Kayne Anderson

Energy Development Company

KED Quarterly Report

August 31, 2012

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS: This report of Kayne Anderson Energy Development Company (the "Company") contains "forward-looking statements" as defined under the U.S. federal securities laws. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to materially differ from the Company's historical experience and its present expectations or projections indicated in any forward-looking statements. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; master limited partnership ("MLP") industry risk; leverage risk; valuation risk; interest rate risk; tax risk; and other risks discussed in the Company's filings with the Securities and Exchange Commission ("SEC"). You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. The Company undertakes no obligation to update or revise any forward-looking statements made herein. There is no assurance that the Company's investment objectives will be attained.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
MANAGEMENT DISCUSSION
(UNAUDITED)

Company Overview

Kayne Anderson Energy Development Company (the "Company") is a non-diversified, closed-end management investment company organized under the laws of the State of Maryland. We are a taxable corporation, paying federal and applicable state taxes on our taxable income. Our operations are externally managed and advised by our investment adviser, KA Fund Advisors, LLC ("KAFA" or the "Adviser"), pursuant to an investment management agreement. Our investment objective is to generate both current income and capital appreciation primarily through equity and debt investments. We will seek to achieve this objective by investing at least 80% of our total assets in securities of Energy Companies. A key focus area for our investments is equity and debt investments in private and public entities structured as limited partnerships ("MLPs"). We also own equity and debt investments in Upstream, Midstream and Other Energy Companies (as such terms are defined in Note 1 — Organization).

As of August 31, 2012, we had total assets of $351.9 million, net assets of $248.4 million (net asset value per share of $23.90), and 10.4 million shares of common stock outstanding. As of August 31, 2012, we held $283.9 million in equity investments and $59.3 million in debt investments.

Our Top Ten Portfolio Investments as of August 31, 2012

Listed below are our top ten portfolio investments by issuer as of August 31, 2012.

Holding	Public/ Private	Equity/ Debt	Sector	Amount ($ in millions)	Percent of Long-Term Investments
1. Direct Fuels Partners, L.P.	Private	Equity	Midstream	$ 51.9	15.1%
2. VantaCore Partners LP	Private	Equity	Aggregates	25.4	7.4
3. ProPetro Services, Inc.	Private	Equity/Debt	Oilfield Services	22.1	6.5
4. Crestwood Holdings Partners, LLC	Private	Debt	Midstream	19.9	5.8
5. Energy Transfer Equity, L.P.	Public	Equity	Midstream	19.3	5.6
6. Enterprise Products Partners L.P.	Public	Equity	Midstream	18.2	5.3
7. Regency Energy Partners LP	Public	Equity	Midstream	13.0	3.8
8. ONEOK Partners, L.P.	Public	Equity	Midstream	10.4	3.0
9. DCP Midstream Partners, LP	Public	Equity	Midstream	10.3	3.0
10. Buckeye Partners, L.P.	Public	Equity	Midstream	9.6	2.8
				$200.1	58.3%

Results of Operations — For the Three Months Ended August 31, 2012

Investment Income. Investment income totaled $1.8 million for the quarter and consisted primarily of net dividends and distributions and interest income on our debt investments. We received $5.1 million of cash dividends and distributions, of which $4.9 million was treated as a return of capital during the quarter. Return of capital was increased by $1.5 million during the quarter due to 2011 tax reporting information that we received in fiscal 2012. Of this amount, $1.0 million related to our private investments and $0.5 million related to our public portfolio investments. During the quarter, we received $1.6 million of interest income, of which $0.4 million was paid-in-kind interest from ProPetro Services, Inc. ("ProPetro"). We also received $0.6 million of paid-in-kind dividends during the quarter, of which $0.3 million was from VantaCore Partners LP ("VantaCore"). These paid-in-kind dividends are not included in investment income, but are reflected as an unrealized gain.

Operating Expenses. Operating expenses totaled $2.4 million, including $1.5 million of investment management fees, $0.6 million of interest expense and $0.3 million of other operating expenses. Interest expense included $0.1 million of amortization of debt issuance costs. Investment management fees were equal to an annual rate of 1.75% of average total assets.

Net Investment Loss. Our net investment loss totaled $0.4 million and included a deferred income tax benefit of $0.3 million and current income tax expense of $0.02 million.

Net Realized Gains. We had net realized gains from investments of $1.3 million, after taking into account a deferred income tax benefit of $0.1 million and a current income tax expense of $0.7 million.

Net Change in Unrealized Gains. We had a net change in unrealized gains of $16.0 million. The net change consisted of $25.2 million of unrealized gains from investments and a deferred income tax expense of $9.2 million.

Net Increase in Net Assets Resulting from Operations. We had an increase in net assets resulting from operations of $16.9 million. This increase was comprised of net investment loss of $0.4 million; net realized gains of $1.3 million; and net unrealized gains of $16.0 million, as noted above.

Distributions to Common Stockholders

We pay quarterly distributions to our common stockholders, funded in part by net distributable income ("NDI") generated from our portfolio investments. NDI is the amount of income received by us from our portfolio investments less operating expenses, subject to certain adjustments as described below. NDI is not a financial measure under the accounting principles generally accepted in the United States of America ("GAAP"). Refer to the "Reconciliation of NDI to GAAP" section below for a reconciliation of this measure to our results reported under GAAP.

Income from portfolio investments includes (a) cash dividends and distributions, (b) paid-in-kind dividends received (*i.e.*, stock dividends), and (c) interest income from debt securities and commitment fees from private investments in public equity ("PIPE investments").

Operating expenses include (a) investment management fees paid to KAFA, (b) other expenses (mostly due to fees paid to other service providers) and (c) interest expense.

Net Distributable Income (NDI)
(amounts in millions, except for per share amounts)

	Three Months Ended August 31, 2012
Distributions and Other Income from Investments	
Dividends and Distributions	$ 5.1
Paid-In-Kind Dividends and Distributions	0.6
Cash Interest Income	1.2
Paid-In-Kind Interest and Other Income[(1)]	0.4
Total Distributions and Other Income from Investments	7.3
Expenses	
Investment Management Fee	(1.5)
Other Expenses	(0.3)
Interest Expense	(0.5)
Net Distributable Income (NDI)	**$ 5.0**
Weighted Average Shares Outstanding	10.4
NDI per Weighted Average Share Outstanding	**$0.48**
Distributions paid per Common Share[(2)]	**$0.43**

(1) Includes paid-in-kind interest from ProPetro's senior secured term loan.

(2) The distribution of $0.43 per share for the third quarter of fiscal 2012 was paid to common stockholders on October 26, 2012.

Payment of future distributions is subject to Board of Directors approval, as well as meeting the covenants of our credit facility. In determining our quarterly distribution to common stockholders, our Board of Directors considers a number of factors which include, but are not limited to:

- NDI generated in the current quarter;
- Expected NDI over the next twelve months;
- The extent to which NDI is comprised of paid-in-kind ("PIK") interest and distributions;
- The impact of potential liquidity events at our portfolio companies; and
- Realized and unrealized gains generated by the portfolio.

On September 28, 2012, we declared a quarterly distribution of $0.43 per common share for the fiscal third quarter (a total distribution of $4.5 million). This distribution represents an increase of 4.9% from the prior quarter's distribution and an increase of 13.2% from the distribution for the quarter ended August 31, 2011. The distribution was paid on October 26, 2012 to common stockholders of record on October 17, 2012.

