

Tortoise Pipeline & Energy Fund, Inc.

2012 1st Quarter Report



In today's environment some investments
are more relevant than ever.

Company at a glance

Tortoise believes Tortoise Pipeline & Energy Fund, Inc. (NYSE: TTP) is the first closed-end fund that focuses particularly on the broader \$500 billion+ North American pipeline universe.

Investment strategy

TTP seeks to provide stockholders with a high level of total return, with an emphasis on current distributions. Our fund focuses particularly on North American pipeline companies that transport natural gas, natural gas liquids, crude oil and refined products, and to a lesser extent, on other energy infrastructure companies.

Because of our traditional tax flow-through nature as a regulated investment company (RIC), we have the differentiated ability and flexibility to efficiently target and access traditional pipeline corporations alongside master limited partnerships (MLPs). Over 75 percent of our portfolio will generally be in companies structured as corporations or limited liability companies domiciled in the United States, Canada or United Kingdom with the remaining up to 25 percent in MLPs. We believe the broader North American pipeline universe offers strong business fundamentals and expanded growth opportunities.

We also intend to write (sell) covered call options to seek to enhance long-term return potential across economic environments, increase current income and mitigate portfolio risk through option income. Our covered call strategy will focus on other energy infrastructure companies that we believe are integral links in the value chain for pipeline companies.

TTP seeks to provide:

Attractive total return potential with high current income in a defensive sector

Access to real, long-lived pipeline assets essential to the functioning of the US economy

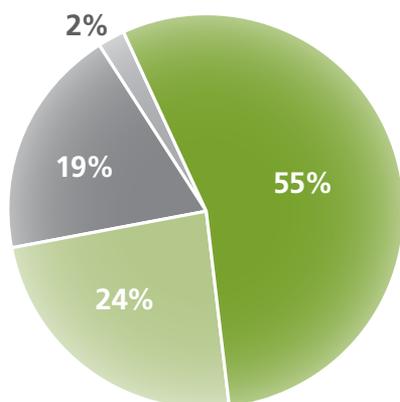
Exposure to expanded energy infrastructure growth projects that connect new areas of supply with demand

Ability to efficiently invest across North American pipeline universe through traditional tax flow-through fund structure

Investor simplicity through one 1099, no K-1s, no unrelated business taxable income, IRA suitability

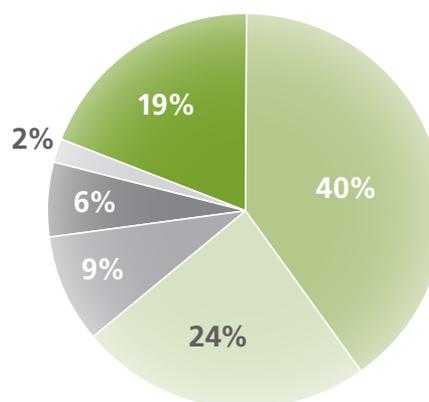
Expertise of Tortoise Capital Advisors, a leading and pioneering energy infrastructure investment firm

Portfolio statistics by ownership structure



- Pipeline C-corps / LLCs
- MLPs
- Integrated / Independent Energy Companies
- Other

Portfolio statistics by asset type



- Natural Gas Long Haul Pipelines
- Crude/Refined Products Long Haul Pipelines
- Local Distribution Pipelines
- Gathering Pipelines
- Marine Transportation
- Integrated / Independent Energy

March 25, 2012

Dear fellow stockholders,

The energy infrastructure sector achieved attractive returns in our first fiscal quarter ended Feb. 29, 2012, as growth expectations accelerated and broader markets rallied on an improved outlook.

The fiscal quarter highlighted how pipeline companies can benefit from the steady and predictable nature of their underlying fundamentals. Natural gas prices dropped to their lowest level in a decade, as a mild winter resulted in a material surplus; however, natural gas pipeline companies remained steady as a result of fee-based contracts utilizing reservation charges. Additionally, while oil prices increased due to concerns about oil supply in the Middle East, refined product and crude oil pipeline companies benefited from an attractive tariff and relatively stable volumes.

Pipeline sector review

During our first fiscal quarter, the Tortoise North American Pipeline IndexSM (TNAPT) had a total return of 6.6 percent, underperforming the S&P 500 index total return of 10.1 percent during the same period as the broader equity market improved on a brighter economic outlook following a year of flat performance in 2011.

The North American energy landscape continues to increase in size and scope. In addition to natural gas shales, shale oil is an increasingly significant opportunity as well. Notably, the International Strategy & Investment Group predicts that North America will lead non-OPEC countries in oil production increases during the five year period through 2016. We expect significant pipeline infrastructure will be needed to support the build-out associated with both natural gas and oil shale development.

Capital markets remain supportive as pipeline companies raised approximately \$5.9 billion in equity and \$6.0 billion in debt in the first fiscal quarter. Substantial organic growth projects as well as over \$14.5 billion in acquisitions continue to gain momentum, both supporting our estimate of 6 percent to 8 percent dividend/distribution growth during fiscal year 2012.

Company performance review and outlook

Our total assets increased from approximately \$309 million as of Nov. 30, 2011, to \$346 million as of the first fiscal quarter end, resulting primarily from market appreciation of our investments. Our market-based total return was 1.3 percent and our NAV-based total return was 10.2 percent

(both including the reinvestment of distributions) for the first fiscal quarter. The quarter-end NAV of \$26.49 per share represents a 7.7 percent total return (including the reinvestment of distributions) on our initial public offering price of \$25.00.

Our performance during the fiscal quarter was positively impacted by natural gas pipeline companies, driven by the separation of integrated models and steady fundamentals. Gathering and processing and crude oil pipeline companies also benefited from higher throughput volumes.

We paid our initial distribution of \$0.40625 per common share (\$1.625 annualized) to our stockholders on March 1, 2012. This distribution achieved our target of a 6.5 annualized yield on our \$25 public offer price. We will provide our expectation for tax characterization of TTP's 2012 distributions later in the year. A final determination of the characterization will be made in January 2013.

We ended our first fiscal quarter with leverage (including bank debt, senior notes and preferred stock) at 21.7 percent of total assets, and with a weighted average maturity of 5.4 years, a weighted average cost of 3.2 percent, and over 70 percent at fixed rates. We continue to believe a primarily fixed-rate strategy with ladder maturities enhances the predictability and sustainability of our distributable cash flow across multiple interest rate environments.

Additional information about our financial performance is available in the Key Financial Data and Management's Discussion of this report.

Conclusion

Please join us for our annual stockholders' meeting on May 24, 2012 at 10 a.m. central time at our offices located at 11550 Ash St., Suite 300, in Leawood, Kan. If you are unable to attend the meeting, you can join us via our web site at www.tortoiseadvisors.com.

Sincerely,

The Managing Directors
Tortoise Capital Advisors, L.L.C.
The adviser to Tortoise Pipeline & Energy Fund, Inc.

Key Financial Data (supplemental unaudited information)

(dollar amounts in thousands unless otherwise indicated)

The information presented below regarding Distributable Cash Flow and Selected Operating Ratios is supplemental non-GAAP financial information, which we believe is meaningful to understanding our operating performance. The Selected Operating Ratios are the functional equivalent of EBITDA for non-investment companies, and we believe they are an important supplemental measure of performance and promote comparisons from period-to-period. Supplemental non-GAAP measures should be read in conjunction with our full financial statements.

