies within the U.S. energy infrastructure sector for the following reasons:

- *Existing Investment Platform and Focus on the Energy Infrastructure Sector.* We believe that our Adviser's current investment platform provides us with significant advantages in sourcing, evaluating, executing and managing investments. Our Adviser is a registered investment adviser specializing in the energy sector and had approximately \$1.7 billion of assets under management as of January 31, 2009, including the assets of three other publicly traded and two privately-held closed-end management investment companies and separate accounts for institutions and high net worth individuals. Our Adviser created the first publicly traded closed-end management investment company focused primarily on investing in MLPs involved in the energy infrastructure sector, and its aggregate managed capital is among the largest of those closed-end management investment company advisers focused on the energy sector.
- *Experienced Management Team.* The members of our Adviser's investment committee have an average of over 20 years of financial investment experience. Our Adviser's six investment professionals are responsible for the structuring and managing of our investments and have over 120 years of combined experience in energy, investment banking, leveraged finance and private equity investing. We believe that the members of our Adviser's investment committee and the Adviser's investment professionals have developed strong reputations in the capital markets, particularly in the energy infrastructure sector, that we believe affords us a competitive advantage in identifying and investing in energy infrastructure companies.
- *Disciplined Investment Philosophy.* In making its investment decisions, our Adviser intends to continue the disciplined investment approach that it has used since its founding. That investment approach emphasizes current income with the potential for enhanced returns through distribution growth, capital appreciation, low volatility and minimization of downside risk. Our Adviser's investment process involves an assessment of the overall attractiveness of the specific subsector of the energy infrastructure sector in which a prospective portfolio company is involved; such company's specific competitive position within that subsector; potential commodity price, supply and demand and regulatory concerns; the stability and potential growth of the prospective portfolio company's cash flows; the prospective portfolio company's management track record and incentive structure and our Adviser's ability to structure an attractive

investment.

- *Flexible Transaction Structuring.* We are not subject to many of the regulatory limitations that govern traditional lending institutions such as commercial banks. As a result, we can be flexible in structuring investments and selecting the types of securities in which we invest. Our Adviser's investment professionals have substantial experience in structuring investments that balance the needs of energy infrastructure companies with appropriate risk control.
- *Extended Investment Horizon.* Unlike private equity and venture capital funds, we are not subject to standard periodic capital return requirements. These provisions often force private equity and venture capital funds to seek quicker returns on their investments through mergers, public equity offerings or other liquidity events than may otherwise be desirable, potentially resulting in both a lower overall return to investors and an adverse impact on their portfolio companies. We believe our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment funds enhances our ability to generate attractive returns on invested capital.

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## Investment Process and Due Diligence

In conducting due diligence, our Adviser uses available public information and information obtained from its relationships with former and current management teams, vendors and suppliers to prospective portfolio companies, investment bankers, consultants and other advisers. Although our Adviser uses research provided by third parties when available, primary emphasis is placed on proprietary analysis and valuation models conducted and maintained by our Adviser's in-house investment professionals.

The due diligence process followed by our Adviser's investment professionals is highly detailed and structured. Our Adviser exercises discipline with respect to company valuation and institutes appropriate structural protections in our investment agreements. After our Adviser's investment professionals undertake initial due diligence of a prospective portfolio company, if appropriate, more extensive due diligence will be undertaken. Our due diligence process may include the following as appropriate:

- review of historical and prospective financial information;
- review and analysis of financial models and projections;
- for many midstream and upstream investments, review of third party engineering reserve reports and internal engineering reviews;
- on-site visits;
- review of the status of the potential portfolio company's title to any assets serving as collateral and liens on such assets;
- environmental diligence and assessments;
- interviews with management, and if accessible, employees, customers and vendors of the prospective portfolio company;
- research relating to the prospective portfolio company's industry, regulatory environment, products and services and competitors;
- review of financial, accounting and operating systems;
- review of relevant corporate, partnership and other loan documents; and
- research relating to the prospective portfolio company's management and contingent liabilities, including background and reference checks using our Adviser's industry contact base and commercial data bases

and other investigative sources.

Additional due diligence with respect to any investment may be conducted on our behalf by our legal counsel and accountants, as well as by other outside advisers and consultants, as appropriate.

Upon the conclusion of the due diligence process, our Adviser's investment professionals present a detailed investment proposal to our Adviser's investment committee. The Adviser's six investment professionals have over 120 years of combined experience in energy, investment banking, leveraged finance and private equity investing. The members of our Adviser's investment committee have an average of over 20 years of financial investment experience. All decisions to invest in a portfolio company must be approved by the unanimous decision of our Adviser's investment committee.

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## **Ongoing Relationships with Portfolio Companies**

### ***Monitoring***

The investment professionals of our Adviser monitor each portfolio company to determine progress relative to meeting the company's business plan and to assess the company's strategic and tactical courses of action. This monitoring may be accomplished by attendance at Board of Directors meetings, the review of periodic operating reports and financial reports, an analysis of relevant reserve information and capital expenditure plans, and periodic consultations with engineers, geologists, and other experts. The performance of each portfolio company is also periodically compared to performance of similarly sized companies with comparable assets and businesses to assess performance relative to peers. Our Adviser's monitoring activities are expected to provide it with the necessary access to monitor compliance with existing covenants, to enhance its ability to make qualified valuation decisions, and to assist its evaluation of the nature of the risks involved in each individual investment. In addition, these monitoring activities should permit our Adviser to diagnose and manage the common risk factors held by our total portfolio, such as sector concentration, exposure to a single financial sponsor, or sensitivity to a particular geography.

### ***Significant Managerial Assistance***

A BDC must be organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described below. However, in order to count portfolio securities as qualifying assets for the purpose of the 70 percent test, a BDC must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby a BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company's officers, or other organizational or financial guidance. Although we are not currently doing so, we may in the future charge for providing managerial assistance.

### **Operating and Regulatory Structure**

We are regulated as a BDC under the 1940 Act, and classified as a non-diversified closed-end management investment company under the 1940 Act. We are, and intend to continue to be, taxed as a general business corporation under the Code.

As a BDC, we are subject to numerous regulations and restrictions. We may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, or "qualifying assets," unless at the time the acquisition is made qualifying assets represent at least 70 percent of our total assets. We may invest up to 30 percent of our total assets in assets that are non-qualifying assets and are not subject to the limitations referenced above. These investments may include, among other things, investments in high yield bonds, bridge loans, distressed debt, commercial loans, private equity, securities of public companies or secondary market purchases of otherwise qualifying assets. If the value of non-qualifying assets should at any time exceed 30 percent of our total assets, we will be precluded from acquiring any additional non-qualifying assets until such time as the value of our

qualifying assets again equals at least 70 percent of our total assets.

Unlike most investment companies, we have not elected, and do not intend to elect, to be treated as a RIC under the Code. Therefore, we are, and intend to continue to be, obligated to pay federal and applicable state corporate income taxes on our taxable income. As a result of not electing to be treated as a RIC, we are not subject to the Code's diversification rules limiting the assets in which a RIC can invest. In addition, we are not subject to the Code's restrictions on the types of income that a RIC can recognize without adversely affecting its election to be treated as a RIC, allowing us the ability to invest in operating entities treated as partnerships under the Code, which we believe provide attractive investment opportunities. Finally, unlike RICs, we are not effectively required by the Code to distribute substantially all of our income and capital gains. Distributions on the common shares will be treated first as taxable dividend income to the extent of our current or accumulated earnings and profits, then as a tax free return of capital to the extent of a stockholder's tax basis in the common shares, and last as capital gain. We anticipate that the distributed cash from our portfolio investments in entities treated as partnerships for tax purposes will exceed our share of taxable income from those portfolio investments. Thus, we anticipate that only a portion of distributions we make on the common shares will be treated as taxable dividend income to our stockholders.

### **Codes of Ethics**

We have adopted a code of ethics which applies to our principal executive officer and principal financial officer. We have also adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code of ethics may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code of ethics. This information may be obtained, without charge, upon request by calling us at (913) 981-1020 or toll-free at (866) 362-9331 and on our Web site at [www.tortoiseadvisors.com/tto.cfm](http://www.tortoiseadvisors.com/tto.cfm).

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You may also read and copy the codes of ethics at the Securities and Exchange Commission's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. In addition, the codes of ethics are available on the EDGAR Database on the Securities and Exchange Commission's Internet site at <http://www.sec.gov>. You may obtain copies of the codes of ethics, after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Securities and Exchange Commission's Public Reference Section, Washington, D.C. 20549.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 (the "Act") imposes a wide variety of regulatory requirements for publicly-held companies and their insiders. Under the Act, we are required to review our policies and procedures to determine whether we comply with the provisions of the Act. We will continue to monitor our compliance with all future regulations that are adopted under the Act and will take actions necessary to ensure that we are in compliance therewith.

As of November 30, 2008, we are an accelerated filer. As an accelerated filer for the fiscal year ended November 30, 2008, we are required to prepare and include in our annual report to stockholders for such period a report regarding management's assessment of our internal control over financial reporting under the Securities Exchange Act of 1934 (the "1934 Act") and have included this report in Item 9A of this Annual Report on Form 10-K.

### **Available Information**

Our principal executive offices are located at 11550 Ash Street, Suite 300, Leawood, Kansas 66211, our telephone number is (913) 981-1020, or toll-free 1-866-362-9331, and our Web site is [www.tortoiseadvisors.com/tto.cfm](http://www.tortoiseadvisors.com/tto.cfm). We will make available free of charge our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports when we electronically file such material with, or furnish it to, the SEC. This information may be obtained, without charge, upon request by calling us at (913) 981-1020 or toll-free at (866) 362-9331 and on our Web site at [www.tortoiseadvisors.com/tto.cfm](http://www.tortoiseadvisors.com/tto.cfm). This information will also be available at the SEC's Public Reference Room at

100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed by us with the SEC which is available on the SEC's internet site at [www.sec.gov](http://www.sec.gov). Please note that any internet addresses provided in this Form 10-K are for informational purposes only and are not intended to be hyperlinks. Accordingly, no information found and/or provided at such internet address is intended or deemed to be included by reference herein.

## ITEM 1A. RISK FACTORS

### Risks Related to Our Operations

#### ***We have a limited operating history.***

We were incorporated in Maryland on September 8, 2005. We are subject to all of the business risks and uncertainties associated with any business, including the risk that we will not achieve our investment objective and that the value of an investment in our common shares could decline substantially.

#### ***Our Adviser serves as investment adviser to other funds, which may create conflicts of interest not in the best interest of us or our stockholders.***

Our Adviser was formed in October 2002 and has been managing investments in portfolios of MLPs and other issuers in the energy sector since that time, including management of the investments of TYG since February 27, 2004, TYY since May 31, 2005, TYN since October 31, 2005, one of the two privately-held closed-end management investment companies since June 29, 2007 and the other of the two privately-held closed end management investment companies since July 19, 2007. From time to time the Adviser may pursue areas of investments in which the Adviser has more limited experience.

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Our investment committee is the same for, and all of our Adviser's employees provide services for, other funds managed by our Adviser. Our Adviser's services under the investment advisory agreement are not exclusive, and it is not prohibited from furnishing the same or similar services to other entities, including businesses that may directly or indirectly compete with us so long as its services to us are not impaired by the provision of such services to others. In addition, the publicly traded funds and private accounts managed by our Adviser may make investments similar to investments that we may pursue. Unlike the other funds managed by our Adviser (other than one of the privately-held closed-end management investment companies), we generally target investments in companies that are privately-held or have market capitalizations of less than \$250,000,000, and that are earlier in their stage of development. We also focus on privately-held and micro-cap public energy companies operating in the midstream and downstream segment, and to a lesser extent the upstream segment, of the U.S energy infrastructure sector. The privately-held closed-end management investment company focuses on privately-held companies and publicly traded MLPs in the upstream, and to a lesser extent the midstream, gas and oil segments of the energy sector and could contemplate an investment that falls within our investment focus. Accordingly, our Adviser and the members of its investment committee may have obligations to other investors, the fulfillment of which might not be in the best interests of us or our stockholders, and it is possible that our Adviser might allocate investment opportunities to other entities, limiting attractive investment opportunities available to us. However, our Adviser intends to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies, and in accordance with written allocation policies and procedures of our Adviser, so that we will not be disadvantaged in relation to any other client.

#### ***We are dependent upon our Adviser's key personnel for our future success.***

We depend on the diligence, expertise and business relationships of the senior management of our Adviser. Our Adviser's investment professionals and senior management will evaluate, structure, close and monitor our investments. Our future success will depend on the continued service of the senior management team of our Adviser. The departure of one or more investment professionals of our Adviser could have a material adverse effect on our ability to achieve our investment objective and on the value of our common shares. We will rely on certain employees of the Adviser who will be devoting significant amounts of their time to other activities of the Adviser. To the extent the Adviser's investment professionals and senior management are unable to, or do not, devote sufficient amounts of their time and energy to our affairs, our performance may suffer.

#### ***The incentive fee payable to our Adviser may create conflicting incentives.***

The incentive fee payable by us to our Adviser may create an incentive for our Adviser to make investments on our behalf that are riskier or more speculative than would be the case in the absence of such a compensation

arrangement. Because a portion of the incentive fee payable to our Adviser is calculated as a percentage of the amount of our net investment income that exceeds a hurdle rate, our Adviser may imprudently use leverage to increase the return on our investments. Under some circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common shares. In addition, our Adviser will receive an incentive fee based, in part, upon net realized capital gains on our investments. Unlike the portion of the incentive fee based on net investment income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, our Adviser may have an incentive to pursue investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative or long term securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns or longer return cycles.

We may be required to pay an incentive fee even in a fiscal quarter in which we have incurred a loss. For example, if we have pre-incentive fee net investment income above the hurdle rate and realized capital losses, we will be required to pay the investment income portion of the incentive fee.

The investment income portion of the incentive fee payable by us will be computed and paid on income that may include interest that has been accrued but not yet received in cash, and the collection of which is uncertain or deferred. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the investment income portion of the incentive fee will become uncollectible. Our Adviser will not be required to reimburse us for any such incentive fee payments.

***Because we expect to distribute substantially all of our income to our stockholders, we will continue to need additional capital to make new investments. If additional funds are unavailable or not available on favorable terms, our ability to make new investments will be impaired.***

If we distribute substantially all of our income to our stockholders and desire to make new investments, our business will require a substantial amount of capital. We may acquire additional capital from the issuance of securities senior to our common shares, including additional borrowings or other indebtedness or the issuance of additional securities. We may also acquire additional capital through the issuance of additional equity. However, we may not be able to raise additional capital in the future on favorable terms or at all. Unfavorable economic conditions could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. We may issue debt securities, other instruments of indebtedness or preferred stock, and we intend to borrow money from banks or other financial institutions, which we refer to collectively as [senior securities,] up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200 percent after each issuance of senior securities. Our ability to pay distributions or issue additional senior securities is restricted if our asset coverage ratio is not at least 200 percent, or put another way, the value of our assets (less all liabilities and indebtedness not represented by senior securities) must be at least twice that of any outstanding senior securities (plus the aggregate involuntary liquidation preference of any preferred stock). If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous. As a result of issuing senior securities, we will also be exposed to typical risks associated with leverage, including increased risk of loss. If we issue preferred securities which will rank [senior] to our common shares in our capital structure, the holders of such preferred securities may have separate voting rights and other rights, preferences or privileges more favorable than those of our common shares, and the issuance of such preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for security holders or otherwise be in our best interest.

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To the extent our ability to issue debt or other senior securities is constrained, we will depend on issuances of additional common shares to finance new investments. As a BDC, we generally are not able to issue additional common shares at a price below NAV (net of any sales load (underwriting discount)) without first obtaining required approvals of our stockholders and our independent directors, which could constrain our ability to issue additional equity. If we raise additional funds by issuing more of our common shares or senior securities convertible into, or exchangeable for, our common shares, the percentage ownership of our stockholders at that time would decrease, and you may experience dilution.

***As a BDC, we are subject to limitations on our ability to engage in certain transactions with affiliates.***

As a BDC, we are prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors or the SEC. Any person that owns, directly or indirectly, 5 percent or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act and

we are generally prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits "joint" transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. If a person acquires more than 25 percent of our voting securities, we will be prohibited from buying or selling any security from or to such person, or entering into joint transactions with such person, absent prior approval of the SEC.

***If an investment that was initially believed to be a qualifying asset is later deemed not to have been a qualifying asset at the time of investment, we could lose our status as a BDC or be precluded from investing according to our current business plan.***

As a BDC, we must not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70 percent of our total assets are qualifying assets. If an investment that was originally believed to be a qualifying asset is later deemed not to have been a qualifying asset at the time of investment, our status as a BDC may be jeopardized or we may be precluded from investing according to our current business plan, either of which would have a material adverse effect on our business, financial condition and results of operations. We also may be required to dispose of investments, which could have a material adverse effect on us and our shareholders, because even if we were successful in finding a buyer, we may have difficulty in finding a buyer to purchase such investments on favorable terms or in a sufficient timeframe.

***We may choose to invest a portion of our portfolio in investments that may be considered highly speculative and that could negatively impact our ability to pay distributions and cause you to lose part of your investment.***

The 1940 Act permits a BDC to invest up to 30 percent of its assets in investments that do not meet the test for "qualifying assets." Such investments may be made by us with the expectation of achieving a higher rate of return or increased cash flow with a portion of our portfolio and may fall outside of our targeted investment criteria. These investments may be made even though they may expose us to greater risks than our other investments and may consequently expose our portfolio to more significant losses than may arise from our other investments. We may invest up to 30 percent of our total assets in assets that are non-qualifying assets in among other things, high yield bonds, bridge loans, distressed debt, commercial loans, private equity, and securities of public companies or secondary market purchases of securities of target portfolio companies. Such investments could impact negatively our ability to pay you distributions and cause you to lose part of your investment.

***Our debt increases the risk of investing in us.***

We have a \$50,000,000 secured revolving credit facility with U.S. Bank National Association, as lender, agent and lead arranger, First National Bank of Kansas and Wells Fargo Bank, N.A. The credit facility terminates on March 20, 2009. As of November 30, 2008, we had an outstanding balance of \$22,200,000 under the credit facility. Our credit facility contains a covenant precluding us from incurring additional debt. Lenders from whom we may borrow money or holders of our debt securities will have fixed dollar claims on our assets that are superior to the claims of our stockholders, and we have and may in the future grant a security interest in our assets in connection with our debt. In the case of a liquidation event, those lenders or note holders would receive proceeds before our stockholders. In addition, debt, also known as leverage, magnifies the potential for gain or loss on amounts invested and, therefore, increases the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique and the costs of any leverage transactions will be borne by our stockholders. In addition, because the base management fees we pay to our Adviser are based on Managed Assets (which includes any assets purchased with borrowed funds); our Adviser may imprudently borrow funds in an attempt to increase our managed assets and in conflict with our or our stockholders' best interests. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common shares to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common shares to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common shares. Our ability to service any debt that we incur will depend largely on our financial performance and the performance of our portfolio companies and will be subject to prevailing economic conditions and competitive pressures. Under the terms of our credit facility, we must maintain the asset coverage ratio required under the 1940 Act. If we fail to maintain the required coverage, we may be required to repay a portion of any outstanding balance until the asset coverage requirement has been met. This may require us to sell assets. The illiquid nature of most of our investments may make it difficult to dispose of such assets at a favorable price, and as a result, we may suffer losses.

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***We operate in a highly competitive market for investment opportunities.***

We compete with public and private funds, commercial and investment banks and commercial financing companies to make the types of investments that we plan to make in the U.S. energy infrastructure sector. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than us. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, allowing them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. These competitive conditions may adversely affect our ability to make investments in the energy infrastructure sector and could adversely affect our distributions to stockholders.

***Our quarterly results may fluctuate.***

We could experience fluctuations in our quarterly operating results due to a number of factors, including the return on our equity investments, the interest rates payable on our debt investments, the default rates on such investments, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***Our portfolio may be concentrated in a limited number of portfolio companies.***

We currently have investments in a limited number of portfolio companies. An inherent risk associated with this investment concentration is that we may be adversely affected if one or two of our investments perform poorly or if we need to write down the value of any one investment. Financial difficulty on the part of any single portfolio company or the failure of a portfolio company to make distributions will expose us to a greater risk of loss than would be the case if we were a diversified company holding numerous investments.

***Our investments in privately-held companies present certain challenges, including the lack of available information about these companies and a greater inability to liquidate our investments in an advantageous manner.***

We primarily make investments in privately-held companies. Generally, little public information will exist about these companies, and we will be required to rely on the ability of our Adviser to obtain adequate information to evaluate the potential risks and returns involved in investing in these companies. If our Adviser is unable to obtain all material information about these companies, including with respect to operational, regulatory, environmental, litigation and managerial risks, our Adviser may not make a fully-informed investment decision, and we may lose some or all of the money invested in these companies. In addition, our Adviser may inappropriately value the prospects of an investment, causing us to overpay for such investment and fail to receive an expected or projected return on its investment. Substantially all of these securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The illiquidity of these investments may make it difficult for us to sell such investments at advantageous times and prices or in a timely manner. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we previously have recorded our investments. We also may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or one of our affiliates have material non-public information regarding such portfolio company.

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***Most of our portfolio investments are and will continue to be recorded at fair value as determined in good faith by our Board of Directors. As a result, there is and will continue to be uncertainty as to the value of our portfolio investments.***

Most of our investments are and will be in the form of securities or loans that are not publicly traded. The fair value of these investments may not be readily determinable. We will value these investments quarterly at fair value as determined in good faith by our Board of Directors. We have retained Duff & Phelps, LLC (an independent valuation firm) to provide third party valuation consulting services which consist of certain limited procedures that the Board of Directors has identified and requested they perform. For the period ended November 30, 2008, the Board of Directors requested Duff & Phelps, LLC to perform the limited procedures on investments in seven portfolio companies comprising approximately 84 percent of our restricted investments at fair value as of November 30, 2008. Duff & Phelps, LLC's limited procedures did not involve an audit, review, compilation or any other form of examination or attestation under the standards of the Public Company

Accounting Oversight Board (United States). Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of the investments subjected to the limited procedures did not appear to be unreasonable. The Board of Directors is solely responsible for determining the fair value of the investments in good faith. The types of factors that may be considered in fair value pricing of an investment include the nature and realizable value of any collateral, the portfolio company's earnings and ability to make payments, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations are inherently uncertain, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. As a result, we may not be able to dispose of our holdings at a price equal to or greater than the determined fair value, which could have a negative impact on our net asset value.

***Our equity investments may decline in value.***

The equity securities in which we invest may not appreciate or may decline in value. We may thus not be able to realize gains from our equity securities, and any gains that we do realize on the disposition of any equity securities may not be sufficient to offset any other losses we experience. As a result, the equity securities in which we invest may decline in value, which may negatively impact our ability to pay distributions and cause you to lose all or part of your investment.

***An investment in MLPs will pose risks unique from other equity investments.***

An investment in MLP securities involves some risks that differ from an investment in the common stock of a corporation. Holders of MLP units have limited control and voting rights on matters affecting the partnership. Holders of units issued by an MLP are exposed to a remote possibility of liability for all of the obligations of that MLP in the event that a court determines that the rights of the holders of MLP units to vote to remove or replace the general partner of that MLP, to approve amendments to that MLP's partnership agreement, or to take other action under the partnership agreement of that MLP would constitute "control" of the business of that MLP, or a court or governmental agency determines that the MLP is conducting business in a state without complying with the partnership statute of that state.

Holders of MLP units are also exposed to the risk that they be required to repay amounts to the MLP that are wrongfully distributed to them. In addition, the value of our investment in an MLP will depend largely on the MLP's treatment as a partnership for U.S. federal income tax purposes. If an MLP does not meet current legal requirements to maintain partnership status, or if it is unable to do so because of tax law changes, it would be treated as a corporation for U.S. federal income tax purposes. In that case, the MLP would be obligated to pay income tax at the entity level and distributions received by us generally would be taxed as dividend income. As a result, there could be a material reduction in our cash flow and there could be a material decrease in the value of our common shares.