Reconciliation of NDI to GAAP

The difference between distributions and other income from investments in the NDI calculation and total investment income as reported in our Statement of Operations is reconciled as follows:

- GAAP recognizes that a significant portion of the cash distributions received from MLPs is characterized as a return of capital and therefore excluded from investment income, whereas the NDI calculation includes the return of capital portion of such distributions.
- NDI includes the value of PIK distributions, whereas such amounts are not included as investment income for GAAP purposes during the period received, but rather are recorded as unrealized gains upon receipt.
- NDI includes commitment fees from PIPE investments, whereas such amounts are generally not included in investment income for GAAP purposes, but rather are recorded as a reduction to the cost of the investment.
- Many of our investments in debt securities were purchased at a discount or premium to the par value of such security. When making such investments, we consider the security's yield to maturity, which factors in the impact of such discount (or premium). Interest income reported under GAAP includes the non-cash accretion of the discount (or amortization of the premium) based on the effective interest method. When we calculate interest income for purposes of determining NDI, in order to better reflect the yield to maturity, the accretion of the discount (or amortization of the premium) is calculated on a straight-line basis to the earlier of the expected call date or the maturity date of the debt security.

The treatment of expenses included in NDI also differs from what is reported in the Statement of Operations as follows:

- The non-cash amortization or write-offs of capitalized debt issuance costs related to our debt financings is included in interest expense for GAAP purposes, but is excluded from our calculation of NDI.

Liquidity and Capital Resources

Our amended and restated senior secured revolving credit facility (the "Credit Facility") has a total commitment amount of $85.0 million and matures on March 30, 2014. Outstanding loan balances under the Credit Facility accrue interest at an annual rate equal to LIBOR plus 2.00% based on the current borrowings and the current borrowing base. If borrowings exceed the borrowing base attributable to "quoted" securities (generally defined as equity investments in public MLPs and midstream companies and investments in bank debt and high yield bonds that are traded), the interest rate will increase to LIBOR plus 3.00%. We pay a commitment fee of 0.50% per annum on any unused amounts of the Credit Facility. A full copy of our Credit Facility is available on our website, www.kaynefunds.com.

The maximum amount that we can borrow under our Credit Facility is limited to the lesser of our commitment amount of $85.0 million and our borrowing base. Our borrowing base, subject to certain limitations, is generally calculated by multiplying the fair value of each of our investments by an advance rate. The total contribution to our borrowing base from private MLPs is limited to no more than 25% of the total borrowing base, and there is a $8.5 million limit of borrowing base contribution from any single issuer.

As of August 31, 2012, we had $77.0 million of borrowings under our Credit Facility (at an interest rate of 2.24%), which represented 59.6% of our borrowing base of $129.2 million (66.1% of our borrowing base of $116.5 million attributable to quoted securities). At August 31, 2012, our asset coverage ratio under the Investment Company Act of 1940, as amended ("the 1940 Act"), was 423%.

As of October 25, 2012, we had $75.0 million borrowed under our Credit Facility (at an interest rate of 2.22%), and we had $7.9 million of cash. Our borrowings represented 54.3% of our borrowing base of $138.2 million (60.1% of our borrowing base of $124.7 million attributable to quoted securities).

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
SCHEDULE OF INVESTMENTS
AS OF AUGUST 31, 2012
(amounts in 000's)
(UNAUDITED)

Description	No. of Shares/Units	Value
Long-Term Investments — 138.2%		
Equity Investments[1] — 114.3%		
United States — 114.3%		
Public MLP and Other Equity — 76.4%		
Access Midstream Partners, L.P.	194	$ 5,837
Alliance Holdings GP, L.P.	66	3,214
Buckeye Partners, L.P.[2]	101	4,989
Buckeye Partners, L.P. — Class B Units[2][3][4]	100	4,636
Capital Product Partners L.P.	352	2,711
Crestwood Midstream Partners LP	91	2,238
DCP Midstream Partners, LP	211	9,113
DCP Midstream Partners, LP[4]	28	1,177
El Paso Pipeline Partners, L.P.	216	7,820
Enbridge Energy Partners, L.P.	220	6,483
Energy Transfer Equity, L.P.	440	19,337
Energy Transfer Partners, L.P.	133	5,694
Enterprise Products Partners L.P.	341	18,191
Exterran Partners, L.P.	213	4,547
Global Partners LP	205	5,145
Inergy, L.P.	202	4,347
Kinder Morgan Management, LLC[3]	92	6,808
MarkWest Energy Partners, L.P.[2]	132	6,983
Northern Tier Energy LP[5]	72	1,323
ONEOK, Inc.	28	1,238
ONEOK Partners, L.P.	183	10,383
PetroLogistics LP	135	1,727
Plains All American Pipeline, L.P.[2]	103	8,892
PVR Partners, L.P.[2]	347	8,455
Regency Energy Partners LP	560	12,957
SandRidge Mississippian Trust II	90	1,879
SandRidge Permian Trust	144	2,879
Targa Resources Partners LP	91	3,705
Teekay LNG Partners L.P.	28	1,104
Teekay Offshore Partners L.P.	133	3,765
Tesoro Logistics LP	5	227
The Williams Companies, Inc.	95	3,075
VOC Energy Trust	68	1,217
Western Gas Partners, LP	94	4,474
Williams Partners L.P.	63	3,270
		189,840
Private MLP and Other Private Equity[2][4] — 37.9%		
Direct Fuels Partners, L.P. — Class A Common Units	2,500	42,500
Direct Fuels Partners, L.P. — Convertible Preferred Units[6]	144	2,873
Direct Fuels Partners, L.P. — Class D Preferred Units[7]	324	6,496
Plains All American GP LLC	3	7,877
ProPetro Services, Inc.[8]	150,097	8,880
VantaCore Partners LP[3]	2,187	19,681

See accompanying notes to financial statements.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
SCHEDULE OF INVESTMENTS
AS OF AUGUST 31, 2012
(amounts in 000's)
(UNAUDITED)

Description	Interest Rate	Maturity Date	No. of Shares/Units / Principal Amount	Value
Private MLP and Other Private Equity[2][4] — (continued)				
VantaCore Partners LP — Class A Preferred Units[3][9]			224	$ 3,586
VantaCore Partners LP — Class B Preferred Units[3][10]			133	2,135
				94,028
Total Equity Investments (Cost $226,147)				283,868
	Interest Rate	**Maturity Date**	**Principal Amount**	
Debt Investments — 23.9%				
United States — 22.8%				
Midstream — 10.1%				
Crestwood Holdings Partners, LLC	[11]	3/26/18	$19,485	19,899
Niska Gas Storage Partners LLC	8.875%	3/15/18	5,000	5,125
				25,024
Upstream — 5.3%				
Aurora Oil & Gas Limited	9.875	2/15/17	3,500	3,657
CrownRock LP	10.000	8/15/16	3,250	3,453
EP Energy LLC	9.375	5/1/20	2,750	2,994
Halcón Resources Corporation	9.750	7/15/20	3,000	3,068
				13,172
Other Energy — 7.4%				
Foresight Energy LLC	9.625	8/15/17	5,000	5,112
ProPetro Services, Inc.[2][4][12]	13.000	6/30/13	13,206	13,206
				18,318
Total United States (Cost $79,733)				56,514
Canada — 1.1%				
Upstream — 1.1%				
PetroBakken Energy Ltd.	8.625	2/1/20	750	769
Southern Pacific Resource Corp.	[13]	1/7/16	1,975	1,990
Total Canada (Cost $2,759)				2,759
Total Debt Investments (Cost $82,492)				59,273
Total Long-Term Investments — 138.2% (Cost $308,639)				343,141
Credit Facility				(77,000)
Other Liabilities in Excess of Other Assets				(17,773)
Net Assets				$248,368

See accompanying notes to financial statements.

