

TORTOISE CAPITAL RESOURCES CORP  
Form 10-Q  
October 09, 2008

**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 August 31, 2008**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**COMMISSION FILE NUMBER: 001-33292**

**TORTOISE CAPITAL RESOURCES CORPORATION**

(Exact name of registrant as specified in its charter)

**MARYLAND**

(State or other jurisdiction of incorporation or organization)

**20-3431375**

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of shares of the issuer's Common Stock, \$0.001 par value, outstanding as of September 30, 2008 was 8,919,991.

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# Tortoise Capital Resources Corporation

## FORM 10-Q

### FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2008

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

	<b>August 31, 2008</b>	<b>November 30, 2007</b>
	<i>(Unaudited)</i>	
<b>Assets</b>		
Investments at fair value, control (cost \$29,645,849 and \$20,521,816, respectively)	\$ 32,655,040	\$ 23,292,904
Investments at fair value, affiliated (cost \$72,023,625 and \$95,507,198, respectively)	84,914,692	98,007,275
Investments at fair value, non-affiliated (cost \$42,777,633 and \$31,716,576, respectively)	43,331,758	37,336,154
Total investments (cost \$144,447,107 and \$147,745,590, respectively)	160,901,490	158,636,333
Income tax receivable	218,935	218,935
Receivable for Adviser expense reimbursement	100,822	94,181
Interest receivable from control investments	72,850	68,686
Dividends and distributions receivable	135,602	1,419
Prepaid expenses and other assets	201,793	154,766
Total assets	161,631,492	159,174,320
<b>Liabilities</b>		
Base management fees payable to Adviser	604,930	565,086
Accrued capital gain incentive fees payable to Adviser (Note 4)	1,054,745	307,611
Distribution payable to common stockholders	2,356,874	-
Payable for investments purchased	-	1,235,994
Accrued expenses and other liabilities	423,402	419,744
Short-term borrowings	31,800,000	30,550,000
Deferred tax liability	6,372,081	4,182,919
Total liabilities	42,612,032	37,261,354
Net assets applicable to common stockholders	\$ 119,019,460	\$ 121,912,966
<b>Net Assets Applicable to Common Stockholders Consist of:</b>		
Warrants, no par value; 945,594 issued and outstanding at August 31, 2008 and 945,774 issued and outstanding at November 30, 2007 (5,000,000 authorized)	\$ 1,370,700	\$ 1,370,957
Capital stock, \$0.001 par value; 8,893,866 shares issued and outstanding at August 31, 2008 and 8,858,168 issued and outstanding at November 30, 2007 (100,000,000 shares authorized)	8,894	8,858
Additional paid-in capital	108,721,336	115,186,412
Accumulated net investment loss, net of deferred tax benefit	(2,822,758)	(1,565,774)
Accumulated realized gain, net of deferred tax expense	1,740,126	160,474
Net unrealized appreciation of investments, net of deferred tax expense	10,001,162	6,752,039
Net assets applicable to common stockholders	\$ 119,019,460	\$ 121,912,966
Net Asset Value per common share outstanding (net assets applicable to common stock, divided by common shares outstanding)	\$ 13.38	\$ 13.76

See accompanying Notes to Financial Statements.

**Tortoise Capital Resources Corporation**  
**SCHEDULE OF INVESTMENTS**  
**August 31, 2008**  
*(Unaudited)*

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Company	Energy Infrastructure Segment	Type of Investment
<b>Control Investments (1)</b>		
Mowood, LLC	Midstream/Downstream	Equity Interest (99.6%) (2)
VantaCore Partners LP	Aggregate	Subordinated Debt (12% Due 7/1/2016) (2) Common Units (933,430) (2) Incentive Distribution Rights (988) (2) (6)
<b>Total Control Investments - 27.4% (3)</b>		
<b>Affiliated Investments (4)</b>		
High Sierra Energy, LP	Midstream	Common Units (1,021,032) (2) (5)
International Resource Partners LP	Coal	Class A Units (500,000) (2)
LONESTAR Midstream Partners, LP	Midstream	Class A Units (1,327,900) (2) (6) (7)
LSMP GP, LP	Midstream	GP LP Units (180) (2) (6) (7)
Millennium Midstream Partners, LP	Midstream	Class A Common Units (875,000) (2) Incentive Distribution Rights (78) (2) (6)
Quest Midstream Partners, L.P.	Midstream	Common Units (1,180,946) (2)
<b>Total Affiliated Investments - 71.4% (3)</b>		
<b>Non-affiliated Investments</b>		
Abraxas Energy Partners, L.P.	Upstream	Common Units (450,181) (2)
Eagle Rock Energy Partners, L.P. (8)	Midstream/Upstream	Common Units (659,071)
EV Energy Partners, L.P. (8)	Upstream	Common Units (217,391)
High Sierra Energy GP, LLC	Midstream	Equity Interest (2.37%) (2) (5)
Legacy Reserves LP (8)	Upstream	Limited Partner Units (264,705)
Penn Virginia Resource Partners, L.P. (8)	Midstream/Coal	Unregistered Common Units (468,001) (2)
Penn Virginia GP Holdings, L.P. (8)	Midstream/Coal	Unregistered Common Units (59,503) (2)
First American Government Obligations Fund	Short-term investment	Class Y shares
<b>Total Non-affiliated Investments - 36.4% (3)</b>		
<b>Total Investments - 135.2% (3)</b>		

- (1) Control investments are generally defined under the Investment Company Act of 1940 as companies in which at least 25% of the voting securities are owned; see Note 8 to the financial statements for further disclosure.
- (2) Restricted securities have a total fair value of \$139,940,699, which represents 117.6% 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) Distributions have been paid in cash historically; however, distributions were paid in additional High Sierra Energy, LP common units this quarter.
- (6) Currently non-income producing.
- (7) In July 2008, Lonestar Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P. (PVR). Lonestar has no continuing operations, but currently holds certain rights to receive future payments from PVR relative to the sale. LSMP GP, LP indirectly owns the general partner of Lonestar Midstream Partners, LP. See Note 9 to the financial statements for additional information.
- (8) Publicly-traded company.

See accompanying Notes to Financial Statements.

**Tortoise Capital Resources Corporation**  
**SCHEDULE OF INVESTMENTS**  
**November 30, 2007**

Company	Energy Infrastructure Segment	Type of Investment
<b>Control Investments (1)</b>		
Mowood, LLC	Downstream	Equity Interest (100%) (2) Subordinated Debt (12% Due 7/1/2016) (2)
VantaCore Partners LP	Aggregate	Common Units (425,000) (2) Subordinated Debt (10.73% Due 5/21/2014) (2) Incentive Distribution Rights (789) (2) (7)
<b>Total Control Investments - 19.1% (4)</b>		

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<b>Affiliated Investments</b> <sup>(5)</sup>		
High Sierra Energy, LP	Midstream	Common Units (999,614) <sup>(2)</sup>
International Resource Partners LP	Coal	Class A Units (500,000) <sup>(2)</sup>
LONESTAR Midstream Partners, LP	Midstream	Class A Units (1,184,532) <sup>(2) (6)</sup>
LSMP GP, LP	Midstream	GP LP Units (180 units) <sup>(2)</sup>
Quest Midstream Partners, L.P.	Midstream	Common Units (1,180,946) <sup>(2)</sup>
Millennium Midstream Partners, LP	Midstream	Class A Common Units (875,000) <sup>(2)</sup>
		Incentive Distribution Rights (78) <sup>(2) (7)</sup>
<b>Total Affiliated Investments - 80.4%</b> <sup>(4)</sup>		
<b>Non-affiliated Investments</b>		
Abraxas Energy Partners, L.P.	Upstream	Common Units (450,181) <sup>(2)</sup>
Eagle Rock Energy Partners, L.P. <sup>(8)</sup>	Midstream	Common Units (659,071)
EV Energy Partners, L.P. <sup>(8)</sup>	Upstream	Common Units (217,391) <sup>(2)</sup>
Legacy Reserves LP <sup>(8)</sup>	Upstream	Limited Partner Units (264,705)
High Sierra Energy GP, LLC	Midstream	Equity Interest (2.37%) <sup>(2)</sup>
First American Government Obligations Fund	Short-term investment	Class Y shares
<b>Total Non-affiliated Investments - 30.6%</b> <sup>(4)</sup>		
<b>Total Investments - 130.1%</b> <sup>(4)</sup>		

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

See accompanying Notes to Financial Statements.

