

TORTOISE CAPITAL RESOURCES CORP  
Form 10-Q  
July 08, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended May 31, 2010

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  
(I.R.S. Employer Identification No.)

11550 ASH STREET, SUITE 300  
LEAWOOD, KANSAS 66211  
(Address of principal executive office) (Zip Code)

(913) 981-1020  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

The number of shares of the issuer's Common Stock, \$0.001 par value, outstanding as of June 30, 2010 was 9,116,456.

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Tortoise Capital Resources Corporation

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MAY 31, 2010

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## Tortoise Capital Resources Corporation

## STATEMENTS OF ASSETS &amp; LIABILITIES

|   | May 31, 2010<br>(Unaudited) | November 30, 2009 |
|---|-----------------------------|-------------------|
| <b>Assets</b>   |                             |                   |
| Investments at fair value, control (cost \$20,508,813 and \$28,180,070, respectively)   | \$ 26,556,411               | \$ 33,458,046     |
| Investments at fair value, affiliated (cost \$31,804,095 and \$52,676,299, respectively)  | 31,836,372                  | 41,658,847        |
| Investments at fair value, non-affiliated (cost \$23,757,178 and \$9,568,566, respectively)   | 17,726,201                  | 8,865,047         |
| Total investments (cost \$76,070,086 and \$90,424,935, respectively)  | 76,118,984                  | 83,981,940        |
| Receivable for Adviser expense reimbursement  | 51,617                      | 49,843            |
| Dividends receivable  | 89                          | 87                |
| Deferred tax asset  | 4,258,358                   | 5,429,391         |
| Prepaid expenses and other assets   | 98,919                      | 16,792            |
| Total assets  | 80,527,967                  | 89,478,053        |
| <b>Liabilities</b>  |                             |                   |
| Base management fees payable to Adviser   | 309,703                     | 299,060           |
| Distribution payable to common stockholders   | 909,910                     | —                 |
| Accrued expenses and other liabilities  | 219,927                     | 282,408           |
| Short-term borrowings   | —                           | 4,600,000         |
| Total liabilities   | 1,439,540                   | 5,181,468         |
| Net assets applicable to common stockholders  | \$ 79,088,427               | \$ 84,296,585     |
| <b>Net Assets Applicable to Common Stockholders Consist of:</b>   |                             |                   |
| Warrants, no par value; 945,594 issued and outstanding at May 31, 2010 and November 30, 2009 (5,000,000 authorized)   | \$ 1,370,700                | \$ 1,370,700      |
| Capital stock, \$0.001 par value; 9,099,037 shares issued and outstanding at May 31, 2010 and 9,078,090 issued and outstanding at November 30, 2009 (100,000,000 shares authorized) | 9,099                       | 9,078             |
| Additional paid-in capital  | 99,983,975                  | 101,929,307       |
| Accumulated net investment loss, net of income taxes  | (3,248,338)                 | (3,304,416)       |
| Accumulated realized loss, net of income taxes  | (21,417,322)                | (14,041,614)      |
| Net unrealized appreciation (depreciation) of investments, net of income taxes  | 2,390,313                   | (1,666,470)       |
| Net assets applicable to common stockholders  | \$ 79,088,427               | \$ 84,296,585     |
| Net Asset Value per common share outstanding (net assets applicable to common stock, divided by common shares outstanding)  | \$ 8.69                     | \$ 9.29           |

See accompanying Notes to Financial Statements.

## Tortoise Capital Resources Corporation

## SCHEDULE OF INVESTMENTS

May 31, 2010

(Unaudited)

| Company                                     | Energy Infrastructure Segment | Type of Investment                          | Cost          | Fair Value    |
|---|-------------------------------|---|---------------|---------------|
| <b>Control Investments(1)</b>               |                               |   |               |               |
| Mowood, LLC                                 | Midstream/Downstream          | Equity Interest (100%)(2)                   | \$ 793,000    | \$ 5,117,346  |
|   |                               | Subordinated Debt (14.0% Due 12/31/10)(2)   | 5,300,000     | 5,300,000     |
| VantaCore Partners LP                       | Aggregates                    | Common Units (933,430)(2)                   | 14,271,871    | 15,933,650    |
|   |                               | Incentive Distribution Rights (988)(2)(5)   | 143,941       | 205,415       |
| Total Control Investments — 33.6%(3)        |                               |   | 20,508,813    | 26,556,411    |
| <b>Affiliated Investments(4)</b>            |                               |   |               |               |
| High Sierra Energy, LP                      | Midstream                     | Common Units (1,042,685)(2)(5)              | 20,413,947    | 19,331,372    |
| International Resource Partners LP          | Coal                          | Class A Units (500,000)(2)                  | 9,120,833     | 12,275,000    |
| LONESTAR Midstream Partners, LP             | Midstream                     | Class A Units (1,327,900)(2)(5)(6)          | 2,149,269     | 195,000       |
| LSMP GP, LP                                 | Midstream                     | GP LP Units (180)(2)(5)(6)                  | 120,046       | 35,000        |
| Total Affiliated Investments — 40.2%(3)     |                               |   | 31,804,095    | 31,836,372    |
| <b>Non-affiliated Investments</b>           |                               |   |               |               |
| Abraxas Petroleum Corporation               | Upstream                      | Unregistered Common Units (1,946,376)(5)(7) | 2,895,234     | 5,099,505     |
| Energy Transfer Partners, L.P.              | Midstream                     | Common Units (23,600)(7)                    | 1,125,470     | 1,040,760     |
| Enterprise Products Partners L.P.           | Midstream                     | Common Units (33,600)(7)                    | 1,120,979     | 1,128,960     |
| EV Energy Partners, L.P.                    | Upstream                      | Common Units (78,900)(7)                    | 2,399,865     | 2,309,403     |
| High Sierra Energy GP, LLC                  | Midstream                     | Equity Interest (2.37%)(2)(5)               | 2,001,076     | 530,457       |
| Kinder Morgan Management, LLC               | Midstream                     | Common Units (19,950)(7)                    | 1,139,279     | 1,105,037     |
| ONEOK Partners, L.P.                        | Midstream                     | Common Units (17,100)(7)                    | 1,030,282     | 1,024,461     |
| PostRock Energy Corporation                 | Upstream                      | Common Units (460,300)(5)(7)                | 8,745,700     | 2,223,249     |
| Williams Partners L.P.                      | Midstream                     | Common Units (29,100)(7)                    | 1,119,482     | 1,084,557     |
| Fidelity Institutional Government Portfolio | Short-term investment         | Class I Shares                              | 2,179,812     | 2,179,812     |
| Total Non-affiliated Investments — 22.4%(3) |                               |   | 23,757,178    | 17,726,201    |
| Total Investments — 96.2%(3)                |                               |   | \$ 76,070,086 | \$ 76,118,984 |

(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 \$58,923,240, which represents 74.5% 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) Currently non-income producing.

(6) 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.

(7) Publicly-traded company.

See accompanying Notes to Financial Statements.

## Tortoise Capital Resources Corporation

## SCHEDULE OF INVESTMENTS

November 30, 2009

| Company  | Energy<br>Infrastructure<br>Segment | Type of Investment                             | Cost         | Fair Value    |
|--|-------------------------------------|--|--------------|---------------|
| <b>Control Investments(1)</b>                  |                                     |  |              |               |
| Mowood, LLC                                    | Midstream/                          | Equity Interest (99.5%)(2)                     | \$ 4,077,499 | \$ 8,253,910  |
|  | Downstream                          | Subordinated Debt (9% Due 12/31/09)(2)         | 8,800,000    | 8,800,000     |
| VantaCore Partners LP                          | Aggregates                          | Common Units (933,430)(2)                      | 15,158,630   | 16,256,482    |
|  |                                     | Incentive Distribution Rights (988)(2)(5)      | 143,941      | 147,654       |
| Total Control Investments — 39.7%(3)           |                                     |  | 28,180,070   | 33,458,046    |
| <b>Affiliated Investments(4)</b>               |                                     |  |              |               |
| High Sierra Energy, LP                         | Midstream                           | Common Units (1,042,685)(2)                    | 20,729,255   | 24,461,390    |
| International Resource Partners LP             | Coal                                | Class A Units (500,000)(2)                     | 9,333,333    | 9,984,402     |
| LONESTAR Midstream Partners, LP                | Midstream                           | Class A Units (1,327,900)(2)(5)(6)             | 2,952,626    | 1,102,000     |
| LSMP GP, LP                                    | Midstream                           | GP LP Units (180)(2)(5)(6)                     | 138,521      | 124,000       |
| Quest Midstream Partners, L.P.                 | Midstream                           | Common Units (1,216,881)(2)(5)                 | 19,522,564   | 5,987,055     |
| Total Affiliated Investments — 49.4%(3)        |                                     |  | 52,676,299   | 41,658,847    |
| <b>Non-affiliated Investments</b>              |                                     |  |              |               |
| Abraxas Petroleum Corporation                  | Upstream                            | Unregistered Common Units (1,946,376)(2)(5)(7) | 2,895,234    | 3,297,009     |
| Eagle Rock Energy Partners, L.P.               | Midstream/<br>Upstream              | Unregistered Common Units (54,474)(2)(7)(8)    | 723,447      | 253,559       |
| EV Energy Partners, L.P.                       | Upstream                            | Common Units (78,900)(7)                       | 2,447,552    | 2,039,565     |
| High Sierra Energy GP, LLC                     | Midstream                           | Equity Interest (2.37%)(2)                     | 2,003,487    | 1,776,068     |
| Fidelity Institutional Government<br>Portfolio | Short-term<br>investment            | Class I Shares                                 | 1,498,846    | 1,498,846     |
| Total Non-affiliated Investments — 10.5%(3)    |                                     |  | 9,568,566    | 8,865,047     |
| Total Investments — 99.6%(3)                   |                                     |  | \$90,424,935 | \$ 83,981,940 |

(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 \$80,443,529, which represents 95.4% 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) Currently non-income producing.