***Unrealized decreases in the value of debt investments in our portfolio may impact the value of our common shares and may reduce our income for distribution.***

As a BDC, we are required to carry our investments at fair value. Decreases in the fair values of our debt investments will be recorded as unrealized depreciation. Any unrealized depreciation in our investment portfolio could be an indication of a portfolio company's inability to meet its obligations to us with respect to the loans whose fair values decreased. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods.

***When we are a minority equity or a debt investor in a portfolio company, we may not be in a position to control that portfolio company.***

When we make minority equity investments or invest in debt, we will be subject to the risk that a portfolio company may make business decisions with which we may disagree, and that the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our investments.

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***Our portfolio companies can incur debt that ranks senior to our equity investments in such companies.***

Portfolio companies in which we invest usually will have, or may be permitted to incur, debt that ranks senior to our equity investments. As a result, payments on such securities may have to be made before we receive any payments on our investments. For example, these debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to our investments. These debt instruments will usually prohibit the portfolio companies from paying

interest on or repaying our investments in the event and during the continuance of a default under such debt. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying its senior creditors, a portfolio company may not have any remaining assets to use to repay its obligation to us or provide a full or even partial return of capital on an equity investment made by us.

***If our investments do not meet our performance expectations, you may not receive distributions.***

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Also, restrictions and provisions in any future credit facilities and debt securities may limit our ability to make distributions. We cannot assure you that you will receive distributions at a particular level or at all.

***The lack of liquidity in our investments may adversely affect our business, and if we need to sell any of our investments, we may not be able to do so at a favorable price. As a result, we may suffer losses.***

We generally expect to invest in the equity of companies whose securities are not publicly traded, and whose securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. We also expect to invest in debt securities with terms of five to ten years and hold such investments until maturity. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly (to meet debt covenants in our credit facility, for example), we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. However, to maintain our status as a BDC, we may have to dispose of investments if we do not satisfy one or more of the applicable criteria under the regulatory framework. Our investments are usually subject to contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market for such investments. The illiquidity of most of our investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

***We will be exposed to risks associated with changes in interest rates.***

Equity securities may be particularly sensitive to rising interest rates, which generally increase borrowing costs and the cost of capital and may reduce the ability of portfolio companies in which we own equity securities to either execute acquisitions or expansion projects in a cost-effective manner or provide us liquidity by completing an initial public offering or completing a sale. Fluctuations in interest rates will also impact any debt investments we make. Changes in interest rates may also negatively impact the costs of our outstanding borrowings, if any.

***We may not have the funds to make additional investments in our portfolio companies.***

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment through the exercise of a warrant to purchase common stock. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments. Any decisions not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for us to increase our participation in a successful operation or may reduce the expected yield on the investment.

***Changes in laws or regulations or in the interpretations of laws or regulations could significantly affect our operations and cost of doing business.***

We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, we may have to incur significant expenses in order to comply, or we may have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, or fail to obtain licenses that may become necessary for the conduct of our business; we may be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

***Our internal controls over financial reporting may not be adequate, and our independent registered public accounting firm may not be able to certify as to their adequacy, which could have a significant and adverse effect on our business and reputation.***

As of November 30, 2008, we are an accelerated filer, and as such, our management and independent registered public accounting firm are required to report on the adequacy of our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and rules and regulations of the SEC there under. We will be required to review on an annual basis our internal controls over financial reporting, and to disclose on a quarterly basis changes that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. There can be no assurance that our quarterly reviews will not identify material weaknesses.

***Provisions of the Maryland General Corporation Law and our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common shares.***

The Maryland General Corporation Law and our charter and bylaws contain provisions that may have the effect of discouraging, delaying or making difficult a change in control of our company or the removal of our incumbent directors. We will be covered by the Business Combination Act of the Maryland General Corporation Law to the extent that such statute is not superseded by applicable requirements of the 1940 Act. However, our Board of Directors has adopted a resolution exempting us from the Business Combination Act for any business combination between us and any person to the extent that such business combination receives the prior approval of our board, including a majority of our directors who are not interested persons as defined in the 1940 Act.

Under our charter, our Board of Directors is divided into three classes serving staggered terms, which will make it more difficult for a hostile bidder to acquire control of us. In addition, our Board of Directors may, without stockholder action, authorize the issuance of shares of stock in one or more classes or series, including preferred stock. Subject to compliance with the 1940 Act, our Board of Directors may, without stockholder action, amend our charter to increase the number of shares of stock of any class or series that we have authority to issue. The existence of these provisions, among others, may have a negative impact on the price of our common shares and may discourage third party bids for ownership of our company. These provisions may prevent any premiums being offered to you for our common shares.

**Risks Related to an Investment in the U.S. Energy Infrastructure Sector**

***Our portfolio is and will continue to be concentrated in the energy infrastructure sector, which will subject us to more risks than if we were broadly diversified.***

We invest primarily in privately-held and micro-cap public energy companies. Because we are specifically focused on the energy infrastructure sector, investments in our common shares may present more risks than if we were broadly diversified over numerous sectors of the economy. Therefore, a downturn in the U.S. energy infrastructure sector would have a larger impact on us than on an investment company that does not concentrate in one sector of the economy. The energy infrastructure sector can be significantly affected by the supply of and demand for specific products and services; the supply and demand for crude oil, natural gas, and other energy commodities; the price of crude oil, natural gas, and other energy commodities; exploration, production and other capital expenditures; government regulation; world and regional events and economic conditions. At times, the performance of securities of companies in the energy infrastructure sector may lag the performance of securities of companies in other sectors or the broader market as a whole.

***The portfolio companies in which we invest are subject to variations in the supply and demand of various energy commodities.***

A decrease in the production of natural gas, natural gas liquids, crude oil, coal, aggregates, refined petroleum products or other such commodities, or a decrease in the volume of such commodities available for transportation, mining, processing, storage or distribution, may adversely impact the financial performance of companies in the energy infrastructure sector. Production declines and volume decreases could be caused by various factors, including catastrophic events affecting production, depletion of resources, labor difficulties, political events, OPEC actions, environmental proceedings, increased regulations, equipment failures and unexpected maintenance problems, failure to obtain necessary permits, unscheduled outages, unanticipated expenses, inability to successfully carry out new construction or acquisitions, import supply disruption, increased competition from alternative energy sources or related commodity prices. Alternatively, a sustained decline in demand for such commodities could also adversely affect the financial performance of companies in the energy infrastructure sector. Factors that could lead to a decline in demand include economic recession or other adverse economic conditions, higher fuel taxes or governmental regulations, increases in fuel economy, consumer shifts to the use of alternative fuel sources, changes in commodity prices or weather.

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***Many companies in the energy infrastructure sector are subject to the risk that they, or their customers, will be unable to replace depleted reserves of energy commodities.***

Many companies in the energy infrastructure sector are either engaged in the production of natural gas, natural gas liquids, crude oil, refined petroleum products, coal, or aggregates or are engaged in transporting, storing, distributing and processing these items on behalf of producers. To maintain or grow their revenues, many customers of these companies need to maintain or expand their reserves through exploration of new sources of supply, through the development of existing sources, through acquisitions, or through long-term contracts to acquire reserves. The financial performance of companies in the energy infrastructure sector may be adversely affected if the companies to which they provide service are unable to cost-effectively acquire additional reserves sufficient to replace the natural decline.

***Our portfolio companies are and will be subject to extensive regulation because of their participation in the energy infrastructure sector.***

Companies in the energy infrastructure sector are subject to significant federal, state and local government regulation in virtually every aspect of their operations, including how facilities are constructed, maintained and operated, environmental and safety controls, and the prices they may charge for the products and services they provide. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Stricter laws, regulations or enforcement policies could be enacted in the future that likely would increase compliance costs and may adversely affect the financial performance of companies in the energy infrastructure sector and the value of our investments in those companies.

***Energy infrastructure companies are and will be subject to the risk of fluctuations in commodity prices.***

The operations and financial performance of companies in the energy infrastructure sector may be directly affected by energy commodity prices, especially those companies in the energy infrastructure sector owning the underlying energy commodity. Commodity prices fluctuate for several reasons, including changes in market and economic conditions, the impact of weather on demand or supply, levels of domestic production and imported commodities, energy conservation, domestic and foreign governmental regulation and taxation and the availability of local, intrastate and interstate transportation systems. Volatility of commodity prices, which may lead to a reduction in production or supply, may also negatively impact the performance of companies in the energy infrastructure sector that are solely involved in the transportation, processing, storing, distribution or marketing of commodities. Volatility of commodity prices may also make it more difficult for companies in the energy infrastructure sector to raise capital to the extent the market perceives that their performance may be tied directly or indirectly to commodity prices. Historically, energy commodity prices have been cyclical and exhibited significant volatility.

***Our portfolio companies are and will be subject to the risk of extreme weather patterns.***

Extreme weather patterns, such as prolonged or abnormal seasons, or specific events, such as hurricanes, could result in significant volatility in the supply of energy and power. This volatility may create fluctuations in commodity prices and earnings of companies in the energy infrastructure sector. Moreover, any extreme weather events, such as hurricanes Katrina and Rita, could adversely impact the assets and valuation of our portfolio companies.

***Acts of terrorism may adversely affect us.***

The value of our common shares and our investments could be significantly and negatively impacted as a result of terrorist activities, such as the terrorist attacks on the World Trade Center on September 11, 2001; war, such as the war in Iraq and its aftermath; and other geopolitical events, including upheaval in the Middle East or other energy producing regions. The U.S. government has issued warnings that energy assets, specifically those related to pipeline infrastructure, production facilities and transmission and distribution facilities, might be specific targets of terrorist activity. Such events have led, and in the future may lead, to short-term market volatility and may have long-term effects on the U.S. economy and markets. Such events may also adversely affect our business and financial condition.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We do not own any real estate or other physical properties. Our Adviser is the current leaseholder for all properties in which we operate. We occupy these premises pursuant to our Investment Advisory Agreement and the Administration Agreement with our Adviser. Our principal executive office is located in Leawood, Kansas, and one of our investment professionals operates from a location in Alexandria, Virginia.

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**ITEM 3. LEGAL PROCEEDINGS**

Neither we nor our Adviser are currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Price Range of Common Stock**

Our common shares began trading on the New York Stock Exchange (["NYSE"]) under the symbol ["TTO"] on February 2, 2007 at a price of \$15.00 per share. Prior to our initial public offering, there was no public market for our common shares.

The following table sets forth the range of high and low sales prices of our common shares as reported on the NYSE, and the distributions declared by us for each fiscal quarter since our initial public offering.

| <b>2007</b>    | <b>NAV<sup>(1)</sup></b> | <b>Price Range</b> |            | <b>Cash Distribution per Share<sup>(2)</sup></b> |
|----------------|--------------------------|--------------------|------------|--|
|                |                          | <b>High</b>        | <b>Low</b> |  |
| First quarter  | \$ 13.84                 | \$ 15.03           | \$ 14.50   | \$ 0.1000 <sup>(3)</sup>                         |
| Second quarter | \$ 14.05                 | \$ 18.47           | \$ 14.31   | \$ 0.1600  |
| Third quarter  | \$ 13.77                 | \$ 18.99           | \$ 13.79   | \$ 0.1800  |
| Fourth quarter | \$ 13.76                 | \$ 15.29           | \$ 11.66   | \$ 0.2300  |
| <b>2008</b>    |                          |                    |            |  |
| First quarter  | \$ 13.28                 | \$ 13.05           | \$ 11.00   | \$ 0.2500  |
| Second quarter | \$ 13.69                 | \$ 13.42           | \$ 11.80   | \$ 0.2625  |
| Third quarter  | \$ 13.38                 | \$ 12.52           | \$ 11.00   | \$ 0.2650  |
| Fourth quarter | \$ 9.96                  | \$ 11.18           | \$ 4.40    | \$ 0.2650  |

(1) Net asset value per share is generally determined as of the last day in the relevant period and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.

(2) Represents the distribution declared in the specified period.

(3) Partial distribution paid to pre-IPO shareholders on February 7, 2007, the closing date of the IPO.

The last reported price for our common stock on January 30, 2009 was \$6.17 per share. As of January 30, 2009, we had 30 stockholders of record.

## Distributions Policy

Our portfolio generates cash flow to us from which we pay distributions to stockholders. When our Board of Directors determines the amount of any distribution we expect to pay our stockholders, it will review distributable cash flow ("DCF"). DCF is distributions received from investments less our total expenses. Total distributions received from our investments include the amount received by us as cash distributions from equity investments, paid-in-kind distributions, and dividend and interest payments. Total expenses include current or anticipated operating expenses, leverage costs and current income taxes on our operating income. Total expenses do not include deferred income taxes or accrued capital gain incentive fees.

We intend, subject to adjustment at the discretion of our Board of Directors, to pay out to our stockholders substantially all of the amounts we receive as cash or paid-in-kind distributions on equity securities we own and interest payments on debt securities we own, less current or anticipated operating expenses, current income taxes on our income and our leverage costs. Historically we have included all paid-in-kind distributions in distributable cash flow, however, in the future, we do not intend to include in distributable cash flow the value of distributions received from portfolio companies which are paid in stock as a result of credit constraints, market dislocation or other similar issues.

We have an "opt out" dividend reinvestment plan. As a result, if we declare a distribution, stockholders' cash distributions will be automatically reinvested in additional common shares, unless the stockholders specifically "opt out" of the dividend reinvestment plan so as to receive cash distributions. Stockholders who receive distributions in the form of common shares will generally be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash.

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As a BDC, we are prohibited from paying distributions if doing so would cause us to fail to maintain the asset coverage ratios stipulated by the 1940 Act. Distributions also may be limited by the terms of our borrowings. It is our objective to invest our assets and structure our borrowings so as to permit stable and consistently growing distributions. However, there can be no assurances that we will achieve that objective or that our results will permit the payment of any cash distributions.

## Taxation of our Distributions

We have invested, and intend to invest, primarily in partnerships and limited liability companies treated as partnerships for tax purposes, which generally have larger distributions of cash than the taxable income which they generate. Accordingly, we anticipate that the distributions we receive typically will include a return of capital component for accounting and tax purposes. Distributions declared and paid by us in any year generally will differ from our taxable income for that year; as such distributions may include the distribution of current year taxable income and returns of capital.

## Performance Graph

The following graph compares the return on our common stock ("TTO") with that of the Wachovia MLP Total Return Index ("WMLPT"), the Standard & Poor's 500 Stock Index ("SPX") and a BDC Peer Group ("BDC Peers") the period February 2, 2007 to November 30, 2008. The graph assumes that, on February 2, 2007, a \$100 investment was made in each of our common stock, WMLPT, SPX and the BDC Peers, and assumes the reinvestment of all cash dividends. The comparisons in the graph below are based on historical data and are not intended to forecast future performance of our common stock.

**Shareholder Return Performance Graph**  
**Cumulative Total Return Since Initial Public Offering <sup>(1)</sup>**  
**Through November 30, 2008**

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- (1) Our shares began trading on the NYSE on February 2, 2007.
- (2) The BDC Peer Group consists of the following closed-end investment companies that have elected to be regulated as business development companies under the 1940 Act:
- |                               |                              |
|-------------------------------|------------------------------|
| Allied Capital Corp.          | Highland Distressed          |
| American Capital Strategies   | Kohlberg Capital Corp.       |
| Ameritrans Capital Corp.      | Main Street Capital Corp.    |
| Apollo Investment Corp.       | MCG Capital Corp.            |
| Ares Capital Corporation      | Medallion Financial Corp.    |
| Blackrock Kelso Capital Corp. | MVC Capital                  |
| Capital Southwest Corp.       | NGP Capital Resources Co.    |
| Equus Total Return            | Patriot Capital Funding Inc. |
| Gladstone Capital Corp.       | PennantPark Investment Corp  |
| Gladstone Investment Corp.    | Prospect Capital Corp.       |
| GSC Investment Corp           | TICC Capital                 |
| Harris & Harris Group Inc.    | Triangle Capital Corp.       |
| Hercules Tech Growth Capital  |                              |

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### Recent Sales of Unregistered Securities

We did not sell any securities during the year ended November 30, 2008 that were not registered under the Securities Act of 1933.

### Issuer Purchases of Equity Securities

We did not repurchase any shares of our common stock during the year ended November 30, 2008.

### ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the financial statements and related notes included in this Annual Report on Form 10-K. Financial information presented below for the years ended November 30, 2008, November 30, 2007, and the period from December 8, 2005 to November 30, 2006 has been derived from our financial statements audited by Ernst & Young LLP, our independent registered public accounting firm, which are included herein. The historical data is not necessarily indicative of results to be expected for any future period.

|  | Year Ended<br>November 30,<br>2008 | Year Ended<br>November 30,<br>2007 | Period<br>December<br>to November<br>2006 |
|--|------------------------------------|------------------------------------|---|
| <b>Statements of operations data:</b>  |                                    |                                    |   |
| Investment income  | \$ 2,943,953                       | \$ 3,034,944                       | \$  |
| Base management fees (2)   | 2,006,120                          | 2,233,670                          |   |
| All other expenses (3)   | 2,688,550                          | 2,902,561                          |   |
| Total expenses   | \$ 4,694,670                       | \$ 5,136,231                       | \$  |
| Less expense reimbursement by Adviser  | 385,622                            | 94,181                             |   |
| Current and deferred tax benefit (expense), net                                      | 9,859,785                          | (3,671,096)                        |   |
| Net realized gain (loss) on investments before current tax benefit                   | 8,716,197                          | 260,290                            |   |
| Unrealized appreciation (depreciation) on investments<br>before deferred tax expense | (41,581,120)                       | 10,561,888                         |   |
| Increase (decrease) in net assets resulting from operations                          | \$ (24,370,233)                    | \$ 5,143,976                       | \$  |

| <b>Per common share data:</b>   |    |                          |                          |
|---|----|--------------------------|--------------------------|
| Distributions to common stockholders <sup>(4)</sup>                       | \$ | 1.04                     | \$ 0.67                  |
| Net increase (decrease) in stockholder's equity resulting from operations |    |                          |                          |
| Basic and diluted   | \$ | (2.74)                   | \$ 0.66                  |
| Net asset value   | \$ | 9.96                     | \$ 13.76                 |
|   |    | <b>November 30, 2008</b> | <b>November 30, 2007</b> |
| <b>Statements of assets and liabilities data:</b>                         |    |                          |                          |
| Short-term investments  | \$ | 360,372                  | \$ 219,502               |
| Long-term investments   |    | 105,790,858              | 158,416,831              |
| Other assets  |    | 6,169,827                | 537,987                  |
| Total assets  | \$ | 112,321,057              | \$ 159,174,320           |
| Total liabilities   |    | 23,095,757               | 37,261,354               |
| Total net assets  | \$ | 89,225,300               | \$ 121,912,966           |

- (1) We were incorporated on September 8, 2005, but did not commence operations until December 8, 2005.
- (2) For the year ended November 30, 2008, base management fees include \$2,313,731 accrued as base management fees payable to the Adviser under the Investment Advisory Agreement, and \$307,611 as a reduction in the provision for capital gain incentive fees payable to the Adviser. For the year ended November 30, 2007, base management fees include \$1,926,059 accrued as base management fees payable to the Adviser under the Investment Advisory Agreement and \$307,611 as an increase in the provision for capital gain incentive fees payable to the Adviser. For the period from December 8, 2005 to November 30, 2006, base management fees include \$634,989 accrued as base management fees payable to the Adviser under the Investment Advisory Agreement. The payable for capital gain incentive fees is a result of the increase or decrease in the fair value of investments and realized gains or losses from investments. Pursuant to the Investment Advisory Agreement, the capital gain incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due. No capital gain incentive fees were due or payable at November 30, 2008, 2007, or 2006.
- (3) For the year ended November 30, 2008, other expenses include \$1,037,624 in operating expenses and \$1,650,926 in interest expense on the credit facility. For the year ended November 30, 2007, other expenses include \$1,094,677 in operating expenses, \$847,421 of interest expense on the credit facility, \$228,750 in preferred stock dividends, and \$731,713 of non-recurring expenses related to the loss on redemption of the previously outstanding Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Stock issuance in December 2006 was utilized as bridge financing to fund portfolio investments and was fully redeemed upon completion of our initial public offering in February 2007. For the period from December 8, 2005 to November 30, 2006, other expenses include \$360,156 in operating expenses. Other expenses do not include current and deferred income taxes.
- (4) The character of distributions made during the year may differ from the ultimate characterization for federal income tax purposes. For the year ended November 30, 2008 the company's distributions, for book purposes, were comprised of 100 percent return of capital, and for tax purposes were comprised of 3.2 percent investment income and 96.8 percent return of capital. For the year ended November 30, 2007, the company's distributions, for book and tax purposes, were comprised of 100 percent return of capital. For the period ended December 8, 2005 to November 30, 2006, the company's distributions, for book purposes, were comprised of 87.3 percent investment income and 12.7 percent return of capital, and for tax purposes were comprised of 41.7 percent investment income and 58.3 percent return of capital.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All statements contained herein, other than historical facts, constitute forward-looking statements. These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any anticipated results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. For a discussion of factors that could cause our actual results to differ from forward-looking statements contained

herein, please see the discussion under the heading "Risk Factors" in Part I, Item 1A. of this report.

*We may experience fluctuations in our operating results due to a number of factors, including the return on our equity investments, the interest rates payable on our debt investments, the default rates on such investments, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.*

## **Overview**

We have elected to be regulated as a BDC and we are classified as a non-diversified closed-end management investment company under the 1940 Act. As a BDC, we are subject to numerous regulations and restrictions. Unlike most investment companies, we are, and intend to continue to be, taxed as a general business corporation under the Code.

We invest in companies operating in the U.S. energy infrastructure sector, primarily in privately-held and micro-cap public companies focused on the midstream and downstream segments, and to a lesser extent the upstream segment. We believe companies in the energy infrastructure sector generally produce stable cash flows as a result of their fee-based revenues and have limited direct commodity price risk. Our goal is to provide our stockholders with a high level of total return, with an emphasis on distributions and distribution growth. We invest primarily in equity securities of companies that we expect to pay us distributions on a current basis and provide us distribution growth.

## **Investment Review and Portfolio Outlook**

Against a very difficult backdrop of broad, global economic recession, major institution failures and bailouts, and the accompanying collapse of most major asset class valuations in the latter part of 2008, MLPs were further challenged by selling pressure from deleveraging and unwinding of total return swaps. The Wachovia MLP Index (a float-adjusted, capitalization-weighted index of energy master limited partnerships with a market capitalization of at least \$20 million at the time of inclusion) reflected a total return based on market value, assuming reinvestment of quarterly distributions, of -35.6 percent for the twelve months ended November 30, 2008. Because our privately-held energy infrastructure investments are valued, in part, based on public MLP values, the value of our portfolio also declined, most notably during the fourth quarter. Our stock price was adversely impacted by deepening problems in the broad market and continued pressure on the BDC sector as result of the global credit crisis. Our total return for the fiscal year based on market value, assuming reinvestment of quarterly distributions was -49.89 percent.

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Our total assets decreased from \$159,174,320 as of November 30, 2007 to \$112,321,057 as of November 30, 2008, attributable to the decrease in the value of our investments this year. Because we are a taxpaying entity, our financial statements reflect deferred tax assets according to generally accepted accounting principles. This differs from many closed end funds, as well as many BDCs, which are qualified as regulated investment companies ("RIC"). The accounting for a RIC does not result in deferred taxes because it is not a taxpaying entity. Presently, the total cost basis of our investments for financial statement reporting purposes exceeds the fair value we are reflecting on our Statement of Assets and Liabilities. That, combined with our operating losses, results in a deferred tax asset. As a result, our Statement of Assets and Liabilities reflects a deferred tax asset of \$5,683,747 (net of a \$2,814,891 valuation allowance), or approximately \$0.63 per share. We do not include the deferred tax asset in the calculation of our management fee.