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(1) Unless otherwise noted, equity investments are common units/common shares.

(2) The Company believes that it is an affiliate of Buckeye Partners, L.P., Direct Fuels Partners, L.P. ("Direct Fuels"), MarkWest Energy Partners, L.P., PVR Partners, L.P., Plains All American GP LLC, Plains All American Pipeline, L.P., ProPetro Services, Inc. ("ProPetro") and VantaCore Partners LP ("VantaCore"). See Note 6 — Agreements and Affiliations.

(3) All or a portion of distributions are paid-in-kind.

(4) Fair valued and restricted security. See Notes 2, 3 and 9 in Notes to Financial Statements.

(5) Security is not currently paying cash distributions, but is expected to pay cash distributions within the next 12 months.

(6) The Convertible Preferred Units consist of three classes — Class A, B and C. Each class has a liquidation preference of $20.00 per unit and is convertible into Class A Common Units. See Note 9 — Restricted Securities.

(7) The Class D Preferred Units are senior to Direct Fuels' Convertible Preferred Units and Class A Common Units. The Class D Preferred Units have a liquidation preference of $20.00 per unit. See Note 9 — Restricted Securities and Note 12 — Subsequent Events.

(8) Security is non-income producing.

(9) The Class A Preferred Units have a liquidation preference of $17.50 per unit and were issued by VantaCore to holders of the Common and Class A Preferred Units to the extent that such units did not receive full cash distributions. The Class A Preferred Units have a minimum quarterly distribution of $0.475 per unit and are senior to VantaCore's Common Units in liquidation preference. See Note 9 — Restricted Securities.

(10) The VantaCore Class B Preferred Units have a liquidation preference of $17.50 per unit and were issued on August 3, 2011 in connection with VantaCore's acquisition of a quarry owned by a third-party. On August 3, 2012, the holders of Class B Preferred Units received 0.25 common units of VantaCore for each Class B Preferred Unit held. The Class B Preferred Units have a minimum quarterly distribution of $0.3825 per unit and are senior to all other equity classes of VantaCore in liquidation preference. See Note 9 — Restricted Securities.

(11) Floating rate first lien senior secured term loan. Security pays interest at a rate of LIBOR + 825 basis points with a 1.5% LIBOR floor (9.75% as of August 31, 2012).

(12) Fixed rate first lien term loan. The security pays interest in-kind that is added to the outstanding principal of the term loan at a rate of 13.00%. See Note 2 — Investment Income.

(13) Floating rate second lien secured term loan. Security pays interest at base rate + 750 basis points (10.75% as of August 31, 2012).

See accompanying notes to financial statements.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
STATEMENT OF ASSETS AND LIABILITIES
AUGUST 31, 2012
(amounts in 000's, except share and per share amounts)
(UNAUDITED)

ASSETS	
Investments, at fair value:	
Non-affiliated (Cost — $169,433)	$201,952
Affiliated (Cost — $139,206)	141,189
Total investments (Cost — $308,639)	343,141
Cash	2,220
Receivable for securities sold	27
Interest, dividends and distributions receivable	752
Other receivable	4,900
Debt issuance costs, prepaid expenses and other assets	899
Total Assets	351,939
LIABILITIES	
Credit facility	77,000
Current income tax liability	232
Deferred income tax liability	24,206
Investment management fee payable	1,494
Accrued directors' fees and expenses	74
Accrued expenses and other liabilities	565
Total Liabilities	103,571
NET ASSETS	$248,368
NET ASSETS CONSIST OF	
Common stock, $0.001 par value (200,000,000 shares authorized; 10,391,595 shares issued and outstanding)	$ 10
Paid-in capital	200,552
Accumulated net investment loss, net of income taxes, less dividends	(33,500)
Accumulated net realized gains on investments, net of income taxes	59,770
Net unrealized gains on investments, net of income taxes	21,536
NET ASSETS	$248,368
NET ASSET VALUE PER SHARE	$ 23.90

See accompanying notes to financial statements.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
STATEMENT OF OPERATIONS
(amounts in 000's)
(UNAUDITED)

	For the Three Months Ended August 31, 2012	For the Nine Months Ended August 31, 2012
INVESTMENT INCOME		
Income		
Dividends and distributions:		
Non-affiliated investments	$ 2,463	$ 7,474
Affiliated investments	2,666	7,359
Total dividends and distributions	5,129	14,833
Return of capital	(4,882)	(11,695)
Net dividends and distributions	247	3,138
Interest and other income — non-affiliated investments	1,097	3,087
Interest — affiliated investments	457	1,396
Total investment income	1,801	7,621
Expenses		
Investment management fees	1,493	4,483
Professional fees	130	400
Directors' fees and expenses	77	229
Insurance	27	80
Administration fees	21	68
Other expenses	123	306
Total expenses — before interest expense	1,871	5,566
Interest expense	577	1,748
Total expenses	2,448	7,314
Net Investment Income (Loss) — Before Income Taxes	(647)	307
Current income tax expense	(23)	(23)
Deferred income tax benefit (expense)	268	(89)
Net Investment Income (Loss)	(402)	195
REALIZED AND UNREALIZED GAINS		
Net Realized Gains		
Investments — non-affiliated	855	8,384
Investments — affiliated	1,089	1,175
Current income tax expense	(726)	(726)
Deferred income tax benefit (expense)	99	(2,749)
Net Realized Gains	1,317	6,084
Net Change in Unrealized Gains		
Investments — non-affiliated	14,814	14,868
Investments — affiliated	10,394	9,137
Deferred income tax expense	(9,177)	(8,727)
Net Change in Unrealized Gains	16,031	15,278
Net Realized and Unrealized Gains	17,348	21,362
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$16,946	$ 21,557

See accompanying notes to financial statements.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
STATEMENT OF CHANGES IN NET ASSETS
(amounts in 000's, except share amounts)

	For the Nine Months Ended August 31, 2012 (Unaudited)	For the Fiscal Year Ended November 30, 2011
OPERATIONS		
Net investment income	$ 195	$ 2,564
Net realized gains	6,084	49,389
Net change in unrealized gains (losses)	15,278	(12,284)
Net Increase in Net Assets Resulting from Operations	21,557	39,669
DIVIDENDS AND DISTRIBUTIONS		
Dividends	(12,326)[1]	(14,107)[2]
Distributions — return of capital	—[1]	—[2]
Dividends and Distributions	(12,326)	(14,107)
CAPITAL STOCK TRANSACTIONS		
Issuance of 48,865 and 76,070 shares of common stock from reinvestment of dividends and distributions	1,107	1,427
Total Increase in Net Assets	10,338	26,989
NET ASSETS		
Beginning of period	238,030	211,041
End of period	$248,368	$238,030

(1) This is an estimate of the characterization of the distributions paid to common stockholders for the nine months ended August 31, 2012 as either a dividend (eligible to be treated as qualified dividend income) or distribution (return of capital). This estimate is based solely on the Company's operating results during the period and does not reflect the expected result during the fiscal year. The actual characterization of the common stock distributions made during the current year will not be determinable until after the end of the fiscal year when the Company can determine earnings and profits. Therefore, the characterization may differ from the preliminary estimates.

(2) The information presented in each of these items is a characterization of a portion of the total dividends and distributions paid to common stockholders for the fiscal year ended November 30, 2011 as either dividends (eligible to be treated as qualified dividend income) or distributions (return of capital). This characterization is based on the Company's earnings and profits.