**Tortoise Capital Resources Corporation**  
**STATEMENTS OF OPERATIONS** (Unaudited)

	For the three months ended August 31, 2008	For the three months ended August 31, 2007	For the nine months ended August 31, 2008
<b>Investment Income</b>			
Distributions from investments			
Control investments	\$ 347,500	\$ 148,080	\$ 975,001
Affiliated investments	1,139,402	1,328,533	4,499,082
Non-affiliated investments	993,695	532,992	2,401,162
Total distributions from investments	2,480,597	2,009,605	7,875,245
Less return of capital on distributions	(2,306,739)	(1,552,395)	(6,497,044)
Net distributions from investments	173,858	457,210	1,378,201
Interest income from control investments	269,235	306,738	884,588
Dividends from money market mutual funds	3,643	38,726	6,770
Other income	-	-	28,987
<b>Total Investment Income</b>	446,736	802,674	2,298,546
<b>Operating Expenses</b>			
Base management fees	604,930	512,894	1,780,179
Capital gain incentive fees (Note 4)	(340,369)	(170,648)	747,134

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Professional fees	153,157	187,014	469,039
Administrator fees	27,930	24,193	82,488
Directors' fees	22,181	25,205	66,927
Reports to stockholders	13,057	10,083	39,028
Fund accounting fees	8,652	9,294	25,690
Registration fees	7,458	14,686	22,292
Custodian fees and expenses	5,545	3,044	14,914
Stock transfer agent fees	3,403	3,180	10,172
Other expenses	11,853	16,944	35,482
<b>Total Operating Expenses</b>	<b>517,797</b>	<b>635,889</b>	<b>3,293,345</b>
Interest expense	395,791	229,692	1,329,289
Preferred stock distributions	-	-	-
Loss on redemption of preferred stock	-	-	-
<b>Total Interest Expense, Preferred Stock Distributions and Loss on Redemption of Preferred Stock</b>	<b>395,791</b>	<b>229,692</b>	<b>1,329,289</b>
<b>Total Expenses</b>	<b>913,588</b>	<b>865,581</b>	<b>4,622,634</b>
Less expense reimbursement by Adviser	(100,821)	-	(296,696)
<b>Net Expenses</b>	<b>812,767</b>	<b>865,581</b>	<b>4,325,938</b>
<b>Net Investment Loss, before Income Taxes</b>	<b>(366,031)</b>	<b>(62,907)</b>	<b>(2,027,392)</b>
Current tax benefit	-	42,732	-
Deferred tax benefit (expense)	139,090	(5,109)	770,408
<b>Net Investment Loss</b>	<b>(226,941)</b>	<b>(25,284)</b>	<b>(1,256,984)</b>
<b>Realized and Unrealized Gain (Loss) on Investments</b>			
Net realized gain on investments, before deferred tax expense	2,224,706	-	2,224,706
Deferred tax expense	(845,388)	-	(845,388)
Net Realized Gain on Investments	1,379,318	-	1,379,318
Net unrealized appreciation of control investments	234,767	615,708	238,103
Net unrealized appreciation of affiliated investments	641,373	68,414	10,390,990
Net unrealized appreciation (depreciation) of non-affiliated investments	(3,309,808)	(1,821,769)	(5,065,454)
Net unrealized appreciation (depreciation), before deferred taxes	(2,433,668)	(1,137,647)	5,563,639
Deferred tax benefit (expense)	924,795	432,306	(2,114,182)
Net Unrealized Gain (Loss) on Investments	(1,508,873)	(705,341)	3,449,457
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>	<b>(129,555)</b>	<b>(705,341)</b>	<b>4,828,775</b>
<b>Net Increase (Decrease) in Net Assets Applicable to Common Stockholders Resulting from Operations</b>	<b>\$ (356,496)</b>	<b>\$ (730,625)</b>	<b>\$ 3,571,791</b>
Net Increase (Decrease) in Net Assets Applicable to Common Stockholders Resulting from Operations Per Common Share:			
Basic and Diluted	\$ (0.04)	\$ (0.08)	\$ 0.40
Weighted Average Shares of Common Stock Outstanding:			
Basic and Diluted	8,893,866	8,840,487	8,876,079

See accompanying Notes to Financial Statements.

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

	For the month ended August 2016 (Unaudited)
<b>Operations</b>	
Net investment loss	\$ (1,256,984)
Net realized gain on investments	1,379,318
Net unrealized appreciation on investments	3,449,457
Net increase in net assets applicable to common stockholders resulting from operations	3,571,791
<b>Distributions to Common Stockholders</b>	
Net investment income	

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Return of capital	(6,900,000)
Total distributions to common stockholders	(6,900,000)
<b>Capital Stock Transactions</b>	
Proceeds from initial public offering of 5,740,000 common shares	
Proceeds from issuance of 185,000 warrants	
Proceeds from exercise of 180 warrants	
Proceeds from exercise of 9,125 warrants	
Proceeds from exercise of 11,350 warrants	
Underwriting discounts and offering expenses associated with the issuance of common stock	
Issuance of 35,518; 2,384 and 18,222 common shares from reinvestment of distributions to stockholders, respectively	43,000,000
Net increase in net assets, applicable to common stockholders, from capital stock transactions	43,000,000
Total increase (decrease) in net assets applicable to common stockholders	(2,800,000)
<b>Net Assets</b>	
Beginning of period	121,900,000
End of period	\$ 119,000,000
Accumulated net investment loss, net of deferred tax benefit, at the end of period	\$ (2,800,000)

See accompanying Notes to Financial Statements.

**Tortoise Capital Resources Corporation**  
**STATEMENT OF CASH FLOWS (Unaudited)**

	For the nine months ended August 31, 2008	For the nine months ended August 31, 2007
<b>Cash Flows From Operating Activities</b>		
Distributions received from investments	\$ 7,740,245	\$ 3,972,092
Interest and dividend income received	886,396	1,141,118
Purchases of long-term investments	(16,150,379)	(107,608,442)
Proceeds from sale of long-term investments	14,339,011	-
Proceeds (purchases) of short-term investments, net	(397,252)	4,696,101
Interest expense paid	(1,368,533)	(193,127)
Distributions to preferred stockholders	-	(228,750)
Current tax expense paid	-	(19,362)
Operating expenses paid	(2,191,013)	(1,634,910)
Net cash provided by (used in) operating activities	2,858,475	(99,875,280)
<b>Cash Flows from Financing Activities</b>		
Issuance of common stock (including warrant exercises)	2,700	86,270,250
Common stock issuance costs	-	(6,765,958)
Issuance of preferred stock	-	18,216,950
Redemption of preferred stock	-	(18,870,000)
Preferred stock issuance costs	-	(78,654)
Issuance of warrants	-	283,050
Advances from revolving line of credit	19,050,000	36,500,000
Repayments on revolving line of credit	(17,800,000)	(14,000,000)
Distributions paid to common stockholders	(4,111,175)	(1,680,358)
Net cash provided by (used in) financing activities	(2,858,475)	99,875,280
Net change in cash	-	-
Cash--beginning of period	-	-
Cash--end of period	\$ -	\$ -
<b>Reconciliation of net increase in net assets applicable to common stockholders resulting from operations to net cash provided by (used in) operating activities</b>		
Net increase in net assets applicable to common stockholders resulting from operations	\$ 3,571,791	\$ 3,158,476
Adjustments to reconcile net increase in net assets applicable to common stockholders resulting from operations to net cash provided by (used in) operating activities:		

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Purchases of long-term investments	(14,915,626)	(111,444,679)
Return of capital on distributions received	6,497,044	3,516,593
Proceeds from sale of long-term investments, net	14,339,011	-
Proceeds (purchases) of short-term investments, net	(397,252)	4,696,101
Accrued capital gain incentive fees payable to Adviser	747,134	1,325,846
Deferred income tax expense	2,189,162	2,496,908
Amortization of issuance costs	18,553	2,110
Realized gains on investments	(2,224,706)	(13,712)
Loss on redemption of preferred stock	-	731,713
Net unrealized appreciation of investments	(5,563,639)	(8,510,121)
Changes in operating assets and liabilities		
Increase in interest, dividend and distribution receivable	(138,347)	(143,548)
Increase in prepaid expenses and other assets	(66,823)	(22,997)
Decrease in current tax liability	-	(86,386)
Increase in management fees payable to Adviser, net of expense reimbursement	33,203	404,690
Increase (decrease) in payable for investments purchased	(1,235,994)	3,836,237
Increase in accrued expenses and other liabilities	4,964	177,489
Total adjustments	(713,316)	(103,033,756)
Net cash provided by (used in) operating activities	\$ 2,858,475	\$ (99,875,280)
<b>Non-Cash Financing Activities</b>		
Reinvestment of distributions by common stockholders in additional common shares	\$ 433,557	\$ 42,537

See accompanying Notes to Financial Statements.