(6) 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.

(7) Publicly-traded company.

(8) 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 to the financial statements for additional information.

See accompanying Notes to Financial Statements.

## Tortoise Capital Resources Corporation

## STATEMENTS OF OPERATIONS (Unaudited)

|  | For the three<br>months ended<br>May 31, 2010 | For the three<br>months ended<br>May 31, 2009 | For the six<br>months ended<br>May 31, 2010 | For the six<br>months ended<br>May 31, 2009 |
|--|---|---|---|---|
| <b>Investment Income</b>                   |   |   |   |   |
| Distributions from investments             |   |   |   |   |
| Control investments                        | \$ 478,380                                    | \$ 579,215                                    | \$ 1,034,259                                | \$ 1,158,430                                |
| Affiliated investments                     | 224,999                                       | 836,038                                       | 1,081,891                                   | 1,665,376                                   |
| Non-affiliated investments                 | 144,020                                       | 465,272                                       | 220,005                                     | 1,776,490                                   |
| Total distributions from investments       | 847,399                                       | 1,880,525                                     | 2,336,155                                   | 4,600,296                                   |
| Less return of capital on distributions    | (656,759)                                     | (2,864,138)                                   | (1,655,399)                                 | (4,717,386)                                 |
| Net distributions from investments         | 190,640                                       | (983,613)                                     | 680,756                                     | (117,090)                                   |
| Interest income from control investments   | 189,622                                       | 202,400                                       | 381,053                                     | 403,998                                     |
| Dividends from money market mutual funds   | 233   | 420   | 450   | 1,145                                       |
| Fee income                                 | 8,688   | 15,000  | 19,080                                      | 30,000                                      |
| Total Investment Income                    | 389,183                                       | (765,793)                                     | 1,081,339                                   | 318,053                                     |
| <b>Operating Expenses</b>                  |   |   |   |   |
| Base management fees                       | 309,704                                       | 338,186                                       | 619,626                                     | 730,955                                     |
| Professional fees                          | 153,693                                       | 145,017                                       | 238,855                                     | 274,109                                     |
| Directors' fees                            | 33,271  | 22,080  | 59,432                                      | 43,737                                      |
| Reports to stockholders                    | 16,174  | 15,408  | 31,877                                      | 30,481                                      |
| Administrator fees                         | 14,456  | 15,782  | 28,916                                      | 34,111                                      |
| Fund accounting fees                       | 7,039   | 8,735   | 14,011                                      | 16,740                                      |
| Registration fees                          | 6,496   | 7,891   | 12,851                                      | 15,610                                      |
| Stock transfer agent fees                  | 3,462   | 3,403   | 6,592                                       | 6,584                                       |
| Franchise tax expense                      | 4,958   | —   | 7,530                                       | —   |
| Custodian fees and expenses                | 2,755   | 4,673   | 4,330                                       | 7,760                                       |
| Other expenses                             | 12,754  | 13,025  | 25,232                                      | 24,464                                      |
| Total Operating Expenses                   | 564,762                                       | 574,200                                       | 1,049,252                                   | 1,184,551                                   |
| Interest expense                           | —   | 256,842                                       | 45,619                                      | 427,958                                     |
| Total Expenses                             | 564,762                                       | 831,042                                       | 1,094,871                                   | 1,612,509                                   |
| Less expense reimbursement by Adviser      | (51,617)                                      | (56,365)                                      | (103,271)                                   | (121,826)                                   |
| Net Expenses                               | 513,145                                       | 774,677                                       | 991,600                                     | 1,490,683                                   |
| Net Investment Income, before Income Taxes | (123,962)                                     | (1,540,470)                                   | 89,739                                      | (1,172,630)                                 |
| Deferred tax benefit (expense)             | (967)   | 8,283   | (33,661)                                    | (92,900)                                    |
| Net Investment Income (Loss)               | (124,929)                                     | (1,532,187)                                   | 56,078                                      | (1,265,530)                                 |

## Tortoise Capital Resources Corporation

STATEMENTS OF OPERATIONS (Unaudited)  
(Continued)

|  | For the three<br>months ended<br>May 31, 2010 | For the three<br>months ended<br>May 31, 2009 | For the six<br>months ended<br>May 31, 2010 | For the six<br>months ended<br>May 31, 2009 |
|--|---|---|---|---|
| <b>Realized and Unrealized Gain (Loss) on Investments</b>  |   |   |   |   |
| Net realized gain on control investments   | \$ 585,000                                    | \$ —  | \$ 2,163,001                                | \$ —  |
| Net realized loss on affiliated investments  | (9,607,112)                                   | —   | (9,624,557)                                 | (173,145)                                   |
| Net realized loss on non-affiliated investments  | (1,239,501)                                   | (7,335,157)                                   | (1,211,889)                                 | (7,661,830)                                 |
| Net realized loss, before income taxes   | (10,261,613)                                  | (7,335,157)                                   | (8,673,445)                                 | (7,834,975)                                 |
| Deferred tax benefit (expense)   | 1,540,708                                     | (758,204)                                     | 1,297,737                                   | (620,717)                                   |
| Net realized loss on investments   | (8,720,905)                                   | (8,093,361)                                   | (7,375,708)                                 | (8,455,692)                                 |
| Net unrealized appreciation (depreciation)<br>of control investments   | (765,835)                                     | 3,029,773                                     | 769,622                                     | 3,157,483                                   |
| Net unrealized appreciation (depreciation)<br>of affiliated investments  | 9,841,655                                     | 3,374,165                                     | 11,049,729                                  | (4,903,883)                                 |
| Net unrealized appreciation (depreciation)<br>of non-affiliated investments  | (5,525,233)                                   | 9,978,917                                     | (5,327,459)                                 | 5,195,197                                   |
| Net unrealized appreciation, before income taxes   | 3,550,587                                     | 16,382,855                                    | 6,491,892                                   | 3,448,797                                   |
| Deferred tax benefit (expense)   | (1,985,123)                                   | (3,284,590)                                   | (2,435,109)                                 | 273,227                                     |
| Net unrealized appreciation of investments   | 1,565,464                                     | 13,098,265                                    | 4,056,783                                   | 3,722,024                                   |
| Net Realized and Unrealized Gain (Loss) on Investments   | (7,155,441)                                   | 5,004,904                                     | (3,318,925)                                 | (4,733,668)                                 |
| Net Increase (Decrease) in Net Assets Applicable to<br>Common Stockholders Resulting from Operations                   | \$ (7,280,370)                                | \$ 3,472,717                                  | \$ (3,262,847)                              | \$ (5,999,198)                              |
| Net Increase (Decrease) in Net Assets Applicable to Common<br>Stockholders Resulting from Operations Per Common Share: |   |   |   |   |
| Basic and Diluted  | \$ (0.80)                                     | \$ 0.39                                       | \$ (0.36)                                   | \$ (0.67)                                   |
| Weighted Average Shares of Common Stock Outstanding:   |   |   |   |   |
| Basic and Diluted  | 9,099,037                                     | 9,000,174                                     | 9,088,679                                   | 8,981,369                                   |

See accompanying Notes to Financial Statements.



## Tortoise Capital Resources Corporation

## STATEMENTS OF CHANGES IN NET ASSETS

|   | For the six<br>months ended<br>May 31, 2010<br>(Unaudited) | For the six<br>months ended<br>May 31, 2009<br>(Unaudited) | Year ended<br>November 30,<br>2009 |
|---|--|--|------------------------------------|
| <b>Operations</b>   |  |  |                                    |
| Net investment income (loss)  | \$ 56,078  | \$ (1,265,530)   | \$ (760,149)                       |
| Net realized loss on investments  | (7,375,708)  | (8,455,692)  | (20,405,876)                       |
| Net unrealized appreciation of investments  | 4,056,783  | 3,722,024  | 21,177,019                         |
| Net increase (decrease) in net assets applicable to common stockholders resulting from operations                     | (3,262,847)  | (5,999,198)  | 10,994                             |
| <b>Distributions to Common Stockholders</b>   |  |  |                                    |
| Return of capital   | (2,090,055)  | (3,231,540)  | (5,582,473)                        |
| Total distributions to common stockholders  | (2,090,055)  | (3,231,540)  | (5,582,473)                        |
| <b>Capital Stock Transactions</b>   |  |  |                                    |
| Issuance of 20,947, 39,755 and 115,943 common shares from reinvestment of distributions to stockholders, respectively | 144,744  | 231,375  | 642,764                            |
| Net increase in net assets, applicable to common stockholders, from capital stock transactions                        | 144,744  | 231,375  | 642,764                            |
| Total decrease in net assets applicable to common stockholders  | (5,208,158)  | (8,999,363)  | (4,928,715)                        |
| <b>Net Assets</b>   |  |  |                                    |
| Beginning of period   | 84,296,585   | 89,225,300   | 89,225,300                         |
| End of period   | \$ 79,088,427  | \$ 80,225,937  | \$ 84,296,585                      |
| Accumulated net investment loss, net of income taxes, at the end of period  | \$ (3,248,338)   | \$ (3,809,797)   | \$ (3,304,416)                     |

See accompanying Notes to Financial Statements.