The deferred tax asset of \$5,683,747 reflects the benefit we have determined will be realized in future periods under U.S. generally accepted accounting principles. Realization of a deferred tax asset is dependent on whether there will be sufficient future taxable income within the carryforward periods to realize a portion or all of the deferred tax benefit. The carryforward period for ordinary losses to offset ordinary income is 20 years while capital losses can be carried forward 5 years to offset capital gains. A valuation allowance against the deferred tax asset is needed when, based on the weight of the available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Our valuation allowance policy is based upon our estimation of potential future taxable income and is in conformity with U.S. generally accepted accounting principles. If we do not believe we can use a deferred tax asset in a relatively short period, in our case three years

or less, we create a valuation allowance against the current gross deferred tax asset.

We have managed through a difficult fourth quarter and fiscal year. We maintained adequate asset coverage ratios, such that, when values declined we were not required to sell any investments to pay down leverage in order to comply with the coverage ratios as mandated by the 1940 Act and our loan documents. During the 2008 fiscal year we were able to moderately increase our distributions to our stockholders. While we expect the next year to be challenging for almost every industry, including the energy infrastructure sector, we believe the long-term fundamentals to be strong, particularly within the fee-for-service and fee-for-capacity areas of the midstream sector. These companies provide essential services and exhibit high barriers to entry. We continue to believe the flow of energy commodities remains critical to our economy and that the long-term prospects for energy infrastructure investments are attractive.

Following is a summary of our investment activity during the fiscal year ended November 30, 2008:

**Mowood, LLC (Mowood) Follow-on Investments**

We invested an additional \$3,500,000 in equity of Mowood this year. We also invested \$1,235,000 in the form of three promissory notes, each of which has a fixed annual interest rate equal to 9.0 percent with a maturity date of December 31, 2008. The proceeds were used by Mowood in part to fund landfill gas-to-energy projects at its subsidiary, Timberline Energy LLC. Timberline now operates a high Btu facility, a direct use facility and an electricity generation facility—one of each of the three types of landfill gas-to-energy projects feasible under current technology.

**VantaCore Partners LP (VantaCore) Follow-on Investment**

In August, VantaCore repaid our \$3,750,000 term note at a 3 percent premium to par value. We reinvested those funds and an additional \$6,051,885, to purchase 508,430 common units and 199 incentive distribution rights of VantaCore. VantaCore used the proceeds from this investment to partially fund its acquisition of Southern Aggregates LLC, a sand and gravel operation located near Baton Rouge, Louisiana.

**LONESTAR Midstream Partners, LP and LSMP GP, LP (collectively, LONESTAR) Realization Event**

During the first and second quarter, we invested \$2,735,994 in additional Class A Common Units and GP LP Units of LONESTAR.

In July, LONESTAR sold its gas gathering and transportation assets to Penn Virginia Resource Partners, L.P. (NYSE: PVR). LONESTAR distributed substantially all of the initial sales proceeds to its limited partners. We received \$10,476,511 in cash, 468,001 newly issued unregistered common units of PVR, and 59,503 unregistered common units of Penn Virginia GP Holdings, L.P. (NYSE: PVG). The capital gain incentive fee is accrued during the year, but only paid annually if there are realization events that result in an amount due under the Investment Advisory Agreement. For the November 30, 2008 calculation, we included \$2,112,206 of realized gains from the LONESTAR transaction in the calculation for the accrual, but not for purposes of determining if an amount were actually due and payable. The gains will be included in the annual calculation for payment after the LONESTAR units are ultimately sold or otherwise disposed of.

LONESTAR has no current operations, but has rights to receive future payments from PVR relative to the sale. From these future payments, we expect to receive unregistered common units of PVR and PVG from an escrow to be released to LONESTAR six to twelve months from the closing date (along with cash distributions received on these units retained in escrow). We also expect a cash distribution from LONESTAR of approximately \$1 million, payable on December 31, 2009. There are two future contingent payments due LONESTAR for which we would expect to receive roughly \$9.6 million, payable in cash or common units of PVR (at PVR's election). These payments are contingent on the achievement of specific revenue targets by or before June 30, 2013, and no payments are due if the revenue targets are not achieved. The fair value of LONESTAR as of November 30, 2008 is related to the potential receipt of these future payments.

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**Millennium Midstream Partners, LP (Millennium) Realization Event**

In October, Millennium sold its partnership interests to Eagle Rock Energy Partners, L.P. (NASDAQ: EROC) for approximately \$181,000,000 in cash and approximately four million EROC unregistered common units. In exchange for our Millennium partnership interests, we received \$13,687,081 in cash and 373,224 EROC unregistered common units with a basis of \$5,044,980 for a total implied value at closing of \$18,732,061.

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Approximately 212,404 units with an aggregate cost basis of \$2,920,555 will be held in escrow for 18 months from the date of the transaction. This includes a reserve we have placed against the restricted cash and units held in the escrow for estimated post-closing adjustments. We originally invested \$17,500,000 in Millennium (including common units and incentive distribution rights), and had an adjusted cost basis of \$15,161,125 (after reducing our basis for cash distributions received since investment that were treated as return of capital), resulting in a realized gain for book purposes of \$6,491,491. For purposes of the capital gain incentive fee, the realized gain is approximately \$4,152,616, which excludes that portion of the fee that would be due as a result of cash distributions which were characterized as return of capital. No capital gain incentive fees were due or payable at November 30, 2008.

As of November 30, 2008, the value of our investment portfolio (excluding short-term investments) was \$105,790,858 including equity investments of \$97,505,858 and debt investments of \$8,285,000 across the following segments of the energy infrastructure sector:

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| <b>Name of Portfolio</b>                              | <b>Nature of its</b>   | <b>Securities</b>                          | <b>Amount Invested</b> | <b>Fair Value</b>                   | <b>Current Yield on Amount Invested</b> |
|---|--|--|------------------------|-------------------------------------|---|
| <b>Company (Segment)</b>                              | <b>Principal Business</b>  | <b>Held by Us</b>                          | <b>(in millions)</b>   | <b>(in millions) <sup>(1)</sup></b> | <b><sup>(2)</sup></b>                   |
| Abraxas Energy Partners, L.P. (Upstream)              | Natural gas and oil exploitation and development in the Delaware and Gulf Coast Basins of Texas, Rockies and Mid-Continent region of the U.S.  | Common Units                               | \$7.5                  | \$4.1                               | 10.6%                                   |
| Eagle Rock Energy Partners, L.P. (Upstream/Midstream) | Gatherer and processor of natural gas in north and east Texas and Louisiana and producer and developer of upstream and mineral assets located in 17 states   | Common Units (Registered and Unregistered) | 20.1                   | 9.7                                 | 10.4                                    |
| EV Energy Partners, L.P. (Upstream)                   | Acquirer, producer and developer of oil and gas properties in the Appalachian Basin, the Monroe field in Louisiana, Michigan, the Austin Chalk, South Central Texas, the Permian Basin, the San Juan Basin and the Mid-continent area. | Common Units                               | 7.5                    | 2.9                                 | 8.7                                     |

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|  |   |  |      |      |      |
|--|---|--|------|------|------|
| High Sierra Energy, LP<br>(Midstream) <sup>(3)</sup>         | Marketer, processor, storer and transporter of hydrocarbons with operations primarily in Colorado, Wyoming, Oklahoma and Florida  | Common Units                           | 24.8 | 19.5 | 10.2 |
| High Sierra Energy GP, LLC<br>(Midstream) <sup>(3) (4)</sup> | General Partner of High Sierra Energy, LP   | Equity Interest                        | 2.0  | 1.9  | 1.8  |
| International Resource Partners LP (Coal)                    | Operator of both metallurgical and steam coal mines in Central Appalachia   | Class A Units                          | 10.0 | 9.5  | 8.0  |
| Legacy Reserves LP<br>(Upstream)                             | Oil and natural gas exploitation and development primarily in the Permian Basin   | Limited Partner Units                  | 4.5  | 2.4  | 12.2 |
| LONESTAR Midstream Partners, LP (Midstream) <sup>(5)</sup>   | LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P (PVR) in July 2008. LONESTAR has no continuing operations, but currently holds rights to receive future payments from PVR relative to the sale. | Class A Units                          | 4.4  | 4.0  | N/A  |
| LSMP GP, LP (Midstream) <sup>(5)</sup>                       | Indirectly owns General Partner of LONESTAR Midstream Partners, LP  | GP LP Units                            | 0.2  | 0.5  | N/A  |
| Mowood, LLC<br>(Midstream/Downstream) <sup>(6)</sup>         | Natural gas distribution in central Missouri and landfill gas to energy projects  | Equity interest                        | 5.0  | 5.7  | 10.8 |
|  |   | Subordinated Debt and Promissory Notes | 8.3  | 8.3  | 11.6 |
| Penn Virginia Resource Partners, L.P.<br>(Midstream/Coal)    | Operator of a midstream natural gas gathering and processing business and manager of coal properties and related assets   | Unregistered Common Units              | 10.8 | 6.0  | 8.2  |
| Penn Virginia GP Holdings, L.P. (Midstream/Coal)             | Owns the general partner interest, incentive distribution rights and a portion of the limited partner interests in Penn Virginia Resource Partners, L.P.  | Unregistered Common Units              | 1.7  | 0.6  | 5.4  |
|  |   | Common Units                           | 22.2 | 14.5 | 0.0  |

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|   |   |  |                |                |      |
|---|---|--|----------------|----------------|------|
| Quest Midstream Partners, L.P. (Midstream) <sup>(7)</sup> | Operator of natural gas gathering pipelines in the Cherokee Basin and interstate natural gas transmission pipelines in Oklahoma, Kansas and Missouri                          |  |                |                |      |
| VantaCore Partners LP (Aggregates)                        | Acquirer and operator of aggregate companies, with quarry and asphalt operations in Clarksville, Tennessee and sand and gravel operations located near Baton Rouge, Louisiana | Common Units and Incentive Distribution Rights | 18.4           | 16.2           | 10.1 |
|   |   |  | <b>\$147.4</b> | <b>\$105.8</b> |      |

- (1) Fair value as of November 30, 2008.
- (2) The current yield has been calculated by annualizing the most recent distribution during the period and dividing by the amount invested in the underlying security. Actual distributions to us are based on each company's available cash flow and are subject to change.
- (3) Distributions paid-in-kind during the quarters ended August 31, 2008 and November 30, 2008.
- (4) Includes original purchase of 3 percent equity interest, sale of 0.6274 percent equity interest in July 2007 and subsequent capital calls.
- (5) LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P in July 2008. LONESTAR has no continuing operations, but currently holds rights to receive future payments from PVR relative to the sale. The cost basis and the fair value of the LONESTAR and LSMP GP, LP units as of November 30, 2008 is related to the potential receipt of those future payments. Since this investment is not deemed to be "active", the yield is not meaningful and we have excluded it from our weighted average yield to cost on investments as described below in Results of Operations.
- (6) Current yield represents an equity distribution on the previous quarter fair value of our invested capital, including the effect of the management incentive plan, divided by the amount invested. We expect that, pending cash availability, such equity distributions will recur on a quarterly basis at or above such yield.
- (7) Currently non-income producing. The Board of Directors of Quest Midstream GP, LLC determined that no distribution would be paid on the units of Quest Midstream Partners, L.P. during the quarter ended November 30, 2008.

## Portfolio Company Profiles

### **Abraxas Energy Partners, L.P. (Abraxas)**

Abraxas is a private company that operates long-lived, low-decline natural gas and oil reserves located primarily in the Delaware and Gulf Coast Basins of Texas, Rocky Mountains and Mid-Continent regions of the U.S. Abraxas was formed by Abraxas Petroleum Corporation, an independent publicly-traded energy company engaged in the exploration and production of natural gas and crude oil. Abraxas' principal office is located at 18803 Meisner Drive, San Antonio, TX 78258.

### **Eagle Rock Energy Partners, L.P. (Eagle Rock Energy)**

Eagle Rock Energy (NASDAQ: EROC) is a publicly traded master limited partnership with midstream assets located primarily in Texas and Louisiana and upstream assets, including mineral and royalty interests, in seventeen states. Eagle Rock Energy's principal office is located at 16701 Greenspoint Park Drive, Suite 200, Houston, TX 77060.

### **EV Energy Partners, L.P. (EV)**

EV (NASDAQ: EVEP) is a publicly traded master limited partnership engaged in acquiring, producing and developing oil and gas properties. EV's current properties are located in the Appalachian Basin, the Monroe Field in Louisiana, the Austin Chalk, South Central Texas, the Permian Basin, the San Juan Basin and the Mid-Continent area. EV's principal office is located at 1001 Fannin Street, Suite 800, Houston, TX 77002.

**High Sierra Energy, LP (High Sierra)**

High Sierra is a holding company with diversified midstream energy assets focused on the processing, transportation, storage and marketing of hydrocarbons. The company's businesses include a natural gas liquids logistics and transportation business in Colorado, natural gas gathering and processing operations in Louisiana, a natural gas storage facility in Mississippi, an ethanol terminal in Nevada, crude and natural gas liquids trucking businesses in Kansas and Colorado, businesses providing crude oil gathering, transportation and marketing services, primarily focused in the Mid-Continent, Western and Gulf Coast regions, water treatment transportation and disposal businesses serving oil and gas producers in Wyoming and Oklahoma, and two asphalt processing, packaging and distribution terminals in Florida. We hold board of director observation rights. High Sierra's principal office is located at 3773 Cherry Creek Drive North, Suite 655, Denver, CO 80209.

**High Sierra Energy GP, LLC (High Sierra GP)**

High Sierra GP is the general partner of High Sierra. High Sierra GP's principal office is located at 3773 Cherry Creek Drive North, Suite 655, Denver, CO 80209.

**International Resource Partners LP (IRP)**

IRP has surface and underground coal mine operations in southern West Virginia comprised of metallurgical and steam coal reserves, a coal washing and preparation plant, rail load-out facilities and a sales and marketing subsidiary. IRP's principal office is located at 725 5<sup>th</sup> Avenue, New York, NY 10022.

**Legacy Reserves LP (Legacy)**

Legacy (NASDAQ: LGCY) is a publicly traded master limited partnership focused on the acquisition and development of long-lived oil and natural gas properties primarily located in the Permian Basin and Mid-Continent regions of the United States. Legacy's principal office is located at 303 West Wall, Suite 1400, Midland, TX 79701.

**LONESTAR Midstream Partners, LP (LONESTAR)**

LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P in July 2008. LONESTAR has no continuing operations, but currently holds rights to receive future payments from PVR relative to the sale. Our President holds one of four seats on LONESTAR's board of directors. LONESTAR's principal office is located at 300 E. John Carpenter Freeway, Suite 800, Irving, TX 75062.

**LSMP GP, LP (LSMP GP)**

LSMP GP indirectly owns the general partner of LONESTAR. LSMP GP's principal office is located at 300 E. John Carpenter Freeway, Suite 800, Irving, TX 75062.

**Mowood, LLC (Mowood)**

Mowood is a holding company whose assets include Omega Pipeline, LLC (Omega) and Timberline Energy, LLC (Timberline). Omega is a natural gas local distribution company located on the Fort Leonard Wood army base in south central Missouri. Omega serves the natural gas and propane needs of Fort Leonard Wood and other customers in the surrounding area. Timberline is an owner and developer of projects that convert landfill gas to energy. We currently hold all seats on Mowood's board of directors. Mowood's principal office is located at 14694 Orchard Parkway, Suite 200, Westminster, CO 80020.

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**Penn Virginia Resource Partners, L.P. (PVR)**

Penn Virginia Resource Partners, L.P. (NYSE: PVR) is a publicly traded master limited partnership formed by Penn Virginia Corporation (NYSE: PVA). PVR operates a midstream natural gas gathering and processing business and manages coal properties and related assets. PVR's principal office is located at Three Radnor Corporate Center, Suite 300, 100 Matsonford Road, Radnor, PA 19087.

**Penn Virginia GP Holdings, L.P. (PVG)**

Penn Virginia GP Holdings, L.P. (NYSE: PVG) is a publicly traded master limited partnership formed to own the general partner interest, all of the incentive distribution rights and a portion of the limited partner interests in PVR. PVG's principal office is located at Three Radnor Corporate Center, Suite 300, 100 Matsonford Road, Radnor, PA 19087.

**Quest Midstream Partners, L.P. (Quest)**

Quest was formed by the spin-off of Quest Resource Corporation's midstream coal bed methane natural gas

gathering assets in the Cherokee Basin. Quest owns more than 1,800 miles of natural gas gathering pipelines (primarily serving Quest Energy Partners, L.P., an affiliate) and over 1,100 miles of interstate natural gas transmission pipelines in Oklahoma, Kansas and Missouri. We hold one of seven seats on Quest's board of directors. Quest's principal office is located at 210 Park Avenue, Suite 2750, Oklahoma City, OK 73102.

**VantaCore Partners LP (VantaCore)**

VantaCore was formed to acquire companies in the aggregate industry and currently owns a quarry and asphalt plant in Clarksville, Tennessee and sand and gravel operations located near Baton Rouge, Louisiana. We hold one of four seats on VantaCore's Board of Directors. VantaCore's principal office is located at 666 Fifth Avenue, 26 Floor, New York, NY 10103.

**Portfolio Company Monitoring**

Our Adviser monitors each portfolio company to determine progress relative to meeting the company's business plan and to assess the company's strategic and tactical courses of action. This monitoring may be accomplished by attendance at Board of Directors meetings, the review of periodic operating reports and financial reports, an analysis of relevant reserve information and capital expenditure plans, and periodic consultations with engineers, geologists, and other experts. The performance of each portfolio company is also periodically compared to performance of similarly sized companies with comparable assets and businesses to assess performance relative to peers. Our Adviser's monitoring activities are expected to provide it with the necessary access to monitor compliance with existing covenants, to enhance our ability to make qualified valuation decisions, and to assist our evaluation of the nature of the risks involved in each individual investment. In addition, these monitoring activities should enable our Adviser to diagnose and manage the common risk factors held by our total portfolio, such as sector concentration, exposure to a single financial sponsor, or sensitivity to a particular geography.

As part of the monitoring process, our Adviser continually assesses the risk profile of each of our investments and rates them on a scale of (1) to (3) based on the following:

- (1) The portfolio company is performing at or above expectations and the trends and risk factors are generally favorable to neutral.
- (2) The portfolio company is performing below expectations and the investment's risk has increased materially since origination. The portfolio company is generally out of compliance with various covenants; however, payments are generally not more than 120 days past due.
- (3) The portfolio company is performing materially below expectations and the investment risk has substantially increased since origination. Most or all of the covenants are out of compliance and payments are substantially delinquent. Investment is not expected to provide a full repayment of the amount invested.

As of November 30, 2008, all of our portfolio companies have a rating of (1), with the exception of Quest Midstream Partners, L.P., High Sierra Energy, LP and High Sierra Energy GP, LLC, each of which has a rating of (2).

On August 25, 2008, the boards of directors of Quest Resource Corporation (NASDAQ: QRCP), Quest Energy Partners, L.P. (NASDAQ: QELP) and Quest Midstream Partners, L.P. (QMP) (collectively, Quest) announced that they had accepted the resignation of Jerry Cash, as Chairman and CEO of all three entities. The resignation followed the discovery, in connection with an inquiry from the Oklahoma Department of Securities, of questionable transfers of company funds to an entity controlled by Mr. Cash. Initial reports indicated the amount in question to be about \$10 million. Promptly following the discovery of the alleged misappropriation of funds, members of the three boards met in joint sessions and immediately formed a Joint Special Committee comprised of representatives from each board, including the chairs of the audit committees of QRCP and QELP, to investigate the matter and consider the effects on the companies' financial statements, along with the assistance of external counsel and forensic accountants. The board of directors of QMP was increased to seven members and Ed Russell, our President, was named as a director of QMP. QELP and QMP Chief Financial Officer David Grose was also placed on a paid administrative leave of absence during the investigation.

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On September 13, 2008, the boards of QRCP and the general partners of QELP and QMP terminated Mr. Grose as the chief financial officer of the companies. Mr. Jack T. Collins was appointed to serve as interim CFO of the companies. The special committee stated that, although it and its advisers have reviewed substantial numbers of company records and conducted numerous interviews of company personnel and others, significant additional

work remains to be done to confirm the full extent of inappropriate uses of the companies' assets and their effects on the companies. Based on the information obtained in the investigation to date, the special committee believes that the questionable transfers to the Cash-controlled entity involved a total of approximately \$10 million as originally announced. The special committee and its advisers are also working to determine the effect of those transfers on the companies' financial statements, the methods by which the companies' internal controls may have been circumvented by those transferring the funds, and the appropriate remedial measures. In addition, the special committee is attempting to identify possible sources of recovery of the assets that were inappropriately transferred. At this time, the companies cannot accurately predict when the investigation will be complete, what the results of that investigation will be, or whether any recovery of the missing assets can be made.

On December 5, 2008, the Board of Directors of Quest Midstream GP, LLC formally determined that no third quarter distribution would be paid on the units of Quest Midstream Partners, L.P.

On January 14, 2009, the boards of QRCP and the general partner of QELP announced the election of Eddie M. LeBlanc as Chief Financial Officer of these two entities. Mr. LeBlanc is an experienced E&P CFO and replaces Jack Collins, who was appointed Interim Chief Financial Officer in September 2008. Mr. Collins will continue in the role of Executive Vice President Finance/Corporate Development of the Quest entities where he will focus on the development and implementation of the organization's strategic plan and capital structure.

High Sierra Energy, L.P. ("High Sierra") continued to experience tightening of its transactional trade finance credit line. The challenging credit environment was made more difficult by High Sierra's exposure to a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code filed by SemGroup, L.P. and certain of its North American subsidiaries on July 22, 2008. High Sierra Crude Oil & Marketing and certain of High Sierra's other subsidiaries, had a material aggregate net exposure to the SemGroup bankruptcy in the form of unsecured trade receivables. In response to these challenges High Sierra has utilized cash generated from operations to reduce borrowings and to support its marketing businesses.

During our fiscal quarter ended August 31, 2008, High Sierra elected to distribute additional common units in lieu of a cash distribution. In addition, High Sierra's senior management voluntarily chose to forego receiving any distributions, including payments-in-kind, on their LP units and in connection with their interests in High Sierra's general partner. During our fiscal quarter ended November 30, 2008, High Sierra's Board of Directors again determined that the most prudent course of action would be to distribute additional common units in lieu of a cash distribution, instead utilizing the cash to support the company's marketing businesses during this period of constrained credit. This quarter all investors that were entitled to distributions received additional common units in lieu of a cash distribution.

## Results of Operations

Set forth are the results of operations for the year ended November 30, 2008 as compared to November 30, 2007. Comparisons to the period from December 8, 2005 through November 30, 2006 are not considered meaningful as we had not completed our initial public offering and we were not fully invested.

*Investment Income:* Investment income decreased \$90,991 for the year ended November 30, 2008 as compared to November 30, 2007; however, total distributions from investments increased \$3,168,089 in comparison to the prior fiscal year. The decrease in investment income is generally due to the reclassification of investment income and return of capital based on the 2007 tax reporting information we received from the individual portfolio companies after November 30, 2007 (as described in Note 2D to the financial statements). The increase in total distributions from investments is attributable to follow-on investments and distribution increases during the year from several of our portfolio companies.

The weighted average yield (to cost) on our investment portfolio (excluding short-term investments) as of November 30, 2008 was 8.0 percent as compared to 8.8 percent at November 30, 2007. The decrease in the weighted average yield to cost is related to slightly lower yields on securities received from our two realization events this year as described above, as well as Quest's non-payment of a distribution during the quarter ended November 30, 2008.