**Tortoise Capital Resources Corporation**  
**FINANCIAL HIGHLIGHTS**

	For the nine months ended August 31, 2008 (Unaudited)	For the nine months ended August 31, 2007 (Unaudited)	ye N 3
<b>Per Common Share Data <sup>(1)</sup></b>			
Net Asset Value, beginning of period	\$ 13.76	\$ 13.70	\$
Premium less underwriting discounts and offering costs on initial public offering of common shares <sup>(2)</sup>	-	0.01	
Underwriting discounts and offering costs on issuance of common shares	-	-	
<b>Income from Investment Operations:</b>			
Net investment loss <sup>(3)</sup>	(0.14)	(0.24)	
Net realized and unrealized gain on investments <sup>(3)</sup>	0.54	0.74	
Total increase from investment operations	0.40	0.50	
<b>Less Distributions to Common Stockholders:</b>			
Net investment income	-	-	
Return of capital	(0.78)	(0.44)	
Total distributions to common stockholders	(0.78)	(0.44)	
Net Asset Value, end of period	\$ 13.38	\$ 13.77	\$
Per common share market value, end of period	\$ 11.50	\$ 14.45	\$
Total Investment Return, including capital gain incentive fees, based on net asset value <sup>(4)</sup>	3.76%	3.38%	
Total Investment Return, excluding capital gain incentive fees, based on net asset value <sup>(4)</sup>	4.39%	4.51%	
Total Investment Return, based on market value <sup>(5)</sup>	5.25%	(1.62)%	
<b>Supplemental Data and Ratios</b>			
Net assets applicable to common stockholders, end of period (000's)	\$ 119,019	\$ 121,784	\$ 1
Ratio of expenses (including current and deferred income tax expense (benefit) and capital gain incentive fees) to average net assets <sup>(6) (7) (8)</sup>	7.18%	9.16%	
Ratio of expenses (excluding current and deferred income tax expense (benefit) to average net assets <sup>(6) (9)</sup>	4.77%	6.00%	
Ratio of expenses (excluding current and deferred income tax expense (benefit) and capital gain incentive fees) to average net assets <sup>(6) (9) (10)</sup>	3.95%	4.29%	
Ratio of net investment income (loss) to average net assets before current and deferred income tax expense (benefit) and capital gain incentive fees <sup>(6) (9) (10)</sup>	(1.42)%	(2.04)%	



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Ratio of net investment income (loss) to average net assets before current and deferred income tax expense (benefit) <sup>(6) (8) (9)</sup>		(2.24)%	(3.75)%
Ratio of net investment income (loss) to average net assets after current and deferred income tax expense (benefit) and capital gain incentive fees <sup>(6) (7) (8)</sup>		(4.65)%	(6.91)%
Portfolio turnover rate <sup>(6)</sup>		2.41%	0.00%
Short-term borrowings, end of period (000's)	\$	31,800	\$ 22,500
Asset coverage, per \$1,000 of short-term borrowings <sup>(11)</sup>	\$	4,743	\$ 6,413
Asset coverage ratio of short-term borrowings <sup>(11)</sup>		474%	641%

- (1) Information presented relates to a share of common stock outstanding for the entire period.
- (2) Represents the premium on the initial public offering of \$1.17 per share, less the underwriting discounts and offering costs of \$1.16 per share.
- (3) The per common share data for the period ended November 30, 2007 and the nine months ended August 31, 2007 does not reflect the change in estimate of investment income and return of capital, for the respective period, as described in Note 2D.
- (4) Not annualized for periods less than a year. Total investment return is calculated assuming a purchase of common stock at net asset value per share as of the beginning of the period, reinvestment of distributions at net asset value, and a sale at net asset value at the end of the period.
- (5) Total investment return is calculated assuming a purchase of common stock at the initial public offering price, or market value at the beginning of the period, reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan or market value, as applicable, and a sale at the current market price on the last day of the period reported (excluding brokerage commissions).
- (6) Annualized for periods less than one full year.
- (7) For the nine months ended August 31, 2008, the Company accrued \$2,189,162 in deferred income tax expense, net.  
For the nine months ended August 31, 2007, the Company accrued \$42,732 in current income tax benefit and \$2,496,908 in deferred income tax expense.  
For the year ended November 30, 2007, the Company accrued \$261,667 in current income tax benefit and \$3,932,763 in deferred income tax expense.
- (8) For the nine months ended August 31, 2008, the Company accrued \$747,134 in capital gains incentive fees.  
For the nine months ended August 31, 2007, the Company accrued \$1,325,846 in capital gains incentive fees.  
For the year ended November 30, 2007, the Company accrued \$307,611 as a provision for capital gains incentive fees.
- (9) The ratio excludes the impact of current and deferred income taxes.
- (10) The ratio excludes the impact of capital gain incentive fees.
- (11) Represents value of total assets less all liabilities and indebtedness not represented by short-term borrowings at the end of the 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)*  
**August 31, 2008**

**1. Organization**

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

**2. Significant Accounting Policies**

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

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

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

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

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

The fair value of investments in portfolio companies is determined based on various factors, including enterprise value, observable market transactions and other pertinent factors 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.

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For equity and equity-related securities that are freely tradable and listed on a securities exchange, the Company fair values those securities at their last sale price on that exchange on the valuation date. If the security is listed on more than one exchange, the Company will use the price of the exchange that it considers to be the principal exchange on which the security is traded. Securities listed on the NASDAQ will be valued at the NASDAQ Official Closing Price, which may not necessarily represent the last sale price. If there has been no sale on such exchange or NASDAQ on such day, the security will be valued at the mean between bid and ask price on such day.

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

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

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- The quarterly valuation process begins with each investment being initially valued by the Valuation Officer of the Adviser. As part of this process, materials are prepared containing the supporting analysis, which are reviewed by the investment professionals of the Adviser;
- The Investment Committee of the Adviser reviews the preliminary valuations, and the Valuation Officer of the Adviser considers and assesses, as appropriate, any changes that may be required to the preliminary valuations to address any comments provided by the Investment Committee of the Adviser;
- An independent valuation firm engaged by the Board of Directors to provide third-party valuation consulting services performs certain limited procedures that the Board of Directors has identified and asked it to perform on a selection of these preliminary valuations as determined by the Board of Directors. For the three months ended August 31, 2008, the independent valuation firm performed limited procedures on eight portfolio companies comprising 87 percent of the total restricted investments at fair value as of August 31, 2008. Upon completion of the limited procedures, the independent valuation firm concluded that the fair value of the investments subjected to the limited procedures did not appear to be unreasonable;
- The Board of Directors assesses the valuations and ultimately determines the fair value of each investment in the Company's portfolio in good faith.

*C. Interest and Fee Income* □ Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected. When investing in instruments with an original issue discount or payment-in-kind interest (in which case the Company chooses payment-in-kind in lieu of cash), the Company will accrue interest income during the life of the investment, even though the Company will not necessarily be receiving cash as the interest is accrued. Fee income will include fees, if any, for due diligence, structuring, commitment and facility fees, transaction services, consulting services and management services rendered to portfolio companies and other third parties. Commitment and facility fees generally are recognized as income over the life of the underlying loan, whereas due diligence, structuring, transaction service, consulting and management service fees generally are recognized as income when services are rendered. For the three and nine month periods ended August 31, 2008 and August 31, 2007, the Company received no fee income.

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

For the period from December 1, 2006 through November 30, 2007, the Company estimated the allocation of investment income and return of capital for the distributions received from its portfolio companies within the Statement of Operations. For this period, the Company had estimated these distributions to be approximately 27 percent investment income and 73 percent return of capital.

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Subsequent to November 30, 2007, the Company reclassified the amount of investment income and return of capital it recognized based on the 2007 tax reporting information received from the individual portfolio companies. This reclassification amounted to a decrease in pre-tax net investment income and a corresponding increase in unrealized appreciation of approximately \$1,273,000 or \$0.143 per share (\$789,000 or \$0.089 per share, net of deferred tax).

Subsequent to the period ended February 29, 2008, the Company reclassified the amount of investment income and return of capital reported in the current fiscal year based on its revised 2008 estimates. This reclassification amounted to an increase in pre-tax net investment income and a corresponding decrease in unrealized appreciation of investments of approximately \$422,000 or \$0.047 per share (\$262,000 or \$0.029 per share, net of deferred tax).

*E. Distributions to Stockholders* □ The amount of any quarterly distributions will be determined by the Board of Directors. Distributions to stockholders are recorded on the ex-dividend date. The character of distributions made during the year may differ from their ultimate characterization for federal income tax purposes. For the year ended November 30, 2007, the Company's distributions, for book and tax purposes, were comprised of 100 percent return of capital. For the period ended August 31, 2008, the Company's distributions, for book purposes, were comprised of 100 percent return of capital. The tax character of distributions paid for the year ended November 30, 2008 will be determined subsequent to year end.

*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 maximum regular 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 and such amount would be a credit available for future years.

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

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

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

### **3. Concentration of Risk**

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

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### **4. Agreements**

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

The base management fee is 0.375 percent (1.5 percent annualized) of the Company's average monthly Managed Assets, calculated and paid quarterly in arrears within thirty days of the end of each fiscal quarter. The term "Managed Assets" as used in the calculation of the management fee means total assets (including any assets purchased with or attributable to borrowed funds) minus accrued liabilities other than (1) deferred taxes, (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 will reimburse the Company for certain expenses incurred beginning September 1, 2007 and ending December 31, 2008 in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets. During the three and nine months ended August 31, 2008, the Adviser reimbursed the Company \$100,821 and \$296,696, 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 nine months ended August 31, 2008, the Company accrued no investment income fees.