## Tortoise Capital Resources Corporation

## STATEMENT OF CASH FLOWS (Unaudited)

|   | For the six<br>months ended<br>May 31, 2010 | For the six<br>months ended<br>May 31, 2009 |
|---|---|---|
| <b>Cash Flows From Operating Activities</b>   |   |   |
| Distributions received from investments   | \$ 2,336,155                                | \$ 4,543,782                                |
| Interest and dividend income received   | 381,501                                     | 482,355                                     |
| Fee income received   | 11,080                                      | —   |
| Purchases of long-term investments  | (7,488,354)                                 | (3,121,895)                                 |
| Proceeds from sales of long-term investments  | 12,170,347                                  | 8,695,305                                   |
| Purchases of short-term investments, net  | (680,966)                                   | (3,817,696)                                 |
| Interest expense paid   | (66,703)                                    | (400,070)                                   |
| Operating expenses paid   | (1,027,656)                                 | (1,083,662)                                 |
| Net cash provided by operating activities   | 5,635,404                                   | 5,298,119                                   |
| <b>Cash Flows from Financing Activities</b>   |   |   |
| Advances from revolving line of credit  | —   | 900,000                                     |
| Repayments on revolving line of credit  | (4,600,000)                                 | (4,300,000)                                 |
| Distributions paid to common stockholders   | (1,035,404)                                 | (1,829,919)                                 |
| Net cash used in financing activities   | (5,635,404)                                 | (5,229,919)                                 |
| Net change in cash  | —   | 68,200                                      |
| Cash — beginning of period  | —   | —   |
| Cash — end of period  | \$ —  | \$ 68,200                                   |
| <b>Reconciliation of net decrease in net assets applicable to common stockholders resulting from operations to net cash provided by operating activities</b>  |   |   |
| Net decrease in net assets applicable to common stockholders resulting from operations  | \$ (3,262,847)                              | \$ (5,999,198)                              |
| Adjustments to reconcile net decrease in net assets applicable to common stockholders resulting from operations to net cash provided by operating activities: |   |   |
| Purchases of long-term investments  | (7,488,354)                                 | (3,178,408)                                 |
| Return of capital on distributions received   | 1,655,399                                   | 4,717,386                                   |
| Proceeds from sales of long-term investments  | 12,195,324                                  | 8,695,305                                   |
| Purchases of short-term investments, net  | (680,966)                                   | (3,817,696)                                 |
| Deferred income taxes, net  | 1,171,033                                   | 440,390                                     |
| Realized gain on investments  | 8,673,445                                   | 7,834,975                                   |
| Net unrealized appreciation of investments  | (6,491,892)                                 | (3,448,797)                                 |
| Changes in operating assets and liabilities:  |   |   |
| (Increase) decrease in interest, dividend and distribution receivable   | (2)   | 77,211                                      |
| Decrease in income tax receivable   | —   | 212,054                                     |
| Increase in prepaid expenses and other assets   | (82,127)                                    | (50,149)                                    |
| Increase (decrease) in base management fees payable to Adviser, net of expense reimbursement  | 8,869                                       | (162,804)                                   |
| Decrease in accrued expenses and other liabilities  | (62,478)                                    | (22,150)                                    |
| Total adjustments   | 8,898,251                                   | 11,297,317                                  |
| Net cash provided by operating activities   | \$ 5,635,404                                | \$ 5,298,119                                |
| <b>Non-Cash Financing Activities</b>  |   |   |
| Reinvestment of distributions by common stockholders in additional common shares  | \$ 144,744                                  | \$ 231,375                                  |

See accompanying Notes to Financial Statements.

## Tortoise Capital Resources Corporation

## FINANCIAL HIGHLIGHTS

|   | For the six<br>months ended<br>May 31, 2010<br>(Unaudited) | For the six<br>months ended<br>May 31, 2009<br>(Unaudited) | Year ended<br>November 30,<br>2009 |
|---|--|--|------------------------------------|
| <b>Per Common Share Data(1)</b>   |  |  |                                    |
| Net Asset Value, beginning of period  | \$ 9.29  | \$ 9.96  | \$ 9.96                            |
| Income (loss) from Investment Operations:   |  |  |                                    |
| Net investment income (loss)(2)   | 0.01   | (0.14)   | (0.08)                             |
| Net realized and unrealized gain (loss) on investments(2)   | (0.38)   | (0.55)   | 0.03                               |
| Total decrease from investment operations   | (0.37)   | (0.69)   | (0.05)                             |
| Less Distributions to Common Stockholders:  |  |  |                                    |
| Return of capital   | (0.23)   | (0.36)   | (0.62)                             |
| Total distributions to common stockholders  | (0.23)   | (0.36)   | (0.62)                             |
| Net Asset Value, end of period  | \$ 8.69  | \$ 8.91  | \$ 9.29                            |
| Per common share market value, end of period  | \$ 5.80  | \$ 4.45  | \$ 6.23                            |
| Total Investment Return, based on net asset value(3)  | (3.00)%  | (4.39)%  | 4.19%                              |
| Total Investment Return, based on market value(4)   | (3.46)%  | (8.71)%  | 33.57%                             |
| <b>Supplemental Data and Ratios</b>   |  |  |                                    |
| Net assets applicable to common stockholders, end of period (000's)   | \$ 79,088  | \$ 80,226  | \$ 84,297                          |
| Ratio of expenses (including current and deferred income tax expense (benefit))<br>to average net assets(5)(6)                | 5.03%  | 4.42%  | 3.48%                              |
| Ratio of expenses (excluding current and deferred income tax expense (benefit))<br>to average net assets(5)(7)                | 2.31%  | 3.41%  | 3.18%                              |
| Ratio of net investment income (loss) to average net assets before current<br>and deferred income tax expense (benefit)(5)(7) | 0.21%  | (2.68)%  | (1.03)%                            |
| Ratio of net investment income (loss) to average net assets after current<br>and deferred income tax expense (benefit)(5)(6)  | (2.51)%  | (3.69)%  | (1.33)%                            |
| Portfolio turnover rate(5)  | 19.31%   | 6.64%  | 7.43%                              |
| Short-term borrowings, end of period (000's)  | —  | \$ 18,800  | \$ 4,600                           |
| Asset coverage, per \$1,000 of short-term borrowings(8)   | —  | \$ 5,267   | \$ 19,325                          |
| Asset coverage ratio of short-term borrowings(8)  | —  | 527%   | 1,933%                             |

(1) Information presented relates to a share of common stock outstanding for the entire period.

(2) The per common share data for the year ended November 30, 2009 does not reflect the change in estimate of investment income and return of capital, as described in Note 2D.

(3) Not annualized. Total investment return is calculated assuming a purchase of common stock at the net asset value per share as of the beginning of the period, reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan and a sale at net asset value at the end of the period.

(4) Not annualized. Total investment return is calculated assuming a purchase of common stock at the market value at the beginning of the period, reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan and a sale at the current market price on the last day of the period (excluding brokerage commissions).

(5) Annualized for periods less than one full year.

(6) For the six months ended May 31, 2010, the Company accrued \$1,171,033 in deferred income tax expense, net. For the six months ended May 31, 2009, the Company accrued \$440,390 in deferred income tax expense, net. For the year ended November 30, 2009, the Company accrued \$254,356 in deferred income tax expense, net.

(7) The ratio excludes the impact of current and deferred income taxes.

(8) Represents value of total assets less all liabilities and indebtedness not represented by short-term borrowings at the end of the period divided by short-term borrowings outstanding at the end of the period.

See accompanying Notes to Financial Statements.

Tortoise Capital Resources Corporation

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

May 31, 2010

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 and coal/aggregates segments, 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.

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. The Company has determined the principal market, or the market in which the Company exits its private 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.

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 private 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 or over-the-counter market, the Company fair values those securities at their last sale price on that exchange or over-the-counter market on the valuation date. If the security is listed on more than one exchange, the Company will use the price from 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 over-the-counter market on such day, the security will be valued at the mean between the last bid price and last 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 used to determine the discount.

The Board of Directors undertakes a multi-step valuation process each quarter in connection with determining the fair value of private investments. An independent valuation firm has been engaged by the Board of Directors to provide independent, third-party valuation consulting services based on procedures that the Board of Directors has identified and may ask them to perform from time to time on all or a selection of private investments as determined by the Board of Directors. The multi-step valuation process is specific to the level of assurance that the Board of Directors requests from the independent valuation firm. For positive assurance, the process is as follows:

- The independent valuation firm prepares the preliminary valuations and the supporting analysis. At May 31, 2010, the independent valuation firm performed positive assurance valuation procedures on five portfolio companies comprising approximately 99.6 percent of the total fair value of restricted investments;
- The investment professionals of the Adviser review the preliminary valuations and supporting analyses, and consider and assess, as appropriate, any changes that may be required to the preliminary valuations;
- The Investment Committee of the Adviser reviews the preliminary valuations and supporting analyses, and considers and assesses, as appropriate, any changes that may be required to the preliminary valuations;
- 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 three and six months ended May 31, 2010, the Company received \$8,688 and \$19,080 in fee income, respectively. For the three and six months ended May 31, 2009, the Company received \$15,000 and \$30,000 in fee income, respectively.

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, 2009 through May 31, 2010, 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 has estimated approximately 29 percent as investment income and approximately 71 percent as return of capital.

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. If the Company has outstanding leverage, it 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, 2009 and the period ended May 31, 2010, the Company's distributions for book purposes were comprised of 100 percent return of capital. For the year ended November 30, 2009, the Company's distributions for tax purposes were comprised of 100 percent return of capital. The tax character of distributions paid to common stockholders in the current year will be determined subsequent to November 30, 2010.

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.

G. Organization Expenses and Offering Costs — The Company was responsible for paying all organization expenses, which were expensed as incurred. Offering costs related to the issuance of common stock are charged to additional paid-in capital when the stock is issued.

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.

#### I. Recent Accounting Pronouncement

##### Standard on Fair Value Measurement

On January 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends FASB Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, and requires additional disclosures regarding fair value measurements. Specifically, the amendment requires reporting entities to disclose (i) the input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements, for Level 2 or Level 3 positions, (ii) transfers between all levels (including Level 1 and Level 2) on a gross basis (i.e. transfers out must be disclosed separately from transfers in) as well as the reason(s) for the transfer, and (iii) purchases, sales, issuances, and settlements on a gross basis in the Level 3 rollforward rather than as one net number. The effective date of the amendment is for interim and annual periods beginning after December 15, 2009; however, the requirement to provide the Level 3 activity for purchases, sales, issuances, and settlements on a gross basis will be effective for interim and annual periods beginning after December 15, 2010. The Company has adopted the disclosures required by this amendment, which did not have a material impact on the financial statements.