See accompanying notes to financial statements.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED AUGUST 31, 2012
(amounts in 000's)
(UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES	
Net increase in net assets resulting from operations	$ 21,557
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Purchase of long-term investments	(98,463)
Proceeds from sale of long-term investments	97,076
Net realized gains on investments	(9,559)
Return of capital distributions	11,695
Net unrealized gains on investments	(24,005)
Accretion of bond discount, net	(43)
Decrease in income tax receivable	332
Decrease in receivable for securities sold	1,172
Decrease in interest, dividends and distributions receivable	262
Decrease in other receivable	130
Amortization of deferred debt issuance costs	331
Decrease in prepaid expenses and other assets	71
Increase in current income tax liability	232
Increase in deferred income tax liability	11,564
Decrease in payable for securities purchased	(418)
Increase in investment management fee payable	108
Increase in accrued directors' fees and expenses	1
Decrease in accrued expenses and other liabilities	(121)
Net Cash Provided by Operating Activities	11,922
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash distributions paid to stockholders, net	(11,219)
Net Cash Used in Financing Activities	(11,219)
NET CHANGE IN CASH	703
CASH — BEGINNING OF PERIOD	1,517
CASH — END OF PERIOD	$ 2,220

Supplemental disclosure of cash flow information:

Non-cash financing activities not included herein consist of reinvestment of distributions pursuant to the Company's dividend reinvestment plan of $1,107 for the nine months ended August 31, 2012.

During the nine months ended August 31, 2012, there were $185 of federal and no state income taxes paid. Interest paid was $1,398.

During the nine months ended August 31, 2012, the Company received $1,948 of paid-in-kind dividends and distributions and $1,283 of paid-in-kind interest. See Note 2 — Investment Income.

See accompanying notes to financial statements.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
FINANCIAL HIGHLIGHTS
(amounts in 000's, except share and per share amounts)

	For the Nine Months Ended August 31, 2012 (Unaudited)	For the Year Ended November 30,					For the Period September 21, 2006 through November 30, 2006
		2011	2010	2009	2008	2007	
Per Share of Common Stock[1]							
Net asset value, beginning of period	$ 23.01	$ 20.56	$ 16.58	$ 16.10	$ 23.95	$ 24.03	$ 23.32
Net investment income (loss)	0.02	0.25	(0.18)	0.10	0.09	0.08	(0.07)
Net realized and unrealized gain (loss) on investments	2.06	3.60	5.39	1.68	(5.89)	1.18	0.78
Net change in unrealized losses — conversion to taxable corporation	—	—	—	—	(0.38)	—	—
Total income (loss) from investment operations	2.08	3.85	5.21	1.78	(6.18)	1.26	0.71
Dividends[2]	(1.19)	(1.37)	(0.51)	—	—	(0.95)	—
Distributions from net realized long-term capital gains[2][3]	—	—	—	—	—	(0.15)	—
Distributions — return of capital[2]	—	—	(0.69)	(1.30)	(1.67)	(0.24)	—
Total Dividends and Distributions	(1.19)	(1.37)	(1.20)	(1.30)	(1.67)	(1.34)	—
Effect of shares issued in reinvestment of dividends	—	(0.03)	(0.03)	—	—	—	—
Net asset value, end of period	$ 23.90	$ 23.01	$ 20.56	$ 16.58	$ 16.10	$ 23.95	$ 24.03
Market value per share, end of period	$ 25.96	$ 20.21	$ 18.21	$ 13.53	$ 9.63	$ 23.14	$ 22.32
Total investment return based on market value[4]	35.3%	19.3%	45.8%	56.0%	(54.8)%	9.3%	(10.7)%

See accompanying notes to financial statements.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
FINANCIAL HIGHLIGHTS
(amounts in 000's, except share and per share amounts)

	For the Nine Months Ended August 31, 2012 (Unaudited)	For the Year Ended November 30,					For the Period September 21, 2006 through November 30, 2006
		2011	2010	2009	2008	2007	
Supplemental Data and Ratios[5]							
Net assets, end of period	$ 248,368	$ 238,030	$ 211,041	$ 168,539	$ 162,687	$ 240,758	$ 240,349
Ratio of expenses to average net assets:							
Management fees	2.4%	2.4%	2.1%	2.0%	0.4%	3.1%	2.4%
Other expenses	0.6	0.7	1.0	1.3	1.1	0.9	1.3
Subtotal	3.0	3.1	3.1	3.3	1.5	4.0	3.7
Interest expense	0.9	0.8	0.9	0.8	2.0	1.0	—
Management fee waivers	—	—	—	—	—	(0.4)	(0.5)
Expenses (excluding tax expense)	3.9	3.9	4.0	4.1	3.5	4.6	3.2
Tax expense	6.7	10.0	16.3	6.9	—[6]	0.8	—
Total expenses[7]	10.6%	13.9%	20.3%	11.0%	3.5%	5.4%	3.2%
Ratio of net investment income (loss) to average net assets	0.1%	1.1%	(1.0)%	0.7%	0.4%	0.3%	(0.3)%
Net increase (decrease) in net assets resulting from operations to average net assets	8.8%[8]	17.1%	28.3%	11.3%	(29.5)%	5.1%	3.0%[8]
Portfolio turnover rate	29.2%[8]	68.1%	33.4%	20.9%	27.0%	28.8%	5.6%[8]
Average net assets	$ 245,907	$ 231,455	$ 188,307	$ 160,847	$ 211,531	$ 246,468	$ 234,537
Average shares of common stock outstanding	10,364,080	10,301,878	10,212,289	10,116,071	10,073,398	10,014,496	10,000,060
Average amount of borrowings outstanding under the Credit Facility	$ 78,855	$ 62,559	$ 54,956	$ 53,422	$ 75,563	$ 32,584	—
Asset coverage of total debt[9]	422.6%	409.1%	470.2%	n/a	n/a	n/a	n/a
Average amount of borrowings outstanding per share of common stock during the period	$ 7.61	$ 6.07	$ 5.38	$ 5.28	$ 7.50	$ 3.25	—

See accompanying notes to financial statements.

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(1) Based on average shares of common stock outstanding for each of the periods ended.

(2) The information presented for the nine months ended August 31, 2012 is an estimate of the characterization of the distribution paid and is based on the Company's operating results during the period. The information presented in each of the other periods is a characterization of a portion of the total distributions paid to common stockholders as either dividends (eligible to be treated as qualified dividend income) or distributions (long-term capital gains or return of capital) and is based on the Company's earnings and profits.

(3) For the fiscal year ended November 30, 2007 and prior periods, the Company was treated as a regulated investment company ("RIC") under the U.S. Internal Revenue Code of 1986, as amended. Since December 1, 2007, the Company has been taxed as a corporation, and, as a result, the categorization of distributions from net realized long-term capital gains is no longer applicable.

(4) Total investment return is calculated assuming a purchase of common stock at the market price on the first day and a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of distributions, if any, at actual prices pursuant to the Company's dividend reinvestment plan.

(5) Unless otherwise noted, ratios are annualized.

(6) For the year ended November 30, 2008, the Company accrued deferred income tax benefits of $33,264 (15.5% of average net assets) primarily related to unrealized losses on investments. Realization of a deferred tax benefit is dependent on whether there will be sufficient taxable income of the appropriate character within the carryforward periods to realize a portion or all of the deferred tax benefit. Because it could not have been predicted whether the Company would incur a benefit in the future, a deferred income tax expense of 0% was assumed.

(7) For the year ended November 30, 2008, total expenses exclude 0.4% relating to bad debt expense for the ratio of expenses to average net assets.