The second part of the incentive fee payable to the Adviser, the capital gains 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 gains fees paid to the Adviser in prior fiscal years. The capital gains fee is calculated and payable annually within thirty (30) days of the end of each fiscal year. In the event the Investment Advisory Agreement is terminated, the capital gains fee calculation shall be undertaken as of, and any resulting capital gains fee shall be paid within thirty (30) days of the date of termination. The Adviser may, from time to time, waive or defer all or any part of the compensation described in the Investment Advisory Agreement.

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

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The payable for capital gains incentive fees is a result of the increase or decrease in the fair value of investments and realized gains or losses from investments. Pursuant to the Investment Advisory Agreement, the capital gains 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. For the three and nine months ended August 31, 2008, the Company

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decreased the capital gains incentive fee payable by \$340,369 and increased the capital gains incentive fee payable by \$747,134, respectively, as a result of the increase or decrease in the fair value of investments and realized gains from investments during the period.

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

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

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

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

## 5. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and tax purposes. Components of the Company's deferred tax assets and liabilities as of August 31, 2008, and November 30, 2007 are as follows:

	August 31, 2008	November 30, 2007
<b>Deferred tax assets:</b>		
Organization costs	\$ 27,591	\$ 29,280
Capital gain incentive fees	400,803	116,892
Net operating loss carry forwards	3,900,544	1,397,684
	<b>4,328,938</b>	<b>1,543,856</b>
<b>Deferred tax liabilities:</b>		
Net unrealized gains on investment securities	6,252,667	4,138,485
Basis reduction of investment in MLPs	4,448,352	1,588,290
	<b>10,701,019</b>	<b>5,726,775</b>
Total net deferred tax liability	\$ 6,372,081	\$ 4,182,919

At August 31, 2008, a valuation allowance was not recorded because the Company believes it is more likely than not that there is an ability to utilize its deferred tax assets. The Company has analyzed the tax positions taken and has concluded that it has no uncertain tax positions as described in FIN 48. All of the Company's tax years remain open and subject to examination for both federal and state purposes. The Company's policy is to record interest and penalties on uncertain tax positions, if any, as part of tax expense.

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

	For the three months ended August 31, 2008	For the three months ended August 31, 2007
Application of statutory income tax rate	\$ (195,497)	\$ (453,224)
State income taxes, net of federal taxes	(23,000)	(46,594)
Other, net	-	29,889

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Total tax benefit	\$	(218,497)	\$	(469,929)
		For the nine months ended August 31, 2008		For the nine months ended August 31, 2007
Application of statutory income tax rate	\$	1,958,724	\$	1,863,266
State income taxes, net of federal taxes		230,438		225,934
Preferred distributions		-		86,925
Loss on redemption of preferred stock		-		278,051
Total tax expense	\$	2,189,162	\$	2,454,176

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

		For the three months ended August 31, 2008		For the three months ended August 31, 2007
Current tax benefit				
Federal	\$	-	\$	(44,252)
State		-		1,520
Total current benefit	\$	-	\$	(42,732)
Deferred tax benefit				
Federal	\$	(195,497)	\$	(379,083)
State		(23,000)		(48,114)
Total deferred benefit	\$	(218,497)	\$	(427,197)
Total tax benefit	\$	(218,497)	\$	(469,929)

		For the nine months ended August 31, 2008		For the nine months ended August 31, 2007
Current tax benefit				
Federal	\$	-	\$	(44,252)
State		-		1,520
Total current benefit	\$	-	\$	(42,732)
Deferred tax expense				
Federal	\$	1,958,724	\$	2,272,494
State		230,438		224,414
Total deferred expense	\$	2,189,162	\$	2,496,908
Total tax expense	\$	2,189,162	\$	2,454,176

As of November 30, 2007, the Company had a net operating loss of approximately \$3,901,000. This net operating loss can be carried forward and will expire in the year ending November 30, 2027. The amount of the deferred tax asset for net operating losses at August 31, 2008 also includes an amount for the year-to-date operations for the year ending November 30, 2008.

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

		August 31, 2008		November 30, 2007
Aggregate cost for federal income tax purposes	\$	133,063,916	\$	143,565,879
Gross unrealized appreciation		34,588,154		16,215,879

Gross unrealized depreciation	(6,750,580)	(1,145,425)
Net unrealized appreciation	\$ 27,837,574	\$ 15,070,454

## 6. Fair Value of Financial Instruments

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

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following table provides the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of August 31, 2008. These assets are measured on a recurring basis.

Description	Fair Value Measurements at Reporting Date Using			
	Fair Value at August 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 160,901,490	\$ 20,960,791	\$ 13,025,063	\$ 126,915,636

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Investments		
	For the three months ended		
	February 29, 2008	May 31, 2008	August 31, 2008
Fair value beginning balance	\$ 131,513,004	\$ 133,475,756	\$ 113,469,112
Total gains (realized or unrealized) included in net increase (decrease) in net assets applicable to common stockholders	1,454,924	7,340,380	1,857,178
Net purchases, issuances, and settlements	2,001,241	1,500,000	7,664,385
Return of capital adjustments impacting cost basis of securities	(1,493,413)	(895,799)	(1,375,039)
Transfers in (out) of Level 3	-	(27,951,225)	5,300,000
Fair value ending balance	\$ 133,475,756	\$ 113,469,112	\$ 126,915,636

## 7. Restricted Securities

Certain of the Company's investments are restricted and are valued as determined in accordance with procedures established by the Board of Directors and more fully described in Note 2. The tables below show the equity interest, number of units or principal amount, the acquisition date(s), acquisition cost (excluding return of capital adjustments), fair value per unit of such securities and fair value as percent of net assets applicable to common stockholders as of August 31, 2008 and November 30, 2007.



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August 31, 2008		Equity Interest, Units or Principal	Acquisition Date(s)	Acquisition Cost	Fair Value Per Unit	Fair Value as Percent of Net Assets
Investment Security		Amount				
Abraxas Energy Partners, L.P.	Common Units	450,181	5/25/07	\$ 7,500,015	\$ 15.49	5.9%
High Sierra Energy, LP <sup>(1)</sup>	Common Units	1,021,032	11/2/06- 8/14/08	24,828,836	24.51	21.0
High Sierra Energy GP, LLC <sup>(1)</sup>	Equity Interest	2.37%	11/2/06- 5/1/07	2,006,732	N/A	2.0
International Resource Partners LP	Class A Units	500,000	6/12/07	10,000,000	23.00	9.7
LONESTAR Midstream Partners, LP <sup>(2)</sup>	Class A Units	1,327,900	7/27/07- 4/2/08	4,444,986	3.54	3.9
LSMP GP, LP <sup>(2)</sup>	GP LP Units	180	7/27/07- 4/2/08	168,514	3,333.33	0.4
Millennium Midstream Partners, LP	Class A Common Units	875,000	12/28/06	17,455,647	25.63	18.9
	Incentive Distribution Rights	78	12/28/06	44,353	-	-
Mowood, LLC	Equity Interest	99.6%	6/5/06- 8/4/08	5,000,000	N/A	5.4
	Subordinated Debt	\$ 7,050,000	6/5/06- 6/29/07	7,050,000	N/A	5.9
Penn Virginia Resource Partners, L.P.	Unregistered Common Units	468,001	7/24/08	10,786,113	24.27	9.5
Penn Virginia GP Holdings, L.P.	Unregistered Common Units	59,503	7/24/08	1,680,746	28.01	1.4
Quest Midstream Partners, L.P.	Common Units	1,180,946	12/22/06	22,200,001	17.50	17.4
VantaCore Partners LP	Common Units	933,430	5/21/07- 8/4/08	18,270,449	19.97	15.7
	Incentive Distribution Rights	988	5/21/07- 8/4/08	143,936	567.21	0.5
				\$ 131,580,328		117.6%

(1) Distributions have been paid in cash historically; however, distributions were paid in additional High Sierra Energy, LP common units during the quarter ended August 31, 2008.