	Period from October 31, 2011 ⁽¹⁾ through November 30, 2011	2012 Q1 ⁽²⁾
Total Income from Investments		
Distributions received from pipelines and MLPs	\$ 70	\$ 2,651
Distributions received from other energy companies	3	192
Less Canadian withholding taxes	—	(53)
Dividends paid in stock	—	500
Net premiums on options written	209	2,261
Interest and dividend income	17	3
Total from investments	<u>299</u>	<u>5,554</u>
Operating Expenses Before Leverage Costs		
Advisory fees, net of expense reimbursement	183	693
Other operating expenses	113	156
	<u>296</u>	<u>849</u>
Distributable cash flow before leverage costs	3	4,705
Leverage costs ⁽³⁾	57	599
Distributable Cash Flow⁽⁴⁾	<u>\$ (54)</u>	<u>\$ 4,106</u>
Net realized loss on investments, for the period		
	\$ (189)	\$ (964)
Distributions paid on common stock	\$ —	\$ 4,064
Distributions paid on common stock per share	—	0.40625
Total assets, end of period	309,332	345,953
Average total assets during period ⁽⁵⁾	274,091	331,879
Leverage ⁽⁶⁾	32,500	75,200
Leverage as a percent of total assets	10.5 %	21.7 %
Net unrealized appreciation, end of period	6,031	32,630
Net assets, end of period	244,264	265,034
Average net assets during period ⁽⁷⁾	237,454	253,480
Net asset value per common share	24.42	26.49
Market value per common share	25.01	24.92
Shares outstanding	10,004,200	10,004,200
Selected Operating Ratios⁽⁸⁾		
As a Percent of Average Total Assets		
Total distributions received from investments	N/M	6.73 %
Operating expenses before leverage costs	1.09 %	1.03 %
Distributable cash flow before leverage costs	N/M	5.70 %
As a Percent of Average Net Assets		
Distributable cash flow ⁽⁴⁾	N/M	6.51 %

(1) Commencement of operations.

(2) Q1 is the period from December through February.

(3) Leverage costs include interest expense, distributions to preferred stockholders and other recurring leverage expenses.

(4) "Net investment income" on the Statement of Operations is adjusted as follows to reconcile to Distributable Cash Flow (DCF): increased by net premiums on options written, the return of capital on MLP distributions, the value of paid-in-kind distributions, and amortization of debt issuance costs.

(5) Computed by averaging month-end values within each period.

(6) Leverage consists of long-term debt obligations, preferred stock and short-term borrowings.

(7) Computed by averaging daily values for the period.

(8) Annualized for periods less than one full year. Certain of the ratios for the period from October 31, 2011 through November 30, 2011 are not meaningful due to partial investment of initial offering and leverage proceeds.

Management's Discussion (unaudited)

The information contained in this section should be read in conjunction with our Financial Statements and the Notes thereto. In addition, this report contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," or "continue" or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth in the "Risk Factors" section of our public filings with the SEC.

Introduction

We include the Management's Discussion section in each quarterly report to provide you transparency and insight into the results of operations, including comparative information to prior periods and trends. In addition, we include a "Key Financial Data" page which provides quarterly and annual detail of our distributable cash flow ("DCF") and other important metrics, including leverage and selected operating ratios. We hope that you find this discussion and financial data a useful supplement to the GAAP financial information included in this report. The Key Financial Data page in this quarter's report reflects information from October 31, 2011 (commencement of operations) through fiscal year end November 30, 2011, and the 2012 1st fiscal quarter ended February 29th.

Overview

Tortoise Pipeline & Energy Fund, Inc.'s ("TTP") primary investment objective is to provide a high level of total return, with an emphasis on current distributions. We seek to provide stockholders an efficient vehicle to invest in a portfolio consisting primarily of equity securities of pipeline and other energy infrastructure companies. We intend to focus primarily on pipeline companies that engage in the business of transporting natural gas, natural gas liquids ("NGLs"), crude oil and refined petroleum products, and, to a lesser extent, on other energy infrastructure companies. Energy infrastructure companies own and operate a network of asset systems that transport, store, distribute, gather, process, explore, develop, manage or produce crude oil, refined petroleum products (including biodiesel and ethanol), natural gas or NGLs or that provide electrical power generation (including renewable energy),

transmission and/or distribution. We also seek to provide current income from gains earned through an option strategy which consists of selling call options on selected equity securities in our portfolio (commonly referred to as a covered call).

TTP is a registered non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"), and expects to qualify as a regulated investment company ("RIC") under the U.S. Internal Revenue Code of 1986, as amended (the "Code"). Tortoise Capital Advisors, L.L.C. (the "Adviser") serves as investment adviser.

Company update

We completed investment of our initial public offering and leverage proceeds during the 1st quarter 2012. Market values of our investments increased during the quarter and, along with the remaining leverage proceeds, contributed to an increase of \$37 million in total assets since November 30, 2011. Distribution increases from our investments were in-line with our expectations while the increase in total assets during the quarter resulted in increased asset-based expenses. We declared our 1st quarter 2012 distribution of \$0.40625 on November 30, 2011. This distribution reflects full investment of our IPO and leverage proceeds and equates to a 6.50 percent yield on the IPO purchase price. Additional information on these events and results of our operations are discussed below.

Critical accounting policies

The financial statements 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. Our critical accounting policies are those applicable to the valuation of investments and certain revenue recognition matters as discussed in Note 2 in the Notes to Financial Statements.

Determining distributions to stockholders

We pay quarterly distributions based primarily upon our current and estimated future distributable cash flow ("DCF"). In addition, and to the extent that the sum of our net investment company taxable income and net realized gains from investments exceed our quarterly distributions, we intend to make an additional distribution to common

Management's Discussion (unaudited)

(continued)

stockholders in the last quarter of the fiscal year in order to avoid being subject to U.S. federal income taxes. Our Board of Directors reviews the distribution rate quarterly, and may adjust the quarterly distribution throughout the year. Our goal is to pay what we believe to be sustainable distributions with any increases safely covered by earned DCF.

Determining DCF

DCF is income from investments less expenses. Income from investments includes the amount we receive as cash or paid-in-kind distributions from common stock, MLPs, affiliates of MLPs, and pipeline and other energy companies in which we invest, and interest payments on short-term debt securities we own. Income also includes the net premiums received from sales of covered call options. The total expenses include current or anticipated operating expenses and leverage costs. Each are summarized for you in the table on page 2 and are discussed in more detail below.

The Key Financial Data table discloses the calculation of DCF and should be read in conjunction with this discussion. The difference between income from investments in the DCF calculation and total investment income as reported in the Statement of Operations, is reconciled as follows: (1) GAAP recognizes that a significant portion of the cash distributions received from MLPs are characterized as a return of capital and therefore excluded from investment income, whereas the DCF calculation includes the return of capital; (2) income from investments in the DCF calculation includes the value of dividends paid-in-kind (additional stock or units), whereas such amounts are not included as income for GAAP purposes; and (3) net premiums on options written (premiums received less amounts paid to buy back out of the money options) with expiration dates during our fiscal quarter are included in the DCF calculation, whereas GAAP recognizes the net effect of options written as realized and unrealized gains (losses). A reconciliation of Net Investment Income to DCF is included below.

Income from investments

We seek to achieve our investment objectives by investing in a portfolio consisting primarily of equity securities of pipeline and other energy infrastructure companies. We evaluate each holding based upon its contribution to our investment income and its risk relative to other potential investments.

We focus primarily on pipeline companies that engage in the business of transporting natural gas, NGLs, crude oil and refined products through pipelines, and, to a lesser

extent, on other energy infrastructure companies. These pipeline companies own and operate long haul, gathering and local gas distribution pipelines.

We also seek to provide current income from gains earned through an option strategy. We sell call options on select equity securities in our portfolio (commonly referred to as a covered call). We focus our covered call strategy on other energy infrastructure companies that we believe are integral links in the energy infrastructure value chain for pipeline companies.

Total distributions received from our investments and option strategy for the 1st quarter 2012 was approximately \$5.6 million. This reflects a full quarter's earnings on our investments of \$3.3 million and net premiums on options written of approximately \$2.3 million. On an annualized basis, this equates to 6.73 percent of our average total assets for the quarter.

Expenses

We incur two types of expenses: (1) operating expenses, consisting primarily of the advisory fee; and (2) leverage costs. On a percentage basis, operating expenses before leverage costs were an annualized 1.03 percent of average total assets for the 1st quarter 2012. While the contractual advisory fee is 1.10 percent of average monthly managed assets, the Adviser has agreed to waive an amount equal to 0.25 percent of average monthly managed assets through December 31, 2012, 0.20 percent of average monthly managed assets through December 31, 2013, and 0.15 percent of average monthly managed assets through December 31, 2014.