(8) Not annualized.

(9) Calculated pursuant to section 18(a)(1)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by senior securities representing indebtedness divided by senior securities representing indebtedness. Under the 1940 Act, the Company may not declare or make any distribution on its common stock nor can it incur additional indebtedness if at the time of such declaration or incurrence its asset coverage with respect to senior securities representing indebtedness would be less than 300%. For purposes of this test, the credit facility is considered a senior security representing indebtedness. Prior to July 7, 2010, the Company was a business development company ("BDC") under the 1940 Act and not subject to the requirements of section 18(a)(1)(A) for the asset coverage of total debt disclosure.

1. Organization

Kayne Anderson Energy Development Company was organized as a Maryland corporation on May 24, 2006. The Company is an externally managed, non-diversified closed-end management investment company. The Company commenced investment operations on September 21, 2006. The Company's shares of common stock are listed on the New York Stock Exchange ("NYSE") under the symbol "KED." Prior to November 30, 2007, the Company was treated as a regulated investment company ("RIC") under the U.S. Internal Revenue Code of 1986, as amended (the "Code"). Since December 1, 2007, the Company has been taxed as a corporation. See Note 4 — Income Taxes.

From inception through July 6, 2010, the Company had elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). On June 30, 2010, the Company's stockholders approved the withdrawal of its election to be treated as a BDC under the 1940 Act, and on July 7, 2010, the Company filed the withdrawal with the SEC, which was effective upon receipt. The Company is also no longer subject to the requirement that 70% of its portfolio must be comprised of "qualifying assets," which generally include domestic private companies.

The Company's investment objective is to generate both current income and capital appreciation primarily through equity and debt investments. The Company seeks to achieve this objective by investing at least 80% of its total assets in securities of companies that derive the majority of their revenue from activities in the energy industry ("Energy Companies"), including: (a) Midstream Energy Companies, which are businesses that operate assets used to gather, transport, process, treat, terminal and store natural gas, natural gas liquids, propane, crude oil or refined petroleum products; (b) Upstream Energy Companies, which are businesses engaged in the exploration, extraction and production of natural resources, including natural gas, natural gas liquids and crude oil, from onshore and offshore geological reservoirs; and (c) Other Energy Companies, which are businesses engaged in owning, leasing, managing, producing, processing and selling of coal and coal reserves; the marine transportation of crude oil, refined petroleum products, liquefied natural gas, as well as other energy-related natural resources using tank vessels and bulk carriers; and refining, marketing and distributing refined energy products, such as motor gasoline and propane, to retail customers and industrial end-users. A majority of the Company's investments are in entities structured as MLPs, which includes both publicly-traded MLPs and private MLPs, which are structured much like publicly-traded MLPs.

2. Significant Accounting Policies

A. *Use of Estimates* — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from those estimates.

B. *Cash and Cash Equivalents* — Cash and cash equivalents include short-term, liquid investments with an original maturity of three months or less and include money market fund accounts.

C. *Calculation of Net Asset Value* — The Company determines its net asset value no less frequently than as of the last day of each quarter based on the most recent close of regular session trading on the NYSE, and makes its net asset value available for publication quarterly. Net asset value is computed by dividing the value of the Company's assets (including accrued interest and distributions and current and deferred income tax assets), less all of its liabilities (including accrued expenses, distributions payable, current and deferred accrued income taxes, and any borrowings) by the total number of common shares outstanding.

D. *Investment Valuation* — Readily marketable portfolio securities listed on any exchange other than the NASDAQ Stock Market, Inc. ("NASDAQ") are valued, except as indicated below, at the last sale price on the

business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the most recent bid and ask prices on such day. Securities admitted to trade on the NASDAQ are valued at the NASDAQ official closing price. Portfolio securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined at the close of the exchange representing the principal market for such securities.

Equity securities traded in the over-the-counter market, but excluding securities admitted to trading on the NASDAQ, are valued at the closing bid prices. Debt securities that are considered bonds are valued by using the mean of the bid and ask prices provided by an independent pricing service. For debt securities that are considered bank loans, the fair market value is determined by using the mean of the bid and ask prices provided by the agent or syndicate bank or principal market maker. When price quotes are not available, fair market value will be based on prices of comparable securities. In certain cases, the Company may not be able to purchase or sell debt securities at the quoted prices due to the lack of liquidity for these securities.

Exchange-traded options and futures contracts are valued at the last sale price at the close of trading in the market where such contracts are principally traded or, if there was no sale on the applicable exchange on such day, at the mean between the quoted bid and ask price as of the close of trading on such exchange.

The Company holds securities that are privately issued or otherwise restricted as to resale. For these securities, as well as any other portfolio security held by the Company for which reliable market quotations are not readily available, valuations are determined in a manner that most accurately reflects fair value of the security on the valuation date. Unless otherwise determined by the Board of Directors, the following valuation process is used for such securities:

- ***Investment Team Valuation.*** The applicable investments are valued by senior professionals of KA Fund Advisors, LLC ("KAFA" or the "Adviser") who are responsible for the portfolio investments.
- ***Investment Team Valuation Documentation.*** Preliminary valuation conclusions will be determined by senior management of KAFA. Such valuations are submitted to the Valuation Committee (a committee of the Company's Board of Directors) on a quarterly basis.
- ***Valuation Committee.*** The Valuation Committee meets each quarter to consider valuations presented by KAFA, which were made in accordance with valuation procedures adopted by the Board of Directors in such quarter. The Valuation Committee's valuation determinations are subject to ratification by the Board of Directors at its next regular meeting.
- ***Valuation Firm.*** No less than quarterly, a third-party valuation firm engaged by the Board of Directors reviews the valuation methodologies and calculations employed for these securities. The independent valuation firm provides third-party valuation consulting services to the Board of Directors, which consist of certain limited procedures that the Company identified and requested them to perform. As of August 31, 2012, the independent valuation firm performed limited procedures on investments in six portfolio companies and a receivable associated with the sale of its investment in International Resource Partners LP ("IRP"), comprising approximately 33.5% of total assets. Upon completion of the limited procedures, the independent valuation firm concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable.
- ***Board of Directors Determination.*** The Board of Directors meets quarterly to consider the valuations provided by KAFA and the Valuation Committee, if applicable, and ratify valuations for the applicable securities. The Board of Directors considers the report provided by the third-party valuation firm in reviewing and determining in good faith the fair value of the applicable portfolio securities.

At August 31, 2012, the Company held 47.5% of its net assets applicable to common stockholders (33.5% of total assets) in securities and an other receivable that were fair valued pursuant to the procedures adopted by

the Board of Directors. The aggregate fair value of these securities ($113,047) and the other receivable ($4,900) at August 31, 2012 was $117,947. See Note 3 — Fair Value and Note 9 — Restricted Securities.

E. *Repurchase Agreements* — From time to time, the Company has agreed to purchase securities from financial institutions subject to the seller's agreement to repurchase them at an agreed-upon time and price ("repurchase agreements"). The financial institutions with whom the Company enters into repurchase agreements are banks and broker/dealers which KAFA considers creditworthy. The seller under a repurchase agreement is required to maintain the value of the securities as collateral, subject to the agreement, at not less than the repurchase price plus accrued interest. KAFA monitors daily the mark-to-market of the value of the collateral, and, if necessary, requires the seller to maintain additional securities, so that the value of the collateral is not less than the repurchase price. Default by or bankruptcy of the seller would, however, expose the Company to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities. As of August 31, 2012, the Company did not have any repurchase agreements.