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

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

November 30, 2007		Equity Interest, Units or Principal	Acquisition	Acquisition	Fair Value	Fair Value as Percent of
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Investment Security	Amount	Date(s)	Cost	Per Unit	Net Assets	
Abraxas Energy Partners, L.P.	Common Units	450,181	5/25/07	\$ 7,500,015	\$ 16.36	6.0%
EV Energy Partners, L.P.	Common Units	217,391	6/1/07	7,499,990	33.84	6.0
High Sierra Energy, LP	Common Units	999,614	11/2/06-6/15/07	24,828,836	27.29	22.4
High Sierra Energy GP, LLC	Equity Interest	2.37%	11/2/06-5/1/07	2,005,491	N/A	2.3
International Resource Partners LP	Class A Units	500,000	6/12/07	10,000,000	18.10	7.4
LONESTAR Midstream Partners, LP	Class A Units	1,184,532	7/27/07-9/17/07	23,395,520	19.77	19.1
LSMP GP, LP	GP LP Units	180	7/27/07-9/17/07	549,142	3,806.22	0.6
Millennium Midstream Partners, LP	Class A Common Units	875,000	12/28/06	17,455,647	17.66	12.7
	Incentive	78	12/28/06	44,353	3,611.47	0.2
	Distribution Rights					
Mowood, LLC	Equity Interest	100%	6/5/06-5/4/07	1,500,000	N/A	2.3
	Subordinated Debt	\$ 7,050,000	6/5/06-6/29/07	7,050,000	N/A	5.8
Quest Midstream Partners, L.P.	Common Units	1,180,946	12/22/06	22,200,001	18.50	18.0
VantaCore Partners LP	Common Units	425,000	5/21/07	8,447,604	22.25	7.8
	Incentive	789	5/21/07	52,396	276.81	0.2
	Distribution Rights					
	Subordinated Debt	\$ 3,750,000	5/21/07	3,750,000	N/A	3.1
				\$ 136,278,995		113.9%

## 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 August 31, 2008 amounted to \$117,569,732, representing 98.8 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, 2007 amounted to \$121,300,179, representing 99.5 percent of net assets applicable to common stockholders. A summary of affiliated transactions for each company which is or was an affiliate or controlled entity at August 31, 2008 or during the nine months then ended and at November 30, 2007 or during the year then ended is as follows:

	Units/Equity Interest/Principal Balance 11/30/07	August 31, 2008				
		Gross		Gross Distributions or Interest	Units/Equity Interest/Principal	Fair Value
		Additions	Reductions	Received	Balance	
High Sierra Energy, LP <sup>(1)</sup>	999,614	\$ -	\$ -	\$ 1,219,529	1,021,032	\$ 25,025,494
International Resource Partners LP	500,000	-	-	600,000	500,000	11,500,000
LONESTAR Midstream Partners, LP <sup>(2)</sup>	1,184,532	1,477,140	-	21,531,919	1,327,900	4,700,000
LSMP GP, LP <sup>(2)</sup>	180	22,860	-	1,411,450	180	600,000

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Millennium Midstream Partners, LP Class A Common Units	875,000	-	-	1,207,500	875,000	22,422,643
Millennium Midstream Partners, LP Incentive Distribution Rights	78	-	-	-	78	-
Mowood, LLC Subordinated Debt	\$ 7,050,000	-	-	573,400	\$ 7,050,000	7,050,000
Mowood, LLC Equity Interest	100%	3,500,000	-	337,501	99%	6,404,040
Quest Midstream Partners, L.P.	1,180,946	-	-	1,472,053	1,180,946	20,666,555
VantaCore Partners LP Subordinated Debt	\$ 3,750,000	-	3,750,000	306,918	-	-
VantaCore Partners LP Common Units	425,000	9,822,845	-	637,500	933,430	18,640,597
VantaCore Partners LP Incentive Distribution Rights	789	91,540	-	-	988	560,403
		\$ 14,914,385	\$ 3,750,000	\$ 29,297,770		\$ 117,569,732

- (1) Distributions have been paid in cash historically; however, distributions were paid in additional High Sierra Energy, LP common units during the quarter ended August 31, 2008.
- (2) See Note 9 Investment Transactions for additional information..

	November 30, 2007					
	Units/Equity Interest/Principal Balance 11/30/06	Gross Addition	Reduction	Gross Distributions Received	Units/Equity Interest/Principal Balance	Fair Value
High Sierra Energy, LP	633,179	\$ 10,000,011	\$ -	\$ 1,642,056	999,614	\$ 27,279,466
International Resource Partners LP	-	10,000,000	-	266,667	500,000	9,048,521
LONESTAR Midstream Partners, LP	-	23,395,520	-	-	1,184,532	23,418,198
LSMP GP, LP	-	549,142	-	-	180	679,482
Millennium Midstream Partners, LP Class A Common Units	-	17,481,430	-	1,131,375	875,000	15,452,412
Millennium Midstream Partners, LP Incentive Distribution Rights	-	18,570	-	-	78	281,695
Mowood, LLC Subordinated Debt	\$ 4,550,000	2,500,000	-	739,100	\$ 7,050,000	7,050,000
Mowood, LLC Equity Interest	100%	500,000	-	96,895	100%	2,816,148
Quest Midstream Partners, L.P.	-	22,200,001	-	1,205,384	1,180,946	21,847,501
VantaCore Partners LP Subordinated Debt	-	3,750,000	-	150,456	\$ 3,750,000	3,750,000
VantaCore Partners LP Common Units	-	8,500,000	-	292,825	425,000	9,458,350

VantaCore Partners LP	-	-	-	-	789	218,406
Incentive Distribution Rights						
	\$ 98,894,674	\$ -	\$ 4,635,202			\$ 121,300,179

## 9. Investment Transactions

For the three and nine months ended August 31, 2008, the Company purchased (at cost) securities in the amount of \$11,414,385 and \$14,915,626, respectively. For the three and nine months ended August 31, 2008, the Company sold securities (at proceeds) in the amount of \$3,862,500 (excluding short-term debt securities).

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

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

On July 24, 2008, the Company recorded the cash and the unregistered PVR and PVG common units it received at a cost basis equal to the fair value on the date of receipt. The Company reduced its basis in LONESTAR by \$20,427,674, approximately 82 percent of the respective relative value of the entire transaction, resulting in a realized gain of \$1,104,244. The Company also reduced its basis in LSMP GP LP by \$403,488, approximately 71 percent of the respective relative value of the entire transaction, resulting in a realized gain of \$1,007,962. These realized gains are considered in the calculation of the accrued capital gains incentive fees as described in Note 4 above; however, these realized gains will not be deemed a realization event for purposes of payment of the capital gains incentive fee until such time as the LONESTAR and LSMP GP LP units are sold or otherwise disposed.

The fair value of the LONESTAR and LSMP GP LP units as of August 31, 2008 is based on unobservable inputs related to the potential receipt of future payments relative to the sales transaction as described above.

## 10. Credit Facility

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

For the nine months ended August 31, 2008, the average principal balance and interest rate for the period during which the credit facility was utilized were \$34,206,182 and 4.82 percent, respectively. As of August 31, 2008, the principal balance outstanding was \$31,800,000 at a rate of 4.24 percent.

**11. Preferred Stock**

On December 22, 2006, the Company issued 466,666 shares of Series A Redeemable Preferred Stock and 70,000 warrants to purchase common stock at \$15.00 per share. On December 26, 2006, the Company issued an additional 766,667 shares of Series A Redeemable Preferred Stock and 115,000 warrants at \$15.00 per share. Holders of Series A Redeemable Preferred Stock received cash distributions (as declared by the Board of Directors and from funds legally available for distribution) at the annual rate of 10 percent of the original issue price. On February 7, 2007, the Company redeemed all of the preferred stock at \$15.00 per share plus a 2 percent redemption premium, for a total redemption price of \$18,870,000. After attributing \$283,050 in value to the warrants, the redemption premium of \$370,000 and \$78,663 in issuance costs, the Company recognized a loss on redemption of the preferred stock of \$731,713. In addition, distributions in the amount of \$228,750 were paid to the preferred stockholders.

**12. Common Stock**

The Company has 100,000,000 shares authorized and 8,893,866 shares outstanding at August 31, 2008.

Shares at November 30, 2006	3,088,596
Shares sold through initial public offering	5,740,000
Shares issued through reinvestment of distributions	18,222
Shares issued upon exercise of warrants	11,350
Shares at November 30, 2007	8,858,168
Shares issued through reinvestment of distributions	35,518
Shares issued upon exercise of warrants	180
Shares at August 31, 2008	8,893,866

**13. Warrants**

At August 31, 2008, there were 945,594 warrants issued and outstanding. The warrants became exercisable on February 7, 2007 (the closing date of the Company's initial public offering of common shares), subject to a lock-up period with respect to the underlying common shares. Each warrant entitles the holder to purchase one common share at the exercise price of \$15.00 per common share. Warrants were issued as separate instruments from common shares and are permitted to be transferred independently from the common shares. The warrants have no voting rights and the common shares underlying the unexercised warrants will have no voting rights until such common shares are received upon exercise of the warrants. All warrants will expire on February 6, 2013.

Warrants outstanding at November 30, 2006	772,124
Warrants issued in December 2006	185,000
Warrants exercised	(11,350)
Warrants outstanding at November 30, 2007	945,774
Warrants exercised	(180)
Warrants outstanding at August 31, 2008	945,594

**14. Earnings Per Share**

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

	<b>For the three months ended August 31, 2008</b>	<b>For the three months ended August 31, 2007</b>	<b>For the nine months ended August 31, 2008</b>	<b>For the nine months ended August 31, 2007</b>
Net increase (decrease) in net assets applicable to common	\$ (356,496)	\$ (730,625)	\$ 3,571,791	\$ 3,158,476

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stockholders resulting from operations				
Basic weighted average shares	8,893,866	8,840,487	8,876,079	7,387,780
Average warrants outstanding (1)	-	-	-	-
Diluted weighted average shares	8,893,866	8,840,487	8,876,079	7,387,780
Basic and diluted net increase (decrease) in net assets applicable to common stockholders resulting from operations per common share	\$ (0.04)	\$ (0.08)	\$ 0.40	\$ 0.43

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

## 15. Subsequent Events

On September 2, 2008, the Company paid a distribution in the amount of \$0.2650 per common share, for a total of \$2,356,874. Of this total, the dividend reinvestment amounted to \$292,080.