#### 3. Concentration of Risk

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 and coal/aggregates segments, 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

For the period from December 1, 2008 through September 14, 2009, the Company had an Investment Advisory Agreement with Tortoise Capital Advisors, L.L.C. On September 15, 2009, the Company entered into a new Investment Advisory Agreement with the Adviser as a result of a change in control of the Adviser and the previous Investment Advisory Agreement with the Adviser automatically terminated. The terms of the new Investment Advisory Agreement are substantially identical to the terms of the previous Investment Advisory Agreement, except for the effective and termination dates, and simply continue the relationship between the Company and the Adviser.

Under the terms of the Investment Advisory 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.

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 reimbursed 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 reimbursed 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. On February 17, 2010, the Company entered into an Expense Reimbursement Agreement with the Adviser under which the Adviser will reimburse the Company for certain expenses incurred beginning January 1, 2010 and ending December 31, 2010 in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets. During the three and six months ended May 31, 2010, the Adviser reimbursed the Company \$51,617 and \$103,271, respectively. During the three and six months ended May 31, 2009, the Adviser reimbursed the Company \$56,365 and \$121,826, respectively.

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 three and six months ended May 31, 2010 and May 31, 2009, 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 gain incentive 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 gain incentive fee calculation shall be undertaken as of, and any resulting capital gain incentive 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.

The calculation of the capital gain incentive 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 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 gain incentive 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 three and six months ended May 31, 2010 and May 31, 2009, the Company accrued no capital gain incentive fees. 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 have been paid since the commencement of operations.



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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, 0.0075 percent on the next \$250,000,000 of Net Assets and 0.0025 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 0.004 percent of the Company's portfolio assets, subject to a minimum annual fee of \$4,800, plus portfolio transaction fees.

### 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 May 31, 2010 and November 30, 2009 are as follows:

|   | May 31, 2010          | November 30, 2009     |
|---|-----------------------|-----------------------|
| <b>Deferred tax assets:</b>                   |                       |                       |
| Organization costs                            | \$ (23,344)           | \$ (24,456)           |
| Net unrealized loss on investment securities  | —                     | (2,416,767)           |
| Basis addition of investments in partnerships | (111,901)             | —                     |
| Capital loss carryforwards                    | (4,993,762)           | (6,084,585)           |
| Net operating loss carryforwards              | (4,136,416)           | (5,112,040)           |
| AMT and State of Kansas credit                | (5,039)               | (5,039)               |
| Valuation allowance                           | 4,993,762             | 3,038,089             |
|   | (4,276,700)           | (10,604,798)          |
| <b>Deferred tax liabilities:</b>              |                       |                       |
| Basis reduction of investment in partnerships | —                     | 5,175,407             |
| Net unrealized gain on investment securities  | 18,342                | —                     |
| <b>Total net deferred tax asset</b>           | <b>\$ (4,258,358)</b> | <b>\$ (5,429,391)</b> |

At May 31, 2010, the Company has recorded a valuation allowance in the amount of \$4,993,762 for a portion of its deferred tax asset which it does not believe will, more likely than not, be realized. 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 such estimates will be made in the period such determination is made. The Company's policy is to record interest and penalties on uncertain tax positions as part of tax expense. As of May 31, 2010, the Company had no uncertain tax positions and no interest or penalties were accrued. All tax years since inception remain open to examination by federal and state tax authorities.

Total income tax expense (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:

|  | For the three<br>months ended<br>May 31, 2010 | For the three<br>months ended<br>May 31, 2009 |
|--|---|---|
| Application of statutory income tax rate   | \$ (2,323,896)                                | \$ 2,552,458                                  |
| State income taxes, net of federal taxes   | (239,908)                                     | 208,701                                       |
| Change in deferred tax valuation allowance | 3,009,186                                     | 1,273,352                                     |
| <b>Total income tax expense</b>            | <b>\$ 445,382</b>                             | <b>\$ 4,034,511</b>                           |
|  | For the six<br>months ended                   | For the six<br>months ended                   |

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|  | May 31, 2010 | May 31, 2009   |
|--|--------------|----------------|
| Application of statutory income tax rate   | \$ (711,217) | \$ (1,889,994) |
| State income taxes, net of federal taxes   | (73,423)     | (154,535)      |
| Change in deferred tax valuation allowance | 1,955,673    | 2,484,919      |
| Total income tax expense                   | \$ 1,171,033 | \$ 440,390     |

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The provision for income taxes is computed by applying the federal statutory rate plus a blended state income tax rate. The components of income tax include the following for the periods presented:

|                               | For the three<br>months ended<br>May 31, 2010 | For the three<br>months ended<br>May 31, 2009 |
|-------------------------------|---|---|
| <b>Deferred tax expense</b>   |   |   |
| Federal                       | \$ 403,706                                    | \$ 3,729,564                                  |
| State                         | 41,676  | 304,947                                       |
| <b>Total deferred expense</b> | <b>\$ 445,382</b>                             | <b>\$ 4,034,511</b>                           |

  

|                               | For the six<br>months ended<br>May 31, 2010 | For the six<br>months ended<br>May 31, 2009 |
|-------------------------------|---|---|
| <b>Deferred tax expense</b>   |   |   |
| Federal                       | \$ 1,061,453                                | \$ 407,103                                  |
| State                         | 109,580                                     | 33,287                                      |
| <b>Total deferred expense</b> | <b>\$ 1,171,033</b>                         | <b>\$ 440,390</b>                           |

The deferred income tax expense for the three month and six month periods ended May 31, 2010 and May 31, 2009 includes the impact of the change in valuation allowance for such respective periods.

As of November 30, 2009, the Company had a net operating loss for federal income tax purposes of approximately \$14,025,000. 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, \$3,369,000 and \$6,745,000 in the years 2027, 2028 and 2029, respectively. As of November 30, 2009, the Company had a capital loss carryforward of approximately \$16,000,000 which may be carried forward for 5 years. If not utilized, this capital loss will expire in the year ending November 30, 2014. The amount of the deferred tax asset for these items at May 31, 2010 also includes amounts for the period from December 1, 2009 through May 31, 2010. For corporations, capital losses can only be used to offset capital gains and cannot be used to offset ordinary income. As of November 30, 2009, an alternative minimum tax credit of \$3,109 was available, 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:

|   | May 31, 2010         | November 30, 2009    |
|---|----------------------|----------------------|
| <b>Aggregate cost for federal income tax purposes</b> | <b>\$ 76,368,409</b> | <b>\$ 76,627,528</b> |
| Gross unrealized appreciation                         | 13,007,666           | 15,304,091           |
| Gross unrealized depreciation                         | (13,257,091)         | (7,949,679)          |
| <b>Net unrealized appreciation</b>                    | <b>\$ (249,425)</b>  | <b>\$ 7,354,412</b>  |

### 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)

#### Valuation Techniques

In general, and where applicable, the Company uses readily available market quotations based upon the last updated sales price from the principal market to determine fair value. This pricing methodology applies to the Company's Level 1 investments.

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An equity security of a publicly traded company acquired in a private placement transaction without registration under the Securities Act of 1933, as amended (the "1933 Act"), is subject to restrictions on resale that can affect the security's fair value. If such a security is convertible into publicly-traded common shares, the security generally will be valued at the common share market price adjusted by a percentage discount due to the restrictions. This pricing methodology applies to the Company's Level 2 investments.

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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. This pricing methodology applies to the Company's Level 3 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 tables provide the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of May 31, 2010 and November 30, 2009. These assets are measured on a recurring basis.

May 31, 2010

| Description            | Fair Value at |               |         |               |
|------------------------|---------------|---------------|---------|---------------|
|                        | May 31, 2010  | Level 1       | Level 2 | Level 3       |
| Equity Investments     | \$ 68,639,172 | \$ 15,015,932 | \$ —    | \$ 53,623,240 |
| Debt Investments       | 5,300,000     | —             | —       | 5,300,000     |
| Short-Term Investments | 2,179,812     | 2,179,812     | —       | —             |
| Total Investments      | \$ 76,118,984 | \$ 17,195,744 | \$ —    | \$ 58,923,240 |

November 30, 2009

| Description            | Fair Value at     |              |              |               |
|------------------------|-------------------|--------------|--------------|---------------|
|                        | November 30, 2009 | Level 1      | Level 2      | Level 3       |
| Equity Investments     | \$ 73,683,094     | \$ 2,039,565 | \$ 3,297,009 | \$ 68,346,520 |
| Debt Investments       | 8,800,000         | —            | —            | 8,800,000     |
| Short-Term Investments | 1,498,846         | 1,498,846    | —            | —             |
| Total Investments      | \$ 83,981,940     | \$ 3,538,411 | \$ 3,297,009 | \$ 77,146,520 |

The changes for all Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs for the six months ended May 31, 2010 and May 31, 2009, are as follows:

|   | Six months ended |                |
|---|------------------|----------------|
|   | May 31, 2010     | May 31, 2009   |
| Fair value beginning balance  | \$ 77,146,520    | \$ 85,728,339  |
| Total realized and unrealized losses included in net decrease in net assets applicable to common stockholders   | (6,745,767)      | (4,465,681)    |
| Purchases   | 750,000          | 571,513        |
| Sales   | (10,696,822)     | —              |
| Return of capital adjustments impacting cost basis of securities  | (1,530,691)      | (3,727,780)    |
| Fair value ending balance   | \$ 58,923,240    | \$ 78,106,391  |
| The amount of total gains (losses) for the period included in net increase (decrease) in net assets applicable to common stockholders attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date | \$ (2,959,357)   | \$ (4,119,392) |

During the six months ended May 31, 2010, \$3,406,158 of equity investments were transferred from Level 2 to Level 1. These securities became eligible for resale pursuant to Rule 144 under the 1933 Act and, therefore, were valued at the common share market price for its counterpart using readily available market quotations from the principal market.