F. *Security Transactions* — 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.

G. *Derivative Financial Instruments* — The Company may utilize derivative financial instruments in its operations. As of August 31, 2012, the Company did not have any derivative financial instruments.

Interest rate swap contracts. The Company may use hedging techniques such as interest rate swaps to mitigate potential interest rate risk on a portion of the Company's leverage. Such interest rate swaps would principally be used to protect the Company against higher costs on its leverage resulting from increases in short term interest rates. The Company does not hedge any interest rate risk associated with portfolio holdings. Interest rate transactions the Company may use for hedging purposes may expose it to certain risks that differ from the risks associated with its portfolio holdings. A decline in interest rates may result in a decline in the value of the swap contracts, which, everything else being held constant, would result in a decline in the net assets of the Company. In addition, if the counterparty to an interest rate swap or cap defaults, the Company would not be able to use the anticipated net receipts under the interest rate swap or cap to offset its cost of financial leverage.

Interest rate swap contracts are recorded at fair value with changes in value during the reporting period, and amounts accrued under the agreements, included as unrealized gains or losses in the Statement of Operations. Monthly cash settlements under the terms of interest rate swap agreements are recorded as realized gains or losses in the Statement of Operations. The Company generally values interest rate swap contracts based on dealer quotations, if available, or by discounting the future cash flows from the stated terms of the interest rate swap agreement by using interest rates currently available in the market.

Option contracts. The Company is exposed to financial market risks including changes in the valuations of its investment portfolio. The Company may purchase or write (sell) call options. A call option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from the writer of the option the security underlying the option at a specified exercise price at any time during the term of the option.

The Company would realize a gain on a purchased call option if, during the option period, the value of such securities exceeded the sum of the exercise price, the premium paid and transaction costs; otherwise the Company would realize either no gain or a loss on the purchased call option. The Company may also purchase put option contracts. If a purchased put option is exercised, the premium paid increases the cost basis of the securities sold by the Company.

The Company may also write (sell) call options with the purpose of generating income or reducing its ownership of certain securities. If the Company writes a call option on a security, the Company has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price. The Company will only write call options on securities that the Company holds in its portfolio (i.e., covered calls).

When the Company writes a call option, an amount equal to the premium received by the Company is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Company on the expiration date as realized gains from investments. If the Company repurchases a written call option prior to its exercise, the difference between the premium received and the amount paid to repurchase the option is treated as a realized gain or loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company has realized a gain or loss. The Company, as the writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option.

H. *Return of Capital Estimates* — Dividends and distributions received from the Company's investments are comprised of income and return of capital. The payments made by MLPs are categorized as "distributions" and payments made by corporations are categorized as "dividends." At the time such dividends and distributions are received, the Company estimates the amount of such payments that are considered investment income and the amount that is considered a return of capital. Such estimates are based on historical information available from each investment and other industry sources. These estimates may subsequently be revised based on information received from investments after their tax reporting periods are concluded.

The following table sets forth (1) the components of total dividends and distributions from the Company's private and public investments, (2) the percentage of return of capital attributable to each category and (3) the estimated total return of capital portion of the dividends and distributions received from investments and the amounts that are attributable to net realized gains (losses) and net change in unrealized gains (losses). The return of capital portion of the dividends and distributions received is a reduction to investment income, results in an equivalent reduction in the cost basis of the associated investments, and increases net realized gains (losses) and net change in unrealized gains (losses). For GAAP reporting purposes, the return of capital cost basis reductions are limited to the total amount of the cash distributions received, but for income tax purposes the cost basis reductions typically exceed cash distributions received due to allocated losses from MLP investments. See Note 4 – Income Taxes.

	Three Months Ended August 31, 2012	Nine Months Ended August 31, 2012
Distributions from private MLPs	$2,163	$ 5,961
Distributions from public MLPs and dividends from other public equity investments	2,966	8,872
Total dividends and distributions from investments	$5,129	$14,833
Distributions from private MLPs — % return of capital	85%	59%
Distributions from public MLPs and dividends from other public equity investments — % return of capital	103%	92%
Total dividends and distributions — % return of capital	95%	79%
Return of capital — attributable to net realized gains (losses)	$1,418	$ 2,757
Return of capital — attributable to net change in unrealized gains (losses)	3,464	8,938
Total return of capital	$4,882	$11,695

During the fiscal third quarter of 2012, the Company received 2011 tax reporting information that was used to increase its prior year return of capital estimate by a total of $1,459. Of this amount, $945 related to the Company's private investments and $514 related to the Company's public portfolio investments.

For the nine months ended August 31, 2012, the Company estimated the return of capital portion of distributions received to be $10,236 (69%). This amount was increased by $1,459 attributable to the 2011 tax reporting information. As a result, the return of capital percentage for the nine months ended August 31, 2012 was 79%.

For the three months ended August 31, 2012, the Company estimated the return of capital portion of distributions received to be $3,423 (67%). This amount was increased by $1,459 attributable to the 2011 tax reporting information received in the third quarter. As a result, the return of capital percentage for the three months ended August 31, 2012 was 95%.

I. *Investment Income* — The Company records dividends and distributions on the ex-dividend date. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts to the extent that such amounts are expected to be collected. When investing in securities with payment in-kind interest, the Company will accrue interest income during the life of the security even though it will not be receiving cash as the interest is accrued. To the extent that interest income to be received is not expected to be realized, a reserve against income is established. During the nine months ended August 31, 2012, the Company did not have a reserve against interest income, since all interest income accrued is expected to be received.

Many of the Company's debt securities were purchased at a discount or premium to the par value of the security. The non-cash accretion of a discount to par value increases interest income while the non-cash amortization of a premium to par value decreases interest income. The amount of these non-cash adjustments can be found in the Company's Statement of Cash Flows. The non-cash accretion of a discount increases the cost basis of the debt security, which results in an offsetting unrealized loss. The non-cash amortization of a premium decreases the cost basis of the debt security which results in an offsetting unrealized gain. To the extent that par value is not expected to be realized, the Company discontinues accruing the non-cash accretion of the discount to par value of the debt security.

During the three and nine months ended August 31, 2012, the Company recognized $430 and $1,283 of paid-in-kind interest, which increased the outstanding principal of the Company's first lien debt investment in ProPetro Services, Inc. ("ProPetro"). As a result of the debt restructurings that were completed on January 28, 2011 and February 1, 2012 and substantially improved operating results, the Company expects to be repaid the full face value plus accrued interest when the notes mature on June 30, 2013.

The Company receives dividends in the form of additional units from its investments in Buckeye Partners, L.P. (Class B Units), Kinder Morgan Management, LLC and VantaCore Partners LP. The additional units are not reflected in investment income during the period received but are recorded as unrealized gains upon receipt. During the three and nine months ended August 31, 2012, the Company received the following paid-in-kind dividends.

	Three Months Ended August 31, 2012	Nine Months Ended August 31, 2012
Buckeye Partners, L.P. (Class B Units)	$102	$ 300
Kinder Morgan Management, LLC	117	338
VantaCore Partners LP	336	1,310
Total stock dividends	$555	$1,948

J. *Distributions to Stockholders* — Distributions to common stockholders are recorded on the ex-dividend date. The estimated characterization of the distributions paid to common stockholders will be either a dividend (ordinary income) or distribution (return of capital). This estimate is based on the Company's operating results during the period. The actual characterization of the common stock distributions made during the current year

will not be determinable until after the end of the fiscal year when the Company can determine earnings and profits and, therefore, the characterization may differ from the preliminary estimates.