On October 1, 2008, Millennium Midstream Partners, LP (Millennium) sold its partnership interests to Eagle Rock Energy Partners, L.P. (EROC) for \$181 million in cash and approximately four million EROC unregistered common units. In exchange for its Millennium partnership interests, the Company received \$13.7 million in cash and 373,224 EROC unregistered common units with an aggregate basis of \$5.0 million for total proceeds at close of approximately \$18.7 million. The Company originally invested \$17.5 million in Millennium (including common units and incentive distribution rights), and had an adjusted cost basis of approximately \$15.1 million (after reducing its basis for expected cash distributions received since investment that were treated as return of capital), resulting in a realized gain for book purposes of approximately \$3.6 million. For purposes of the capital gain incentive fee, the realized gain is approximately \$1.2 million, which excludes that portion of the fee that would be due as a result of expected cash distributions which were characterized as return of capital for book purposes. Pursuant to the Investment Advisory Agreement, the capital gains 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. In addition, approximately \$84,000 in cash and 253,113 units with an aggregate basis of \$3.5 million will be held in escrow for 18 months, subject to customary closing adjustments.

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## ADDITIONAL INFORMATION

(Unaudited)

### Director and Officer Compensation

The Company does not compensate any of its directors who are interested persons or any of its officers. For the three months ended August 31, 2008, the aggregate compensation paid by the Company to the independent directors was \$75,000. The Company did not pay any special compensation to any of its directors or officers.

### 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; and (ii) on the SEC's Web site at www.sec.gov.

## Privacy Policy

In order to conduct its business, the Company collects and maintains certain nonpublic personal information about its investors. This information includes the stockholder's address, tax identification or Social Security number, share balances, and distribution elections.

The Company does not disclose any nonpublic personal information about the Company's investors to third parties unless necessary to process a transaction, service an account, or as otherwise permitted by law.

To protect its stockholders personal information internally, the Company restricts access to nonpublic personal information about the Company's stockholders to those employees who need to know that information to provide services to the Company's stockholders. The Company also maintains certain other safeguards to protect its stockholders nonpublic personal information.

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

*All statements contained herein, other than historical facts, constitute "forward-looking statements." These statements may relate to, among other things, future events or our future performance or financial condition. You can identify forward-looking statements by terminology such as "may," "might," "believe," "will," "provided," "anticipate," "future," "could," "growth," "plan," "intend," "expect," "should," "would," "if," "seek," "possible," "potential," "likely" or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any anticipated results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. For a discussion of factors that could cause our actual results to differ from forward-looking statements contained herein, please see the discussion under the heading "Risk Factors" in Part II, Item 1A. of this report.*

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

### Overview

We invest in companies operating in the U.S. energy infrastructure sector, primarily in privately-held and micro-cap public companies focused on the midstream and downstream segments, and to a lesser extent the upstream segment. Our goal is to provide our stockholders with a high level of total return, with an emphasis on distributions. We target companies we believe will provide stable and growing cash flows as a result of their fee-based revenues and limited direct commodity price risk which in turn should provide our shareholders with a stable and growing distribution.

We have elected to be regulated as a BDC under the 1940 Act. We are classified as a closed-end, non-diversified management investment company under the 1940 Act. As a BDC, we are subject to numerous regulations and restrictions. Unlike most investment companies, we are, and intend to continue to be, taxed as a general business corporation under the Internal Revenue Code of 1986, as amended (the "Code").

### Portfolio and Investment Activity

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

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

On August 4, 2008, we invested an additional \$1,500,000 of equity in Mowood, LLC. The investment was used for Mowood's subsidiary, Timberline Energy, LLC, to complete landfill gas to energy projects in Butler, Nebraska and Hernando, Florida. Timberline's Oklahoma City facility came online in May 2008, and produces high Btu gas that is piped to a local cogeneration plant and a local interconnect on the Southern Star pipeline. The Butler facility, which came online in September, is designed as a direct use facility that pipes gas to an international food producer. The Hernando facility, which is expected to be operational shortly, is an electricity generation facility that sells electricity into the local power grid. With the completion of the Butler and Hernando facilities, Timberline will operate a high Btu facility, a direct use facility and an electricity generation facility—one of each of the three types of landfill gas to energy projects feasible under current technology. We believe that Timberline's ability to successfully complete each of the three landfill gas to energy projects will position Timberline as an industry expert and create opportunity for significant expansion.

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On August 4, 2008, we invested \$9,914,385 in VantaCore Partners LP, an existing portfolio company focused on the aggregates industry. In connection with this transaction, VantaCore repaid our \$3,750,000 term note at a 3 percent premium to par value. We reinvested the proceeds from this repayment, and an additional \$6,051,885, to purchase 508,430 common units and 199 incentive distribution rights of VantaCore. VantaCore used proceeds from this investment to partially fund its acquisition of Southern Aggregates LLC, a sand and gravel operation located near Baton Rouge, Louisiana. The Southern Aggregates acquisition is the third acquisition for VantaCore, and diversifies VantaCore's earnings base and geographic footprint to include the Baton Rouge and Lafayette, Louisiana markets.

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

On September 13, 2008, the boards of QRCP and the general partners of QELP and QMP terminated Mr. Grose as the chief financial officer of the companies. Pending the appointment of a new CFO, Mr. Jack T. Collins will continue to serve as interim CFO of the companies. The special committee stated that, although it and its advisers have reviewed substantial numbers of company records and conducted numerous interviews of company personnel and others, significant additional work remains to be done to confirm the full extent of inappropriate uses of the companies' assets and their effects on the companies. Based on the information obtained in the investigation to date, the special committee believes that the questionable transfers to the Cash-controlled entity involved a total of approximately \$10 million as originally announced. The special committee and its advisers are also working to determine the effect of those transfers on the companies' financial statements, the methods by which the companies' internal controls may have been circumvented by those transferring the funds, and the appropriate remedial measures. In addition, the special committee is attempting to identify possible sources of recovery of the assets that were inappropriately transferred. At this time, the companies cannot accurately predict when the investigation will be complete, what the results of that investigation will be, or whether any recovery of the missing assets can be made. QMP is currently re-negotiating the terms of their credit facility.

High Sierra Energy, L.P. (High Sierra) is re-negotiating the terms of its credit facility in the midst of a pervasive tightening of credit markets. The effects of this challenging lending environment are further complicated by High Sierra's exposure to a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code filed by



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SemGroup, L.P. and certain of its North American subsidiaries on July 22, 2008. High Sierra Crude Oil & Marketing and certain of High Sierra's other subsidiaries, had a material aggregate net exposure to the SemGroup bankruptcy in the form of unsecured trade debts. According to High Sierra management, a significant portion of High Sierra's cash reserves were required to sustain existing lines of credit following the SemGroup bankruptcy. High Sierra therefore elected to distribute additional common units in lieu of cash this quarter. In addition, High Sierra's senior management team voluntarily chose to forego receiving any distributions this quarter on the units they own. High Sierra is continuing to work through credit facility renewal with its lenders.

Following is a summary of our investments as of August 31, 2008:

**Allocation of Portfolio Assets**  
*August 31, 2008 (Unaudited)*  
*(Percentages based on fair value of total investment portfolio, excluding short-term investments)*

Name of Portfolio Company (Segment)	Nature of its Principal Business	Securities Held by Us	Amount Invested (in millions)	Fair Value (in millions)	Cu Yie
Abraxas Energy Partners, L.P. (Upstream)	Natural gas and oil exploitation and development in the Delaware and Gulf Coast Basins of Texas, Rockies and mid-continent region of the U.S.	Common Units	\$7.5	\$7.0	1
Eagle Rock Energy Partners, L.P. (Upstream/Midstream)	Gatherer and processor of natural gas in north and east Texas and Louisiana and producer and developer of upstream assets located in 17 states	Common Units	12.1	9.3	
EV Energy Partners, L.P. (Upstream)	Acquirer, producer and developer of oil and gas properties	Common Units	7.5	5.7	
High Sierra Energy, LP (Midstream) (2)	Marketer, processor, storer and transporter of hydrocarbons with operations primarily in Colorado, Wyoming and Florida	Common Units	24.8	25.0	
High Sierra Energy GP, LLC (Midstream) (2) (3)	General Partner of High Sierra Energy, LP	Equity Interest	2.0	2.4	
International Resource Partners LP (Coal)	Operator of both metallurgical and steam coal mines in Central Appalachia	Class A Units	10.0	11.5	
Legacy Reserves LP (Upstream)	Oil and natural gas exploitation and development in the Permian Basin	Limited Partner Units	4.5	5.3	1