*Net Expenses:* Net expenses decreased \$733,002 in fiscal 2008 as compared to fiscal 2007. The decrease is attributed to a reduction in the capital gain incentive fee accrual this year and higher leverage costs which were incurred in 2007 (we incurred a redemption premium and issuance costs on previously outstanding Series A Redeemable Preferred Stock which was utilized as bridge financing to fund portfolio investments and was fully redeemed upon completion of our initial public offering). The provision for capital gain incentive fees results from the increase or decrease in fair value and unrealized appreciation or depreciation on investments. During the year ended November 30, 2008, we reversed the prior year's accrual for capital gain incentive fees as a result of the decrease in fair value of the investment portfolio. Pursuant to the Investment Advisory Agreement, the capital gain incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due. No capital gains fees were due or payable at November 30, 2008 or November 30, 2007.

*Distributable Cash Flow:* Our portfolio generates cash flow to us from which we pay distributions to stockholders. When our Board of Directors determines the amount of any distribution we expect to pay our stockholders, it will review distributable cash flow ("DCF"). DCF is distributions received from investments less our total expenses. The total distributions received from our investments include the amount received by us as cash distributions from equity investments, paid-in-kind distributions, and dividend and interest payments. Total expenses include current or anticipated operating expenses, leverage costs and current income taxes on our operating income. Total expenses do not include deferred income taxes or accrued capital gain incentive fees. Distributions paid to stockholders may exceed distributable cash flow for the period. Historically we have included all paid-in-kind distributions in distributable cash flow, however, in the future, we do not intend to include in distributable cash flow the value of distributions received from portfolio companies which are paid in stock as a result of credit constraints, market dislocation, or other similar issues.

We disclose DCF in order to provide supplemental information regarding our results of operations and to enhance our investors' overall understanding of our core financial performance and our prospects for the future. We believe that our investors benefit from seeing the results of DCF in addition to U.S. generally accepted accounting principles ("GAAP") information. This non-GAAP information facilitates management's comparison of current results with historical results of operations and with those of our peers. This information is not in accordance with, or an alternative to, GAAP and may not be comparable to similarly titled measures reported by other companies.

Distributable cash flow increased \$4,049,691 in fiscal 2008 as compared to fiscal 2007. The following table represents DCF for the years ended November 30, 2008 and 2007:

|   | Year Ended<br>November 30,<br>2008 | Year Ended<br>November 30,<br>2007 |
|---|------------------------------------|------------------------------------|
| <b>Distributable Cash Flow</b>                                    |                                    |                                    |
| <b>Total from Investments</b>                                     |                                    |                                    |
| Distributions from investments                                    | \$ 9,688,521                       | \$ 6,520,432                       |
| Distributions paid in stock <sup>(1)</sup>                        | 2,186,767                          | 295,120                            |
| Interest income from investments                                  | 1,103,059                          | 921,978                            |
| Dividends from money market mutual funds                          | 18,205                             | 624,385                            |
| Other income  | 28,987                             | -                                  |
| Total from Investments  | 13,025,539                         | 8,361,915                          |
| <b>Operating Expenses Before Leverage Costs and Current Taxes</b> |                                    |                                    |
| Advisory fees (net of expense reimbursement by Adviser)           | 1,928,109                          | 1,831,878                          |
| Other operating expenses (excluding capital gain incentive fees)  | 1,037,624                          | 1,094,677                          |
| Total Operating Expenses  | 2,965,733                          | 2,926,555                          |
| Distributable cash flow before leverage costs and current taxes   | 10,059,806                         | 5,435,360                          |
| Leverage Costs  | 1,650,926                          | 1,076,171                          |
| <b>Distributable Cash Flow</b>                                    | <b>\$ 8,408,880</b>                | <b>\$ 4,359,189</b>                |
| <b>Distributions paid on common stock</b>                         | <b>\$ 9,265,351</b>                | <b>\$ 5,349,244</b>                |

|  |    |             |                |
|--|----|-------------|----------------|
| <b>Payout percentage for period <sup>(2)</sup></b>                   |    | 110%        | 123%           |
| <b>DCF/GAAP Reconciliation</b>                                       |    |             |                |
| Distributable Cash Flow  | \$ | 8,408,880   | \$ 4,359,189   |
| Adjustments to reconcile to Net Investment Loss, before Income Taxes |    |             |                |
| Distributions paid in stock  |    | (2,186,767) | (295,120)      |
| Return of capital on distributions received from equity investments  |    | (7,894,819) | (5,031,851)    |
| Capital gain incentive fees  |    | 307,611     | (307,611)      |
| Loss on redemption of preferred stock                                |    | -           | (731,713)      |
| <b>Net Investment Loss, before Income Taxes</b>                      | \$ | (1,365,095) | \$ (2,007,106) |

- (1) Distributions paid in stock for the year ended November 30, 2008 include paid-in-kind distributions from Lonestar Midstream Partners, LP, High Sierra Energy, LP and High Sierra Energy GP, LLC. Distributions paid in stock for the year ended November 30, 2007 include paid-in-kind distributions from Lonestar Midstream Partners, LP.
- (2) Distributions paid as a percentage of Distributable Cash Flow.

*Distributions:* The following table sets forth distributions for the two years ended November 30, 2008 and 2007.

| Record Date       | Payment Date      | Amount   |
|-------------------|-------------------|----------|
| November 20, 2008 | November 28, 2008 | \$0.2650 |
| August 21, 2008   | September 2, 2008 | \$0.2650 |
| May 22, 2008      | June 2, 2008      | \$0.2625 |
| February 21, 2008 | March 3, 2008     | \$0.2500 |
| November 23, 2007 | November 30, 2007 | \$0.2300 |
| August 21, 2007   | September 4, 2007 | \$0.1800 |
| May 22, 2007      | June 1, 2007      | \$0.1600 |
| January 31, 2007  | February 7, 2007  | \$0.1000 |

*Net Investment Loss:* Net investment loss for the year ended November 30, 2008 was \$978,493 as compared to a net investment loss of \$1,565,774 in the prior year. The decreased loss is primarily related to the decrease in net expenses described above.

*Net Realized and Unrealized Gain (Loss):* We had unrealized depreciation of \$29,595,528 (after deferred taxes) as compared to unrealized appreciation of \$6,548,370 (after deferred taxes) in the prior year. We had realized gains this year of \$6,203,788 (after deferred taxes) as compared to realized gains last year of \$161,380 (after deferred taxes). The realized gains for this year are attributable to the LONESTAR and Millennium realization events and the VantaCore debt redemption as previously described.

## Recent Developments

We invested \$515,000 on December 5, 2008 in Mowood in the form of a promissory note with a fixed annual interest rate equal to 9.0 percent and a maturity date of December 31, 2008. The proceeds were used by Mowood for working capital purposes. On December 8, 2008, we entered into an agreement with Mowood to amend and combine the existing subordinated debt and multiple promissory notes into a single new promissory note with a principal balance of \$8,800,000. The new note has an annual interest rate of 9.0 percent and a maturity date of December 31, 2009. The initial interest payment, which includes accrued but unpaid interest on the previously outstanding notes, is due on December 31, 2008. Due to the start-up nature of Timberline (subsidiary of Mowood) and the delays encountered in completing its first three landfill gas to energy projects, we deemed it prudent to reduce the interest rate charged on Mowood's debt and distributions on invested equity to 9.0 percent to provide Mowood more operational flexibility and to reduce the risk of non-compliance with loan covenants. As Timberline matures, we would anticipate increasing the distribution and interest rates subject to continued compliance with bank covenants and Mowood's operational needs.

On January 20, 2009, our President, Ed Russell, accepted his election to fill a vacant seat on Abraxas's board of directors.

### Liquidity and Capital Resources

We expect to raise additional capital to support our future growth through equity offerings, rights offerings, and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act and our current credit facility and subject to market conditions. We generally may not issue additional common shares at a price below our net asset value (net of any sales load (underwriting discount)) without first obtaining approval of our stockholders and Board of Directors. We are restricted in our ability to incur additional debt by the terms of our credit facility. We have filed an initial shelf registration statement with the Securities and Exchange Commission, which when effective, will allow us to prudently raise additional capital.

Total leverage outstanding on our credit facility at November 30, 2008 was \$22,200,000 a decrease of \$8,350,000 compared to November 30, 2007. At November 30, 2008, our total leverage represented approximately 20 percent of total assets, including deferred tax. We are, and intend to remain, in compliance with our asset coverage ratios under the Investment Company Act of 1940 and our basic maintenance covenants under our credit facility.

### Contractual Obligations

The following table summarizes our significant contractual payment obligations as of November 30, 2008.

|  | Total        | Payments due by period |           |           |                   |
|--|--------------|------------------------|-----------|-----------|-------------------|
|  |              | Less than 1 year       | 1-3 years | 3-5 years | More than 5 years |
| Secured revolving credit facility <sup>(1)</sup> | \$22,200,000 | \$22,200,000           | -         | -         | -                 |
|  | \$22,200,000 | \$22,200,000           | -         | -         | -                 |

(1) At November 30, 2008, the outstanding balance under the credit facility was \$22,200,000, with a maturity date of March 20, 2009.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

### Borrowings

On March 21, 2008, we secured an extension to our revolving credit facility and on March 28, 2008, amended the credit agreement to exclude Bank of Oklahoma and include Wells Fargo as a lender, and to increase the total credit facility to \$50,000,000. The credit facility matures on March 20, 2009. The revolving credit facility has a variable annual interest rate equal to the one-month LIBOR plus 1.75 percent, a non-usage fee equal to an annual rate of 0.375 percent of the difference between the total credit facility commitment and the average outstanding balance at the end of each day for the preceding fiscal quarter, and is secured with all our assets. The credit facility contains a covenant precluding us from incurring additional debt.

For the year ended November 30, 2008, the average principal balance and interest rate for the period during which the credit facility was utilized were \$32,033,333 and 4.76 percent, respectively. As of November 30, 2008, the principal balance outstanding was \$22,200,000 at a rate of 3.65 percent. We intend to renew or replace the credit facility upon maturity; however, there can be no assurance that we can obtain such financing on terms that we find acceptable, if at all.

### Critical Accounting Policies

The financial statements included in this report are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. While our critical accounting policies are discussed below, Note 2 in the Notes to Financial Statements included in this report provides more detailed disclosure of all of our significant accounting policies.

### ***Valuation of Portfolio Investments***

We invest primarily in illiquid securities including debt and equity securities of privately-held companies. These investments generally are subject to restrictions on resale, have no established trading market and are fair valued on a quarterly basis. Because of the inherent uncertainty of valuation, the fair values of such investments, which are determined in accordance with procedures approved by our Board of Directors, may differ materially from the values that would have been used had a ready market existed for the investments.

### ***Security Transactions and Investment Income Recognition***

Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis. Distributions received from our equity investments generally are comprised of ordinary income, capital gains and return of capital from the portfolio company. We record investment income and returns of capital based on estimates made at the time such distributions are received. Such estimates are based on information available from each portfolio company and/or other industry sources. These estimates may subsequently be revised based on information received from the portfolio companies after their tax reporting periods are concluded, as the actual character of these distributions are not known until after our fiscal year end.

### ***Federal and State Income Taxation***

We, as a corporation, are obligated to pay federal and state income tax on our taxable income. Our tax expense or benefit is included in the Statement of Operations based on the component of income or gains (losses) to which such expense or benefit relates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our business activities contain elements of market risk. We consider fluctuations in the value of our equity securities and the cost of capital under our credit facility to be our principal market risk.

We carry our investments at fair value, as determined by our Board of Directors. The fair value of securities is determined using readily available market quotations from the principal market if available. The fair value of securities that are not publicly traded or whose market price is not readily available is determined in good faith by our Board of Directors. Because there are no readily available market quotations for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have readily available market quotations, the fair value of our investments may differ significantly from the fair values that would have been used had a ready market quotation existed for such investments, and these differences could be material.

As of November 30, 2008, the fair value of our investment portfolio (excluding short-term investments) totaled \$105,790,858. We estimate that the impact of a 10 percent increase or decrease in the fair value of these investments, net of capital gain incentive fees and related deferred taxes, would increase or decrease net assets applicable to common stockholders by approximately \$6,559,033.

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Our revolving credit facility has a variable annual interest rate equal to the one-month LIBOR plus 1.75 percent. We estimate that a one percentage point interest rate movement in the average market interest rates (either higher or lower) over a one year period would either increase or decrease net investment income by

approximately \$325,672.

Debt investments in our portfolio may be based on floating or fixed rates. Loans bearing a floating interest rate are usually based on LIBOR and, in most cases, a spread consisting of additional basis points. The interest rates for these debt instruments typically have one to six-month durations and reset at the current market interest rates. As of November 30, 2008, we had no floating rate debt investments outstanding.

We consider the management of risk essential to conducting our businesses. Accordingly, our risk management systems and procedures are designed to identify and analyze our risks, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our financial statements and financial statement schedules are set forth beginning on pages F-1 in this Annual Report and are incorporated herein by reference.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### ***Management's Annual Report on Internal Control over Financial Reporting***

Management of Tortoise Capital Resources Corporation (the "Company") is responsible for the preparation, consistency, integrity, and fair presentation of the financial statements. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles applied on a consistent basis and, in management's opinion, are fairly presented. The financial statements include amounts that are based on management's informed judgments and best estimates.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has established and maintains comprehensive systems of internal control that provide reasonable assurance as to the consistency, integrity, and reliability of the preparation and presentation of financial statements and the safeguarding of assets. The concept of reasonable assurance is based upon the recognition that the cost of the controls should not exceed the benefit derived. Management monitors the systems of internal control and maintains an internal auditing program that assesses the effectiveness of internal control. Management assessed the Company's disclosure controls and procedures and the Company's systems of internal control over financial reporting for financial presentations in conformity with U.S. generally accepted accounting principles. This assessment was based on criteria for effective internal control established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Report).

Based on this assessment, management believes that the Company maintained effective systems of internal control that provided reasonable assurance as to adequate design and effective operation of the Company's disclosure controls and procedures and the Company's systems of internal control over financial reporting for financial presentations in conformity with U.S. generally accepted accounting principles as of November 30, 2008.

The Board of Directors exercises its oversight role with respect to the Company's systems of internal control primarily through its Audit and Valuation Committee, which is comprised solely of independent outside directors. The Committee oversees the Company's systems of internal control and financial reporting to assess whether their quality, integrity, and objectivity are sufficient to protect shareholders' investments.

The Company's financial statements have been audited by Ernst & Young LLP ("Ernst & Young"), independent registered public accounting firm. As part of its audit, Ernst & Young considers the Company's internal control to plan the audit and determine the nature, timing and extent of audit procedures considered necessary to render

its opinion as to the fair presentation, in all material respects, of the financial statements, which is based on independent audits made in accordance with the standards of the Public Company Accounting Oversight Board (United States).

Ernst & Young has issued an audit report on the Company's internal control over financial reporting. This report begins on the next page.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Tortoise Capital Resources Corporation

We have audited Tortoise Capital Resources Corporation's (the "Company") internal control over financial reporting as of November 30, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of assets and liabilities of the Company, including the schedules of investments, as of November 30, 2008 and 2007, and the related statements of operations, changes in net assets, cash flows, and financial highlights for each of the two years in the period ended November 30, 2008 and for the period from December 8, 2005 (commencement of operations) through November 30, 2006, and our report dated February 9, 2009, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Kansas City, Missouri  
February 9, 2009

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***Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) during the fiscal quarter ended November 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Incorporated by reference to our proxy statement for our 2009 Annual Stockholder Meeting to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

**ITEM 11. EXECUTIVE COMPENSATION**

Incorporated by reference to our proxy statement for our 2009 Annual Stockholder Meeting to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Incorporated by reference to our proxy statement for our 2009 Annual Stockholder Meeting to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Incorporated by reference to our proxy statement for our 2009 Annual Stockholder Meeting to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Incorporated by reference to our proxy statement for our 2009 Annual Stockholder Meeting to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

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**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this Annual Report on Form 10-K:

1. The Financial Statements listed in the Index to Financial Statements on Page F-1.
2. The Exhibits listed in the Exhibit Index below.

**Exhibit**

| <b>No.</b> | <b>Description of Document</b>   |
|------------|--|
| 3.1        | Articles of Incorporation (1)  |
| 3.2        | Articles Supplementary (2)   |
| 3.3        | Bylaws (3)   |
| 4.1        | Form of Stock Certificate (2)  |
| 4.2        | Form of Warrant dated December 2006 (2)  |
| 4.3        | Registration Rights Agreements with Merrill Lynch & Co; Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Stifel, Nicolaus & Company, Incorporated dated January 9, 2006 (1) |
| 4.4        | Registration Rights Agreement dated April 2007 (4)   |
| 10.1       | Dividend Reinvestment Plan (5)   |
| 10.2       | Investment Advisory Agreement with Tortoise Capital Advisors, L.L.C. dated January 1, 2007 (2)   |
| 10.3       | Expense Reimbursement and Partial Fee Waiver Agreement dated as of November 30, 2007 by and among Tortoise Capital Resources Corporation and Tortoise Capital Advisors, LLC (6)    |
| 10.4       | Sub-Advisory Agreement with Kenmont Investments Management, L.P. dated January 1, 2007 (2)   |
| 10.5       | Custody Agreement with U.S. Bank National Association dated September 13, 2005 (1)   |
| 10.6       | Stock Transfer Agency Agreement with Computershare Investor Services, LLC dated September 13, 2005 (1)   |
| 10.7       | Administration Agreement with Tortoise Capital Advisors, L.L.C. dated November 14, 2006 (2)  |
| 10.8       | Warrant Agreement with Computershare Investor Services, LLC as Warrant Agent dated December 8, 2005 (1)  |
| 10.9       | Credit Agreement dated April 23, 2007 (7)  |
| 10.10      | First Amendment to Credit Agreement dated July 18, 2007 (8)  |

- 10.11 Second Amendment to Credit Agreement dated September 28, 2007 (9)
- 10.12 Security Agreement dated April 23, 2007 (7)
- 10.13 Third Amendment to Credit Agreement, dated as of March 21, 2008, by and among the Company and U.S. Bank, N.A. as a lender, agent and lead arranger, Bank of Oklahoma, N.A. and First National Bank of Kansas (10)
- 10.14 Fourth Amendment to Credit Agreement, dated as of March 28, 2008, by and among the Company and U.S. Bank, N.A. as a lender, agent and lead arranger, First National Bank of Kansas and Wells Fargo Bank, N.A. (11)
- 10.15 Expense Reimbursement Agreement dated as of November 11, 2008 by and among Tortoise Capital Resources Corporation and Tortoise Capital Advisors, LLC (12)

- 14.1 Code of Ethics for Principal Executive Officer and Principal Financial Officer filed herewith
- 24 Power of Attorney (included on the signature page)
- 31.1 Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 31.2 Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 32.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

- (1) *Incorporated by reference to the Registrant's Registration Statement on Form N-2, filed August 28, 2006 (File No. 333-136923).*
- (2) *Incorporated by reference to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form N-2, filed January 9, 2007 (File No. 333-136923).*
- (3) *Incorporated by reference to the Registrant's current report on Form 8-K, filed January 21, 2009.*
- (4) *Incorporated by reference to Pre-Effective Amendment No. 1 to the Registrant's Registration Statement on Form N-2, filed July 3, 2007 (File No. 333-142859)*
- (5) *Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2007 and filed on October 12, 2007.*

- (6) *Incorporated by reference to the Registrant's current report on Form 8-K, filed December 6, 2007.*
- (7) *Incorporated by reference to the Registrant's current report on Form 8-K, filed April 27, 2007.*
- (8) *Incorporated by reference to the Registrant's current report on Form 8-K, filed July 20, 2007.*
- (9) *Incorporated by reference to the Registrant's current report on Form 8-K, filed October 3, 2007.*
- (10) *Incorporated by reference to the Registrant's current report on Form 8-K, filed March 27, 2008.*
- (11) *Incorporated by reference to the Registrant's current report on Form 8-K, filed April 1, 2008.*
- (12) *Incorporated by reference to the Registrant's current report on Form 8-K, filed November 12, 2008.*

All other exhibits for which provision is made in the applicable regulations of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and therefore have been omitted.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Tortoise Capital Resources Corporation

We have audited the accompanying statements of assets and liabilities of Tortoise Capital Resources Corporation (the Company), including the schedules of investments, as of November 30, 2008 and 2007, and the related statements of operations, changes in net assets, cash flows, and the financial highlights for each of the two years in the period ended November 30, 2008, and for the period from December 8, 2005 (commencement of operations) through November 30, 2006. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Tortoise Capital Resources Corporation at November 30, 2008 and 2007, the results of its operations, changes in its net assets, its cash flows, and its financial highlights for each of the two years in the period ended November 30, 2008, and for the period from December 8, 2005 (commencement of operations) through November 30, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tortoise Capital Resources Corporation's internal control over financial reporting as of November 30, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 9, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Kansas City, Missouri  
February 9, 2009

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**Tortoise Capital Resources Corporation**  
**STATEMENTS OF ASSETS & LIABILITIES**

|  | <b>November<br/>30, 2008</b> | <b>November<br/>30, 2007</b> |
|--|------------------------------|------------------------------|
| <b>Assets</b>  |                              |                              |
| Investments at fair value, control (cost \$30,418,802 and \$20,521,816, respectively)        | \$ 30,213,280                | \$ 23,292,904                |
| Investments at fair value, affiliated (cost \$56,662,500 and \$95,507,198, respectively)     | 48,016,925                   | 98,007,275                   |
| Investments at fair value, non-affiliated (cost \$49,760,304 and \$31,716,576, respectively) | 27,921,025                   | 37,336,154                   |
| Total investments (cost \$136,841,606 and \$147,745,590, respectively)                       | 106,151,230                  | 158,636,333                  |
| Income tax receivable  | 212,054                      | 218,935                      |
| Receivable for Adviser expense reimbursement   | 88,925                       | 94,181                       |
| Interest receivable from control investments   | 76,609                       | 68,686                       |
| Dividends receivable   | 696                          | 1,419                        |
| Deferred tax asset, net  | 5,683,747                    | -                            |

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|  |               |                |
|--|---------------|----------------|
| Prepaid expenses and other assets  | 107,796       | 154,766        |
| Total assets   | 112,321,057   | 159,174,320    |
| <b>Liabilities</b>   |               |                |
| Base management fees payable to Adviser  | 533,552       | 565,086        |
| Accrued capital gain incentive fees payable to Adviser (Note 4)  | -             | 307,611        |
| Payable for investments purchased  | -             | 1,235,994      |
| Accrued expenses and other liabilities   | 362,205       | 419,744        |
| Short-term borrowings  | 22,200,000    | 30,550,000     |
| Deferred tax liability, net  | -             | 4,182,919      |
| Total liabilities  | 23,095,757    | 37,261,354     |
| Net assets applicable to common stockholders   | \$ 89,225,300 | \$ 121,912,966 |
| <b>Net Assets Applicable to Common Stockholders Consist of:</b>  |               |                |
| Warrants, no par value; 945,594 issued and outstanding at November 30, 2008 and 945,774 issued and outstanding at November 30, 2007 (5,000,000 authorized)                               | \$ 1,370,700  | \$ 1,370,957   |
| Capital stock, \$0.001 par value; 8,962,147 shares issued and outstanding at November 30, 2008 and 8,858,168 issued and outstanding at November 30, 2007 (100,000,000 shares authorized) | 8,962         | 8,858          |
| Additional paid-in capital   | 106,869,132   | 115,186,412    |
| Accumulated net investment loss, net of income taxes   | (2,544,267)   | (1,565,774)    |
| Accumulated realized gain, net of income taxes   | 6,364,262     | 160,474        |
| Net unrealized appreciation (depreciation) of investments, net of income taxes   | (22,843,489)  | 6,752,039      |
| Net assets applicable to common stockholders   | \$ 89,225,300 | \$ 121,912,966 |
| Net Asset Value per common share outstanding (net assets applicable to common stock, divided by common shares outstanding)   | \$ 9.96       | \$ 13.76       |

See accompanying Notes to Financial Statements.