K. *Income Taxes* — The Company is taxed as a corporation and pays federal and applicable state corporate taxes on its taxable income. The Company invests its assets primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Company includes its allocable share of the MLPs' taxable income in computing its own taxable income. Current income taxes reflect the amount of income taxes that the Company expects to be payable as of a measurement date applying the provisions of the enacted tax laws. Deferred income taxes reflect (i) taxes on unrealized gains/(losses), which are attributable to the temporary difference between fair market value and tax basis, (ii) 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 and (iii) the net tax benefit of accumulated net operating and capital losses. To the extent the Company has a deferred tax asset, consideration is given as to whether or not a valuation allowance is required. The need to establish a valuation allowance for deferred tax assets is assessed periodically by the Company based on the Income Tax Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification that it is more likely than not that some portion or all of the deferred tax asset will not be realized. In the assessment for a valuation allowance, consideration is given to all positive and negative evidence related to the realization of the deferred tax asset. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability (which are highly dependent on future cash distributions from the Company's MLP holdings), the duration of statutory carryforward periods and the associated risk that operating and capital loss carryforwards may expire unused.

The Company may rely to some extent on information provided by MLPs, which may not necessarily be timely, to estimate taxable income allocable to the MLP units held in the portfolio and to estimate the associated current or deferred tax liability. Such estimates are made in good faith. From time to time, as new information becomes available, the Company modifies its estimates or assumptions regarding the current or deferred tax liability.

The Company's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Statement of Operations. For the three and nine months ended August 31, 2012, the Company did not have any interest or penalties associated with the underpayment of any income taxes. Tax years from 2008 to the present remain open and subject to examination by tax jurisdictions.

L. *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 enters 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.

M. *Foreign Currency Translations* — The books and records of the Company are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis: (i) market value of investment securities, assets and liabilities at the rate of exchange as of the valuation date; and (ii) purchases and sales of investment securities, income and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions.

The Company does not isolate that portion of gains and losses on investments in equity and debt securities which is due to changes in the foreign exchange rates from that which is due to changes in market prices of equity securities. Accordingly, realized and unrealized foreign currency gains and losses with respect to such securities are included in the reported net realized and unrealized gains and losses on investment transactions balances.

Net realized foreign exchange gains or losses represent gains and losses from transactions in foreign currencies and foreign currency contracts, foreign exchange gains or losses realized between the trade date and settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Company's books and the U.S. dollar equivalent of such amounts on the payment date.

Net unrealized foreign exchange gains or losses represent the difference between the cost of assets and liabilities (other than investments) recorded on the Company's books from the value of the assets and liabilities (other than investments) on the valuation date.

3. Fair Value

The Fair Value Measurement Topic of the FASB Accounting Standards Codification ("ASC 820") defines fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants under current market conditions at the measurement date. As required by ASC 820, the Company has performed an analysis of all assets and liabilities (other than deferred taxes) measured at fair value to determine the significance and character of all inputs to their fair value determination. Inputs are the assumptions, along with considerations of risk, that a market participant would use to value an asset or a liability. In general, observable inputs are based on market data that is readily available, regularly distributed and verifiable that the Company obtains from independent, third-party sources. Unobservable inputs are developed by the Company based on its own assumptions of how market participants would value an asset or a liability.

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" which amends ASC 820. The amended guidance clarifies the wording used to describe many requirements in accounting literature for fair value measurement and disclosure to establish consistency between U.S. GAAP and International Financial Reporting Standards ("IFRSs"). The Company adopted ASU No. 2011-04 in the fiscal second quarter of 2012.

The adoption of ASU 2011-04 did not have an impact on the measurement of fair value for the Company's assets, but it does require the inclusion of additional disclosures on assumptions used by the Company to determine fair value. Specifically, for assets measured at fair value using significant unobservable inputs (Level 3), ASU No. 2011-04 requires that the Company (i) describes the valuation process (ii) discloses quantitative information about unobservable inputs and (iii) provides a qualitative discussion about the sensitivity of the fair value measurement to changes in the unobservable inputs and inter-relationships between the inputs.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories.

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

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis at August 31, 2012, and the Company presents these assets by security type and description on its Schedule of

Investments or on its Statement of Assets and Liabilities. Note that the valuation levels below are not necessarily an indication of the risk or liquidity associated with the underlying investment.

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	One or More Unobservable Inputs (Level 3)
Assets at Fair Value				
Equity investments	$283,868	$184,027	$ —	$ 99,841
Debt investments	59,273	—	46,067	13,206
Other receivable[1]	4,900	—	—	4,900
Total assets at fair value	$348,041	$184,027	$46,067	$117,947

(1) On April 18, 2011, the Company completed its sale of IRP to James River. A portion of the total consideration was placed in escrow with the balance being paid in cash. The other receivable, included on the Company's statement of assets and liabilities, represents the estimated fair value of its portion of the escrow ($4,900) at August 31, 2012. In June 2012, James River made claims representing a significant portion of the escrow, and in August 2012, a portion of the escrow was settled. On September 20, 2012, the Company received $1,887 from the settlement representing a 92% recovery rate on the portion that was settled. The Company estimates settlement of the remaining escrow will occur over the next 12 to 24 months. See Note 12 – Subsequent Events.

The Company did not have any liabilities that were measured at fair value on a recurring basis at August 31, 2012. For the nine months ended August 31, 2012, there were no transfers between Level 1 and Level 2.

The following tables present the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended August 31, 2012.

Three Months Ended August 31, 2012	Total	Other Receivable[2]	Debt	Equity
Balance — May 31, 2012	$104,732	$5,030	$12,776	$86,926
Sales	—	—	—	—
Realized loss	(130)	(130)	—	—
Unrealized gains (losses), net[1]	6,853	—	430	6,423
Purchases	5,821	—	—	5,821
Issuances	671	—	—	671
Transfer out	—	—	—	—
Settlements	—	—	—	—
Balance — August 31, 2012	$117,947	$4,900	$13,206	$99,841

Nine Months Ended August 31, 2012	Total	Other Receivable[2]	Debt	Equity
Balance — November 30, 2011	$108,709	$5,030	$11,923	$91,756
Sales	—	—	—	—
Realized loss	(130)	(130)	—	—
Unrealized gains (losses), net[1]	4,418	—	1,283	3,135
Purchases	5,821	—	—	5,821
Issuances	1,843	—	—	1,843
Transfer out	(2,714)	—		(2,714)
Settlements	—	—	—	—
Balance — August 31, 2012	$117,947	$4,900	$13,206	$99,841

(1) The $6,853 and $4,418 of unrealized gains relate to investments that are still held at August 31, 2012, and the Company includes these unrealized gains in the Statement of Operations — Net Change in Unrealized Gains.

(2) The amount reflects the fair value of the receivable, held in escrow, that the Company expects to receive in connection with the sale of IRP.

The purchases of $5,821 for the three and nine months ended August 31, 2012 relate to the Company's private investment in public equity ("PIPE investment") in DCP Midstream, LP ($1,000) and 689 Common Units of VantaCore ($4,821). The issuances of $671 and $1,843 for the three and nine months ended August 31, 2012 relate to the Common and Class A Preferred Units of VantaCore and the Class B Units of Buckeye Partners, L.P. On August 3, 2012, the holders of the Class B Preferred Units received 0.25 Common Units of VantaCore for each Class B Preferred Unit held. The Company's investment in the common units of Teekay Offshore Partners L.P., which is noted as a transfer out of Level 3 in the table above, became readily marketable during the nine months ended August 31, 2012.