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LONESTAR Midstream Partners, LP (Midstream) (4)	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.	Class A Units	4.4	4.7
LSMP GP, LP (Midstream) (4)	Indirectly owns General Partner of LONESTAR Midstream Partners, LP	GP LP Units	0.2	0.6
Millennium Midstream Partners, LP (Midstream)	Gatherer and processor of natural gas in Texas, Louisiana and offshore Gulf of Mexico	Class A Common Units and Incentive Distribution Rights	17.5	22.4
Mowood, LLC (Midstream/Downstream) (5) (6)	Natural gas distribution in central Missouri and landfill gas to energy projects	Equity interest	5.0	6.4
		Subordinated Debt	7.1	7.1
Penn Virginia Resource Partners, L.P. (Midstream/Coal)	Operator of a midstream natural gas gathering and processing business and manager of coal properties and related assets	Unregistered Common Units	10.8	11.3
Penn Virginia GP Holdings, L.P. (Midstream/Coal)	Owns the general partner interest, incentive distribution rights and a portion of the limited partner interests in Penn Virginia Resource Partners, L.P.	Unregistered Common Units	1.7	1.7
Quest Midstream Partners, L.P. (Midstream)	Operator of natural gas gathering pipelines in the Cherokee Basin and interstate natural gas transmission pipelines in Oklahoma, Kansas and Missouri	Common Units	22.2	20.7
VantaCore Partners LP (Aggregate)	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	19.2

- (1) 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.
- (2) Distributions have been paid in cash historically; however, distributions were paid in additional High Sierra Energy, LP common units this quarter.
- (3) Includes original purchase of 3 percent equity interest, sale of 0.6274 percent equity interest in July 2007 and subsequent capital calls.
- (4) In July 2008, LONESTAR Midstream Partners, LP sold its assets to Penn Virginia Resource Partners, L.P. LONESTAR has no continuing operations, but holds 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.
- (5) Represents an equity distribution on the previous quarter fair value of our invested capital, excluding the effect of the management incentive plan. We expect that, pending cash availability, such equity distributions will recur on a quarterly basis at or above such yield.
- (6) Segment classification revised this quarter to reflect the company's current profile.

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

Abraxas was formed with Abraxas Petroleum Corp.'s long-lived, low-decline natural gas and oil reserves located in the Delaware and Gulf Coast Basins of Texas, Rocky Mountains and mid-continent region of the U.S. Abraxas Petroleum Corp. is an independent publicly-traded energy company engaged in the exploration and production of natural gas and oil in the Permian Basin of West Texas, onshore Texas Gulf Coast, mid-continent region, Rocky Mountains and the southern Powder River Basin in eastern Wyoming. Abraxas' principal office is located at 18803 Meisner Drive, San Antonio, TX 78258.

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

Eagle Rock Energy is a publicly traded master limited partnership with midstream assets located in Texas and Louisiana and upstream assets, including mineral and royalty interests, in seventeen states. The company conducts its operations through Eagle Rock Pipeline, L.P. Eagle Rock Energy's principal office is located at 14950 Heathrow Forest Pkwy., Suite 111, Houston, TX 77032.

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

EV is a publicly traded master limited partnership engaged in acquiring, producing and developing oil and gas properties. EV's current properties are located in the Appalachian Basin, primarily in Ohio and West Virginia and in the Monroe Field in Northern Louisiana, Texas, New Mexico, the Mid-Continent and Michigan. EV's principal office is located at 1001 Fannin Street, Suite 800, Houston, TX 77002.

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

High Sierra is a holding company with diversified midstream energy assets focused on the processing, transportation, storage and marketing of hydrocarbons. The management team of High Sierra includes former executives and founders of midstream private and public companies focused on acquiring attractive assets at reasonable multiples. The company's purchased assets include a natural gas liquids logistics and transportation business in Colorado, natural gas gathering and processing operations in Louisiana, a natural gas storage facility in Mississippi, an ethanol terminal in Nevada, crude and natural gas liquids trucking businesses in Kansas and Colorado, businesses providing crude oil gathering, transportation and marketing services, primarily focused in the Mid-Continent, Western and Gulf Coast regions, water treatment transportation and disposal businesses serving oil and gas producers in Wyoming and Oklahoma, and two asphalt processing, packaging and distribution terminals in Florida. We hold board of director observation rights. High Sierra's principal office is located at 3773

Cherry Creek Drive North, Suite 655, Denver, CO 80209.

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

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

**International Resource Partners LP (IRP)**

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

**Legacy Reserves LP (Legacy)**

Legacy is a publicly traded master limited partnership focused on mature oil weighted properties in the Permian Basin in Western Texas that generate stable volumes of oil and natural gas with low rates of decline. Legacy focuses on the exploitation of proved developed reserves. Legacy's principal office is located at 303 West Wall, Suite 1500, Midland, TX 79701.

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

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

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

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

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

Millennium is a limited partnership focused on natural gas gathering and processing with assets in Texas, Louisiana and offshore in the Gulf of Mexico. Millennium's gathering business consists of over 500 miles of pipelines and its processing business consists of interests in six plants. Millennium's principal office is located at 10077 Grogans Mill Rd., Suite 200, The Woodlands, TX 77380.

**Mowood, LLC (Mowood)**

Mowood is a holding company whose assets include Omega Pipeline, LLC (Omega) and Timberline Energy, LLC (Timberline). Omega is a natural gas local distribution company located on the Fort Leonard Wood army base in southwest Missouri. Omega is in the fourth year of a ten-year contract with the Department of Defense pursuant to which it provides natural gas to Fort Leonard Wood. Timberline is an owner and developer of projects that convert landfill gas to energy. We hold two of three seats on Mowood's board of directors. Mowood's principal office is located at 14694 Orchard Parkway, Suite 200, Westminster, CO 80020.

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

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

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

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

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

Quest was formed by the spin-off of Quest Resource Corporation's midstream coal bed methane natural gas gathering assets in the Cherokee Basin. Quest owns more than 1,800 miles of natural gas gathering pipelines (primarily serving Quest Energy Partners, L.P., an affiliate) and over 1,100 miles of interstate natural gas transmission pipelines in Oklahoma, Kansas and Missouri. Our President holds one of seven seats on Quest's

board of directors. Quest's principal office is located at 210 Park Avenue, Suite 2750, Oklahoma City, OK 73102.

**VantaCore Partners LP (VantaCore)**

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

**Portfolio Company Monitoring**

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

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

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

As of August 31, 2008, all of our portfolio companies have a rating of (1), with the exception of Quest Midstream Partners, L.P., High Sierra Energy, LP and High Sierra Energy GP, LLC, each of which has a rating of (2).

**Results of Operations**

**Comparison of the Three and Nine Months Ended August 31, 2008 and August 31, 2007**

*Investment Income:* Investment income totaled \$446,736 and \$2,298,546 for the three and nine months ended August 31, 2008, respectively, a decrease of \$355,938 and an increase of \$558,381, respectively, as compared to the three and nine months ended August 31, 2007. The quarter-over-quarter decrease is primarily related to an increase in the portion of distributions characterized as return of capital during the period and reclassification of the amount of investment income and return of capital recognized based on the 2007 tax reporting information received from the individual portfolio companies (see Note 2D to the financial statements for additional information). The year-over-year increase is primarily related to full investment of the portfolio and related distribution increases from the portfolio companies. The weighted average yield (to cost) on our investment portfolio (excluding short-term investments) as of August 31, 2008 was 8.8 percent as compared to 8.7 percent at August 31, 2007.

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*Net Expenses:* Net expenses totaled \$812,767 and \$4,325,938 for the three and nine months ended August 31, 2008, respectively, a decrease of \$52,814 and \$325,408, respectively, as compared to the three and nine months

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ended August 31, 2007. The decrease is primarily related to a reduction in the total capital gain incentive fee accrual, a decrease in leverage costs (during the nine months ended August 31, 2007, we incurred a redemption premium and issuance costs on Series A Redeemable Preferred Stock, which was utilized as bridge financing to fund portfolio investments and was fully redeemed upon completion of our initial public offering), and the expense reimbursement from the Adviser. The provision for capital gains incentive fees results from an increase or decrease in the fair value of investments and realized gains or losses from investments, but is paid annually only if there are realization events and only if the calculation defined in the agreement results in an amount due. At August 31, 2008, the Adviser had terminated its right to receive \$1,784,105 in capital gains incentive fees as a result of Expected Distributions received from portfolio companies which were characterized as return of capital for book purposes.

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

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

The following table represents DCF for the three and nine months ended August 31, 2008 as compared to the three and nine months ended August 31, 2007. DCF totaled \$2,475,676 and \$7,029,843 for the three and nine months ended August 31, 2008, respectively, an increase of \$1,156,836 and \$4,366,872, respectively, as compared to the three and nine months ended August 31, 2007. The increase is primarily related to full investment of the portfolio and related distribution increases from the portfolio companies.