Leverage costs consist of two major components: (1) the direct interest expense on our senior notes and short-term credit facility, and (2) distributions to preferred stockholders. Other leverage expenses include rating agency fees and commitment fees. Total leverage costs for DCF purposes were approximately \$0.6 million for the 1st quarter 2012, reflecting nearly a full quarter of leverage expenses as we finished issuing our leverage in early December 2011.

The weighted average annual rate of our leverage at February 29, 2012 was 3.16 percent including balances on our bank credit facility which accrue interest at a variable rate equal to one-month LIBOR plus 1.25 percent. Our weighted average rate may vary in future periods as a result of changes in LIBOR, the utilization of our credit facility, and as our leverage matures or is redeemed. Additional information on our leverage is included in the Liquidity and Capital Resources discussion below.

Management's Discussion (unaudited)

(continued)

Distributable cash flow and capital gains

For 1st quarter 2012, our DCF was approximately \$4.1 million. This equates to an annualized rate of 5.70 percent of average total assets for the quarter and 6.51 percent of average net assets for the quarter. In addition, we had net realized losses on investments of \$1.0 million during the quarter.

We declared a distribution of \$4.1 million for 1st quarter 2012. On a per share basis, we declared a \$0.40625 distribution on November 30, 2011. This represents a full run-rate distribution and equates to a 6.50 percent yield on the \$25 IPO price.

Net Investment Income on the Statement of Operations is adjusted as follows to reconcile to DCF for 1st quarter 2012 (in thousands):

	1st Qtr 2012
Net Investment Income	\$ 260
Adjustments to reconcile to DCF:	
Net premiums on options written	2,261
Distributions characterized as return of capital	1,057
Dividends paid in stock	500
Amortization of debt issuance costs	28
DCF	<u>\$ 4,106</u>

Liquidity and capital resources

We had total assets of \$346 million at quarter-end. Our total assets reflect the value of our investments, which are itemized in the Schedule of Investments. It also reflects cash, interest and dividends receivable and any expenses that may have been prepaid. During 1st quarter 2012, total assets increased \$37 million. This change was primarily the result of net realized and unrealized gains on investments of approximately \$24 million during the quarter (excluding return of capital on distributions reflected during the quarter) and the receipt of the remaining leverage proceeds.

Total leverage outstanding at February 29, 2012 was \$75.2 million, an increase of \$42.7 million as compared to November 30, 2011. The majority of this increase was due to the second close of our leverage on December 8, 2011. Outstanding leverage is comprised of approximately \$49 million in senior notes, \$16 million in preferred shares and \$10.2 million outstanding under the credit facility, with 73.1 percent of leverage with fixed rates and a weighted average maturity of 5.4 years. Total leverage represented 21.7 percent of total assets at February 29, 2012. This is below our long-term target level of 25 percent of total assets, allowing the opportunity to add leverage when

compelling investment opportunities arise. Temporary increases to up to 30 percent of our total assets may be permitted, provided that such leverage is consistent with the limits set forth in the 1940 Act, and that such leverage is expected to be reduced over time in an orderly fashion to reach our long-term target. Our leverage ratio is impacted by increases or decreases in investment values, issuance of equity and/or the sale of securities where proceeds are used to reduce leverage.

Our longer-term leverage (excluding our bank credit facility) of approximately \$65 million is comprised of 75 percent private placement debt and 25 percent private placement preferred equity with a weighted average fixed rate of 3.38 percent and remaining weighted average laddered maturity of approximately 6.2 years.

We use leverage to acquire equity investments consistent with our investment philosophy. The terms of our leverage are governed by regulatory and contractual asset coverage requirements that arise from the use of leverage. Additional information on our leverage and asset coverage requirements is discussed in Note 9 and Note 10 in the Notes to Financial Statements. Our coverage ratios are updated each week on our Web site at www.tortoiseadvisors.com.

Taxation of our distributions

We expect that distributions paid on common shares will generally consist of: (i) investment company taxable income which includes dividends (that under current law are eligible for a reduced tax rate, which we refer to as qualified dividend income), the excess of any short-term capital gains over net long-term capital losses and dividend income; (ii) long-term capital gain (net gain from the sale of a capital asset held longer than 12 months over net short-term capital losses) and (iii) return of capital.

We may designate a portion of our quarterly distributions as capital gains and we may also distribute additional capital gains in the last fiscal quarter if necessary to meet minimum distribution requirements and to avoid being subject to excise taxes. If, however, we elect to retain any capital gains, we will be subject to U.S. capital gains taxes. The payment of those taxes will flow-through to stockholders as a tax credit to apply against their U.S. income tax payable on the deemed distribution of the retained capital gain.

Detailed individual tax information for each fiscal year will be reported to stockholders on Form 1099 after year-end.

Schedule of Investments (unaudited)

February 29, 2012

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Common Stock — 86.4%⁽¹⁾			Oil and Gas Production — 23.0%⁽¹⁾⁽²⁾		
Crude/Refined Products Pipelines — 8.7%⁽¹⁾			Canada — 1.4%⁽¹⁾		
Canada — 5.5%⁽¹⁾			Canadian Natural Resources Limited		97,700 \$ 3,625,647
Enbridge Inc.	251,050	\$ 9,693,040	United Kingdom — 1.3%⁽¹⁾		
Pembina Pipeline Corporation	168,800	4,788,737	BP PLC (ADR)		71,700 3,381,372
United States — 3.2%⁽¹⁾			United States — 20.3%⁽¹⁾		
Kinder Morgan, Inc.	244,250	8,607,370	Anadarko Petroleum Corporation		42,300 3,558,276
		<u>23,089,147</u>	Apache Corporation		34,000 3,669,620
Local Distribution Companies — 11.9%⁽¹⁾			Chevron Corporation		14,900 1,625,888
United States — 11.9%⁽¹⁾			Continental Resources, Inc. ⁽³⁾		48,900 4,434,252
CenterPoint Energy, Inc.	728,600	14,200,414	Devon Energy Corporation		59,800 4,383,938
NiSource Inc.	716,914	17,205,936	EOG Resources, Inc.		44,800 5,100,928
		<u>31,406,350</u>	Exxon Mobil Corporation		19,900 1,721,350
Marine Transportation — 2.5%⁽¹⁾			Hess Corporation		84,700 5,498,724
Republic of the Marshall Islands — 2.5%⁽¹⁾			Marathon Oil Corporation		152,800 5,178,392
Teekay Offshore Partners L.P.	223,330	6,563,669	Noble Energy, Inc.		39,900 3,896,235
Natural Gas Gathering Pipelines — 3.0%⁽¹⁾			Occidental Petroleum Corporation		69,100 7,211,967
United States — 3.0%⁽¹⁾			Pioneer Natural Resources Company		44,500 4,878,980
Targa Resources Corp.	181,505	8,064,267	Range Resources Corporation		43,600 2,776,448
Natural Gas Pipelines — 36.0%⁽¹⁾					<u>60,942,017</u>
Canada — 6.7%⁽¹⁾			Oilfield Services — 1.3%⁽¹⁾⁽²⁾		
Keyera Corp.	17,550	748,507	United Kingdom — 1.3%⁽¹⁾		
TransCanada Corporation	386,051	16,978,523	Enco PLC (ADR)		61,000 3,556,300
United States — 29.3%⁽¹⁾			Total Common Stock		
EQT Corporation	13,000	689,260	(Cost \$209,450,864)		<u>228,970,463</u>
National Fuel Gas Company	13,400	674,422	Master Limited Partnerships and Related Companies — 43.5%⁽¹⁾		
ONEOK, Inc.	198,000	16,362,720	Crude/Refined Products Pipelines — 22.0%⁽¹⁾		
Questar Corporation	330,750	6,357,015	United States — 22.0%⁽¹⁾		
Spectra Energy Corp.	820,106	25,734,926	Buckeye Partners, L.P.		99,000 5,920,200
Williams Companies, Inc.	930,500	27,803,340	Enbridge Energy Management, L.L.C. ⁽⁴⁾		471,952 15,937,807
		<u>95,348,713</u>	Holly Energy Partners, L.P.		58,100 3,557,463
			Kinder Morgan Management, LLC ⁽⁴⁾		221,375 17,747,643
			Magellan Midstream Partners, L.P.		48,320 3,535,574
			Plains All American Pipeline, L.P.		120,200 9,940,540
			Sunoco Logistics Partners L.P.		45,800 1,788,490
					<u>58,427,717</u>