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**Tortoise Capital Resources Corporation**

**SCHEDULE OF INVESTMENTS**

**November 30, 2008**

| Company  | Energy Infrastructure Segment | Type of Investment   |
|--|-------------------------------|--|
| <b>Control Investments <sup>(1)</sup></b>                  |                               |  |
| Mowood, LLC  | Midstream/Downstream          | Equity Interest (99.6%) <sup>(2)</sup>                     |
|  |                               | Subordinated Debt (12% Due 7/1/2016) <sup>(2)</sup>        |
| VantaCore Partners LP                                      | Aggregates                    | Promissory Notes (9% Due 12/31/08) <sup>(2)</sup>          |
|  |                               | Common Units (933,430) <sup>(2)</sup>                      |
|  |                               | Incentive Distribution Rights (988) <sup>(2) (6)</sup>     |
| <b>Total Control Investments - 33.9% <sup>(3)</sup></b>    |                               |  |
| <b>Affiliated Investments <sup>(4)</sup></b>               |                               |  |
| High Sierra Energy, LP                                     | Midstream                     | Common Units (1,042,685) <sup>(2) (5)</sup>                |
| International Resource Partners LP                         | Coal                          | Class A Units (500,000) <sup>(2)</sup>                     |
| LONESTAR Midstream Partners, LP                            | Midstream                     | Class A Units (1,327,900) <sup>(2) (6) (7)</sup>           |
| LSMP GP, LP  | Midstream                     | GP LP Units (180) <sup>(2) (6) (7)</sup>                   |
| Quest Midstream Partners, L.P.                             | Midstream                     | Common Units (1,180,946) <sup>(2) (6)</sup>                |
| <b>Total Affiliated Investments - 53.8% <sup>(3)</sup></b> |                               |  |
| <b>Non-affiliated Investments</b>                          |                               |  |
| Abraxas Energy Partners, L.P.                              | Upstream                      | Common Units (450,181) <sup>(2)</sup>                      |
| Eagle Rock Energy Partners, L.P.                           | Midstream/Upstream            | Common Units (659,071) <sup>(8)</sup>                      |
| Eagle Rock Energy Partners, L.P.                           | Midstream/Upstream            | Unregistered Common Units (373,224) <sup>(2) (8)</sup>     |
| Eagle Rock Energy Partners, L.P.                           | Midstream/Upstream            | Unregistered Common Units (212,404) <sup>(2) (8) (9)</sup> |

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|  |                       |  |
|--|-----------------------|--|
| EV Energy Partners, L.P.                                       | Upstream              | Common Units (217,391) <sup>(8)</sup>                  |
| High Sierra Energy GP, LLC                                     | Midstream             | Equity Interest (2.37%) <sup>(2) (5)</sup>             |
| Legacy Reserves LP   | Upstream              | Limited Partner Units (264,705) <sup>(8)</sup>         |
| Penn Virginia Resource Partners, L.P.                          | Midstream/Coal        | Unregistered Common Units (468,001) <sup>(2) (8)</sup> |
| Penn Virginia GP Holdings, L.P.                                | Midstream/Coal        | Unregistered Common Units (59,503) <sup>(2) (8)</sup>  |
| First American Government Obligations Fund                     | Short-term investment | Class Y shares   |
| <b>Total Non-affiliated Investments - 31.3%</b> <sup>(3)</sup> |                       |  |

**Total Investments - 119.0%** <sup>(3)</sup>

- (1) Control investments are generally defined under the Investment Company Act of 1940 as companies in which at least 25% of the voting securities are owned; see Note 8 to the financial statements for further disclosure.
- (2) Restricted securities have been fair valued in accordance with procedures approved by the Board of Directors and have a total fair value of \$95,316,463, which represents 106.8% of net assets applicable to common stockholders; see Note 7 to the financial statements for further disclosure.
- (3) Calculated as a percentage of net assets applicable to common stockholders.
- (4) Affiliated investments are generally defined under the Investment Company Act of 1940 as companies in which at least 5% of the voting securities are owned. Affiliated investments in which at least 25% of the voting securities are owned are generally defined as control investments as described in footnote 1; see Note 8 to the financial statements for further disclosure.
- (5) Security distributions are paid-in-kind.
- (6) Currently non-income producing.
- (7) In July 2008, Lonestar Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P. (PVR). Lonestar has no continuing operations, but currently holds certain rights to receive future payments from PVR relative to the sale. LSMP GP, LP indirectly owns the general partner of Lonestar Midstream Partners, LP. See Note 9 to the financial statements for additional information.
- (8) Publicly-traded company.
- (9) Units are held in an escrow account, along with restricted cash, to satisfy any potential claims from the purchaser of Millennium Midstream Partners, L.P. The escrow agreement terminates April 1, 2010. See Note 9 to the financial statements for additional information.

See accompanying Notes to Financial Statements.

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**Tortoise Capital Resources Corporation**

**SCHEDULE OF INVESTMENTS**

**November 30, 2007**

| Company  | Energy Infrastructure Segment | Type of Investment  |
|--|-------------------------------|---|
| <b>Control Investments (1)</b>                             |                               |   |
| Mowood, LLC  | Downstream                    | Equity Interest (100%) <sup>(2)</sup><br>Subordinated Debt (12% Due 7/1/2016) <sup>(2)</sup>  |
| VantaCore Partners LP                                      | Aggregates                    | Common Units (425,000) <sup>(2)</sup><br>Subordinated Debt (10.73% Due 5/21/2014)<br>Incentive Distribution Rights (789) <sup>(2) (7)</sup> |
| <b>Total Control Investments - 19.1%</b> <sup>(4)</sup>    |                               |   |
| <b>Affiliated Investments (5)</b>                          |                               |   |
| High Sierra Energy, LP                                     | Midstream                     | Common Units (999,614) <sup>(2)</sup>   |
| International Resource Partners LP                         | Coal                          | Class A Units (500,000) <sup>(2)</sup>  |
| LONESTAR Midstream Partners, LP                            | Midstream                     | Class A Units (1,184,532) <sup>(2) (6)</sup>  |
| LSMP GP, LP  | Midstream                     | GP LP Units (180 units) <sup>(2)</sup>  |
| Quest Midstream Partners, L.P.                             | Midstream                     | Common Units (1,180,946) <sup>(2)</sup>   |
| Millennium Midstream Partners, LP                          | Midstream                     | Class A Common Units (875,000) <sup>(2)</sup><br>Incentive Distribution Rights (78) <sup>(2) (7)</sup>                                      |
| <b>Total Affiliated Investments - 80.4%</b> <sup>(4)</sup> |                               |   |

| <b>Non-affiliated Investments</b>                              |                       |  |
|--|-----------------------|--|
| Abraxas Energy Partners, L.P.                                  | Upstream              | Common Units (450,181) <sup>(2)</sup>                |
| Eagle Rock Energy Partners, L.P.                               | Midstream             | Common Units (659,071) <sup>(8)</sup>                |
| EV Energy Partners, L.P.                                       | Upstream              | Common Units (217,391) <sup>(2)</sup> <sup>(8)</sup> |
| Legacy Reserves LP   | Upstream              | Limited Partner Units (264,705) <sup>(8)</sup>       |
| High Sierra Energy GP, LLC                                     | Midstream             | Equity Interest (2.37%) <sup>(2)</sup>               |
| First American Government Obligations Fund                     | Short-term investment | Class Y shares                                       |
| <b>Total Non-affiliated Investments - 30.6% <sup>(4)</sup></b> |                       |  |
| <b>Total Investments - 130.1% <sup>(4)</sup></b>               |                       |  |

- (1) Control investments are generally defined under the Investment Company Act of 1940 as companies in which at least 25% of the voting securities are owned; see Note 8 to the financial statements for further disclosure.
- (2) Restricted securities have been fair valued in accordance with procedures approved by the Board of Directors and have a total fair value of \$138,869,515, which represents 113.9% of net assets applicable to common stockholders. These securities are deemed to be restricted; see Note 7 to the financial statements for further disclosure.
- (3) Security is a variable rate instrument. Interest rate is as of November 30, 2007.
- (4) Calculated as a percentage of net assets applicable to common stockholders.
- (5) Affiliated investments are generally defined under the Investment Company Act of 1940 as companies in which at least 5% of the voting securities are owned. Affiliated investments in which at least 25% of the voting securities are owned are generally defined as control investments as described in footnote 1; see Note 8 to the financial statements for further disclosure.
- (6) Distributions are paid-in-kind.
- (7) Currently non-income producing.
- (8) Publicly-traded company.

See accompanying Notes to Financial Statements.

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## Tortoise Capital Resources Corporation

### STATEMENTS OF OPERATIONS

|  | Year Ended<br>November<br>30, 2008 | Year Ended<br>November<br>30, 2007 | Period from<br>December<br>8,<br>2005 <sup>(1)</sup><br>through<br>November<br>30, 2006 |
|--|------------------------------------|------------------------------------|---|
| <b>Investment Income</b>                 |                                    |                                    |   |
| Distributions from investments           |                                    |                                    |   |
| Control investments                      | \$ 1,576,716                       | \$ 389,720                         | \$ -  |
| Affiliated investments                   | 4,699,082                          | 4,245,481                          | 100,000   |
| Non-affiliated investments               | 3,412,723                          | 1,885,231                          | 4,122,244   |
| Total distributions from investments     | 9,688,521                          | 6,520,432                          | 4,222,244   |
| Less return of capital on distributions  | (7,894,819)                        | (5,031,851)                        | (3,808,154)   |
| Net distributions from investments       | 1,793,702                          | 1,488,581                          | 414,090   |
| Interest income from control investments | 1,103,059                          | 921,978                            | 270,633   |
| Dividends from money market mutual funds | 18,205                             | 624,385                            | 1,210,120   |
| Fee income                               | -                                  | -                                  | 225,000   |
| Other income                             | 28,987                             | -                                  | -   |
| <b>Total Investment Income</b>           | <b>2,943,953</b>                   | <b>3,034,944</b>                   | <b>2,119,843</b>  |
| <b>Operating Expenses</b>                |                                    |                                    |   |
| Base management fees                     | 2,313,731                          | 1,926,059                          | 634,989   |
| Capital gain incentive fees (Note 4)     | (307,611)                          | 307,611                            | -   |

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|  |                        |                     |                   |
|--|------------------------|---------------------|-------------------|
| Professional fees  | 642,615                | 727,055             | 205,018           |
| Administrator fees   | 107,325                | 81,002              | 1,322             |
| Directors' fees  | 86,406                 | 84,609              | 69,550            |
| Reports to stockholders  | 58,943                 | 53,610              | 15,810            |
| Fund accounting fees   | 34,546                 | 32,183              | 25,536            |
| Registration fees  | 29,668                 | 40,660              | -                 |
| Custodian fees and expenses  | 17,426                 | 10,174              | 6,647             |
| Stock transfer agent fees  | 13,538                 | 13,600              | 17,329            |
| Other expenses   | 47,157                 | 51,784              | 18,944            |
| <b>Total Operating Expenses</b>  | <b>3,043,744</b>       | <b>3,328,347</b>    | <b>995,145</b>    |
| Interest expense   | 1,650,926              | 847,421             | -                 |
| Preferred stock distributions  | -                      | 228,750             | -                 |
| Loss on redemption of preferred stock  | -                      | 731,713             | -                 |
| <b>Total Interest Expense, Preferred Stock Distributions<br/>and Loss on Redemption of Preferred Stock</b>             | <b>1,650,926</b>       | <b>1,807,884</b>    | <b>-</b>          |
| <b>Total Expenses</b>  | <b>4,694,670</b>       | <b>5,136,231</b>    | <b>995,145</b>    |
| Less expense reimbursement by Adviser  | (385,622)              | (94,181)            | -                 |
| <b>Net Expenses</b>  | <b>4,309,048</b>       | <b>5,042,050</b>    | <b>995,145</b>    |
| <b>Net Investment Income (Loss), before Income Taxes</b>   | <b>(1,365,095)</b>     | <b>(2,007,106)</b>  | <b>1,124,698</b>  |
| Current tax benefit (expense)  | (6,881)                | 261,667             | (266,455)         |
| Deferred tax benefit (expense)   | 393,483                | 179,665             | (124,967)         |
| Income tax benefit (expense)   | 386,602                | 441,332             | (391,422)         |
| <b>Net Investment Income (Loss)</b>  | <b>(978,493)</b>       | <b>(1,565,774)</b>  | <b>733,276</b>    |
| <b>Realized and Unrealized Gain (Loss) on Investments</b>  |                        |                     |                   |
| Net realized gain (loss) on investments, before deferred tax expense   | 8,716,197              | 260,290             | (1,462)           |
| Current tax benefit  | -                      | -                   | 556               |
| Deferred tax expense   | (2,512,409)            | (98,910)            | -                 |
| Net realized gain (loss) on investments  | 6,203,788              | 161,380             | (906)             |
| Net unrealized appreciation (depreciation) of control investments  | (2,976,609)            | 2,771,088           | -                 |
| Net unrealized appreciation (depreciation) of affiliated investments   | (11,145,652)           | 2,262,736           | 328,858           |
| Net unrealized appreciation (depreciation) of non-affiliated investments   | (27,458,859)           | 5,528,064           | -                 |
| Net unrealized appreciation (depreciation), before deferred taxes  | (41,581,120)           | 10,561,888          | 328,858           |
| Deferred tax benefit (expense)   | 11,985,592             | (4,013,518)         | (125,189)         |
| Net unrealized appreciation (depreciation) of investments  | (29,595,528)           | 6,548,370           | 203,669           |
| <b>Net Realized and Unrealized Gain (Loss) on Investments</b>  | <b>(23,391,740)</b>    | <b>6,709,750</b>    | <b>202,763</b>    |
| <b>Net Increase (Decrease) in Net Assets Applicable to Common Stockholders<br/>Resulting from Operations</b>           | <b>\$ (24,370,233)</b> | <b>\$ 5,143,976</b> | <b>\$ 936,039</b> |
| Net Increase (Decrease) in Net Assets Applicable to Common Stockholders<br>Resulting from Operations Per Common Share: |                        |                     |                   |
| Basic and Diluted  | \$ (2.74)              | \$ 0.66             | \$ 0.30           |
| Weighted Average Shares of Common Stock Outstanding:   |                        |                     |                   |
| Basic and Diluted  | 8,887,085              | 7,751,591           | 3,088,596         |

(1) Commencement of Operations

See accompanying Notes to Financial Statements.

**Tortoise Capital Resources Corporation**  
**STATEMENTS OF CHANGES IN NET ASSETS**

|   | <b>Year Ended<br/>November<br/>30, 2008</b> |
|---|---|
| <b>Operations</b>   |   |
| Net investment income (loss)  | \$ (978,493)                                |
| Net realized gain (loss) on investments   | 6,203,788                                   |
| Net unrealized appreciation (depreciation) of investments   | (29,595,528)                                |
| Net increase (decrease) in net assets applicable to common stockholders resulting from operations             | (24,370,233)                                |
| <b>Distributions to Common Stockholders</b>   |   |
| Net investment income   | -   |
| Return of capital   | (9,265,351)                                 |
| Total distributions to common stockholders  | (9,265,351)                                 |
| <b>Capital Stock Transactions</b>   |   |
| Proceeds from initial offering of 3,066,667 common shares and 772,124 warrants                                | -   |
| Proceeds from initial public offering of 5,740,000 common shares  | -   |
| Proceeds from issuance of 185,000 warrants  | -   |
| Proceeds from exercise of 180 warrants  | 2,700                                       |
| Proceeds from exercise of 11,350 warrants   | -   |
| Underwriting discounts and offering expenses associated with the issuance of common stock                     | -   |
| Issuance of 103,799 and 18,222 common shares from reinvestment of distributions to stockholders, respectively | 945,218                                     |
| Net increase in net assets, applicable to common stockholders, from capital stock transactions                | 947,918                                     |
| Total increase (decrease) in net assets applicable to common stockholders                                     | (32,687,666)                                |
| <b>Net Assets</b>   |   |
| Beginning of year   | 121,912,966                                 |
| End of year   | \$ 89,225,300                               |
| Accumulated net investment loss, net of income taxes, at the end of year                                      | \$ (2,544,267)                              |

(1) *Commencement of Operations*

See accompanying Notes to Financial Statements.

**Tortoise Capital Resources Corporation**  
**STATEMENT OF CASH FLOWS**

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|  | Year Ended<br>November<br>30, 2008 | Year Ended<br>November 30,<br>2007 |
|--|------------------------------------|------------------------------------|
| <b>Cash Flows From Operating Activities</b>  |                                    |                                    |
| Distributions received from investments  | \$ 9,688,521                       | \$ 6,520,432                       |
| Interest and dividend income received  | 1,106,776                          | 1,535,673                          |
| Fee income received  | -                                  | -                                  |
| Purchases of long-term investments   | (37,817,772)                       | (114,999,341)                      |
| Proceeds from sale of long-term investments  | 48,568,485                         | 640,656                            |
| Proceeds (purchases) of short-term investments, net  | (140,878)                          | 5,211,912                          |
| Interest expense paid  | (1,736,407)                        | (665,865)                          |
| Current tax expense paid   | -                                  | -                                  |
| Distributions to preferred stockholders  | -                                  | (228,750)                          |
| Operating expenses paid  | (3,001,292)                        | (2,438,378)                        |
| Net cash provided by (used in) operating activities  | 16,667,433                         | (104,423,661)                      |
| <b>Cash Flows from Financing Activities</b>  |                                    |                                    |
| Issuance of common stock (including warrant exercises)   | 2,700                              | 86,270,250                         |
| Common stock issuance costs  | -                                  | (6,841,555)                        |
| Issuance of preferred stock  | -                                  | 18,216,950                         |
| Redemption of preferred stock  | -                                  | (18,870,000)                       |
| Preferred stock issuance costs   | -                                  | (78,663)                           |
| Issuance of warrants   | -                                  | 283,050                            |
| Advances from revolving line of credit   | 22,750,000                         | 46,450,000                         |
| Repayments on revolving line of credit   | (31,100,000)                       | (15,900,000)                       |
| Distributions paid to common stockholders  | (8,320,133)                        | (5,106,371)                        |
| Net cash provided by (used in) financing activities  | (16,667,433)                       | 104,423,661                        |
| Net change in cash   | -                                  | -                                  |
| Cash--beginning of year  | -                                  | -                                  |
| Cash--end of year  | \$ -                               | \$ -                               |
| <b>Reconciliation of net increase (decrease) in net assets applicable to common stockholders resulting from operations to net cash provided by (used in) operating activities</b>  |                                    |                                    |
| Net increase (decrease) in net assets applicable to common stockholders resulting from operations  | \$ (24,370,233)                    | \$ 5,143,976                       |
| Adjustments to reconcile net increase (decrease) in net assets applicable to common stockholders resulting from operations to net cash provided by (used in) operating activities: |                                    |                                    |
| Purchases of long-term investments   | (36,592,256)                       | (116,235,335)                      |
| Return of capital on distributions received  | 7,894,819                          | 5,031,851                          |
| Proceeds from sale of long-term investments, net   | 48,568,485                         | 640,656                            |
| Proceeds (purchases) of short-term investments, net  | (140,878)                          | 5,211,912                          |
| Accrued capital gain incentive fees payable to Adviser   | (307,611)                          | 307,611                            |
| Deferred income taxes, net   | (9,866,666)                        | 3,932,763                          |
| Amortization of issuance costs   | 18,553                             | 9,900                              |
| Realized (gain) loss on investments  | (8,716,197)                        | (260,290)                          |
| Loss on redemption of preferred stock  | -                                  | 731,713                            |
| Net unrealized depreciation (appreciation) of investments  | 41,581,120                         | (10,561,888)                       |
| Changes in operating assets and liabilities:   |                                    |                                    |
| Increase in income tax receivable  | -                                  | (218,935)                          |
| Increase in interest, dividend and distribution receivable   | (7,200)                            | (1,860)                            |
| (Increase) decrease in prepaid expenses and other assets   | (92,432)                           | 72,074                             |

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|   |               |                  |
|---|---------------|------------------|
| Increase (decrease) in current tax liability  | 6,881         | (86,386)         |
| Increase (decrease) in base management fees payable to<br>Adviser, net of expense reimbursement | (26,278)      | 358,140          |
| Increase (decrease) in payable for investments purchased  | (1,235,994)   | 1,235,994        |
| Increase (decrease) in accrued expenses and other liabilities                                   | (46,680)      | 264,443          |
| Total adjustments   | 41,037,666    | (109,567,637)    |
| Net cash provided by (used in) operating activities   | \$ 16,667,433 | \$ (104,423,661) |

**Non-Cash Financing Activities**

|  |            |            |
|--|------------|------------|
| Reinvestment of distributions by common stockholders in additional common shares | \$ 945,218 | \$ 242,873 |
|--|------------|------------|

(1) Commencement of Operations.  
See accompanying Notes to Financial Statements.