Distributable Cash Flow	For the three months ended August 31, 2008	For the three months ended August 31, 2007	For the ended A
<b>Total from Investments</b>			
Distributions from investments	\$ 2,734,812	\$ 2,009,605	\$
Distributions paid in stock <sup>(1)</sup>	621,122	-	
Interest income from investments	269,235	306,738	
Dividends from money market mutual funds	3,643	38,726	
Other income	-	-	
<b>Total from Investments</b>	<b>3,628,812</b>	<b>2,355,069</b>	
<b>Operating Expenses Before Leverage Costs and Current Taxes</b>			
Advisory fees (net of expense reimbursement by Adviser)	504,109	512,894	
Other operating expenses (excluding capital gain incentive fees)	253,236	293,643	
<b>Total Operating Expenses</b>	<b>757,345</b>	<b>806,537</b>	
Distributable cash flow before leverage costs and current taxes	2,871,467	1,548,532	
Leverage Costs	395,791	229,692	
<b>Distributable Cash Flow</b>	<b>\$ 2,475,676</b>	<b>\$ 1,318,840</b>	<b>\$</b>
<b>DCF/GAAP Reconciliation</b>			
Distributable Cash Flow	\$ 2,475,676	\$ 1,318,840	\$
Adjustments to reconcile to Net Investment Loss, before Income Taxes			

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Distributions paid in stock <sup>(1)</sup>	(621,122)	-
Pro forma distribution on new investment <sup>(2)</sup>	(254,215)	
Return of capital on distributions received from equity investments	(2,306,739)	(1,552,395)
Capital gain incentive fees	340,369	170,648
Loss on redemption of preferred stock	-	-
<b>Net Investment Loss, before Income Taxes</b>	<b>\$ (366,031)</b>	<b>\$ (62,907)</b>

(1) Distributions paid in stock for the three and nine months ended August 31, 2008 include shares received from High Sierra Energy, LP as a distribution received in lieu of cash for their second quarter distribution paid on August 15, 2008.

(2) Consists of \$254,215 as pro forma distribution on new investment in VantaCore Partners, LP common units this quarter.

*Distributions:* The following table sets forth distributions for the nine months ended August 31, 2008.

Record Date	Payment Date	Amount
February 21, 2008	March 3, 2008	\$0.2500
May 22, 2008	June 2, 2008	\$0.2625
August 21, 2008	September 2, 2008	\$0.2650

The distribution of \$0.2650 per share paid on September 2, 2008 represents an annualized yield of 7.1 percent based upon the initial public offering price of \$15.00 per share, and is the fifth consecutive distribution increase since the IPO. A portion of this distribution is expected to be treated as return of capital for income tax purposes, although the ultimate determination will not be made until after our year-end. Based on current financial information, the distribution is estimated to consist of 100 percent of return of capital for book purposes.

*Net Investment Loss:* Net investment loss totaled \$226,941 and \$1,256,984 for the three and nine months ended August 31, 2008, respectively, as compared to a net investment loss of \$25,284 and \$2,126,300, respectively, for the three and nine months ended August 31, 2007. The variance in net investment loss is related to investment income and net expenses as described above.

*Net Realized and Unrealized Gain:* We had net unrealized depreciation (after deferred taxes) of \$1,508,873 for the three months ended August 31, 2008 and \$3,449,457 in net unrealized appreciation (after deferred taxes) for the nine months ended August 31, 2008. Comparatively, we had net unrealized depreciation (after deferred taxes) of \$705,341 for the three months ended August 31, 2007 and net unrealized appreciation (after deferred taxes) of \$5,276,275 for the nine months ended August 31, 2007. We had realized gains of \$1,379,318 (after deferred taxes) for the three and nine months ended August 31, 2008. These realized gains were a result of the LONESTAR distribution (see Note 9 to the financial statements for additional information) and our VantaCore debt redemption. We had no realized gains for the three months ended August 31, 2007, and realized gains of \$8,501 (after deferred taxes) for the nine months ended August 31, 2007.

## Recent Developments

On September 2, 2008, we paid a distribution in the amount of \$0.2650 per common share, for a total of \$2,356,874. Of this total, the dividend reinvestment amounted to \$292,080.

On October 1, 2008, Millennium Midstream Partners, LP (Millennium) sold its partnership interests to Eagle Rock Energy Partners, L.P. (EROC) for \$181 million in cash and approximately four million EROC unregistered common units. In exchange for its Millennium partnership interests, we received \$13.7 million in cash and 373,224 EROC unregistered common units with an aggregate basis of \$5.0 million for total proceeds at close of approximately \$18.7 million. We originally invested \$17.5 million in Millennium (including common units and incentive distribution rights), and had an adjusted cost basis of approximately \$15.1 million (after reducing our basis for expected cash distributions received since investment that were treated as return of capital), resulting

in a realized gain for book purposes of approximately \$3.6 million. For purposes of the capital gain incentive fee, the realized gain is approximately \$1.2 million, which excludes that portion of the fee that would be due as a result of expected cash distributions which were characterized as return of capital for book purposes. Pursuant to the Investment Advisory Agreement, the capital gains 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. In addition, approximately \$84,000 in cash and 253,113 units with an aggregate basis of \$3.5 million will be held in escrow for 18 months, subject to customary closing adjustments.

On September 26, 2008, we invested an additional \$500,000 in Mowood, LLC in the form of a promissory note. The note has a variable annual interest rate equal to the one-month LIBOR plus 3.75 percent and matures on November 29, 2008. The investment will be used by Mowood, LLC for working capital purposes.

### Liquidity and Capital Resources

We expect to raise additional capital to support our future growth through equity offerings, rights offerings, and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act and our current credit facility and subject to market conditions. We generally may not issue additional common shares at a price below our net asset value (net of any sales load (underwriting discount)) without first obtaining approval of our stockholders and Board of Directors. We are restricted in our ability to incur additional debt by the terms of our credit facility.

On April 8, 2008, we filed an initial shelf registration statement, and on June 19, 2008 filed a pre-effective amendment, with the Securities and Exchange Commission. When effective, the shelf registration will allow the company to prudently raise additional capital.

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### Contractual Obligations

The following table summarizes our significant contractual payment obligations as of August 31, 2008.

	<b>Total</b>	<b>Fiscal 2008</b>	<b>Fiscal 2009</b>	<b>Fiscal 2010</b>	<b>Fiscal 2011</b>	<b>Fiscal 2012</b>	<b>After 2012</b>
Secured revolving credit facility <sup>(1)</sup>	\$31,800,000	-	\$31,800,000	-	-	-	-
	\$31,800,000	-	\$31,800,000	-	-	-	-

(1) At August 31, 2008, the outstanding balance under the credit facility was \$31,800,000, with a maturity date of March 20, 2009.

### Off-Balance Sheet Arrangements

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

### Borrowings

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

For the nine months ended August 31, 2008, the average principal balance and interest rate for the period during which the credit facility was utilized were \$34,206,182 and 4.82 percent, respectively. As of August 31, 2008, the principal balance outstanding was \$31,800,000 at a rate of 4.24 percent.

### 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.

#### ***Interest and Fee Income Recognition***

Interest income is recorded on an 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 we choose payment-in-kind in lieu of cash), we will accrue interest income during the life of the investment, even though we will not necessarily be receiving cash as the interest is accrued. 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 for services rendered to portfolio companies generally are recognized as income when services are rendered.

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

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

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

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our business activities contain elements of market risk. We consider changes in interest rates and the effect such changes can have on the valuations of the distribution-paying equity securities and debt securities we hold and the cost of capital under our credit facility to be our principal market risk.

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 August 31, 2008, we had no floating rate debt investments outstanding.

Our revolving credit facility has a variable annual interest rate equal to the one-month LIBOR plus 1.75 percent. We estimate that a one percentage point interest rate movement in the average market interest rates (either higher or lower) over a three-month period would either increase or decrease net investment income by approximately \$87,072.

We carry our investments at fair value, as determined by our Board of Directors. Investments for which market quotations are readily available are fair valued at such market quotations. Securities that are not publicly traded or whose market price is not readily available are fair valued as 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 August 31, 2008, the fair value of our investment portfolio (excluding short-term investments) totaled \$160,284,744. The impact of a 10 percent increase in the fair value of these investments, net of capital gain incentive fees and related deferred taxes, would increase net assets applicable to common stockholders by approximately \$8,447,006. The impact of a 10 percent decrease in the fair value of these investments, net of the reduction of capital gain incentive fees and related deferred taxes, would decrease net assets applicable to common stockholders by approximately \$9,283,712.

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. 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.

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There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Securities Exchange Act of 1934) during the fiscal quarter ended August 31, 2008, 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, 2007, 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 August 31, 2008 that were not registered under the Securities Act of 1933.

We did not repurchase any of our common shares during the three months ended August 31, 2008.

#### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable

**ITEM 6. EXHIBITS**

<b>Exhibit</b>	<b>Description</b>
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.

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**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**

By: /s/ TERRY MATLACK

Terry Matlack  
Chief Financial Officer  
(Principal Financial Officer)

Date: October 9, 2008

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