Schedule of Investments (unaudited) (continued)

February 29, 2012

	<u>Shares</u>	<u>Fair Value</u>		<u>Shares</u>	<u>Fair Value</u>
Natural Gas/Natural Gas Liquids Pipelines — 16.0%⁽¹⁾			Short-Term Investment — 0.1%⁽¹⁾		
United States — 16.0%⁽¹⁾			United States Investment Company — 0.1%⁽¹⁾		
Energy Transfer Partners, L.P.	179,900	\$ 8,527,260	Fidelity Institutional Money Market		
Enterprise Products Partners L.P.	175,093	9,083,825	Portfolio — Class I, 0.21% ⁽⁵⁾		
Inergy Midstream, L.P.	82,000	1,737,580	(Cost \$247,622)	247,622	\$ 247,622
ONEOK Partners, L.P.	125,946	7,330,057			
Regency Energy Partners LP	219,600	5,819,400			
TC PipeLines, LP	68,000	3,157,920			
Williams Partners L.P.	109,100	6,787,111			
		<u>42,443,153</u>			
Natural Gas Gathering/Processing — 5.5%⁽¹⁾			Total Investments — 130.0%⁽¹⁾		
United States — 5.5%⁽¹⁾			(Cost \$312,334,187)		344,537,981
Chesapeake Midstream Partners, L.P.	60,600	1,730,736	Long-Term Debt Obligations — (18.5%)⁽¹⁾		(49,000,000)
Copano Energy, L.L.C.	48,265	1,794,493	Mandatory Redeemable Preferred		
DCP Midstream Partners, LP	36,350	1,770,245	Stock at Liquidation Value — (6.0%)⁽¹⁾		(16,000,000)
MarkWest Energy Partners, L.P.	59,850	3,579,628	Total Value of Options Written		
Targa Resources Partners LP	84,825	3,609,304	(Premiums received \$713,516) — (0.1%)⁽¹⁾		(287,766)
Western Gas Partners LP	42,905	1,964,620	Other Assets and Liabilities — (5.4%)⁽¹⁾		<u>(14,216,223)</u>
		<u>14,449,026</u>	Total Net Assets Applicable to		
			Common Stockholders — 100.0%⁽¹⁾		<u>\$ 265,033,992</u>
Total Master Limited Partnerships					
and Related Companies (Cost \$102,635,701)		<u>115,319,896</u>			

(1) Calculated as a percentage of net assets applicable to common stockholders.

(2) All or a portion of the security represents cover for outstanding call option contracts written.

(3) Non-income producing security.

(4) Security distributions are paid-in-kind.

(5) Rate indicated is the current yield as of February 29, 2012.

Key to abbreviation

ADR = American Depository Receipts

See accompanying Notes to Financial Statements.

Schedule of Options Written (unaudited)

February 29, 2012

Call Options Written	Expiration Date	Expiration Price	Contracts	Fair Value
Anadarko Petroleum Corporation	March 2012	\$ 90.00	188	\$ (8,460)
Anadarko Petroleum Corporation	March 2012	95.00	235	(4,465)
Apache Corporation	March 2012	115.00	340	(11,560)
BP PLC (ADR)	March 2012	50.00	717	(18,642)
Canadian Natural Resources Limited	March 2012	40.00	977	(19,540)
Chevron Corporation	March 2012	110.00	149	(18,625)
Continental Resources, Inc.	March 2012	95.00	489	(63,570)
Devon Energy Corporation	March 2012	80.00	598	(7,774)
EnSCO PLC (ADR)	March 2012	60.00	610	(27,450)
EOG Resources, Inc.	March 2012	125.00	448	(10,304)
Exxon Mobil Corporation	March 2012	90.00	199	(2,786)
Hess Corporation	March 2012	70.00	847	(17,787)
Marathon Oil Corporation	March 2012	36.00	1,528	(24,448)
Noble Energy, Inc.	March 2012	110.00	399	(3,990)
Occidental Petroleum Corporation	March 2012	110.00	691	(17,966)
Pioneer Natural Resources Company	March 2012	120.00	445	(15,575)
Range Resources Corporation	March 2012	70.00	436	<u>(14,824)</u>
Total Value of Call Options Written				
(Premiums received \$713,516)				<u><u>\$ (287,766)</u></u>

*Key to abbreviation**ADR = American Depository Receipts**See accompanying Notes to Financial Statements.*

Statement of Assets & Liabilities (unaudited)

February 29, 2012

Assets

Investments at fair value (cost \$312,334,187)	\$ 344,537,981
Receivable for Adviser expense reimbursement	138,168
Interest and dividend receivable	598,710
Prepaid expenses and other assets	677,930
Total assets	<u>345,952,789</u>

Liabilities

Options written, at fair value (premiums received \$713,516)	287,766
Payable to Adviser	607,942
Distribution payable to common stockholders	4,064,206
Accrued expenses and other liabilities	758,883
Short-term borrowings	10,200,000
Long-term debt obligations	49,000,000
Mandatory redeemable preferred stock (\$25.00 liquidation value per share; 640,000 shares outstanding)	16,000,000
Total liabilities	<u>80,918,797</u>
Net assets applicable to common stockholders	<u>\$ 265,033,992</u>

Net Assets Applicable to Common Stockholders**Consist of:**

Capital stock, \$0.001 par value; 10,004,200 shares issued and outstanding (100,000,000 shares authorized)	\$ 10,004
Additional paid-in capital	234,523,052
Accumulated net realized loss	(2,129,424)
Net unrealized appreciation of investments	<u>32,630,360</u>
Net assets applicable to common stockholders	<u>\$ 265,033,992</u>
Net Asset Value per common share outstanding (net assets applicable to common stock, divided by common shares outstanding)	<u>\$ 26.49</u>

Statement of Operations (unaudited)

Period from Dec. 1, 2011 through Feb. 29, 2012

Investment Income

Distributions from master limited partnerships	\$ 1,137,960
Less return of capital on distributions	<u>(1,056,515)</u>
Net distributions from master limited partnerships	81,445
Dividends from common stock (net of foreign taxes withheld of \$52,833)	1,651,076
Dividends from money market mutual funds	<u>3,392</u>
Total Investment Income	<u>1,735,913</u>

Operating Expenses

Advisory fees	897,040
Professional fees	48,409
Administrator fees	32,358
Stockholder communication expenses	18,343
Directors' fees	16,716
Fund accounting fees	12,129
Custodian fees and expenses	7,477
Registration fees	6,239
Franchise fees	3,908
Stock transfer agent fees	3,076
Other operating expenses	<u>7,273</u>
Total Operating Expenses	<u>1,052,968</u>

Leverage Expenses

Interest expense	414,231
Distributions to mandatory redeemable preferred stockholders	164,927
Amortization of debt issuance costs	27,908
Other leverage expenses	<u>19,718</u>
Total Leverage Expenses	<u>626,784</u>

Total Expenses

Total Expenses	1,679,752
Less expense reimbursement by Adviser	<u>(203,873)</u>
Net Expenses	<u>1,475,879</u>
Net Investment Income	<u>260,034</u>

Realized and Unrealized Gains (Losses)

Net realized loss on investments, including foreign currency gain (loss)	(964,381)
Net realized loss on options	(1,063,764)
Net realized gain on foreign currency and translation of other assets and liabilities denominated in foreign currency	2,980
Net realized loss	<u>(2,025,165)</u>
Net unrealized appreciation of investments, including foreign currency gain (loss)	26,083,604
Net unrealized appreciation of options	514,894
Net unrealized appreciation of other assets and liabilities due to foreign currency translation	595
Net unrealized appreciation	<u>26,599,093</u>
Net Realized and Unrealized Gains	<u>24,573,928</u>

Net Increase in Net Assets Applicable to Common Stockholders Resulting from Operations\$ 24,833,962

See accompanying Notes to Financial Statements.