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**Tortoise Capital Resources Corporation**

**FINANCIAL HIGHLIGHTS**

|   | Year<br>Ended<br>November<br>30, 2008 | Year Ended<br>November<br>30, 2007 | Per<br>Share<br>Data<br>for<br>the<br>Year<br>Ended<br>November<br>30,<br>2008 |
|---|---------------------------------------|------------------------------------|--|
| <b>Per Common Share Data <sup>(2)</sup></b>   |                                       |                                    |  |
| Net Asset Value, beginning of period  | \$ 13.76                              | \$ 13.70                           | \$ 13.70   |
| Initial offering price  | -                                     | -                                  | 13.70  |
| Underwriting discounts and offering costs on issuance of common shares  | -                                     | 0.01                               | 0.01   |
| Income from Investment Operations:  |                                       |                                    |  |
| Net investment income (loss) <sup>(3)</sup>   | (0.11)                                | (0.18)                             | (0.18)   |
| Net realized and unrealized gain (loss) on investments <sup>(3)</sup>   | (2.65)                                | 0.90                               | 0.90   |
| Total increase (decrease) from investment operations  | (2.76)                                | 0.72                               | 0.72   |
| Less Distributions to Common Stockholders:  |                                       |                                    |  |
| Net investment income   | -                                     | -                                  | -  |
| Return of capital   | (1.04)                                | (0.67)                             | (0.67)   |
| Total distributions to common stockholders  | (1.04)                                | (0.67)                             | (0.67)   |
| Net Asset Value, end of period  | \$ 9.96                               | \$ 13.76                           | \$ 13.76   |
| Per common share market value, end of period  | \$ 5.21                               | \$ 11.66                           | \$ 11.66   |
| Total Investment Return, including capital gain incentive fees, based on net asset value <sup>(4)</sup>   | (18.83)%                              | 5.35%                              | 5.35%  |
| Total Investment Return, excluding capital gain incentive fees, based on net asset value <sup>(4)</sup>   | (20.93)%                              | 5.57%                              | 5.57%  |
| Total Investment Return, based on market value <sup>(5)</sup>   | (49.89)%                              | 19.05%                             | 19.05%   |
| <b>Supplemental Data and Ratios</b>   |                                       |                                    |  |
| Net assets applicable to common stockholders, end of period (000's)   | \$ 89,225                             | \$ 121,913                         | \$ 121,913   |
| Ratio of expenses (including current and deferred income tax expense (benefit)<br>and capital gain incentive fees) to average net assets <sup>(6) (7) (8)</sup>                 | (5.72)%                               | 8.35%                              | 8.35%  |
| Ratio of expenses (excluding current and deferred income tax expense (benefit))<br>to average net assets <sup>(6) (9)</sup>   | 4.44%                                 | 4.69%                              | 4.69%  |
| Ratio of expenses (excluding current and deferred income tax expense (benefit))<br>and capital gain incentive fees) to average net assets <sup>(6) (9) (10)</sup>               | 4.76%                                 | 4.40%                              | 4.40%  |
| Ratio of net investment income (loss) to average net assets before current<br>and deferred income tax expense (benefit) and capital gain incentive fees <sup>(6) (9) (10)</sup> | (1.73)%                               | (1.58)%                            | (1.58)%  |
| Ratio of net investment income (loss) to average net assets before current<br>and deferred income tax expense (benefit) <sup>(6) (8) (9)</sup>                                  | (1.41)%                               | (1.87)%                            | (1.87)%  |
| Ratio of net investment income (loss) to average net assets after current<br>and deferred income tax expense (benefit) and capital gain incentive fees <sup>(6) (7) (8)</sup>   | 8.76%                                 | (5.52)%                            | (5.52)%  |

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|  |  |           |           |    |
|--|--|-----------|-----------|----|
| Portfolio turnover rate <sup>(6)</sup>                               |  | 24.55%    | 0.62%     |    |
| Short-term borrowings, end of period (000's)                         |  | \$ 22,200 | \$ 30,550 | \$ |
| Asset coverage, per \$1,000 of short-term borrowings <sup>(11)</sup> |  | \$ 5,019  | \$ 4,991  |    |
| Asset coverage ratio of short-term borrowings <sup>(11)</sup>        |  | 502%      | 499%      |    |

- (1) Commencement of Operations.
- (2) Information presented relates to a share of common stock outstanding for the entire period.
- (3) The per common share data for the years ended November 30, 2008, November 30, 2007 and the period from December 8, 2005 through November 30, 2006 do not reflect the change in estimate of investment income and return of capital, for the respective period, as described in Note 2D.
- (4) Not annualized for periods less than one year. Total investment return is calculated assuming a purchase of common stock at the initial offering price or net asset value per share as of the beginning of the year, reinvestment of distributions at net asset value, and a sale at net asset value at the end of the year.
- (5) Not annualized for periods less than one year. Total investment return is calculated assuming a purchase of common stock at the initial public offering price, or market value at the beginning of the period, reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan or market value, as applicable, and a sale at the current market price on the last day of the year (excluding brokerage commissions). Our common shares began trading on the New York Stock Exchange under the symbol [TTO] on February 2, 2007 at a price of \$15.00 per share.
- (6) Annualized for periods less than one full year.
- (7) For the year ended November 30, 2008, the Company accrued \$6,881 in current tax expense and \$9,866,666 in deferred tax benefit, net.  
For the year ended November 30, 2007, the Company accrued \$261,667 in current income tax benefit and \$3,932,763 in deferred income tax expense.  
For the period from December 8, 2005 through November 30, 2006, the Company accrued \$265,899 in current income tax expense and \$250,156 in deferred income tax expense.
- (8) For the year ended November 30, 2008, the Company accrued no capital gain incentive fees.  
For the year ended November 30, 2007, the Company accrued \$307,611 as a provision for capital gain incentive fees.  
For the period from December 8, 2005 through November 30, 2006, the Company accrued no capital gain incentive fees.
- (9) The ratio excludes the impact of current and deferred income taxes.
- (10) The ratio excludes the impact of capital gain incentive fees.
- (11) Represents value of total assets less all liabilities and indebtedness not represented by short-term borrowings at the end of the year divided by short-term borrowings outstanding at the end of the year.

See accompanying Notes to Financial Statements.

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**TORTOISE CAPITAL RESOURCES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**November 30, 2008**

**1. Organization**

Tortoise Capital Resources Corporation (the "Company") was organized as a Maryland corporation on September 8, 2005, and is a non-diversified closed-end management investment company focused on the U.S. energy infrastructure sector. The Company invests primarily in privately held and micro-cap public companies operating in the midstream and downstream segments, and to a lesser extent the upstream segment, of the energy infrastructure sector. The Company is regulated as a business development company ([BDC]) under the Investment Company Act of 1940, as amended (the [1940 Act]). The Company does not report results of operations internally on an operating segment basis. The Company is externally managed by Tortoise Capital Advisors, L.L.C. (the [Adviser]), an investment adviser specializing in the energy sector. The Company's shares are listed on the New York Stock Exchange under the symbol [TTO].

**2. Significant Accounting Policies**

A. *Use of Estimates* [ The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, recognition of distribution income and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

B. *Investment Valuation* □ The Company invests primarily in illiquid securities including debt and equity securities of privately-held companies. These investments generally are subject to restrictions on resale, have no established trading market and are fair valued on a quarterly basis. Because of the inherent uncertainty of valuation, the fair values of such investments, which are determined in accordance with procedures approved by the Company's Board of Directors, may differ materially from the values that would have been used had a ready market existed for the investments. The Company's Board of Directors may consider other methods of valuing investments as appropriate and in conformity with U.S. generally accepted accounting principles.

Effective December 1, 2007, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is applicable in conjunction with other accounting pronouncements that require or permit fair value measurements, but does not expand the use of fair value to any new circumstances. More specifically, SFAS 157 emphasizes that fair value is a market based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority given to quoted prices in active markets and the lowest priority to unobservable inputs. The Company's adoption of SFAS 157 did not have a material impact on its financial condition or results of operations.

In October 2008, the Financial Accounting Standards Board, or the FASB, issued FASB Staff Position (□FSP□) No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active. More specifically, FSP No. 157-3 states that significant judgment should be applied to determine if observable data in a dislocated market represents forced liquidations or distressed sales and are not representative of fair value in an orderly transaction. FSP No. 157-3 also provides further guidance that the use of a reporting entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available. In addition, FSP No. 157-3 provides guidance on the level of reliance of broker quotes or pricing services when measuring fair value in a non-active market stating that less reliance should be placed on a quote that does not reflect actual market transactions and a quote that is not a binding offer. The guidance in FSP No. 157-3 is effective upon issuance for all financial statements that have not been issued and any changes in valuation techniques as a result of applying FSP No. 157-3 are accounted for as a change in accounting estimate.

Consistent with SFAS 157, the Company determines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Also, in accordance with SFAS 157, the Company has determined the principal market, or the market in which the Company exits its portfolio investments with the greatest volume and level of activity, to be the private secondary market. Typically, private companies are bought and sold based on multiples of EBITDA, cash flows, net income, revenues, or in limited cases, book value.

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For private company investments, value is often realized through a liquidity event of the entire company. Therefore, the value of the company as a whole (enterprise value) at the reporting date often provides the best evidence of the value of the investment and is the initial step for valuing the Company's privately issued securities. For any one company, enterprise value may best be expressed as a range of fair values, from which a single estimate of fair value will be derived. In determining the enterprise value of a portfolio company, the Company prepares an analysis consisting of traditional valuation methodologies including market and income approaches. The Company considers some or all of the traditional valuation methods based on the individual circumstances of the portfolio company in order to derive its estimate of enterprise value.

The fair value of investments in portfolio companies is determined based on various factors, including enterprise value, observable market transactions, such as recent offers to purchase a company, recent transactions involving the purchase or sale of the equity securities of the company, or other liquidation events. The determined equity values will generally be discounted when the Company has a minority position, is subject to restrictions on resale, has specific concerns about the receptivity of the capital markets to a specific company at a certain time, or other comparable factors exist.

For equity and equity-related securities that are freely tradable and listed on a securities exchange, the Company fair values those securities at their last sale price on that exchange on the valuation date. If the security is listed on more than one exchange, the Company will use the price of the exchange that it considers to be the principal exchange on which the security is traded. Securities listed on the NASDAQ will be valued at the NASDAQ Official

Closing Price, which may not necessarily represent the last sale price. If there has been no sale on such exchange or NASDAQ on such day, the security will be valued at the mean between bid and ask price on such day.

An equity security of a publicly traded company acquired in a private placement transaction without registration is subject to restrictions on resale that can affect the security's liquidity and fair value. Such securities that are convertible into or otherwise will become freely tradable will be valued based on the market value of the freely tradable security less an applicable discount. Generally, the discount will initially be equal to the discount at which the Company purchased the securities. To the extent that such securities are convertible or otherwise become freely tradable within a time frame that may be reasonably determined, an amortization schedule may be determined for the discount.

The Board of Directors undertakes a multi-step valuation process each quarter in connection with determining the fair value of private investments:

- The quarterly valuation process begins with each investment being initially valued by the Valuation Officer of the Adviser. As part of this process, materials are prepared containing the supporting analysis, which are reviewed by the investment professionals of the Adviser;
- The Investment Committee of the Adviser reviews the preliminary valuations, and the Valuation Officer of the Adviser considers and assesses, as appropriate, any changes that may be required to the preliminary valuations to address any comments provided by the Investment Committee of the Adviser;
- An independent valuation firm engaged by the Board of Directors to provide third-party valuation consulting services performs certain limited procedures that the Board of Directors has identified and asked it to perform on a selection of these preliminary valuations as determined by the Board of Directors. For the year ended November 30, 2008, the independent valuation firm performed limited procedures on seven portfolio companies comprising approximately 84 percent of the total restricted investments at fair value as of November 30, 2008. Upon completion of the limited procedures, the independent valuation firm concluded that the fair value of the investments subjected to the limited procedures did not appear to be unreasonable;
- The Board of Directors assesses the valuations and ultimately determines the fair value of each investment in the Company's portfolio in good faith.

*C. Interest and Fee Income* — Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. When investing in instruments with an original issue discount or payment-in-kind interest (in which case the Company chooses payment-in-kind in lieu of cash), the Company will accrue interest income during the life of the investment, even though the Company will not necessarily be receiving cash as the interest is accrued. Fee income will include fees, if any, for due diligence, structuring, commitment and facility fees, transaction services, consulting services and management services rendered to portfolio companies and other third parties. Commitment and facility fees generally are recognized as income over the life of the underlying loan, whereas due diligence, structuring, transaction service, consulting and management service fees generally are recognized as income when services are rendered. For the years ended November 30, 2008 and 2007, the Company received no fee income, and the Company received \$225,000 in fee income for the period December 8, 2005 through November 30, 2006.

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*D. Security Transactions and Investment Income* — Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis. Distributions received from the Company's investments in limited partnerships and limited liability companies generally are comprised of ordinary income, capital gains and return of capital. The Company records investment income, capital gains and return of capital based on estimates made at the time such distributions are received. Such estimates are based on information available from each company and/or other industry sources. These estimates may subsequently be revised based on information received from the entities after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year end of the Company.

For the period from December 1, 2006 through November 30, 2007, the Company estimated the allocation of investment income and return of capital for the distributions received from its portfolio companies within the

Statement of Operations. For this period, the Company had estimated these distributions to be approximately 27 percent investment income and 73 percent return of capital.

Subsequent to November 30, 2007, the Company reclassified the amount of investment income and return of capital it recognized based on the 2007 tax reporting information received from the individual portfolio companies. This reclassification amounted to a decrease in pre-tax net investment income and a corresponding increase in unrealized appreciation of investments of approximately \$1,273,000 or \$0.142 per share (\$805,000 or \$0.090 per share, net of deferred tax) for the year ended November 30, 2008.

*E. Distributions to Stockholders* □ The amount of any quarterly distributions will be determined by the Board of Directors. Distributions to stockholders are recorded on the ex-dividend date. The Company may not declare or pay distributions to its common stockholders if it does not meet asset coverage ratios required under the 1940 Act. The character of distributions made during the year may differ from their ultimate characterization for federal income tax purposes. For the year ended November 30, 2008 the Company's distributions, for book purposes, were comprised of 100 percent return of capital, and for tax purposes were comprised of 3.2 percent investment income and 96.8 percent return of capital. For the year ended November 30, 2007, the Company's distributions, for book and tax purposes, were comprised of 100 percent return of capital. For the period ended December 8, 2005 to November 30, 2006, the company's distributions, for book purposes, were comprised of 87.3 percent investment income and 12.7 percent return of capital, and for tax purposes were comprised of 41.7 percent investment income and 58.3 percent return of capital.

*F. Federal and State Income Taxation* □ The Company, as a corporation, is obligated to pay federal and state income tax on its taxable income. Currently, the highest regular marginal federal income tax rate for a corporation is 35 percent; however, the Company anticipates a marginal effective tax rate of 34 percent due to expectations of the level of taxable income relative to the federal graduated tax rates, including the tax rate anticipated when temporary differences reverse. The Company may be subject to a 20 percent federal alternative minimum tax on its federal alternative minimum taxable income to the extent that its alternative minimum tax exceeds its regular federal income tax.

The Company invests its assets primarily in limited partnerships or limited liability companies which are treated as partnerships for federal and state income tax purposes. As a limited partner, the Company reports its allocable share of taxable income in computing its own taxable income. The Company's tax expense or benefit is included in the Statement of Operations based on the component of income or gains (losses) to which such expense or benefit relates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is recognized, if based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized.

On December 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48 (□FIN 48□) *Accounting for Uncertainty in Income Taxes*. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. For additional information regarding adoption of FIN 48, see Note 5□Income Taxes.

*G. Organization Expenses and Offering Costs* □ The Company is responsible for paying all organization and offering expenses. Offering costs related to the issuance of common stock are charged to additional paid-in capital when the stock is issued. Offering costs paid by the Company related to a resale registration statement covering securities issued in private placements prior to the Company's initial public offering amounting to \$90,292 were charged as a reduction of paid-in capital and \$28,454 were capitalized and amortized over a one-year period following July 26, 2007, the effective date of the registration statement.

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*H. Indemnifications* □ Under the Company's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Company. In addition, in the normal course of business, the Company may enter into contracts that provide general indemnification to other parties. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred, and may not occur. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

### 3. Concentration of Risk

The Company's goal is to provide stockholders with a high level of total return with an emphasis on distributions and distribution growth. The Company invests primarily in privately-held and micro-cap public companies focused on the midstream and downstream segments, and to a lesser extent the upstream segment, of the U.S. energy infrastructure sector. The Company may, for defensive purposes, temporarily invest all or a significant portion of its assets in investment grade securities, short-term debt securities and cash or cash equivalents. To the extent the Company uses this strategy it may not achieve its investment objective.

### 4. Agreements

The Company has entered into an Investment Advisory Agreement with Tortoise Capital Advisors, L.L.C. Under the terms of the agreement, the Adviser is paid a fee consisting of a base management fee and an incentive fee.

The base management fee is 0.375 percent (1.5 percent annualized) of the Company's average monthly Managed Assets, calculated and paid quarterly in arrears within thirty days of the end of each fiscal quarter. The term "Managed Assets" as used in the calculation of the management fee means total assets (including any assets purchased with or attributable to borrowed funds but excluding any net deferred tax asset) minus accrued liabilities other than (1) net deferred tax liabilities, (2) debt entered into for the purpose of leverage and (3) the aggregate liquidation preference of any outstanding preferred shares. The base management fee for any partial quarter is appropriately prorated.

The incentive fee consists of two parts. The first part, the investment income fee, is equal to 15 percent of the excess, if any, of the Company's Net Investment Income for the fiscal quarter over a quarterly hurdle rate equal to 2 percent (8 percent annualized), and multiplied, in either case, by the Company's average monthly Net Assets for the quarter. "Net Assets" means the Managed Assets less deferred taxes, debt entered into for the purposes of leverage and the aggregate liquidation preference of any outstanding preferred shares. "Net Investment Income" means interest income (including accrued interest that we have not yet received in cash), dividend and distribution income from equity investments (but excluding that portion of cash distributions that are treated as a return of capital), and any other income (including any fees such as commitment, origination, syndication, structuring, diligence, monitoring, and consulting fees or other fees that the Company is entitled to receive from portfolio companies) accrued during the fiscal quarter, minus the Company's operating expenses for such quarter (including the base management fee, expense reimbursements payable pursuant to the Investment Advisory Agreement, any interest expense, any accrued income taxes related to net investment income, and distributions paid on issued and outstanding preferred stock, if any, but excluding the incentive fee payable). Net Investment Income also includes, in the case of investments with a deferred interest or income feature (such as original issue discount, debt or equity instruments with a payment-in-kind feature, and zero coupon securities), accrued income that the Company has not yet received in cash. Net Investment Income does not include any realized capital gains, realized capital losses, or unrealized capital appreciation or depreciation. The investment income fee is calculated and payable quarterly in arrears within thirty (30) days of the end of each fiscal quarter. The investment income fee calculation is adjusted appropriately on the basis of the number of calendar days in the first fiscal quarter the fee accrues or the fiscal quarter during which the Agreement is in effect in the event of termination of the Agreement during any fiscal quarter. During the years ended November 30, 2008 and 2007, and the period from December 8, 2005 through November 30, 2006, the Company accrued no investment income fees.

The second part of the incentive fee payable to the Adviser, the capital gain incentive fee, is equal to: (A) 15 percent of (i) the Company's net realized capital gains (realized capital gains less realized capital losses) on a cumulative basis from inception to the end of each fiscal year, less (ii) any unrealized capital depreciation at the end of such fiscal year, less (B) the aggregate amount of all capital gain fees paid to the Adviser in prior fiscal years. The capital gains fee is calculated and payable annually within thirty (30) days of the end of each fiscal year. In the event the Investment Advisory Agreement is terminated, the capital gains fee calculation shall be undertaken as of, and any resulting capital gains fee shall be paid within thirty (30) days of the date of termination. The Adviser may, from time to time, waive or defer all or any part of the compensation described in the Investment Advisory Agreement.

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The calculation of the capital gain fee does not include any capital gains that result from that portion of any scheduled periodic distributions made possible by the normally recurring cash flow from the operations of

portfolio companies (□Expected Distributions□) that are characterized by the Company as return of capital for U.S. generally accepted accounting principles (□GAAP□) purposes. In that regard, any such return of capital will not be treated as a decrease in the cost basis of an investment for purposes of calculating the capital gains fee. This does not apply to any portion of any distribution from a portfolio company that is not an Expected Distribution. Realized capital gains on a security will be calculated as the excess of the net amount realized from the sale or other disposition of such security over the adjusted cost basis for the security. Realized capital losses on a security will be calculated as the amount by which the net amount realized from the sale or other disposition of such security is less than the adjusted cost basis of such security. Unrealized capital depreciation on a security will be calculated as the amount by which the Company's adjusted cost basis of such security exceeds the fair value of such security at the end of a fiscal year.

The payable for capital gain incentive fees is a result of the increase or decrease in the fair value of investments and realized gains or losses from investments. For the years ended November 30, 2008 and 2007, the Company decreased the capital gain incentive fee payable by \$307,611 and increased the capital gain incentive fee payable by \$307,611, respectively, as a result of the increase or decrease in the fair value of investments and realized gains from investments during the period. No capital gain fees were accrued for the period from December 8, 2005 through November 30, 2006. Pursuant to the Investment Advisory Agreement, the capital gain incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due. No capital gain incentive fees were paid at November 30, 2008, 2007, or 2006.

On November 30, 2007, the Company entered into an Expense Reimbursement and Partial Fee Waiver Agreement with the Adviser. Under the terms of the agreement, the Adviser will reimburse the Company for certain expenses incurred beginning September 1, 2007 and ending December 31, 2008 in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets. On November 11, 2008, the Company entered into an Expense Reimbursement Agreement with the Adviser, for which the Adviser will reimburse the Company for certain expenses incurred beginning January 1, 2009 and ending December 31, 2009 in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets. During the years ended November 30, 2008 and November 30, 2007, the Adviser reimbursed the Company \$385,622 and \$94,181, respectively.

The Company has engaged U.S. Bancorp Fund Services, LLC to serve as the Company's fund accounting services provider. The Company pays the provider a monthly fee computed at an annual rate of \$24,000 on the first \$50,000,000 of the Company's Net Assets, 0.0125 percent on the next \$200,000,000 of Net Assets and 0.0075 percent on the balance of the Company's Net Assets.

The Adviser has been engaged as the Company's administrator. The Company pays the administrator a fee equal to an annual rate of 0.07 percent of aggregate average daily Managed Assets up to and including \$150,000,000, 0.06 percent of aggregate average daily Managed Assets on the next \$100,000,000, 0.05 percent of aggregate average daily Managed Assets on the next \$250,000,000, and 0.02 percent on the balance. This fee is calculated and accrued daily and paid quarterly in arrears.

Computershare Trust Company, N.A. serves as the Company's transfer agent, dividend paying agent, and agent for the automatic dividend reinvestment plan.

U.S. Bank, N.A. serves as the Company's custodian. The Company pays the custodian a monthly fee computed at an annual rate of 0.015 percent on the first \$200,000,000 of the Company's portfolio assets and 0.01 percent on the balance of the Company's portfolio assets, subject to a minimum annual fee of \$4,800.

## 5. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and tax purposes. Components of the Company's deferred tax assets and liabilities as of November 30, 2008, and November 30, 2007 are as follows:

|                             | November 30,<br>2008 | November 30,<br>2007 |
|-----------------------------|----------------------|----------------------|
| Deferred tax assets:        |                      |                      |
| Organization costs          | \$ (26,160)          | \$ (29,280)          |
| Capital gain incentive fees | -                    | (116,892)            |

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|   |                |              |
|---|----------------|--------------|
| Net unrealized loss on investment securities  | (11,287,920)   | -            |
| Net operating loss carry forwards             | (3,319,098)    | (1,397,684)  |
| Valuation allowance                           | 2,814,891      | -            |
|   | (11,818,287)   | (1,543,856)  |
| Deferred tax liabilities:                     |                |              |
| Net unrealized gains on investment securities | -              | 4,138,485    |
| Basis reduction of investment in MLPs         | 6,134,540      | 1,588,290    |
|   | 6,134,540      | 5,726,775    |
| Total net deferred tax (asset) liability      | \$ (5,683,747) | \$ 4,182,919 |

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At November 30, 2008, the Company has recorded a valuation allowance in the amount of \$2,814,891 for a portion of its deferred tax asset which it does not believe will, more likely than not, be realized. The entire amount of such allowance was established in the year ended November 30, 2008. The Company estimates based on existence of sufficient evidence, primarily regarding the amount and timing of distributions to be received from portfolio companies, the ability to realize the remainder of its deferred tax assets. Any adjustments to those estimates will be made in the period such determination is made.

The Company has analyzed the tax positions taken and has concluded that it has no uncertain tax positions as described in FIN 48. All of the Company's tax years remain open and subject to examination for both federal and state purposes. The Company's policy is to record interest and penalties on uncertain tax positions, if any, as part of tax expense. Management has determined a reserve for unrecognized tax benefits is not necessary when the temporary differences represent future deductible amounts rather than future taxable amounts. The Company does not expect any amount of unrecognized tax benefits to be recorded over the next twelve months subsequent to November 30, 2008.

Total income tax expense or benefit differs from the amount computed by applying the federal statutory income tax rate of 34 percent to net investment income (loss) and realized and unrealized gains (losses) on investments before taxes as follows:

|  | Year Ended<br>November 30,<br>2008 | Year Ended<br>November 30,<br>2007 | For the period<br>December 8,<br>2005<br>through<br>November 30,<br>2006 |
|--|------------------------------------|------------------------------------|--|
| Application of statutory income tax rate   | \$ (11,638,206)                    | \$ 2,997,124                       | \$ 493,713   |
| State income taxes, net of federal taxes   | (951,595)                          | 354,031                            | 58,084   |
| Preferred dividends                        | -                                  | 86,925                             | -  |
| Loss on redemption of preferred stock      | -                                  | 278,051                            | -  |
| Change in prior year tax expense           | 1,842                              | (45,035)                           | -  |
| Change in accrual for state income taxes   | (86,717)                           | -                                  | -  |
| Change in deferred tax valuation allowance | 2,814,891                          | -                                  | (35,742)   |
| Total income tax expense (benefit)         | \$ (9,859,785)                     | \$ 3,671,096                       | \$ 516,055   |

The provision for income taxes is computed by applying the federal statutory rate plus a blended state income tax rate. During the year ended November 30, 2008, the Company re-evaluated its overall federal and state income tax rate, decreasing it from 38.00 percent to 36.78 percent primarily due to a change in accrual for state income taxes. The decrease in tax rate resulted in an \$86,717 increase to deferred tax benefit.