### 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 following tables show the equity interest, number of units or principal amount, the acquisition date(s), acquisition cost (excluding return of capital adjustments), fair value, fair value per unit of such securities and fair value as percent of net assets applicable to common stockholders as of May 31, 2010 and November 30, 2009.



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May 31, 2010

| Investment Security                   |                                  | Equity Interest,<br>Units or<br>Principal<br>Amount | Acquisition<br>Date(s) | Acquisition<br>Cost | Fair<br>Value | Fair<br>Value<br>Per Unit | Fair Value as<br>Percent of<br>Net Assets |
|---------------------------------------|----------------------------------|---|------------------------|---------------------|---------------|---------------------------|---|
| High Sierra Energy, LP                | Common Units                     | 1,042,685   | 11/2/06-<br>11/15/08   | \$ 24,828,836       | \$ 19,331,372 | \$ 18.54                  | 24.4%                                     |
| High Sierra Energy GP, LLC            | Equity Interest                  | 2.37%   | 11/2/06-<br>5/1/07     | 2,015,969           | 530,457       | N/A                       | 0.7                                       |
| International Resource<br>Partners LP | Class A Units                    | 500,000   | 6/12/07                | 10,000,000          | 12,275,000    | 24.55                     | 15.5                                      |
| LONESTAR Midstream<br>Partners, LP(1) | Class A Units                    | 1,327,900   | 7/27/07-<br>4/2/08     | 2,149,269           | 195,000       | 0.15                      | 0.2                                       |
| LSMP GP, LP(1)                        | GP LP Units                      | 180   | 7/27/07-<br>4/2/08     | 120,046             | 35,000        | 194.44                    | 0.1                                       |
| Mowood, LLC(1)                        | Equity Interest                  | 100%  | 6/5/06-<br>8/4/08      | 1,000,000           | 5,117,346     | N/A                       | 6.5                                       |
|                                       | Subordinated Debt                | \$ 5,300,000  | 6/5/06-<br>2/22/10     | 5,300,000           | 5,300,000     | N/A                       | 6.7                                       |
| VantaCore Partners LP                 | Common Units                     | 933,430   | 5/21/07-<br>8/4/08     | 18,270,449          | 15,933,650    | 17.07                     | 20.1                                      |
|                                       | Incentive Distribution<br>Rights | 988   | 5/21/07-<br>8/4/08     | 143,936             | 205,415       | 207.91                    | 0.3                                       |
|                                       |                                  |   |                        | \$ 63,828,505       | \$ 58,923,240 |                           | 74.5%                                     |

(1) See Note 9 — Investment Transactions for additional information.

November 30, 2009

| Investment Security                    |                                  | Equity Interest,<br>Units or<br>Principal<br>Amount | Acquisition<br>Date(s) | Acquisition<br>Cost | Fair<br>Value | Fair<br>Value<br>Per Unit | Fair Value as<br>Percent of<br>Net Assets |
|--|----------------------------------|---|------------------------|---------------------|---------------|---------------------------|---|
| Abraxas Petroleum<br>Corporation       | Unregistered Common<br>Units     | 1,946,376   | 10/5/09                | \$ 2,895,234        | \$ 3,297,009  | \$ 1.69                   | 3.9%                                      |
| Eagle Rock Energy<br>Partners, L.P.(1) | Unregistered Common<br>Units     | 54,474  | 10/1/08                | 749,018             | 253,559       | 4.65                      | 0.3                                       |
| High Sierra Energy, LP                 | Common Units                     | 1,042,685   | 11/2/06-<br>11/15/08   | 24,828,836          | 24,461,390    | 23.46                     | 29.0                                      |
| High Sierra Energy GP, LLC             | Equity Interest                  | 2.37%   | 11/2/06-<br>5/1/07     | 2,015,969           | 1,776,068     | N/A                       | 2.1                                       |
| International Resource<br>Partners LP  | Class A Units                    | 500,000   | 6/12/07                | 10,000,000          | 9,984,402     | 19.97                     | 11.8                                      |
| LONESTAR Midstream<br>Partners, LP(2)  | Class A Units                    | 1,327,900   | 7/27/07-<br>4/2/08     | 2,952,626           | 1,102,000     | 0.83                      | 1.3                                       |
| LSMP GP, LP(2)                         | GP LP Units                      | 180   | 7/27/07-<br>4/2/08     | 138,521             | 124,000       | 688.89                    | 0.2                                       |
| Mowood, LLC                            | Equity Interest                  | 99.5%   | 6/5/06-<br>8/4/08      | 5,000,000           | 8,253,910     | N/A                       | 9.8                                       |
|  | Subordinated Debt                | \$ 8,800,000  | 6/5/06-<br>12/8/08     | 8,800,000           | 8,800,000     | N/A                       | 10.4                                      |
| Quest Midstream<br>Partners, L.P.      | Common Units                     | 1,180,946   | 12/22/06-<br>11/1/07   | 22,200,001          | 5,987,055     | 4.92                      | 7.1                                       |
| VantaCore Partners LP                  | Common Units                     | 933,430   | 5/21/07-<br>8/4/08     | 18,270,449          | 16,256,482    | 17.42                     | 19.3                                      |
|  | Incentive Distribution<br>Rights | 988   | 5/21/07-<br>8/4/08     | 143,936             | 147,654       | 149.45                    | 0.2                                       |
|  |                                  |   |                        | \$ 97,994,590       | \$ 80,443,529 |                           | 95.4%                                     |

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- (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) See Note 9 — Investment Transactions for additional information.



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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 May 31, 2010 amounted to \$58,392,783, representing 73.8 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, 2009 amounted to \$75,116,893, representing 89.1 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 May 31, 2010 or during the six months then ended and at November 30, 2009 or during the year then ended is as follows:

May 31, 2010

|   | Units/<br>Equity Interest/<br>Principal<br>Balance | Gross<br>Additions | Gross<br>Reductions | Realized Gain<br>(Loss) | Gross<br>Distributions<br>or Interest<br>Received | Units/<br>Equity Interest/<br>Principal<br>Balance | Fair Value    |
|---|--|--------------------|---------------------|-------------------------|---|--|---------------|
|   | 11/30/09   |                    |                     |                         |   | 5/31/10  | 5/31/10       |
| High Sierra Energy, LP(1)                                 | 1,042,685  | \$                 | \$                  | \$                      | \$ 656,892  | 1,042,685  | \$ 19,331,372 |
| International Resource Partners LP                        | 500,000  |                    |                     |                         | 425,000   | 500,000  | 12,275,000    |
| LONESTAR Midstream Partners, LP(1)(2)                     | 1,327,900  |                    | (787,133)           | (16,224)                |   | 1,327,900  | 195,000       |
| LSMP GP, LP(1)(2)   | 180  |                    | (17,254)            | (1,221)                 |   | 180  | 35,000        |
| Mowood, LLC Subordinated Debt(2)                          | \$ 8,800,000                                       | 750,000            | (4,250,000)         |                         | 381,053   | \$ 5,300,000                                       | 5,300,000     |
| Mowood, LLC Equity Interest(2)                            | 99.5%  |                    | (5,335,000)         | 2,163,001               | 147,500   | 100%   | 5,117,346     |
| Quest Midstream Partners, L.P.                            | 1,216,881  |                    | (9,915,452)         | (9,607,112)             |   |  |               |
| VantaCore Partners LP Common Units                        | 933,430  |                    |                     |                         | 886,758   | 933,430  | 15,933,650    |
| VantaCore Partners LP Incentive<br>Distribution Rights(2) | 988  |                    |                     |                         |   | 988  | 205,415       |
|   |  | \$ 750,000         | \$ (20,304,839)     | \$ (7,461,556)          | \$ 2,497,203                                      |  | \$ 58,392,783 |

(1) Currently non-income producing.

(2) See Note 9 — Investment Transactions for additional information.

November 30, 2009

|   | Units/<br>Equity Interest/<br>Principal<br>Balance | Gross<br>Additions | Gross<br>Reductions | Realized Gain<br>(Loss) | Gross<br>Distributions<br>or Interest<br>Received | Units/<br>Equity Interest/<br>Principal<br>Balance | Fair Value    |
|---|--|--------------------|---------------------|-------------------------|---|--|---------------|
|   | 11/30/08   |                    |                     |                         |   | 11/30/09   | 11/30/09      |
| High Sierra Energy, LP                                    | 1,042,685  | \$                 | \$                  | \$                      | \$ 2,579,159                                      | 1,042,685  | \$ 24,461,390 |
| International Resource Partners LP                        | 500,000  |                    |                     |                         | 800,000   | 500,000  | 9,984,402     |
| LONESTAR Midstream Partners, LP(1)(2)                     | 1,327,900  |                    | (1,128,428)         | (363,932)               |   | 1,327,900  | 1,102,000     |
| LSMP GP, LP(1)(2)   | 180  |                    | (55,353)            | 25,360                  |   | 180  | 124,000       |
| Mowood, LLC Subordinated Debt                             | \$ 7,050,000                                       | 1,750,000          |                     |                         | 807,848   | \$ 8,800,000                                       | 8,800,000     |
| Mowood, LLC Promissory Notes                              | \$ 1,235,000                                       |                    | (1,235,000)         |                         |   |  |               |
| Mowood, LLC Equity Interest                               | 99.6%  |                    |                     |                         | 450,000   | 99.5%  | 8,253,910     |
| Quest Midstream Partners, L.P.(2)                         | 1,180,946  |                    |                     |                         |   | 1,216,881  | 5,987,055     |
| VantaCore Partners LP Common Units                        | 933,430  |                    |                     |                         | 1,820,189   | 933,430  | 16,256,482    |
| VantaCore Partners LP Incentive<br>Distribution Rights(2) | 988  |                    |                     |                         |   | 988  | 147,654       |
|   |  | \$ 1,750,000       | \$ (2,418,781)      | \$ (338,572)            | \$ 6,457,196                                      |  | \$ 75,116,893 |

(1) See Note 9 — Investment Transactions for additional information.