Statement of Changes in Net Assets

	Period from December 1, 2011 through February 29, 2012 (unaudited)	Period from October 31, 2011 ⁽¹⁾ through November 30, 2011
Operations		
Net investment income (loss)	\$ 260,034	\$ (172,042)
Net realized gains (losses)	(2,025,165)	54,736
Net unrealized appreciation	26,599,093	6,031,267
Net increase in net assets applicable to common stockholders resulting from operations	<u>24,833,962</u>	<u>5,913,961</u>
Distributions to Common Stockholders		
Net investment income	(248,445)	—
Net realized gain	—	—
Return of capital	(3,815,761)	—
Total distributions to common stockholders	<u>(4,064,206)</u>	<u>—</u>
Capital Stock Transactions		
Proceeds from initial public offering of 10,000,000 common shares	—	250,000,000
Underwriting discounts and offering expenses associated with the issuance of common stock	—	(11,750,000)
Net increase in net assets applicable to common stockholders from capital stock transactions	<u>—</u>	<u>238,250,000</u>
Total increase in net assets applicable to common stockholders	20,769,756	244,163,961
Net Assets		
Beginning of period	244,264,236	100,275
End of period	<u>\$ 265,033,992</u>	<u>\$ 244,264,236</u>
Accumulated net investment loss, end of period	<u>\$ —</u>	<u>\$ (11,589)</u>

(1) Commencement of Operations.

See accompanying Notes to Financial Statements.

Statement of Cash Flows (unaudited)

Period from Dec. 1, 2011 through Feb. 29, 2012

Cash Flows From Operating Activities

Distributions received from master limited partnerships	\$ 1,137,960
Interest and dividend income received	1,228,714
Purchases of long-term investments	(163,078,773)
Proceeds from sales of long-term investments	36,674,192
Proceeds from sales of short-term investments, net	83,568,696
Call options written, net	(1,074,790)
Interest expense paid	(15,822)
Other leverage expenses paid	(474)
Operating expenses paid	(547,532)
Net cash used in operating activities	<u>(42,107,829)</u>

Cash Flows From Financing Activities

Advances from revolving line of credit	33,800,000
Repayments on revolving line of credit	(23,600,000)
Common stock issuance costs	(498,240)
Issuance of long-term debt obligations	24,500,000
Issuance of mandatory redeemable preferred stock	8,000,000
Debt issuance costs	(93,931)
Net cash provided by financing activities	<u>42,107,829</u>
Net change in cash	—
Cash — beginning of period	—
Cash — end of period	<u>\$ —</u>

Reconciliation of net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities

Net increase in net assets applicable to common stockholders resulting from operations	\$ 24,833,962
Adjustments to reconcile net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities:	
Purchases of long-term investments	(132,334,658)
Proceeds from sales of long-term investments	36,674,192
Proceeds from sales of short-term investments, net	83,568,696
Call options written, net	(1,091,990)
Return of capital on distributions received	1,056,515
Net unrealized appreciation	(26,599,093)
Net realized loss	2,025,165
Amortization of debt issuance costs	27,908
Changes in operating assets and liabilities:	
Increase in interest and dividend receivable	(425,755)
Decrease in prepaid expenses and other assets	5,165
Decrease in receivable for call options written	17,200
Decrease in payable for investments purchased	(30,744,115)
Increase in payable to Adviser, net of expense reimbursement	286,999
Increase in accrued expenses and other liabilities	591,980
Total adjustments	<u>(66,941,791)</u>
Net cash used in operating activities	<u>\$ (42,107,829)</u>

See accompanying Notes to Financial Statements.

Financial Highlights

	Period from December 1, 2011 through February 29, 2012 (unaudited)	Period from October 31, 2011 ⁽¹⁾ through November 30, 2011
Per Common Share Data⁽²⁾		
Net Asset Value, beginning of period	\$ 24.42	\$ —
Public offering price	—	25.00
Income from Investment Operations		
Net investment income (loss)	0.03	(0.02)
Net realized and unrealized gains	2.45	0.61
Total income from investment operations	2.48	0.59
Distributions to Common Stockholders		
Net investment income	(0.03)	—
Net realized gain	—	—
Return of capital	(0.38)	—
Total distributions to common stockholders	(0.41)	—
Underwriting discounts and offering costs on issuance of common stock ⁽³⁾	—	(1.17)
Net Asset Value, end of period	\$ 26.49	\$ 24.42
Per common share market value, end of period	\$ 24.92	\$ 25.01
Total Investment Return Based on Market Value ⁽⁴⁾	1.26%	0.04%
Supplemental Data and Ratios		
Net assets applicable to common stockholders, end of period (000's)	\$ 265,034	\$ 244,264
Average net assets (000's)	\$ 253,480	\$ 237,454
Ratio of Expenses to Average Net Assets ⁽⁵⁾		
Advisory fees	1.42 %	1.17 %
Other operating expenses	0.25	0.56
Expense reimbursement	(0.32)	(0.27)
Subtotal	1.35	1.46
Leverage expenses	0.99	0.31
Total expenses	2.34 %	1.77 %
Ratio of net investment income (loss) to average net assets before expense reimbursement ⁽⁵⁾	0.09 %	(1.12) %
Ratio of net investment income (loss) to average net assets after expense reimbursement ⁽⁵⁾	0.41 %	(0.85) %
Portfolio turnover rate	11.85 %	1.68 %
Short-term borrowings, end of period (000's)	\$ 10,200	—
Long-term debt obligations, end of period (000's)	\$ 49,000	\$ 24,500
Preferred stock, end of period (000's)	\$ 16,000	\$ 8,000
Per common share amount of long-term debt obligations outstanding, end of period	\$ 4.90	\$ 2.45
Per common share amount of net assets, excluding long-term debt obligations, end of period	\$ 31.39	\$ 26.87
Asset coverage, per \$1,000 of principal amount of long-term debt obligations and short-term borrowings ⁽⁶⁾	\$ 5,747	\$ 11,296
Asset coverage ratio of long-term debt obligations and short-term borrowings ⁽⁶⁾	575 %	1,130 %
Asset coverage, per \$25 liquidation value per share of mandatory redeemable preferred stock ⁽⁷⁾	\$ 113	\$ 213
Asset coverage ratio of preferred stock ⁽⁷⁾	452 %	852 %

(1) Commencement of Operations.

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

(3) Represents the dilution per common share from underwriting and other offering costs for the period from October 31, 2011 through November 30, 2011.

(4) Not annualized. Total investment return is calculated assuming a purchase of common stock at the beginning of the period (or initial public offering price) and a sale at the closing price on the last day of the period reported (excluding brokerage commissions). The calculation also assumes reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan.

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

(6) Represents value of total assets less all liabilities and indebtedness not represented by long-term debt obligations, short-term (borrowings and preferred stock at the end of the period divided by long-term debt obligations and short-term borrowings outstanding at the end of the period.

(7) Represents value of total assets less all liabilities and indebtedness not represented by long-term debt obligations, short-term borrowings and preferred stock at the end of the period divided by long-term debt obligations, short-term borrowings and preferred stock outstanding at the end of the period.

See accompanying Notes to Financial Statements.

Notes to Financial Statements (unaudited)

February 29, 2012

1. Organization

Tortoise Pipeline & Energy Fund, Inc. (the "Company") was organized as a Maryland corporation on July 19, 2011, and is a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). The Company's primary investment objective is to provide a high level of total return, with an emphasis on current distributions. The Company seeks to provide its stockholders an efficient vehicle to invest in a portfolio consisting primarily of equity securities of pipeline and other energy infrastructure companies. The Company commenced operations on October 31, 2011. The Company's stock is listed on the New York Stock Exchange under the symbol "TTP."

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 primarily owns securities that are listed on a securities exchange or over-the-counter market. The Company values those securities at their last sale price on that exchange or over-the-counter market on the valuation date. If the security is listed on more than one exchange, the Company uses the price from the exchange that it considers to be the principal exchange on which the security is traded. Securities listed on the NASDAQ will be valued at the NASDAQ Official Closing Price, which may not necessarily represent the last sale price. If there has been no sale on such exchange or over-the-counter market on such day, the security will be valued at the mean between the last bid price and last ask price on such day.