The components of income tax include the following for the periods presented:

|   | Year Ended<br>November 30,<br>2008 | Year Ended<br>November 30,<br>2007 | For the<br>period<br>December 8,<br>2005<br>through<br>November<br>30, 2006 |
|---|------------------------------------|------------------------------------|---|
| <b>Current tax expense (benefit)</b>    |                                    |                                    |   |
| Federal                                 | \$ 6,361                           | \$ (240,141)                       | \$ 237,909  |
| State                                   | 520                                | (21,526)                           | 27,990  |
| <b>Total current expense (benefit)</b>  | \$ 6,881                           | \$ (261,667)                       | \$ 265,899  |
| <b>Deferred tax expense (benefit)</b>   |                                    |                                    |   |
| Federal                                 | \$ (9,120,898)                     | \$ 3,557,206                       | \$ 220,062  |
| State                                   | (745,768)                          | 375,557                            | 30,094  |
| <b>Total deferred expense (benefit)</b> | \$ (9,866,666)                     | \$ 3,932,763                       | \$ 250,156  |
| <b>Total tax expense (benefit)</b>      | \$ (9,859,785)                     | \$ 3,671,096                       | \$ 516,055  |

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The deferred income tax benefit of \$9,866,666 for the year ended November 30, 2008 is net of the change in deferred tax asset valuation allowance of \$2,814,891. As of November 30, 2008, the Company had a net operating loss for federal income tax purposes of approximately \$9,175,000. The net operating loss may be carried forward for 20 years. If not utilized, this net operating loss will expire as follows: \$3,911,000 and \$5,264,000 in the years 2027 and 2028 respectively. As of November 30, 2008, there was available an alternative minimum tax credit of \$3,109, which may be credited in the future against regular income tax. This credit may be carried forward indefinitely.

The aggregate cost of securities for federal income tax purposes and securities with unrealized appreciation and depreciation, were as follows:

|   | November 30,<br>2008 | November 30,<br>2007 |
|---|----------------------|----------------------|
| <b>Aggregate cost for federal income tax purposes</b> | \$ 120,148,896       | \$ 143,565,879       |
| Gross unrealized appreciation                         | 4,302,974            | 16,215,879           |
| Gross unrealized depreciation                         | (18,300,640)         | (1,145,425)          |
| <b>Net unrealized (depreciation) appreciation</b>     | \$ (13,997,666)      | \$ 15,070,454        |

## 6. Fair Value of Financial Instruments

Various inputs are used in determining the fair value of the Company's investments. These inputs are summarized in the three broad levels listed below:

- Level 1 □ quoted prices in active markets for identical investments
- Level 2 □ other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)
- Level 3 □ significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following table provides the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of November 30, 2008. These assets are measured

on a recurring basis.

Fair Value Measurements at Reporting Date Using

| Description   | Fair Value at<br>November 30,<br>2008 | Quoted Prices<br>in<br>Active Markets<br>for<br>Identical<br>Assets | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs   |
|---|---------------------------------------|---|--|---|
|   |                                       | (Level 1)   | (Level 2)                                    | (Level 3)   |
| Investments   | \$ 106,151,230                        | \$ 10,834,767   | \$ 9,588,124                                 | \$ 85,728,339   |
|   |                                       |   |  | Fair Value<br>Measurements Using<br>Significant<br>Unobservable Inputs<br>(Level 3) for<br>Investments<br>Year Ended<br>November 30, 2008 |
| Fair value beginning balance  |                                       |   |  | \$ 131,513,004  |
| Total unrealized gains (losses) included in net increase (decrease) in net assets applicable to common stockholders   |                                       |   |  | (9,006,873)   |
| Net purchases, issuances and settlements  |                                       |   |  | (30,878,067)  |
| Return of capital adjustments impacting cost basis of security  |                                       |   |  | (5,899,725)   |
| Transfers in (out) of Level 3   |                                       |   |  | -   |
| Fair value ending balance   |                                       |   |  | \$ 85,728,339   |
| The amount of total gains or losses for the period included in net increase (decrease) in net assets applicable to common stockholders attributable to the change in unrealized gains or losses relating to assets still held at the reporting date |                                       |   |  | (17,592,003)  |

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Upon adoption of FAS 157, the Company utilized an end of reporting period method for determining transfers into or out of Level 3 for quarterly reporting purposes through August 31, 2008. Under this method, the fair value of the asset (or liability, as applicable) at the end of the period was disclosed as a transfer in/out of Level 3, gains/losses for an asset that transferred into Level 3 during the period were excluded from the reconciliation, and gains/losses for an asset that transferred out of Level 3 were included in the reconciliation. The Company has determined that the beginning of reporting period method provides greater transparency of the effect that unobservable inputs have on fair value measures, and accordingly, this method is the basis for presenting the rollforward above. Under this method, the fair value of the asset at the beginning of the period will be disclosed as a transfer into or out of Level 3, gains/losses for an asset that transfers into Level 3 during the period will be included in the reconciliation, and gains/losses for an asset that transfers out of Level 3 will be excluded from the reconciliation.

## 7. Restricted Securities

Certain of the Company's investments are restricted and are valued as determined in accordance with procedures established by the Board of Directors and more fully described in Note 2. The tables below show the equity interest, number of units or principal amount, the acquisition date(s), acquisition cost (excluding return of capital adjustments), fair value per unit of such securities and fair value as percent of net assets applicable to common stockholders as of November 30, 2008 and November 30, 2007.

November 30, 2008

| Investment Security                             | Equity Interest, Units<br>or Principal | Acquisition Date(s) | Acquisition Cost | Fair Value Per Unit | Fair Value | Fair Value as Percent of Net Assets |
|---|--|---------------------|------------------|---------------------|------------|-------------------------------------|
|   |  |                     |                  |                     |            |                                     |
| Abraxas Energy Partners, L.P.                   | Common Units                           | 450,181             | 5/25/07          | \$ 7,500,015        | \$ 9.00    | 4.5%                                |
| Eagle Rock Energy Partners, L.P.                | Unregistered Common Units              | 373,224             | 10/1/08          | 5,044,980           | 7.76       | 3.3                                 |
| Eagle Rock Energy Partners, L.P. <sup>(1)</sup> | Unregistered Common Units              | 212,404             | 10/1/08          | 2,920,555           | 7.29       | 1.7                                 |
| High Sierra Energy, LP <sup>(2)</sup>           | Common Units                           | 1,042,685           | 11/2/06-11/15/08 | 24,828,836          | 18.75      | 21.9                                |
| High Sierra Energy GP, LLC <sup>(2)</sup>       | Equity Interest                        | 2.37%               | 11/2/06-5/1/07   | 2,015,969           | N/A        | 2.1                                 |
| International Resource Partners LP              | Class A Units                          | 500,000             | 6/12/07          | 10,000,000          | 19.00      | 10.6                                |
| LONESTAR Midstream Partners, LP <sup>(3)</sup>  | Class A Units                          | 1,327,900           | 7/27/07-4/2/08   | 4,444,986           | 3.01       | 4.5                                 |
| LSMP GP, LP <sup>(3)</sup>                      | GP LP Units                            | 180                 | 7/27/07-4/2/08   | 168,514             | 2,777.78   | 0.6                                 |
| Mowood, LLC                                     | Equity Interest                        | 99.6%               | 6/5/06-8/4/08    | 5,000,000           | N/A        | 6.4                                 |
|   | Subordinated Debt                      | \$ 7,050,000        | 6/5/06-6/29/07   | 7,050,000           | N/A        | 7.9                                 |
|   | Promissory Notes                       | \$ 1,235,000        | 9/26/08-11/26/08 | 1,235,000           | N/A        | 1.4                                 |
| Penn Virginia Resource Partners, L.P.           | Unregistered Common Units              | 468,001             | 7/24/08          | 10,786,113          | 12.88      | 6.8                                 |
| Penn Virginia GP Holdings, L.P.                 | Unregistered Common Units              | 59,503              | 7/24/08          | 1,680,746           | 11.16      | 0.7                                 |
| Quest Midstream Partners, L.P.                  | Common Units                           | 1,180,946           | 12/22/06-11/1/07 | 22,200,001          | 12.25      | 16.2                                |
| VantaCore Partners LP                           | Common Units                           | 933,430             | 5/21/07-8/4/08   | 18,270,449          | 17.00      | 17.8                                |
|   | Incentive Distribution Rights          | 988                 | 5/21/07-8/4/08   | 143,936             | 324.78     | 0.4                                 |
|   |  |                     |                  | \$ 123,290,100      |            | 106.8%                              |

- (1) Units are held in an escrow account to satisfy any potential claims from the purchaser of Millennium Midstream Partners, L.P. The escrow agreement terminates April 1, 2010. See Note 9 Investment Transactions for additional information.
- (2) Distributions have been paid in cash historically; however, distributions were paid in additional High Sierra Energy, LP common units during the quarters ended August 31, 2008 and November 30, 2008.
- (3) See Note 9 Investment Transactions for additional information.

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The carrying value per unit of unrestricted common units of Penn Virginia Resource Partners, L.P. was \$23.76 on July 24, 2008 and the carrying value per unit of unrestricted common units of Penn Virginia GP Holdings, L.P. was \$29.12 on July 24, 2008, the date the Company received the respective restricted common units in a distribution from LONESTAR Midstream Partners, LP and LSMP GP, LP.

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The carrying value per unit of unrestricted common units of Eagle Rock Energy Partners, L.P. was \$10.64 on October 1, 2008, the date the Company received the respective restricted common units from the sale of Millennium Midstream Partners, LP.

November 30, 2007

| Investment Security                                    | Equity Interest, Units<br>or Principal | Acquisition Date(s) | Acquisition Cost | Fair Value Per Unit | Fair Value as Percent of Net Assets |
|--|--|---------------------|------------------|---------------------|-------------------------------------|
|  |  |                     |                  |                     |                                     |
| Abraxas Energy Partners, L.P. Common Units             | 450,181                                | 5/25/07             | \$ 7,500,015     | \$ 16.36            | 6.0%                                |
| EV Energy Partners, L.P. Common Units                  | 217,391                                | 6/1/07              | 7,499,990        | 33.84               | 6.0                                 |
| High Sierra Energy, LP Common Units                    | 999,614                                | 11/2/06-6/15/07     | 24,828,836       | 27.29               | 22.4                                |
| High Sierra Energy GP, LLC Equity Interest             | 2.37%                                  | 11/2/06-5/1/07      | 2,005,491        | N/A                 | 2.3                                 |
| International Resource Partners LP Class A Units       | 500,000                                | 6/12/07             | 10,000,000       | 18.10               | 7.4                                 |
| LONESTAR Midstream Partners, LP Class A Units          | 1,184,532                              | 7/27/07-9/17/07     | 23,395,520       | 19.77               | 19.1                                |
| LSMP GP, LP GP LP Units                                | 180                                    | 7/27/07-9/17/07     | 549,142          | 3,806.22            | 0.6                                 |
| Millennium Midstream Partners, LP Class A Common Units | 875,000                                | 12/28/06            | 17,455,647       | 17.66               | 12.7                                |
| Incentive Distribution Rights                          | 78                                     | 12/28/06            | 44,353           | 3,611.47            | 0.2                                 |
| Mowood, LLC Equity Interest                            | 100%                                   | 6/5/06-5/4/07       | 1,500,000        | N/A                 | 2.3                                 |
| Subordinated Debt                                      | \$ 7,050,000                           | 6/5/06-6/29/07      | 7,050,000        | N/A                 | 5.8                                 |
| Quest Midstream Partners, L.P. Common Units            | 1,180,946                              | 12/22/06-11/1/07    | 22,200,001       | 18.50               | 18.0                                |
| VantaCore Partners LP Common Units                     | 425,000                                | 5/21/07             | 8,447,604        | 22.25               | 7.8                                 |
| Incentive Distribution Rights                          | 789                                    | 5/21/07             | 52,396           | 276.81              | 0.2                                 |
| Subordinated Debt                                      | \$ 3,750,000                           | 5/21/07             | 3,750,000        | N/A                 | 3.1                                 |
|  |  |                     | \$ 136,278,995   |                     | 113.9%                              |

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## 8. Investments in Affiliates and Control Entities

Investments representing 5 percent or more of the outstanding voting securities of a portfolio company result in that company being considered an affiliated company, as defined in the 1940 Act. Investments representing 25 percent or more of the outstanding voting securities of a portfolio company result in that company being considered a control company, as defined in the 1940 Act. The aggregate fair value of all securities of affiliates and controlled entities held by the Company as of November 30, 2008 amounted to \$78,230,205, representing 87.7 percent of net assets applicable to common stockholders. The aggregate fair value of all securities of affiliates and controlled entities held by the Company as of November 30, 2007 amounted to \$121,300,179, representing 99.5 percent of net assets applicable to common stockholders. A summary of affiliated transactions for each company which is or was an affiliate or controlled entity at November 30, 2008 or during the year then ended and at November 30, 2007 or during the year then ended is as follows:

November 30, 2008

Units/

Units/

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|   | Equity Interest/<br>Principal Balance<br>11/30/07 | Gross Additions | Gross Reductions | Realized Gain/(Loss) | Gross Distributions or Interest Received | Equity Interest/<br>Principal Balance<br>11/30/08 | Fair Value<br>11/30/08 |
|---|---|-----------------|------------------|----------------------|--|---|------------------------|
| High Sierra Energy, LP (1)                                      | 999,614   | \$ -            | \$ -             | \$ -                 | \$ 1,219,529                             | 1,042,685   | \$ 19,000,000          |
| International Resource Partners LP                              | 500,000   | -               | -                | -                    | 800,000                                  | 500,000   | 9,000,000              |
| LONESTAR Midstream Partners, LP (2)                             | 1,184,532   | 1,477,140       | 21,531,919       | 1,104,244            | -  | 1,327,900   | 4,000,000              |
| LSMP GP, LP (2)   | 180   | 22,860          | 1,411,450        | 1,007,962            | -  | 180   | 1,000,000              |
| Millennium Midstream Partners, LP Class A Common Units          | 875,000   | -               | 21,652,616       | 6,491,491            | 1,207,500                                | -   | 1,000,000              |
| Millennium Midstream Partners, LP Incentive Distribution Rights | 78  | -               | -                | -                    | -  | -   | 1,000,000              |
| Mowood, LLC Subordinated Debt                                   | \$ 7,050,000                                      | -               | -                | -                    | 796,141                                  | \$ 7,050,000                                      | 7,000,000              |
| Mowood, LLC Promissory Notes                                    | -   | 1,235,000       | -                | -                    | -  | \$ 1,235,000                                      | 1,000,000              |
| Mowood, LLC Equity Interest                                     | 100%  | 3,500,000       | -                | -                    | 472,501                                  | 99.6%   | 5,000,000              |
| Quest Midstream Partners, L.P. (3)                              | 1,180,946   | -               | -                | -                    | 1,472,053                                | 1,180,946   | 14,000,000             |
| VantaCore Partners LP Subordinated Debt                         | \$ 3,750,000                                      | -               | 3,862,500        | 112,500              | 306,918                                  | -   | 1,000,000              |
| VantaCore Partners LP Common Units                              | 425,000   | 9,822,845       | -                | -                    | 1,104,215                                | 933,430   | 15,000,000             |
| VantaCore Partners LP Incentive Distribution Rights             | 789   | 91,540          | -                | -                    | -  | 988   | 1,000,000              |
|   |   | \$ 16,149,385   | \$ 46,458,485    | \$ 8,716,197         | \$ 7,378,857                             |   | \$ 78,000,000          |

- (1) Distributions have been paid in cash historically; however, distributions were paid in additional High Sierra Energy, LP common units during the quarters ended August 31, 2008 and November 30, 2008.
- (2) See Note 9 Investment Transactions for additional information.
- (3) Currently non-income producing. The Board of Directors of Quest Midstream GP, LLC determined that no distribution would be paid on the units of Quest Midstream Partners, LP during the quarter ended November 30, 2008.

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| November 30, 2007                  | Units/<br>Equity Interest/<br>Principal Balance<br>11/30/06 | Gross Additions | Gross Reductions | Gross Distributions or Interest Received | Units/<br>Equity Interest/<br>Principal Balance<br>11/30/07 | Fair Value<br>11/30/07 |
|------------------------------------|---|-----------------|------------------|--|---|------------------------|
| High Sierra Energy, LP             | 633,179   | \$ 10,000,011   | \$ -             | \$ 1,642,056                             | 999,614   | \$ 27,279,466          |
| International Resource Partners LP | -   | 10,000,000      | -                | 266,667                                  | 500,000   | 9,048,521              |

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|   |             |              |      |              |             |                |
|---|-------------|--------------|------|--------------|-------------|----------------|
| LONESTAR Midstream Partners, LP                                 | -           | 23,395,520   | -    | -            | 1,184,532   | 23,418,198     |
| LSMP GP, LP   | -           | 549,142      | -    | -            | 180         | 679,482        |
| Millennium Midstream Partners, LP                               | -           | 17,481,430   | -    | 1,131,375    | 875,000     | 15,452,412     |
| Class A Common Units  |             |              |      |              |             |                |
| Millennium Midstream Partners, LP Incentive Distribution Rights | -           | 18,570       | -    | -            | 78          | 281,695        |
| Mowood, LLC Subordinated Debt                                   | \$4,550,000 | 2,500,000    | -    | -            | \$7,050,000 | 7,050,000      |
| Mowood, LLC Equity Interest                                     | 100%        | 500,000      | -    | 96,895       | 100%        | 2,816,148      |
| Quest Midstream Partners, L.P.                                  | -           | 22,200,001   | -    | 1,205,384    | 1,180,946   | 21,847,501     |
| VantaCore Partners LP Subordinated Debt                         | -           | 3,750,000    | -    | -            | \$3,750,000 | 3,750,000      |
| VantaCore Partners LP Common Units                              | -           | 8,500,000    | -    | 292,825      | 425,000     | 9,458,350      |
| VantaCore Partners LP Incentive Distribution Rights             | -           | -            | -    | -            | 789         | 218,406        |
|   |             | \$98,894,674 | \$ - | \$ 4,635,202 |             | \$ 121,300,179 |

## 9. Investment Transactions

For the year ended November 30, 2008, the Company purchased (at cost) securities in the amount of \$36,592,256 and sold securities (at proceeds) in the amount of \$48,568,485 (excluding short-term debt securities). For the year ended November 30, 2007, the Company purchased (at cost) securities in the amount of \$116,235,335 and sold securities (at proceeds) in the amount of \$640,656 (excluding short-term debt securities). For the period from December 8, 2005 through November 30, 2006, the Company purchased (at cost) and sold securities (at proceeds) in the amount of \$42,065,001 and \$1,440,143 (excluding short-term debt securities), respectively.

On July 17, 2008, LONESTAR Midstream Partners LP (LONESTAR) closed a transaction with Penn Virginia Resource Partners, L.P. (NYSE: PVR) for the sale of its gas gathering and transportation assets. LONESTAR distributed substantially all of the initial sales proceeds to its limited partners but did not redeem partnership interests. On July 24, 2008, the Company received a distribution of \$10,476,511 in cash, 468,001 newly issued unregistered common units of PVR, and 59,503 unregistered common units of Penn Virginia GP Holdings, L.P. (NYSE: PVG).

The Company expects to receive a future distribution of 74,609 newly issued unregistered common units of PVR and 9,487 unregistered common units of PVG units from units held in escrow to be released to LONESTAR six to twelve months from the closing date of the transaction (along with cash distributions received on the escrow units retained by the escrow agent). Additionally, the Company anticipates receiving a future cash distribution from LONESTAR of approximately \$1,038,090 payable on December 31, 2009 and there are two future contingent payments due LONESTAR for which the Company's expected portion would total approximately \$9,638,829, payable in cash or common units of PVR (at PVR's election). The contingent payments are based on the achievement of specific revenue targets by or before June 30, 2013, no payments are due if these revenue targets are not achieved.

On July 24, 2008, the Company recorded the cash and the unregistered PVR and PVG common units it received at a cost basis equal to the fair value on the date of receipt less a discount for illiquidity. The Company reduced its

basis in LONESTAR by \$20,427,674, approximately 82 percent of the respective relative value of the entire transaction, resulting in a realized gain of \$1,104,244. The Company also reduced its basis in LSMP GP, LP by \$403,488, approximately 71 percent of the respective relative value of the entire transaction, resulting in a realized gain of \$1,007,962. These realized gains are considered in the calculation of the accrued capital gain incentive fees as described in Note 4; however, these realized gains will not be deemed a realization event for purposes of payment of the capital gain incentive fee until such time as the LONESTAR and LSMP GP, LP units are disposed or sold.

The fair value of the LONESTAR and LSMP GP, LP units as of November 30, 2008 is based on unobservable inputs related to the potential receipt of future payments relative to the sales transaction as described above.

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On October 1, 2008, Millennium sold its partnership interests to Eagle Rock Energy Partners, L.P. (EROC) for approximately \$181,000,000 in cash and approximately four million EROC unregistered common units. In exchange for its Millennium partnership interests, the Company received \$13,687,081 in cash and 373,224 EROC unregistered common units with an aggregate basis of \$5,044,980 for a total implied value at closing of approximately \$18,732,061. In addition, approximately 212,404 units with an aggregate cost basis of \$2,920,555 will be held in escrow for 18 months from the date of the transaction. This includes a reserve the Company has placed against the restricted cash and units held in the escrow for estimated post-closing adjustments. The Company originally invested \$17,500,000 in Millennium (including common units and incentive distribution rights), and had an adjusted cost basis of \$15,161,125 (after reducing its basis for cash distributions received since investment that were treated as return of capital), resulting in a realized gain for book purposes of \$6,491,491. For purposes of the capital gain incentive fee, the realized gain is approximately \$4,152,616, which excludes that portion of the fee that would be due as a result of cash distributions which were characterized as return of capital. Pursuant to the Investment Advisory Agreement, the capital gain incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due.

## 10. Credit Facility

On April 25, 2007, the Company entered into a committed credit facility with U.S. Bank, N.A. as a lender, agent and lead arranger, and Bank of Oklahoma, N.A. providing for a revolving credit facility of up to \$20,000,000. The credit facility is secured with substantially all of the Company's assets. On July 18, 2007, the maximum principal amount of the revolving credit facility was increased to \$35,000,000. On September 28, 2007, the maximum principal amount was increased to \$40,000,000 and the facility was amended to include First National Bank of Kansas as a lender. On March 21, 2008, the Company secured an extension to its revolving credit facility and on March 28, 2008, amended the credit agreement to exclude Bank of Oklahoma and include Wells Fargo as a lender, and to increase the total credit facility to \$50,000,000. The credit facility matures on March 20, 2009. The revolving credit facility has a variable annual interest rate equal to the one-month LIBOR plus 1.75 percent, a non-usage fee equal to an annual rate of 0.375 percent of the difference between the total credit facility commitment and the average outstanding balance at the end of each day for the preceding fiscal quarter. The credit facility contains a covenant precluding the Company from incurring additional debt.

Under the terms of the credit facility, the Company must maintain asset coverage required under the 1940 Act. If the Company fails to maintain the required coverage, it may be required to repay a portion of an outstanding balance until the coverage requirement has been met. As of November 30, 2008, the Company was in compliance with the terms of the credit facility.

For the year ended November 30, 2008, the average principal balance and interest rate for the period during which the credit facility was utilized were \$32,033,333 and 4.76 percent, respectively. As of November 30, 2008, the principal balance outstanding was \$22,200,000 at a rate of 3.65 percent.