(2) Currently non-income producing. Additional units held at 11/30/09 resulted from paid-in-kind distribution to private investors in October 2009.

9. Investment Transactions

For the six months ended May 31, 2010, the Company purchased (at cost) securities in the amount of \$7,488,354 and sold securities (at proceeds) in the amount of \$12,195,324 (excluding short-term debt securities). For the six months ended May 31, 2009, the Company purchased (at cost) securities in the amount of \$3,178,408 and sold securities (at proceeds) in the amount of \$8,695,305 (excluding short-term debt securities).

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On February 9, 2010, Mowood, LLC (“Mowood”) closed the sale of its wholly owned subsidiary, Timberline Energy, LLC (“Timberline”), to Landfill Energy Systems, LLC. Timberline is an owner and developer of projects that convert landfill gas to energy. Mowood continues its ownership and operation of Omega Pipeline Company, LLC (“Omega”), a local distribution company which serves the natural gas and propane needs of Fort Leonard Wood and other customers in south central Missouri.

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The Company received initial proceeds from the sale of \$9,000,000, which were used to pay off the outstanding balance on its credit facility and to fund an additional investment of \$750,000 in Omega to facilitate growth. The Company used the remaining proceeds to invest according to its stated investment policies, which included investments in publicly-traded securities. In May 2010, the Company received additional capital gain proceeds of \$585,000 from Mowood as a result of a contingent payment from the sale of Timberline. The Company may receive additional contingent and escrow payments from the Timberline sale currently expected to total approximately \$1.6 million.

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. 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). On February 3, 2009, the Company received a distribution of 37,305 freely tradable common units of PVR and 4,743 freely tradable common units of PVG. On July 17, 2009, the Company received an additional distribution of 37,304 freely tradable common units of PVR and 4,744 freely tradable common units of PVG. On December 31, 2009, the Company received a cash distribution from LONESTAR of \$804,387. For purposes of the capital gain incentive fee, the realized gain totals \$1,756,189. 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 have been paid since the commencement of operations. There are also two future contingent payments due from LONESTAR which 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. If received, the Company’s expected portion would total approximately \$9,638,829, payable in cash or common units of PVR (at PVR’s election). The fair value of the LONESTAR and LSMP GP, LP units, which totals \$230,000 as of May 31, 2010, is based on unobservable inputs related to the potential receipt of these future payments relative to the sales transaction.

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, 253,113 EROC unregistered common units were placed in escrow for 18 months from the date of the transaction. During this 18 month period, various claims were made against the escrow fund, resulting in the disbursement of 88,778 common units back to EROC. In August 2009, the Company received an escrow release of 118,311 freely tradable EROC common units, and on April 1, 2010, the escrow termination date, the Company received the final balance of freely tradable EROC common units in the escrow account of 46,024 units. On May 31, 2010, the Company recorded a receivable and a corresponding realized gain in the amount of \$24,977, representing the amount due from EROC related to insurance proceeds it received from previous hurricane damage claims for the North Terrebone plant. For purposes of the capital gain incentive fee, the realized gain totals \$3,516,639, 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. No capital gain incentive fees have been paid since the commencement of operations.

### 10. Credit Facility

On December 1, 2008, the Company had a \$50,000,000 committed credit facility with U.S. Bank, N.A., who served as a lender, agent and lead arranger. The revolving credit facility had a variable annual interest rate equal to the one-month LIBOR plus 1.75 percent and 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 contained a covenant precluding the Company from incurring additional debt.

On March 20, 2009, the Company entered into a 90-day extension of its amended credit facility. Terms of the extension provided for a secured revolving credit facility of up to \$25,000,000. Effective June 20, 2009, the Company entered into a 60-day extension of its amended credit facility. The terms of the extension provided for a secured revolving credit facility of up to \$11,700,000. The credit agreement, as extended, had a termination date of August 20, 2009. Terms of these extensions required the Company to apply 100 percent of the proceeds from any private investment liquidation and 50 percent of the proceeds from the sale of any publicly traded portfolio assets to the outstanding balance of the facility. In addition, each prepayment of principal of the loans under the amended credit facility would permanently reduce the maximum amount of the loans under the amended credit agreement to an amount equal to the outstanding principal balance of the loans under the amended credit agreement immediately following the prepayment. During these extensions, outstanding loan balances accrued interest at a variable rate equal to the greater of (i) one-month LIBOR plus 3.00 percent, and (ii) 5.50 percent.

On August 20, 2009, the Company entered into a six-month extension of its amended credit facility through February 20, 2010. Terms of the extension provided for a secured revolving facility of up to \$5,000,000. The amended credit facility required the

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Company to apply 100 percent of the proceeds from the sale of any investment to the outstanding balance of the facility. In addition, each prepayment of principal of the loans under the amended credit facility permanently reduced the maximum amount of the loans under the amended credit agreement to an amount equal to the outstanding principal balance of the loans under the amended credit agreement immediately following the prepayment. During this extension, outstanding loan balances accrued interest at a variable rate equal to the greater of (i) one-month LIBOR plus 3.00 percent, and (ii) 5.50 percent.

On February 10, 2010, the Company paid off the remaining balance under the credit facility with proceeds from the sale of investments and the credit facility was terminated.

For the six months ended May 31, 2010, the average principal balance and interest rate for the period during which the credit facility was utilized were \$4,205,634 and 5.50 percent, respectively.

### 11. Common Stock

The Company has 100,000,000 shares authorized and 9,099,037 shares outstanding at May 31, 2010.

|   |           |
|---|-----------|
| Shares at November 30, 2009                         | 9,078,090 |
| Shares issued through reinvestment of distributions | 20,947    |
| Shares at May 31, 2010                              | 9,099,037 |

### 12. Warrants

At May 31, 2010 and November 30, 2009, the Company had 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 lockup 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 the 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.

### 13. Earnings Per Share

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

|  | For the three<br>months ended<br>May 31, 2010 | For the three<br>months ended<br>May 31, 2009 | For the six<br>months ended<br>May 31, 2010 | For the six<br>months ended<br>May 31, 2009 |
|--|---|---|---|---|
| Net increase (decrease) in net assets applicable to common stockholders resulting from operations                                    | \$ (7,280,373)                                | \$ 3,472,717                                  | \$ (3,262,847)                              | \$ (5,999,198)                              |
| Basic weighted average shares  | 9,099,037                                     | 9,000,174                                     | 9,088,679                                   | 8,981,369                                   |
| Average warrants outstanding(1)  | —   | —   | —   | —   |
| Diluted weighted average shares  | 9,099,037                                     | 9,000,174                                     | 9,088,679                                   | 8,981,369                                   |
| Basic and diluted net increase (decrease) in net assets applicable to common stockholders resulting from operations per common share | \$ (0.80)                                     | \$ 0.39                                       | \$ (0.36)                                   | \$ (0.67)                                   |

(1) Warrants to purchase shares of common stock at \$15.00 per share were outstanding during the periods reflected in the table above, 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.

### 14. Subsequent Events

The Company has performed an evaluation of subsequent events through the date the financial statements were issued and has determined that no additional items require recognition or disclosure.

On June 1, 2010, the Company paid a distribution in the amount of \$0.10 per common share, for a total of \$909,904. Of this total, the dividend reinvestment amounted to \$97,724.

ADDITIONAL INFORMATION (Unaudited)

Director and Officer Compensation

The Company does not compensate any of its directors who are “interested persons” (as defined in Section 2 (a) (19) of the 1940 Act) or any of its officers. For the six months ended May 31, 2010, the aggregate compensation paid by the Company to the independent directors was \$57,000. 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 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 Policy

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 the Company. 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.

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

Statements contained herein, other than historical facts, may 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," "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 our most recent Annual Report filed on Form 10-K.

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 business development company ("BDC") and we are classified as a non-diversified closed-end management investment company under the Investment Company Act of 1940. 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 Internal Revenue Code of 1986.

We seek to 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, and coal/aggregates segments. 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 master limited partnership ("MLP") status. 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.

Performance Review and Investment Outlook

Our second quarter resulted in a decrease in both our net asset value and our stock price. Our net asset value as of May 31, 2010 was \$8.69 per share, as compared to \$9.60 per share at February 28, 2010, a decrease of approximately 9 percent. The decline in net asset value is largely attributable to a decrease in the fair value of our largest holding, High Sierra Energy, LP (High Sierra), as a result of the developments discussed below, as well as a significant decline in the market value of PostRock Energy Corporation (NASDAQ: PSTR), for which we received a substantial number of shares in exchange for our Quest Midstream units upon closing of the merger in March. Total investment return, based on our net asset value and assuming reinvestment of distributions, was -3.00 percent for the quarter ending May 31, 2010. We issued a press release on May 12, 2010 announcing our second quarter distribution of \$0.10 per share, compared to our prior quarter distribution of \$0.13 per share, and discussed unfavorable developments within our portfolio. Subsequently, our stock price declined, closing on May 31, 2010 at \$5.80 per share, compared to \$6.85 per share as of February 28, 2010. Our total investment return, based on market value and assuming reinvestment of distributions, was -3.46 percent for the three months ended May 31, 2010.

As previously reported, High Sierra was unable to declare a cash distribution this quarter as a result of a credit agreement covenant default with its bank. High Sierra's results from operations were sufficient to support a distribution at or above the minimum quarterly distribution (MQD) level of \$0.45 per share; however, High Sierra was unable to receive a waiver from its bank to allow a cash distribution in light of the technical default. High Sierra distributed \$0.63 per common unit last quarter. The distribution suspension decreased our distributable cash flow by approximately \$0.07 per share. High Sierra is engaged in continuing discussions with its lenders and expects to be successful in reaching a long-term solution. If High Sierra resumes cash distributions at the MQD level, we could maintain our \$0.10 - \$0.11 per share quarterly distribution, absent any additional adjustments. High Sierra reported year-to-date operating results through April 2010 significantly below budget. The fair value of High Sierra, inclusive of our interest in the general partner, declined by approximately \$5.8 million this quarter.