The Company may invest up to 30 percent of its total assets in unregistered or otherwise restricted securities. Restricted securities are subject to statutory or contractual restrictions on their public resale, which may make it more difficult to obtain a valuation and may limit the Company's ability to dispose of them. Investments in restricted securities and other securities for which market quotations are not readily available will be valued in good faith by using fair value procedures approved by the Board of Directors. Such fair value procedures consider factors such as discounts to publicly traded issues, time until conversion date, securities with similar yields, quality, type of issue, coupon, duration and rating. If events occur that will affect the value of the Company's portfolio securities before the net asset value has been calculated (a "significant event"), the portfolio securities so affected will generally be priced using fair value procedures.

An equity security of a publicly traded company acquired in a direct placement transaction may be subject to restrictions on

resale that can affect the security's liquidity and fair value. Such securities that are convertible or otherwise will become freely tradable will be valued based on the market value of the freely tradable security less an applicable discount. Generally, the discount will initially be equal to the discount at which the Company purchased the securities. To the extent that such securities are convertible or otherwise become freely tradable within a time frame that may be reasonably determined, an amortization schedule may be used to determine the discount.

Exchange-traded options are valued at the mean of the highest bid and lowest asked prices across all option exchanges.

The Company generally values debt securities at prices based on market quotations for such securities, except those securities purchased with 60 days or less to maturity are valued on the basis of amortized cost, which approximates market value.

C. 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. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts. Dividend and distribution income is recorded on the ex-dividend date. Distributions received from the Company's investments in master limited partnerships ("MLPs") generally are comprised of ordinary income and return of capital from the MLPs. The Company allocates distributions between investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on information provided by each MLP and other industry sources. These estimates may subsequently be revised based on actual allocations received from MLPs 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, 2011 through February 29, 2012, the Company estimated the allocation of investment income and return of capital for the distributions received from MLPs within the Statement of Operations. For this period, the Company has estimated approximately 7 percent as investment income and approximately 93 percent as return of capital.

In addition, the Company may be subject to withholding taxes on foreign-sourced income. The Company accrues such taxes when the related income is earned.

D. Foreign currency translation

For foreign currency, investments in foreign securities, and other assets and liabilities denominated in a foreign currency, the Company translates these amounts into U.S. dollars on the following basis: (i) market value of investment securities, assets and liabilities at the current rate of exchange on the valuation date, and (ii) purchases and sales of investment securities, income and expenses at the relevant rates of exchange on the respective dates of such transactions. The Company does not isolate that portion of gains and losses on investments that is due to changes in the foreign exchange rates from that which is due to changes in market prices of equity securities.

Notes to Financial Statements (unaudited) (continued)

E. Distributions to stockholders

Distributions to common stockholders will be recorded on the ex-dividend date. The Company intends to make quarterly cash distributions to common stockholders. In addition, on an annual basis, the Company may distribute additional capital gains in the last fiscal quarter if necessary to meet minimum distribution requirements and thus avoid being subject to excise taxes. The amount of any distributions will be determined by the Board of Directors. The character of distributions to common stockholders made during the year may differ from their ultimate characterization for federal income tax purposes. Distributions paid to stockholders in excess of investment company taxable income and net realized gains will be treated as return of capital to stockholders. The tax character of distributions paid to common stockholders for the current year will be determined subsequent to November 30, 2012.

Distributions to mandatory redeemable preferred ("MRP") stockholders are accrued daily and paid quarterly based on fixed annual rates. The Company may not declare or pay distributions to its preferred stockholders if it does not meet a 200 percent asset coverage ratio for its debt or the rating agency basic maintenance amount for the debt following such distribution. The character of distributions to MRP stockholders made during the year may differ from their ultimate characterization for federal income tax purposes. Distributions paid to stockholders in excess of investment company taxable income and net realized gains will be treated as return of capital to stockholders. There were no distributions paid to MRP stockholders for the year ended November 30, 2011 or the period ended February 29, 2012. The tax character of distributions paid to MRP stockholders for the current year will be determined subsequent to November 30, 2012.

F. Federal income taxation

The Company intends to elect to be treated and to qualify each year as a regulated investment company ("RIC") under the U.S. Internal Revenue Code of 1986, as amended (the "Code"). As a result, the Company generally will not be subject to U.S. federal income tax on income and gains that it distributes each taxable year to stockholders if it meets certain minimum distribution requirements. The Company is required to distribute substantially all of its income, in addition to other asset diversification requirements. The Company is subject to a 4 percent non-deductible U.S. federal excise tax on certain undistributed income unless the Company makes sufficient distributions to satisfy the excise tax avoidance requirement. The Company invests in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Company reports its allocable share of the MLP's taxable income in computing its own taxable income.

The Company has adopted financial reporting rules regarding recognition and measurement of tax positions taken or expected to be taken on a tax return. The Company has reviewed all open tax years and major jurisdictions and concluded that there is no impact on the Company's net assets and no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on a tax return. All tax years since inception remain open to examination by federal and state tax authorities.

G. Offering and debt issuance costs

Offering costs related to the issuance of common stock are charged to additional paid-in capital when the stock is issued. Debt issuance costs related to long-term debt obligations and MRP Stock are capitalized and amortized over the period the debt and MRP Stock is outstanding. Capitalized costs (excluding underwriter commissions) were reflected for the Series A Notes (\$939), Series B Notes (\$1,597), Series C Notes (\$564), Series D Notes (\$1,503) and MRP Stock (\$1,503) that were each issued in December 2011.

H. Derivative financial instruments

The Company seeks to provide current income from gains earned through an option strategy which will normally consist of writing (selling) call options on selected equity securities in the portfolio ("covered calls"). The premium received on a written call option will initially be recorded as a liability and subsequently adjusted to the then current fair value of the option written. Premiums received from writing call options that expire unexercised will be recorded as a realized gain on the expiration date. Premiums received from writing call options that are exercised will be added to the proceeds from the sale of the underlying security to calculate the realized gain (loss). If a written call option is repurchased prior to its exercise, the realized gain (loss) will be the difference between the premium received and the amount paid to repurchase the option.

I. 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.

J. Recent accounting pronouncement

In May 2011, the FASB issued ASU No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements" in GAAP and the International Financial Reporting Standards ("IFRSs"). ASU No. 2011-04 amends FASB ASC Topic 820, Fair Value Measurements and Disclosures, to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. ASU No. 2011-04 is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. Management is currently evaluating the impact of these amendments, but currently does not believe they will have a material impact on the Company's financial statements.

3. Concentration of risk

Under normal circumstances, and once fully invested in accordance with its investment objective, the Company will have at least 80 percent of its total assets (including any assets obtained through leverage) in equity securities of pipeline and other energy infrastructure companies. Energy infrastructure companies own and operate a network of asset systems that transport, store,

Notes to Financial Statements (unaudited) (continued)

distribute, gather and/or process, explore, develop, manage or produce crude oil, refined petroleum products (including biodiesel and ethanol), natural gas or natural gas liquids ("NGLs") or that provide electric power generation (including renewable energy), transmission and/or distribution. The Company may invest up to 30 percent of its total assets in restricted securities, primarily through direct investments in securities of listed companies. The Company may also invest up to 25 percent of its total assets in securities of MLPs. The Company will not invest in privately-held companies.

4. Agreements

The Company has entered into an Investment Advisory Agreement with the Adviser. Under the terms of the Agreement, the Company pays the Adviser a fee equal to an annual rate of 1.10 percent of the Company's average monthly total assets (including any assets attributable to leverage) minus accrued liabilities (other than debt entered into for purposes of leverage and the aggregate liquidation preference of outstanding preferred stock, if any) ("Managed Assets"), in exchange for the investment advisory services provided. The Adviser has contractually agreed to waive fees in an amount equal to an annual rate of 0.25 percent of the Company's average monthly Managed Assets for the first year following the commencement of operations, 0.20 percent of average monthly Managed Assets for the second year following the commencement of operations and 0.15 percent of average monthly Managed Assets for the third year following the commencement of operations.

U.S. Bancorp Fund Services, LLC serves as the Company's administrator. The Company pays the administrator a monthly fee computed at an annual rate of 0.04 percent of the first \$1,000,000,000 of the Company's Managed Assets, 0.01 percent on the next \$1,000,000,000 of Managed Assets and 0.005 percent on the balance of the Company's Managed Assets.