## 11. Preferred Stock

On December 22, 2006, the Company issued 466,666 shares of Series A Redeemable Preferred Stock and 70,000 warrants to purchase common stock at \$15.00 per share. On December 26, 2006, the Company issued an additional 766,667 shares of Series A Redeemable Preferred Stock and 115,000 warrants at \$15.00 per share. Holders of Series A Redeemable Preferred Stock received cash distributions (as declared by the Board of Directors and from funds legally available for distribution) at the annual rate of 10 percent of the original issue price. On February 7, 2007, the Company redeemed all of the preferred stock at \$15.00 per share plus a 2

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percent redemption premium, for a total redemption price of \$18,870,000. After attributing \$283,050 in value to the warrants, the redemption premium of \$370,000 and \$78,663 in issuance costs, the Company recognized a loss on redemption of the preferred stock of \$731,713. In addition, distributions in the amount of \$228,750 were paid to the preferred stockholders.

### 12. Common Stock

The Company has 100,000,000 shares authorized and 8,962,147 shares outstanding at November 30, 2008. Transactions in common stock for the period from December 8, 2005 through November 30, 2006 and the years ended November 30, 2007 and 2008 were as follows:

|   |           |
|---|-----------|
| Shares at December 8, 2005                          | 3,088,596 |
| Shares at November 30, 2006                         | 3,088,596 |
| Shares sold through initial public offering         | 5,740,000 |
| Shares issued through reinvestment of distributions | 18,222    |
| Shares issued upon exercise of warrants             | 11,350    |
| Shares at November 30, 2007                         | 8,858,168 |
| Shares issued through reinvestment of distributions | 103,799   |
| Shares issued upon exercise of warrants             | 180       |
| Shares at November 30, 2008                         | 8,962,147 |

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### 13. Warrants

At November 30, 2008, there were 945,594 warrants issued and outstanding. The warrants became exercisable on February 7, 2007 (the closing date of the Company's initial public offering of common shares), subject to a lock-up period with respect to the underlying common shares. Each warrant entitles the holder to purchase one common share at the exercise price of \$15.00 per common share. Warrants were issued as separate instruments from common shares and are permitted to be transferred independently from the common shares. The warrants have no voting rights and the common shares underlying the unexercised warrants will have no voting rights until such common shares are received upon exercise of the warrants. All warrants will expire on February 6, 2013. Transactions in warrants for the period from December 8, 2005 through November 30, 2006 and the years ended November 30, 2007 and 2008 were as follows:

|   |          |
|---|----------|
| Warrants outstanding at December 8, 2005  | 772,124  |
| Warrants outstanding at November 30, 2006 | 772,124  |
| Warrants issued in December 2006          | 185,000  |
| Warrants exercised                        | (11,350) |
| Warrants outstanding at November 30, 2007 | 945,774  |
| Warrants exercised                        | (180)    |
| Warrants outstanding at November 30, 2008 | 945,594  |

### 14. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

| Year Ended | Year Ended | Period<br>from<br>December<br>8,<br>2005<br>through |
|------------|------------|---|
|------------|------------|---|

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|  | <b>November<br/>30,<br/>2008</b> | <b>November<br/>30,<br/>2007</b> | <b>November<br/>30,<br/>2006</b> |
|--|----------------------------------|----------------------------------|----------------------------------|
| Net increase (decrease) in net assets applicable to common stockholders resulting from operations                                    | \$ (24,370,233)                  | \$ 5,143,976                     | \$ 936,039                       |
| Basic weighted average shares  | 8,887,085                        | 7,751,591                        | 3,088,596                        |
| Average warrants outstanding <sup>(1)</sup>  | -                                | -                                | -                                |
| Diluted weighted average shares  | 8,887,085                        | 7,751,591                        | 3,088,596                        |
| Basic and diluted net increase (decrease) in net assets applicable to common stockholders resulting from operations per common share | \$ (2.74)                        | \$ 0.66                          | \$ 0.30                          |

<sup>(1)</sup> Warrants to purchase shares of common stock at \$15.00 per share were outstanding during the years ended November 30, 2008 and 2007, but were not included in the computation of diluted earnings per share because the warrants' exercise price was greater than the average market value of the common shares, and therefore, the effect would be anti-dilutive.

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### 15. Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data:

|   | <b>February 28,<br/>2007</b> | <b>May 31,<br/>2007</b> | <b>August 31,<br/>2007</b> | <b>November 30,<br/>2007</b> | <b>February 29,<br/>2008</b> | <b>May 31,<br/>2008</b> |
|---|------------------------------|-------------------------|----------------------------|------------------------------|------------------------------|-------------------------|
| Investment income   | \$ 391,635                   | \$ 545,856              | \$ 802,674                 | \$ 1,294,779                 | \$ 1,105,680                 | \$ 746,100              |
| Base management fees  | 380,067                      | 468,012                 | 512,894                    | 565,086                      | 585,253                      | 589,900                 |
| Capital gain incentive fees <sup>(1)</sup>                                  | 487,627                      | 1,008,867               | (170,648)                  | (1,018,235)                  | (279,665)                    | 1,367,100               |
| All other expenses <sup>(2)</sup>   | 1,233,225                    | 207,967                 | 523,335                    | 938,034                      | 748,185                      | 698,100                 |
| Expense reimbursement by Adviser  | -                            | -                       | -                          | (94,181)                     | (91,647)                     | (104,200)               |
| Net expenses  | \$ 2,100,919                 | \$ 1,684,846            | \$ 865,581                 | \$ 390,704                   | \$ 962,126                   | \$ 2,551,000            |
| Current and deferred tax benefit (expense), net                             | (795,916)                    | (2,128,190)             | 469,929                    | (1,216,919)                  | 1,255,578                    | (3,663,200)             |
| Net realized gain (loss) on investments before current tax benefit          | -                            | 13,712                  | -                          | 246,578                      | -                            | -                       |
| Unrealized gain (loss) on investments before deferred tax expense           | 2,921,990                    | 6,725,778               | (1,137,647)                | 2,051,767                    | (3,447,707)                  | 11,445,000              |
| Increase (decrease) in net assets resulting from operations                 | \$ 416,790                   | \$ 3,472,310            | \$ (730,625)               | \$ 1,985,501                 | \$ (2,048,575)               | \$ 5,976,800            |
| Basic per share increase (decrease) in net assets resulting from operations | \$ 0.09                      | \$ 0.39                 | \$ (0.08)                  | \$ 0.26                      | \$ (0.23)                    | \$ 0.00                 |

<sup>(1)</sup>

*Includes amounts accrued as a provision for capital gain incentive fees payable to the Adviser, net of amounts waived under the Expense Reimbursement and Partial Fee Waiver Agreement. The provision for capital gain incentive fees results from the increase or decrease in fair value and realized gains or losses on investments. Pursuant to the Investment Advisory Agreement, the capital gain incentive fee is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due.*

(2)

*The fiscal quarter ended February 28, 2007 includes \$765,059 of non-recurring expenses related to the loss on redemption of the previously outstanding Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Stock issuance was utilized as bridge financing to fund portfolio investments and was fully redeemed upon completion of the initial public offering.*

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**Company Officers and Directors (Unaudited)**

November 30, 2008

| <b>Name and Year of Birth*<br/>Independent Directors</b> | <b>Position(s) Held<br/>With Company,<br/>Term of Office<br/>and Length of<br/>Time Served</b> | <b>Principal Occupation During Past Five<br/>Years</b>  | <b>Number of<br/>Portfolios in<br/>Fund Complex<br/>Overseen by<br/>Director<sup>1</sup></b> |
|--|--|---|--|
| Conrad S. Ciccotello<br>(Born 1960)                      | Director since<br>2005   | Tenured Associate Professor of Risk Management and Insurance, Robinson College of Business, Georgia State University (faculty member since 1999); Director of Graduate Personal Financial Planning Programs; formerly, Editor, <i>Financial Services Review</i> , (2001-2007) (an academic journal dedicated to the study of individual financial management); formerly, faculty member, Pennsylvania State University (1997-1999). Published several academic and professional journal articles about energy infrastructure and oil and gas MLPs.                                      | 6  |
| John R. Graham<br>(Born 1945)                            | Director since<br>2005   | Executive-in-Residence and Professor of Finance (Part-time), College of Business Administration, Kansas State University (has served as a professor or adjunct professor since 1970); Chairman of the Board, President and CEO, Graham Capital Management, Inc. (primarily a real estate development, investment and venture capital company) and Owner of Graham Ventures (a business services and venture capital firm); Part-time Vice President Investments, FB Capital Management, Inc. (a registered investment adviser), since 2007. Formerly, CEO, Kansas Farm Bureau Financial | 6  |

Services, including seven affiliated insurance or financial service companies (1979-2000).

|                                 |                        |  |   |
|---------------------------------|------------------------|--|---|
| Charles E. Heath<br>(Born 1942) | Director since<br>2005 | Retired in 1999. Formerly, Chief Investment Officer, GE Capital's Employers Reinsurance Corporation (1989-1999); Chartered Financial Analyst (CFA) designation since 1974. | 6 |
|---------------------------------|------------------------|--|---|

(1) *This number includes Tortoise North American Energy Corporation (TYN), Tortoise Energy Infrastructure Corporation (TYG), Tortoise Energy Capital Corporation (TYT), two private companies and the Company. Our Adviser also serves as the investment adviser to TYN, TYG, TYT and two private investment companies.*

\* *The address of each director and officer is 11550 Ash Street, Suite 300, Leawood, Kansas 66211.*

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### Company Officers and Directors (Unaudited)

November 30, 2008 (Continued)

| Name and Year of Birth*<br>Interested Directors and Officers <sup>2</sup> | Position(s) Held<br>With Company,<br>Term of Office<br>and Length of<br>Time Served <sup>2</sup>            | Principal Occupation During Past<br>Five Years  | Number of<br>Portfolios in<br>Fund Complex<br>Overseen by<br>Director <sup>1</sup> |
|---|---|---|--|
| H. Kevin Birzer<br>(Born 1959)  | Director and<br>Chairman of the<br>Board since 2005   | Managing Director of our Adviser since 2002; Member, Fountain Capital Management (1990-present); Vice President, Corporate Finance Department, Drexel Burnham Lambert (1986-1989); formerly, Vice President, F. Martin Koenig & Co., an investment management firm (1983-1986); CFA designation since 1988. | 6  |
| Terry Matlack<br>(Born 1956)  | Director and Chief<br>Financial Officer<br>since 2005;<br>Assistant Treasurer<br>from 2005 to April<br>2008 | Managing Director of our Adviser since 2002; Full-time Managing Director, Kansas City Equity Partners, L.C. (KCEP) (2001-2002); formerly, President, GreenStreet Capital, a private investment firm (1998-2001); CFA designation since 1985.  | 6  |
| David J. Schulte<br>(Born 1961)   | Chief Executive<br>Officer since 2005;<br>President 2005-<br>April 2007                                     | Managing Director of our Adviser since 2002; Full-time Managing Director, KCEP (1993-2002); CFA designation since 1992.   | N/A  |
| Zachary A. Hamel<br>(Born 1965)   | Senior Vice<br>President since<br>2005; Secretary<br>from 2005 to April<br>2007                             | Managing Director of our Adviser since 2002; Partner, Fountain Capital Management (1997-present); CFA designation since 1998.   | N/A  |

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|                                  |   |  |     |
|----------------------------------|---|--|-----|
| Kenneth P. Malvey<br>(Born 1965) | Senior Vice<br>President and<br>Treasurer since<br>2005 | Managing Director of our Adviser since<br>2002; Partner, Fountain Capital<br>Management (2002-present); formerly<br>Investment Risk Manager and member of<br>Global Office of Investments, GE Capital's<br>Employers Reinsurance Corporation (1996-<br>2002); CFA designation since 1996.  | N/A |
| Edward Russell<br>(Born 1964)    | President since<br>April 2007                           | Senior Investment Professional of the<br>Adviser since 2006; formerly with Stifel,<br>Nicolaus & Company, Incorporated,<br>heading the Energy and Power group as a<br>Managing Director (2003-2006)<br>responsible for all of the energy and power<br>transactions, including all of the debt and<br>equity transactions for the three closed-end<br>publicly traded funds managed by the<br>Adviser starting with the first public equity<br>offering in February of 2004 and serving as<br>Vice President-Investment Banking (1999-2003) | N/A |

- (1) *This number includes the Company, TYN, TYG, TYY and two private companies. Our Adviser also serves as the investment adviser to TYN, TYG, TYY and two private investment companies.*
- (2) *As a result of their respective positions held with the Adviser or its affiliates, these individuals are considered "interested persons" within the meaning of the 1940 Act.*
- \* *The address of each director and officer is 11550 Ash Street, Suite 300, Leawood, Kansas 66211.*

**ADDITIONAL INFORMATION** (Unaudited)

**Director and Officer Compensation**

The Company does not compensate any of its directors who are interested persons or any of its officers. For the year ended November 30, 2008, the aggregate compensation paid by the Company to the independent directors was \$84,000. The Company did not pay any special compensation to any of its directors or officers.

**Forward-Looking Statements**

This report contains "forward-looking statements". By their nature, all forward-looking statements involve risk and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements.

**Certifications**

The Company's Chief Executive Officer submitted to the New York Stock Exchange in 2008 the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.

The Company has filed with the SEC the certification of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act.

**Proxy Voting Policies**

A description of the policies and procedures that the Company uses to determine how to vote proxies relating to portfolio securities owned by the Company is available to stockholders (i) without charge, upon request by calling the Company at (913) 981-1020 or toll-free at (866) 362-9331 and on the Company's Web site at [www.tortoiseadvisors.com/tto.cfm](http://www.tortoiseadvisors.com/tto.cfm); and (ii) on the SEC's Web site at [www.sec.gov](http://www.sec.gov).

### **Privacy Principles**

The Company is committed to maintaining the privacy of its stockholders and safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Company collects, how the Company protects that information and why, in certain cases, the Company may share information with select other parties.

Generally, the Company does not receive any non-public personal information relating to its stockholders, although certain non-public personal information of its stockholders may become available to them. The Company does not disclose any non-public personal information about its stockholders or a former stockholder to anyone, except as required by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent).

The Company restricts access to non-public personal information about its stockholders to employees of its Adviser with a legitimate business need for the information. The Company maintains physical, electronic and procedural safeguards designed to protect the non-public personal information of its stockholders.

### **Automatic Dividend Reinvestment Plan**

If a stockholder's shares of common stock ("common shares") of the Company are registered directly with the Company or with a brokerage firm that participates in the Automatic Dividend Reinvestment Plan (the "Plan") through the facilities of the Depository Trust Company and such stockholder's account is coded dividend reinvestment by such brokerage firm, all distributions are automatically reinvested for stockholders by the Plan Agent, Computershare Trust Company, Inc. (the "Agent") in additional common shares (unless a stockholder is ineligible or elects otherwise).

The Company will use primarily newly-issued shares of the Company's common stock to implement the Plan, whether its shares are trading at a premium or discount to net asset value ("NAV"). However, the Company reserves the right to instruct the Agent to purchase shares in the open market in connection with the Company's obligations under the Plan. The number of newly issued shares will be determined by dividing the total dollar amount of the distribution payable to the participant by the closing price per share of the Company's common stock on the NYSE on the distribution payment date, or the average of the reported bid and asked prices if no sale is reported for that day. If distributions are reinvested in shares purchased on the open market, then the number of shares received by a stockholder shall be determined by dividing the total dollar amount of the distribution payable to such stockholder by the weighted average price per share (including brokerage commissions and other related costs) for all shares purchased by the Agent on the open-market in connection with such distribution. Such open-market purchases will be made by the Agent as soon as practicable, but in no event more than 30 days after the distribution payment date.

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There will be no brokerage charges with respect to shares issued directly by us as a result of distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of distributions. If a participant elects to have the Plan Agent sell part or all of his or her common shares and remit the proceeds, such participant will be charged his or her pro rata share of brokerage commissions on the shares sold plus a \$15.00 transaction fee. The automatic reinvestment of distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such distributions.

Participation in the Plan is completely voluntary and may be terminated at any time without penalty by giving notice in writing to the Agent at the address set forth below, or by contacting the Agent as set forth below; such termination will be effective with respect to a particular distribution if notice is received prior to the record date for such distribution.

Additional information about the Plan may be obtained by writing to Computershare Trust Company, N.A., P.O. Box 43078, Providence, Rhode Island 02940-3078, by contacting them by phone at (312) 588-4990, or by visiting their Web site at [www.computershare.com](http://www.computershare.com).

### **Board Approval of the Investment Advisory Agreement**

The Board of Directors, including all of the independent Directors, most recently reviewed and approved the renewal of the Investment Advisory Agreement on November 10, 2008.

In approving the renewal of the Investment Advisory Agreement, the independent Directors of the Company requested and received extensive data and information from the Adviser concerning the Company and the services provided to it by the Adviser under the Investment Advisory Agreement. In addition, the independent Directors requested and received data and information from the Adviser, which also included information from independent, third-party sources regarding the factors considered in their evaluation.

### **Factors Considered**

The independent Directors considered and evaluated all the information provided by the Adviser. The independent Directors did not identify any single factor as being all-important or controlling, and each independent Director may have attributed different levels of importance to different factors. In deciding to renew the agreement, the independent Directors' decision was based on the following factors:

***Nature, Extent and Quality of Services Provided.*** The independent Directors considered information regarding the history, qualification and background of the Adviser and the individuals responsible for the Adviser's investment program, the adequacy of the number of Adviser personnel and other Adviser resources and plans for growth, use of affiliates of the Adviser, and the particular expertise with respect to energy infrastructure companies, MLP markets and financing (including private financing). The independent Directors concluded that the unique nature of the fund and the specialized expertise of the Adviser in the niche market of MLPs made it uniquely qualified to serve as the adviser. Further, the independent Directors recognized that the Adviser's commitment to a long-term investment horizon correlated well to the investment strategy of the Company.

### ***Investment Performance of the Company and the Adviser, Costs of the Services To Be Provided and Profits To Be Realized by the Adviser and its Affiliates from the Relationship, and Fee Comparisons.***

The independent Directors reviewed and evaluated information regarding the Company's performance (including quarterly, last twelve months, and from inception) and the performance of the other Adviser accounts (including other investment companies), and information regarding the nature of the markets during the performance period, with a particular focus on the MLP sector. The independent Directors also considered the Company's performance as compared to comparable closed-end funds for the relevant periods.

The Adviser provided detailed information concerning its cost of providing services to the Company, its profitability in managing the Company, its overall profitability, and its financial condition. The independent Directors have reviewed with the Adviser the methodology used to prepare this financial information. This financial information regarding the Adviser is considered in order to evaluate the Adviser's financial condition, its ability to continue to provide services under the Investment Advisory Agreement, and the reasonableness of the current management fee, and was, to the extent possible, evaluated in comparison to other closed-end funds with similar investment objectives and strategies.

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The independent Directors considered and evaluated information regarding fees charged to, and services provided to, other investment companies advised by the Adviser (including the impact of any fee waiver or reimbursement arrangements and any expense reimbursement arrangements), fees charged to separate institutional accounts by the Adviser, and comparisons of fees of closed-end funds with similar investment objectives and strategies, including other MLP investment companies, to the Company. The independent Directors noted that the fee charged to the Company, including the base management fee (1.5 percent of the Company's Managed Assets), and the incentive fee, is below the average of the fees charged in comparable closed-end MLP funds. The independent Directors also considered the Adviser's contractual agreement to reimburse certain expenses incurred by the Company for the period beginning January 1, 2009 and ending

December 31, 2009. The independent Directors concluded that the fees and expenses that the Company is paying under the Advisory Agreement are reasonable given the quality of services provided under the Advisory Agreement and that such fees and expenses are comparable to, and in many cases lower than, the fees charged by advisers to comparable funds.

**Economies of Scale.** The independent Directors considered information from the Adviser concerning whether economies of scale would be realized as the Company grows, and whether fee levels reflect any economies of scale for the benefit of the Company's stockholders. The independent Directors concluded that economies of scale are difficult to measure and predict overall. Accordingly, the independent Directors reviewed other information, such as year-over-year profitability of the Adviser generally, the profitability of its management of the Company specifically, and the fees of competitive funds not managed by the Adviser over a range of asset sizes. The independent Directors concluded the Adviser is appropriately sharing any economies of scale through its competitive fee structure and through reinvestment in its business to provide shareholders additional content and services.

**Collateral Benefits Derived by the Adviser.** The independent Directors reviewed information from the Adviser concerning collateral benefits it receives as a result of its relationship with the Company. They concluded that the Adviser generally does not use the Company's or shareholder information to generate profits in other lines of business, and therefore does not derive any significant collateral benefits from them. Although the Adviser may receive research from brokers with whom it places trades on behalf of clients, the Adviser does not have soft dollar arrangements or understandings with such brokers regarding receipt of research in return for commissions.

The independent Directors did not, with respect to their deliberations concerning their approval of the continuation of the Investment Advisory Agreement, consider the benefits the Adviser may derive from relationships the Adviser may have with brokers through soft dollar arrangements because the Adviser does not employ any such arrangements in rendering its advisory services to the Company. Although the Adviser may receive research from brokers with whom it places trades on behalf of clients, the Adviser does not have soft dollar arrangements or understandings with such brokers regarding the receipt of research in return for commissions.

### **Conclusions of the Independent Directors**

As a result of this process, the independent Directors, assisted by the advice of legal counsel that is independent of the Adviser, taking into account all of the factors discussed above and the information provided by the Adviser, unanimously concluded that the Investment Advisory Agreement between the Company and the Adviser is fair and reasonable in light of the services provided and should be renewed.

### **Board Approval of the Administration Agreement**

The administration agreement was originally approved by the Company's Board of Directors on November 13, 2006. The administration agreement provides that unless terminated earlier the agreement will continue in effect until December 31, 2007, and from year-to-year thereafter provided such continuance is approved at least annually by (i) the Company's Board of Directors and (ii) a majority of the Company's directors who are not parties to the administration agreement or "interested persons" (as defined in the Investment Company Act of 1940) of any such party. The Company's Board of Directors, including all of the independent Directors, most recently reviewed and approved the continuation of the administration agreement on November 10, 2008.

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### **Board Approval of the Sub-Advisory Agreement**

Our Board of Directors, including a majority of the independent Directors, most recently reviewed and approved the renewal of the sub-advisory agreement on November 10, 2008.

In considering the renewal of the sub-advisory agreement, our Board of Directors evaluated information provided by the Adviser and legal counsel and considered various factors, including:

**Services.** The Board of Directors reviewed the nature, extent and quality of the investment advisory services proposed to be provided to the Adviser by Kenmont and found them to be consistent with the services provided by the Adviser.

**Experience of Management Team and Personnel.** The Board of Directors considered the extensive experience of Kenmont with respect to the specific types of investment proposed and concluded that Kenmont would provide valuable assistance to the Adviser in providing potential investment opportunities.

**Provisions of Sub-Advisory Agreement.** The Board of Directors considered the extent to which the provisions of the sub-advisory agreement could potentially expose the Company to liability and concluded that its terms adequately protected the Company from such risk.

#### **Conclusions of the Independent Directors**

As a result of this process, the independent Directors, assisted by the advice of legal counsel that is independent of the Adviser, taking into account all of the factors discussed above and the information provided by the Adviser, unanimously concluded that the Sub-Advisory Agreement between the Company and Kenmont is fair and reasonable in light of the services provided and should be renewed.

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### **TORTOISE CAPITAL RESOURCES CORPORATION**

#### **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

**TORTOISE CAPITAL RESOURCES CORPORATION**  
**(Registrant)**

By: /s/David J. Schulte  
**David J. Schulte**  
Chief Executive Officer

February 12, 2009

#### **POWER OF ATTORNEY**

Know all people by these presents, that each person whose signature appears below constitutes and appoints David J. Schulte and Terry C. Matlack, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person, herby confirming all that said attorneys-in-fact and agents or either of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the company and in the capacities indicated on February 12, 2009.

Signature

Capacity

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/s/Terry C. Matlack            Chief Financial Officer and Director  
  (Principal Financial and Accounting Officer)

/s/David J. Schulte            Chief Executive Officer  
  (Principal Executive Officer)

/s/Conrad S. Ciccotello        Director

/s/John R. Graham            Director

/s/Charles E. Heath            Director

/s/H. Kevin Birzer            Director

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