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PostRock Energy Corp (NASDAQ: PSTR), the new corporation formed for the purpose of wholly owning all three Quest entities, announced on March 5, 2010 that shareholders of Quest Resource Corporation (QRCP) and Quest Energy Partners, L.P. (QELP) and unitholders of Quest Midstream Partners approved the merger. We received 490,769 freely tradable common units of PostRock in exchange for our 1,216,881 common units of Quest Midstream. PostRock began trading on the NASDAQ on March 8, 2010, opening at \$19.00 per unit and closing at \$16.36 per unit. Subsequently, the stock price declined significantly. We held 460,300 common units of PostRock as of May 31, 2010 at a fair value of \$4.83 per unit, the NASDAQ closing price on that date.

In May, we received additional capital gain proceeds of \$585,000 from Mowood, LLC as a result of a contingent payment from the February sale of its Timberline Energy subsidiary. We elected to include the capital gain proceeds from Mowood in our distribution over the next two quarters, enabling us to distribute \$0.10 per share this quarter. We may receive additional contingent and escrow payments from the Timberline sale currently expected to total approximately \$1.6 million. Mowood's subsidiary, Omega Pipeline, continues to perform at budget and provides a 14 percent yield-to-original cost on both our debt and equity investments. The fair value of Mowood is essentially flat this quarter as compared to last quarter.

The fair value of International Resource Partners LP (IRP) increased by approximately \$1.8 million this quarter. The strong met coal market and IRP's improved production and cost controls have yielded year-to-date performance significantly above budget. IRP also announced a quarterly distribution increase from \$0.40 per unit to \$0.45 per unit.

As of May 31, 2010, the value of our investment portfolio (excluding short-term investments) was \$73.9 million, including equity investments of \$68.6 million and debt investments of \$5.3 million. Our portfolio is diversified among approximately 49 percent midstream and downstream investments, 13 percent upstream, and 38 percent in aggregates and coal. The weighted average yield (to cost) on our investment portfolio (excluding short-term investments) as of May 31, 2010 was 5.1 percent. A summary of our investments follows:

| Name of Portfolio                              | Nature of its   | Securities   | Amount Invested | Fair Value       | Current Yield on Amount |
|--|---|--------------|-----------------|------------------|-------------------------|
| Company (Segment)                              | Principal Business  | Held by Us   | (in millions)   | (in millions)(1) | Invested(2)             |
| Abraxas Petroleum Corporation (Upstream)(3)    | Acquisition, development, exploration, and production of oil and gas principally in the Rocky Mountain, Mid-Continent, Permian Basin, and Gulf Coast regions of the United States   | Common Units | \$ 2.9          | \$ 5.1           | 0.0%                    |
| Energy Transfer Partners, L.P. (Midstream)     | Owens and operates natural gas gathering and transportation pipelines, with natural gas treating and processing assets located in Texas, Oklahoma, and Louisiana  | Common Units | 1.2             | 1.1              | 7.4                     |
| Enterprise Products Partners, L.P. (Midstream) | Owens and operates natural gas, natural gas liquids and petroleum pipelines and storage facilities as well as natural gas processing facilities   | Common Units | 1.1             | 1.1              | 6.7                     |
| 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 | 2.7             | 2.3              | 8.8                     |
| High Sierra Energy, LP (Midstream)(3)          | Marketing, processing, storage and transportation of hydrocarbons and processing and disposal of oilfield produced water with operations primarily in Colorado, Wyoming, Oklahoma, Florida and Mississippi                            | Common Units | 24.8            | 19.3             | 0.0                     |

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|   |   |                 |      |      |     |
|---|---|-----------------|------|------|-----|
| High Sierra Energy GP, LLC<br>(Midstream)(3)(4) | General Partner of High Sierra Energy,<br>LP  | Equity Interest | 2.0  | 0.5  | 0.0 |
| International Resource Partners LP<br>(Coal)    | Operator of both metallurgical and steam<br>coal mines and related assets in Central<br>Appalachia and eastern Kentucky | Class A Units   | 10.0 | 12.3 | 9.0 |



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| Name of Portfolio                              | Nature of its   | Securities                                     | Amount Invested | Fair Value       | Current Yield on Amount |
|--|---|--|-----------------|------------------|-------------------------|
| Company (Segment)                              | Principal Business  | Held by Us                                     | (in millions)   | (in millions)(1) | Invested(2)             |
| Kinder Morgan Management, LLC (Midstream)      | Owns and operates natural gas, refined product and crude oil transportation and storage assets as well as enhanced oil recovery   | Common Units                                   | \$ 1.1          | \$ 1.1           | 7.5%                    |
| LONESTAR Midstream Partners, LP (Midstream)(5) | 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                                  | 2.2             | 0.2              | N/A                     |
| LSMP GP, LP (Midstream)(5)                     | Indirectly owns General Partner of LONESTAR Midstream Partners, LP  | GP LP Units                                    | 0.1             | 0.1              | N/A                     |
| Mowood, LLC (Midstream/Downstream)(6)          | Natural gas distribution and gas marketing in central Missouri  | Equity interest                                | 1.0             | 5.1              | 14.0                    |
|  |   | Subordinated Debt                              | 5.3             | 5.3              | 14.0                    |
| ONEOK Partners, L.P. (Midstream)               | Owns and operates natural gas gathering, processing, storage and transportation assets in the Mid-Continent region as well as natural gas liquids systems connecting NGL supply in Mid-Continent, Gulf Coast and Rocky Mountain Region. | Common Units                                   | 1.1             | 1.0              | 7.2                     |
| PostRock Energy Corporation (Upstream)(3)      | Vertically integrated energy company involved in the acquisition, development, exploration, production and transportation of natural gas  | Common Units                                   | 8.8             | 2.2              | 0.0                     |
| 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            | 16.1             | 9.6                     |
| Williams Partners, L.P. (Midstream)            | Owns and operates interstate natural gas pipelines as well as natural gas and NGL storage and processing  | Common Units                                   | 1.1             | 1.1              | 6.7                     |
|  |   |  | \$ 83.8         | \$ 73.9          |                         |

(1) Fair value as of May 31, 2010.

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- (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) Currently non-income producing.
- (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 May 31, 2010 are 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 on our equity interest represents an equity distribution on our invested capital. We expect that, pending cash availability, such equity distributions will recur on a quarterly basis at or above such yield.

### 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, ad hoc communications with company management, the review of periodic operating 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 private 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 information that will enable us 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 private investments. We intend to disclose, as appropriate, those risk factors that we deem most relevant in assessing the risk of any particular investment. Such factors may include, but are not limited to, the investment's current cash distribution status, compliance with loan covenants, operating and financial performance, changes in the regulatory environment or other factors that we believe are useful in determining overall investment risk.

#### High Sierra Energy, LP ("High Sierra")

High Sierra is a holding company with diversified midstream energy assets focused on the transportation, storage and marketing of hydrocarbons. The company's businesses include a natural gas liquids logistics, transportation and marketing business operating throughout the lower 48 states, a natural gas storage facility in Mississippi, an ethanol terminal in Nevada, crude oil and natural gas liquids trucking businesses in Kansas and Colorado, 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 directors' observation rights for High Sierra.

High Sierra was unable to declare a cash distribution this quarter as a result of a credit agreement covenant default with its bank. High Sierra's results from operations were sufficient to support a distribution at or above the minimum quarterly distribution (MQD) level of \$0.45 per share; however, the company was unable to receive a waiver from its bank to allow a cash distribution in light of the technical default. High Sierra distributed \$0.63 per common unit last quarter. High Sierra is engaged in continuing discussions with its lenders and expects to be successful in reaching a long-term solution. High Sierra reported year-to-date operating results through April 2010 significantly below budget, primarily from its business units Centennial Energy (natural gas liquids marketing) and Monroe Gas Storage (underground natural gas storage). Additionally, due to unfavorable commodity prices for natural gas, wet weather conditions and increased competition in the water disposal and related water truck transportation business in Oklahoma, High Sierra is essentially shutting down operations at National Coal County, an Oklahoma based water transportation and disposal service company acquired in 2007, resulting in a significant goodwill impairment charge.

#### International Resource Partners LP ("IRP")

IRP's surface and underground coal mine operations in southern West Virginia are comprised of metallurgical and steam coal reserves, a coal washing and preparation plant, rail load-out facilities and a sales and marketing subsidiary. In addition, IRP owns and leases assets in eastern Kentucky with capacity for seven surface and three underground mines. We hold board of director's observation rights for IRP.

IRP announced a quarterly distribution increase from \$0.40 per unit to \$0.45 per unit effective this quarter. IRP reported year-to-date operating results through April 2010 well in excess of its budget. Due to the significant improvement in operations during the first four months of 2010, management revised upward its forecast for 2010. However, the Massey Upper Big Branch Mine explosion may result in increased regulatory scrutiny by the state and federal enforcement agencies which could have a negative impact on IRP and the entire industry over the long run.

#### Mowood, LLC ("Mowood")

Mowood is the holding company of Omega Pipeline, LLC ("Omega"). We hold 100 percent of the equity interests in Mowood and currently hold a seat on its board of directors.

Omega is a natural gas local distribution company located on the Fort Leonard Wood military installation in south central Missouri. Omega serves the natural gas and propane needs of Fort Leonard Wood and other customers in the surrounding area. Omega was slightly behind budget through April 2010 but is expected to be at or above budget in the following months as construction and growth projects at the Fort make contributions to profitability.