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

U.S. Bank, N.A. serves as the Company's custodian. The Company pays the custodian a monthly fee computed at an annual rate of 0.004 percent of the average daily market value of the Company's domestic assets and 0.015 percent of the average daily market value of the Company's Canadian Dollar-denominated assets, plus portfolio transaction fees.

5. Income taxes

It is the Company's intention to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code and distribute all of its taxable income. Accordingly, no provision for federal income taxes is required in the financial statements.

The amount and character of income and capital gain distributions to be paid, if any, are determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles. These differences are primarily due to differences in the timing of recognition of gains or losses on investments. Permanent book and tax basis differences, if any, may result in reclassifications to undistributed net investment

income (loss), undistributed net realized gain (loss) and additional paid-in capital.

As of November 30, 2011, the components of accumulated earnings on a tax basis were as follows:

Unrealized appreciation	\$ 5,916,756
Undistributed ordinary income	13,916
Other temporary differences	(15,253)
Accumulated earnings	<u>\$ 5,915,419</u>

As of February 29, 2012, the aggregate cost of securities for federal income tax purposes was \$312,132,456. The aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$33,423,200, the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$1,017,675 and the net unrealized appreciation was \$32,405,525.

6. Fair Value of financial instruments

Various inputs are used in determining the 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 February 29, 2012. These assets and liabilities are measured on a recurring basis.

Description	Fair Value at February 29, 2012	Level 1	Level 2	Level 3
Assets				
Equity Securities:				
Common Stock ^(a)	\$ 228,970,463	\$ 228,970,463	\$ —	\$ —
Master Limited Partnerships and Related Companies ^(a)	115,319,896	115,319,896	—	—
Total Equity Securities	<u>344,290,359</u>	<u>344,290,359</u>	<u>—</u>	<u>—</u>
Other:				
Short-Term Investment ^(b)	247,622	247,622	—	—
Total Assets	<u>\$ 344,537,981</u>	<u>\$ 344,537,981</u>	<u>\$ —</u>	<u>\$ —</u>
Liabilities				
Written Call Options	\$ 287,766	\$ 287,766	\$ —	\$ —

(a) All other industry classifications are identified in the Schedule of Investments.

(b) Short-term investment is a sweep investment for cash balances in the Company at February 29, 2012.

The Company did not hold any Level 3 securities during the period ended February 29, 2012.

Notes to Financial Statements (unaudited) (continued)

Valuation techniques

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

An equity security of a publicly traded company acquired in a private placement transaction without registration under the Securities Act of 1933, as amended (the "1933 Act"), is subject to restrictions on resale that can affect the security's fair value. If such a security is convertible into publicly-traded common shares, the security generally will be valued at the common share market price adjusted by a percentage discount due to the restrictions and categorized as Level 2 in the fair value hierarchy. If the security has characteristics that are dissimilar to the class of security that trades on the open market, the security will generally be valued and categorized as Level 3 in the fair value hierarchy.

The Company utilizes the beginning of reporting period method for determining transfers between levels. For the period from December 1, 2011 through February 29, 2012, Teekay Offshore Partners, L.P. common units in the amount of \$3,944,394 were transferred from Level 2 to Level 1 when they converted into registered units and quoted prices in active markets were available. There were no other transfers between levels.

7. Derivative financial instruments

The Company has adopted the disclosure provisions of FASB Accounting Standard Codification 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires enhanced disclosures about the Company's use of and accounting for derivative instruments and the effect of derivative instruments on the Company's results of operations and financial position. Tabular disclosure regarding derivative fair value and gain/loss by contract type (e.g., interest rate contracts, foreign exchange contracts, credit contracts, etc.) is required and derivatives accounted for as hedging instruments under ASC 815 must be disclosed separately from those that do not qualify for hedge accounting. Even though the Company may use derivatives in an attempt to achieve an economic hedge, the Company's derivatives are not accounted for as hedging instruments under ASC 815 because investment companies account for their derivatives at fair value and record any changes in fair value in current period earnings.

Transactions in written option contracts for the period from December 1, 2011 through February 29, 2012, are as follows:

	Number of Contracts	Premium
Options outstanding at November 30, 2011	12,097	\$ 741,641
Options written	30,968	2,207,710
Options closed	(19,638)	(1,309,765)
Options exercised	(606)	(15,142)
Options expired	(13,525)	(910,928)
Options outstanding at February 29, 2012	<u>9,296</u>	<u>\$ 713,516</u>

The following table presents the types and fair value of derivatives by location as presented on the Statement of Assets and Liabilities at February 29, 2012:

Derivatives not accounted for as hedging instruments under ASC 815	Liabilities	
	Location	Fair Value
Written equity call options	Options written, at fair value	\$287,766

The following table presents the effect of derivatives on the Statement of Operations for the period ended February 29, 2012:

Derivatives not accounted for as hedging instruments under ASC 815	Location of Gains (Losses) on Derivatives	Net Realized Loss on Derivatives	Net Unrealized Appreciation of Derivatives
Written equity call options	Options	\$(1,063,764)	\$514,894

8. Investment transactions

For the period from December 1, 2011 through February 29, 2012, the Company purchased (at cost) and sold securities (proceeds received) in the amount of \$132,334,658 and \$36,674,192 (excluding short-term debt securities), respectively.

9. Long-term debt obligations

The Company has \$49,000,000 aggregate principal amount of private senior notes, Series A, Series B, Series C, and Series D (collectively, the "Notes"), outstanding. The Notes were issued in two separate tranches, with half of each series issued on November 15, 2011 and the remaining half of each series issued on December 8, 2011. The Notes are unsecured obligations of the Company and, upon liquidation, dissolution or winding up of the Company, will rank: (1) senior to all of the Company's outstanding preferred shares; (2) senior to all of the Company's outstanding common shares; (3) on parity with any unsecured creditors of the Company and any unsecured senior securities representing indebtedness of the Company and (4) junior to any secured creditors of the Company. Holders of the Notes are entitled to receive cash interest payments each quarter until maturity. The Series B, Series C and Series D Notes accrue interest at fixed rates and the Series A Notes accrue interest at an annual rate that resets each quarter based on the 3-month LIBOR plus 1.75 percent. The Notes are not listed on any exchange or automated quotation system.

The Notes are redeemable in certain circumstances at the option of the Company. The Notes are also subject to a mandatory redemption if the Company fails to meet asset coverage ratios required under the 1940 Act or the rating agency guidelines if such failure is not waived or cured. At February 29, 2012, the Company was in compliance with asset coverage covenants and basic maintenance covenants for its senior notes.

The estimated fair value of each series of fixed-rate Notes was calculated, for disclosure purposes, by discounting future cash flows by a rate equal to the current U.S. Treasury rate with an equivalent maturity date, plus either 1) the spread between the interest rate on recently issued debt and the U.S. Treasury rate with a similar maturity date or 2) if there has not been a recent debt issuance, the spread between the AAA corporate finance debt rate and the U.S. Treasury rate with an equivalent maturity

Notes to Financial Statements (unaudited) (continued)

date plus the spread between the fixed rates of the Notes and the AAA corporate finance debt rate. The estimated fair value of the Series A Notes approximates the carrying amount because the interest rate fluctuates with changes in interest rates available in the current market. The following table shows the maturity date, interest rate, notional/carrying amount and estimated fair value for each series of Notes outstanding at February 29, 2012.

Series	Maturity Date	Interest Rate	Notional/Carrying Amount	Estimated Fair Value
Series A	December 15, 2016	2.20% ⁽¹⁾	\$ 10,000,000	\$ 10,000,000
Series B	December 15, 2014	2.50%	17,000,000	17,142,169
Series C	December 15, 2018	3.49%	6,000,000	6,071,510
Series D	December 15, 2021	4.08%	16,000,000	16,196,626
			\$ 49,000,000	\$ 49,410,305

(1) Floating rate; rate effective for period from November 15, 2011 (date of initial issuance) through March 15, 2012.