In February 2010, Mowood sold its wholly owned subsidiary, Timberline Energy, LLC, to Landfill Energy Systems, LLC. In May, we received additional capital gain proceeds of \$585,000 from Mowood, LLC as a result of a contingent payment from the sale of Timberline Energy. We may receive additional contingent and escrow payments from the Timberline sale currently expected to total approximately \$1.6 million.

#### 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 a seat on VantaCore's board of directors.

VantaCore maintained its quarterly cash distribution of \$0.475 per unit, the minimum quarterly distribution, in May 2010. In April 2010, VantaCore completed its capital raise of approximately \$100 million with a large institutional investor. The additional capital



is expected to be used to take advantage of growth opportunities for the company. The company experienced some flooding at its Clarksville, Tennessee quarry in May but is now back up and running. VantaCore reported year-to-date EBITDA through April 2010 slightly below budget. The Southern Aggregates property in Louisiana continues to fall short of budget but the company is optimistic that recent signs of improvement in the building industry in the area, along with cost cutting measures imposed by management, will help improve their performance.

#### Results of Operations

##### Comparison of the Three and Six Months Ended May 31, 2010 and May 31, 2009

**Investment Income:** Investment income totaled \$389,180 and \$1,081,339 for the three and six months ended May 31, 2010, respectively. This represents an increase of \$1,154,973 and \$763,286, respectively, as compared to the three and six months ended May 31, 2009. The increase in investment income is primarily due to a decrease in the total distributions from investments, offset by a decrease in the amount of such distributions characterized as return of capital. The weighted average yield to cost on our investment portfolio (excluding short-term investments) as of May 31, 2010 was 5.1 percent, as compared to 6.2 percent at May 31, 2009. The decrease in the weighted average yield to cost is primarily related to the sale of higher yielding securities to pay down outstanding leverage and the suspension of distributions from High Sierra.

**Net Expenses:** Net expenses totaled \$513,145 and \$991,600 for the three and six months ended May 31, 2010, respectively. This represents a decrease of \$261,532 and \$499,083, respectively, as compared to the three and six months ended May 31, 2009. The decrease is primarily related to a reduction in base management fees payable to the Adviser and a decrease in interest expense resulting from the elimination of our outstanding leverage.

**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 reviews 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. We do not 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 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.

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The following table represents DCF for the three and six months ended May 31, 2010 as compared to the three and six months ended May 31, 2009:

|   | For the three<br>months ended<br>May 31, 2010 | For the three<br>months ended<br>May 31, 2009 | For the six<br>months ended<br>May 31, 2010 | For the six<br>months ended<br>May 31, 2009 |
|---|---|---|---|---|
| <b>Distributable Cash Flow</b>  |   |   |   |   |
| <b>Total from Investments</b>   |   |   |   |   |
| Distributions from investments  | \$ 847,399                                    | \$ 1,852,148                                  | \$ 2,336,155                                | \$ 4,543,782                                |
| Distributions paid in stock   | 20,972  | —   | 20,972                                      | —   |
| Interest income from investments  | 189,622                                       | 202,400                                       | 381,053                                     | 403,998                                     |
| Dividends from money market mutual funds  | 233   | 420   | 450   | 1,145                                       |
| Other income  | 8,688   | 15,000  | 19,080                                      | 30,000                                      |
| <b>Total from Investments</b>   | <b>1,066,914</b>                              | <b>2,069,968</b>                              | <b>2,757,710</b>                            | <b>4,978,925</b>                            |
| <b>Operating Expenses Before Leverage Costs</b>                                       |   |   |   |   |
| Advisory fees (net of expense reimbursement by Adviser)                               | 258,087                                       | 281,821                                       | 516,355                                     | 609,129                                     |
| Other operating expenses  | 216,177                                       | 236,014                                       | 390,745                                     | 453,596                                     |
| <b>Total Operating Expenses, before Leverage Costs</b>                                | <b>474,264</b>                                | <b>517,835</b>                                | <b>907,100</b>                              | <b>1,062,725</b>                            |
| <b>Distributable cash flow before leverage costs</b>                                  | <b>592,650</b>                                | <b>1,552,133</b>                              | <b>1,850,610</b>                            | <b>3,916,200</b>                            |
| <b>Leverage Costs</b>   |   |   |   |   |
| Distributable Cash Flow   | \$ 592,650                                    | \$ 1,295,291                                  | \$ 1,804,991                                | \$ 3,488,242                                |
| Capital gain proceeds   | 292,500                                       | —   | 292,500                                     | —   |
| <b>Cash Available for Distribution</b>  | <b>\$ 885,150</b>                             | <b>\$ 1,295,291</b>                           | <b>\$ 2,097,491</b>                         | <b>\$ 3,488,242</b>                         |
| <b>Distributions paid on common stock</b>   | <b>\$ 909,904</b>                             | <b>\$ 1,170,247</b>                           | <b>\$ 2,090,055</b>                         | <b>\$ 3,231,540</b>                         |
| <b>Payout percentage for period(1)</b>  | <b>103%</b>                                   | <b>90%</b>                                    | <b>100%</b>                                 | <b>93%</b>                                  |
| <b>DCF/GAAP Reconciliation</b>  |   |   |   |   |
| Distributable Cash Flow   | \$ 592,650                                    | \$ 1,295,291                                  | \$ 1,804,991                                | \$ 3,488,242                                |
| <b>Adjustments to reconcile to Net Investment Income (Loss), before Income Taxes:</b> |   |   |   |   |
| Distributions paid in stock(2)  | (20,972)                                      | 28,377  | (20,972)                                    | 56,514                                      |
| Return of capital on distributions received from equity investments                   | (656,759)                                     | (2,864,138)                                   | (1,655,399)                                 | (4,717,386)                                 |
| Non-recurring professional fees   | (38,881)                                      | —   | (38,881)                                    | —   |
| <b>Net Investment Income (Loss), before Income Taxes</b>                              | <b>\$ (123,962)</b>                           | <b>\$ (1,540,470)</b>                         | <b>\$ 89,739</b>                            | <b>\$ (1,172,630)</b>                       |

(1) Distributions paid as a percentage of Cash Available for Distribution.

(2) Distributions paid in stock for three and six months ended May 31, 2010 were paid as part of normal operations and are included in DCF. Distributions paid in stock for the three and six months ended May 31, 2009 were paid in stock as a result of credit constraints and therefore were not included in DCF.

Distributions: The following table sets forth distributions for the three and six months ended May 31, 2010 as compared to the three and six months ended May 31, 2009.

| Record Date       | Payment Date  | Amount  |
|-------------------|---------------|---------|
| May 21, 2010      | June 1, 2010  | \$ 0.10 |
| February 19, 2010 | March 1, 2010 | \$ 0.13 |
| May 22, 2009      | June 1, 2009  | \$ 0.13 |
| February 23, 2009 | March 2, 2009 | \$ 0.23 |

Net Investment Income (Loss): Net investment income (loss) after deferred taxes for the three and six months ended May 31, 2010 was \$(124,929) and \$56,078, respectively, as compared to \$(1,532,187) and \$(1,265,530) for the three and six months ended May 31, 2009, respectively. The variance in net investment income is primarily related to an increase in investment income and decreases in net expenses during the current fiscal periods as described above.



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**Net Realized and Unrealized Gain (Loss):** We had net unrealized appreciation (after deferred taxes) of \$1,565,464 and \$4,056,783 for the three and six months ended May 31, 2010, respectively, as compared to \$13,098,265 and \$3,722,024 for the three and six months ended May 31, 2009. We had net realized losses (after deferred taxes) for the three and six months ended May 31, 2010 of \$8,720,905 and \$7,375,708, respectively, as compared to net realized losses (after deferred taxes) for the three and six months ended May 31, 2009 of \$8,093,361 and \$8,455,692, respectively. Net realized losses for the three and six months ended May 31, 2010 were generally attributed to a realized loss that was recognized on our Quest Midstream units when they were exchanged in the merger, as well as realized losses attributable to PostRock shares which were received in the merger and sold prior to May 31, 2010.

### Liquidity and Capital Resources

We may raise additional capital to support our future growth through equity offerings, rights offerings, and issuances of senior securities to the extent permitted by the 1940 Act 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.

### Contractual Obligations

We do not have any significant contractual payment obligations as of May 31, 2010.

### 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

For the six months ended May 31, 2010, the average principal balance and interest rate for the period during which the credit facility was utilized were \$4,205,634 and 5.50 percent, respectively. We used proceeds from the sale of portfolio investments to pay off and terminate the credit facility on February 10, 2010.

### Recent Developments

On June 1, 2010, the Company paid a distribution in the amount of \$0.10 per common share, for a total of \$909,904. Of this total, the dividend reinvestment amounted to \$97,724.

### 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.

### Securities Transactions and Investment Income Recognition

Securities 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 3. 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 May 31, 2010, the fair value of our investment portfolio (excluding short-term investments) totaled \$73,939,172. 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 \$4,620,459.

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 May 31, 2010, 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 4. 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) or 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report as required by paragraph (b) of Rule 13a-15 or 15d-15 of the Securities Exchange Act of 1934. 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.

There have been no changes in our internal control over financial reporting (identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Securities Exchange Act of 1934) during the fiscal quarter ended May 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently subject to any material legal proceeding, nor, to our knowledge, is any material legal proceeding threatened against us.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended November 30, 2009, which could materially affect our business, financial condition or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not sell any securities during the three months ended May 31, 2010 that were not registered under the Securities Act of 1933.

We did not repurchase any of our common shares during the three months ended May 31, 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

| Exhibit | Description   |
|---------|---|
| 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, is 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, is 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, is furnished herewith. |

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.

SIGNATURE

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

TORTOISE CAPITAL RESOURCES CORPORATION

Date: July 8, 2010

By:

/s/ Terry Matlack  
Terry Matlack  
Chief Financial Officer  
(Principal Financial Officer)