10. Preferred stock

The Company has 10,000,000 shares of preferred stock authorized. Of that amount, the Company has 640,000 shares of Series A Mandatory Redeemable Preferred ("MRP") Stock authorized and 640,000 shares are outstanding at February 29, 2012. The MRP Stock was issued in two separate tranches, with half of the shares issued on November 15, 2011 and the remaining half of the shares issued on December 8, 2011. The MRP Stock has a liquidation value of \$25.00 per share plus any accumulated but unpaid distributions, whether or not declared. Holders of the MRP Stock are entitled to receive cash interest payments each quarter at a fixed rate until maturity. The MRP Stock is not listed on any exchange or automated quotation system.

The MRP Stock has rights determined by the Board of Directors. Except as otherwise indicated in the Company's Charter or Bylaws, or as otherwise required by law, the holders of MRP Stock have voting rights equal to the holders of common stock (one vote per MRP share) and will vote together with the holders of shares of common stock as a single class except on matters affecting only the holders of preferred stock or the holders of common stock. The 1940 Act requires that the holders of any preferred stock (including MRP Stock), voting separately as a single class, have the right to elect at least two directors at all times.

The estimated fair value of MRP Stock was calculated, for disclosure purposes, by discounting future cash flows by a rate equal to the current U.S. Treasury rate with an equivalent maturity date, plus either 1) the spread between the interest rate on recently issued preferred stock and the U.S. Treasury rate with a similar maturity date or 2) if there has not been a recent preferred stock issuance, the spread between the AA corporate finance debt rate and the U.S. Treasury rate with an equivalent maturity date plus the spread between the fixed rates of the MRP Stock and the AA corporate finance debt rate. The following table shows the mandatory redemption date, fixed rate, number of shares outstanding, aggregate liquidation preference and estimated fair value as of February 29, 2012.

Series	Mandatory Redemption Date	Fixed Rate	Shares Outstanding	Aggregate Liquidation Preference	Estimated Fair Value
Series A	December 15, 2018	4.29%	640,000	\$16,000,000	\$16,227,211

The MRP Stock is redeemable in certain circumstances at the option of the Company. Under the Investment Company Act of 1940, the Company may not declare dividends or make other distributions on shares of common stock or purchases of such shares if, at the time of the declaration, distribution or purchase, asset coverage with respect to the outstanding MRP Stock would be less than 200 percent. The MRP Stock is also subject to a mandatory redemption if the Company fails to meet an asset coverage ratio of at least 225 percent as determined in accordance with the 1940 Act or a rating agency basic maintenance amount if such failure is not waived or cured. At February 29, 2012, the Company was in compliance with asset coverage covenants and basic maintenance covenants for its MRP Stock.

11. Credit facility

On November 9, 2011, the Company entered into a \$25,000,000 committed credit facility maturing November 7, 2012. Under the terms of the credit facility, The Bank of Nova Scotia serves as a lender and the lending syndicate agent on behalf of other lenders participating in the facility. The credit facility has a variable annual interest rate equal to one-month LIBOR plus 1.25 percent and unused portions of the credit facility will accrue a non-usage fee equal to an annual rate of 0.20 percent.

The average principal balance and interest rate for the period during which the credit facility was utilized during the period ended February 29, 2012 was approximately \$13,300,000 and 1.52 percent, respectively. At February 29, 2012, the principal balance outstanding was \$10,200,000 at an interest rate of 1.49 percent.

Under the terms of the credit facility, the Company must maintain asset coverage required under the 1940 Act. If the Company fails to maintain the required coverage, it may be required to repay a portion of an outstanding balance until the coverage requirement has been met. At February 29, 2012, the Company was in compliance with the terms of the credit facility.

12. Common stock

The Company has 100,000,000 shares of capital stock authorized and 10,004,200 shares outstanding at February 29, 2012 and November 30, 2011.

13. Subsequent events

On March 1, 2012, the Company paid a distribution in the amount of \$0.40625 per common share, for a total of \$4,064,206. Of this total, the dividend reinvestment amounted to \$48,031.

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

Additional Information (unaudited)

Director and officer compensation

The Company does not compensate any of its directors who are "interested persons," as defined in Section 2(a)(19) of the 1940 Act, nor any of its officers. For the period ended February 29, 2012, the aggregate compensation paid by the Company to the independent directors was \$17,250. The Company did not pay any special compensation to any of its directors or officers.

Forward-looking statements

This report contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Company's actual results are the performance of the portfolio of investments held by it, the conditions in the U.S. and international financial, petroleum and other markets, the price at which shares of the Company will trade in the public markets and other factors discussed in filings with the SEC.

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

The Company has not yet been required to file a Form N-PX disclosing its proxy voting record. Once the Company has made that initial filing for the period ending June 30, 2012, it will be required to make such filings on an annual basis and information regarding how the Company voted proxies will be available without charge by calling us at (913) 981-1020 or toll-free at (866) 362-9331 and on the Company's Web site at www.tortoiseadvisors.com. You will also be able to access this information on the SEC's Web site at www.sec.gov.

Form N-Q

The Company will file its complete schedule of portfolio holdings for the first and third quarters of each fiscal year with the SEC on Form N-Q. The Company's Form N-Q will be available without charge upon request by calling the Company at (866) 362-9331 or by visiting the SEC's Web site at www.sec.gov. In addition, you may review and copy the Company's Form N-Q at the SEC's Public Reference Room in Washington D.C. You may obtain information on the operation of the Public Reference Room by calling (800) SEC-0330.

The Company's Form N-Qs will also be available on the Company's Web site at www.tortoiseadvisors.com.

Statement of additional information

The Statement of Additional Information ("SAI") includes additional information about the Company's directors and is available upon request without charge by calling the Company at (866) 362-9331 or by visiting the SEC's Web site at www.sec.gov.

Certifications

The Company's Chief Executive Officer has submitted to the New York Stock Exchange an initial CEO certification in connection with its initial public offering and will submit the first annual certification in 2012 as required by Section 303A.12(a) of the NYSE Listed Company Manual.

The Company has filed with the SEC, as an exhibit to its most recently filed Form N-CSR, the certification of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act.

Privacy policy

In order to conduct its business, the Company collects and maintains certain nonpublic personal information about its stockholders of record with respect to their transactions in shares of the Company's securities. This information includes the stockholder's address, tax identification or Social Security number, share balances, and distribution elections. We do not collect or maintain personal information about stockholders whose share balances of our securities are held in "street name" by a financial institution such as a bank or broker.

We do not disclose any nonpublic personal information about you, the Company's other stockholders or the Company's former stockholders to third parties unless necessary to process a transaction, service an account, or as otherwise permitted by law.

To protect your personal information internally, we restrict access to nonpublic personal information about the Company's stockholders to those employees who need to know that information to provide services to our stockholders. We also maintain certain other safeguards to protect your nonpublic personal information.

Office of the Fund and of the Investment Adviser

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Zach Hamel, CFA
Ken Malvey, CFA
Terry Matlack, CFA
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Kevin Birzer, Chairman
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Stock Symbol

Listed NYSE Symbol: TTP

This report is for stockholder information. This is not a prospectus intended for use in the purchase or sale of fund shares. **Past performance is no guarantee of future results and your investment may be worth more or less at the time you sell.**

Tortoise Capital Advisors' Closed-end Funds

Pureplay MLP Funds				Broader Funds			
Name	Ticker	Focus	Total Assets ⁽¹⁾ (\$ in millions)	Name	Ticker	Focus	Total Assets ⁽¹⁾ (\$ in millions)
Tortoise Energy Infrastructure Corp.	TYG LISTED NYSE	Midstream Equity	\$1,683	Tortoise Pipeline & Energy Fund, Inc.	TTP LISTED NYSE	Pipeline Equity	\$339
Tortoise Energy Capital Corp.	TYY LISTED NYSE	Midstream Equity	\$863	Tortoise Power and Energy Infrastructure Fund, Inc.	TPZ LISTED NYSE	Power & Energy Infrastructure Debt & Dividend Paying Equity	\$217
Tortoise MLP Fund, Inc.	NTG LISTED NYSE	Natural Gas Equity	\$1,667				
Tortoise North American Energy Corp.	TYN LISTED NYSE	Midstream/Upstream Equity	\$224				

(1) As of 3/31/12

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