Valuation Techniques and Unobservable Inputs

Unless otherwise determined by the Board of Directors, the Company values its private investments in public equity ("PIPE") investments that are convertible into or otherwise will become publicly tradeable (*e.g.,* through subsequent registration or expiration of a restriction on trading) based on the market value of the publicly-traded security less a discount. The discount is initially equal to the discount negotiated at the time the Company agrees to a purchase price. To the extent that such securities are convertible or otherwise become publicly traded within a time frame that may be reasonably determined, this discount will be amortized on a straight line basis over such estimated time frame.

The Company's investments in private companies are typically valued using one of or a combination of the following valuation techniques: (i) analysis of valuations for publicly traded companies in a similar line of business ("public company analysis"), (ii) analysis of valuations for comparable M&A transactions ("M&A analysis"), (iii) yield analysis, (iv) discounted cash flow analysis and (v) liquidation analysis. The table entitled "Quantitative Table for Valuation Techniques" outlines the valuation technique(s) used for each asset category.

The public company analysis utilizes valuation ratios (commonly referred to as trading multiples) for publicly traded companies in a similar line of business as the portfolio company to estimate the fair value of such portfolio company. Typically, the Company's analysis focuses on the ratio of enterprise value ("EV") to earnings before interest expense, income tax expense, depreciation and amortization ("EBITDA") which is commonly referred to as an EV/EBITDA multiple and the ratio of equity market value ("EMV") to distributable cash flow ("DCF") which is commonly referred to as a EMV/DCF multiple. For example if a portfolio company's enterprise value was seven times its current or projected EBITDA, the company has an EV/EBITDA multiple of 7x. For these analyses, the Company utilizes projections provided by external sources (*i.e.*, third party equity research estimates) as well as internally developed estimates, and the Company focuses on EBITDA and DCF projections for the current calendar year and next calendar year. Based on this data, the Company selects a range of multiples for each metric given the trading multiples of similar publicly traded companies and applies such multiples to the portfolio company's EBITDA and DCF to estimate the portfolio company's enterprise value and equity value. When calculating these values, the Company applies a discount to the portfolio company's estimated equity value for the size of the company and the lack of marketability in the portfolio company's securities.

The M&A analysis utilizes valuation multiples for historical M&A transactions for companies or assets in a similar line of business as the portfolio company to estimate the fair value of such portfolio company. Typically, the Company's analysis focuses on EV/EBITDA multiples. The Company selects a range of multiples based on EV/EBITDA multiples for similar M&A transactions and applies such ranges to the portfolio company's EBITDA to estimate the portfolio company's enterprise value. The Company utilizes projections provided by external sources as well as internally developed estimates to calculate the valuation multiples of the comparable M&A transactions.

The yield analysis utilizes yields of equity and debt securities for publicly traded companies in a similar line of business as the portfolio investment to estimate the fair value of such investment. The yield of an investment represents the annual interest or distribution earned from the investment divided by such investment's market value. In the case of common unit / common equity investments, the analysis focuses on current and expected distribution yields of similar publicly traded companies (as estimated by third party and internal sources). Based on this data, the Company selects a range of yields and applies such range of yields to the portfolio company's distribution estimates to calculate the portfolio company's equity value. When calculating the portfolio company's value, the Company applies a discount (in the form of a higher yield) for the size of the portfolio company and the lack of marketability in the portfolio company's securities. In the case of debt and preferred equity investments, the analysis is focused on current market yields and credit spreads for similar debt and preferred investments. The Company selects a range of yields based on available market data and applies such range to the interest or preferred dividends paid on such portfolio company security.

The discounted cash flow analysis is used to estimate the enterprise value and equity value for the portfolio company based on estimated cash flows of such portfolio company. When estimating enterprise value, the Company uses the estimated unlevered cash flows for the portfolio company. When estimating equity value, the Company uses DCF for such portfolio company. Such cash flows include a terminal value for the portfolio company, which is typically based on an EV/EBITDA multiple. A present value of these cash flows is determined by using estimated discount rates (a weighted average cost of capital when calculating the enterprise value and a required equity rate of return when calculating equity value). For the Company's preferred equity investments, the discounted cash flow analysis is utilized to estimate the value of such security by calculating the present value of the security's preferred distributions. In this calculation, the discount rates used are based on the Company's assessment of the expected return market participants would require on such security. This assessment is based in part on prevailing yields of similar preferred stock and debt securities.

The liquidation analysis utilizes valuation multiples for historical M&A transactions for companies or assets in a similar line of business as the portfolio company to estimate the fair value of a debt instrument. The Company's analysis estimates the portfolio company's enterprise value (based on EV/EBITDA multiples) assuming the portfolio company is liquidated in an M&A transaction. The estimated enterprise value is used to calculate an expected recovery amount on the Company's debt investment.

Under all of these valuation techniques, the Company estimates operating results of its portfolio companies (including EBITDA, DCF and unlevered cash flow). These estimates utilize unobservable inputs such as historical operating results, which may be unaudited, and projected operating results, which will be based on operating assumptions for such portfolio company. The Company also consults with management of the portfolio companies to develop these financial projections. These estimates will be sensitive to changes in assumptions specific to such portfolio company as well as general assumptions for the industry. Other unobservable inputs utilized in the valuation techniques outlined above include: discounts for lack of marketability, selection of publicly-traded companies, selection of similar M&A transactions, selected ranges for valuation multiples, selected range of yields and expected required rates of return.

Changes in EBITDA multiples, DCF multiples, market yields or discount rates, each in isolation, may change the fair value of the Company's portfolio investments. Generally, a decrease in EBITDA multiples or DCF multiples, or an increase in market yields or discount rates may result in a decrease in the fair value of the Company's portfolio investments.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may fluctuate from period to period. Additionally, the fair value of the Company's investments may differ from the values that would have been used had a ready market existed for such investments and may differ materially from the values that the Company may ultimately realize.

The following table summarizes the significant unobservable inputs that the Company uses to value its portfolio investments categorized as Level 3 as of August 31, 2012:

Quantitative Table for Valuation Techniques

Assets at Fair Value	Fair Value	Valuation Technique	Unobservable Inputs	Range Low	Range High	Weighted Average
Equity securities of public companies (PIPE)	$ 5,813	- Discount to publicly traded securities	- Current discount	3.0%	6.6%	5.8%
			- Remaining restricted period	30 days	505 days	409 days
Equity securities of private companies – common units / common equity	78,938	- Public company analysis	- Selected valuation multiples:			
			EV / 2012E EBITDA	8.0x	10.0x	8.8x
			EV / 2013E EBITDA	3.8x	19.5x	9.1x
			EMV / 2012E DCF	9.0x	11.0x	10.0x
			EMV / 2013E DCF	9.0x	11.0x	10.0x
			- Discount for size and marketability	7.5%	25.0%	14.8%
		- M&A company analysis	- Selected EV / EBITDA multiples	3.5x	18.0x	8.6x
		- Yield analysis	- Yields for peer securities	8.5%	11.0%	9.6%
		- Discounted cash flow	- Weighted average cost of capital	18.0%	22.0%	20.0%
			- Equity rate of return	18.0%	22.0%	20.0%
Equity securities of private companies – preferred units	15,090	- Yield analysis	- Yields for peer securities	11.4%	15.6%	13.3%
		- Discounted cash flow	- Selected rates of return	12.0%	16.3%	13.5%
Debt securities of private companies	13,206	- Yield analysis	- Yields for peer securities	10.0%	14.0%	13.0%
		- Liquidation analysis	- EV / 2013E EBITDA	3.7x	4.3x	4.0x
Other receivable[1]	4,900	- Estimated recoverable	- Estimated claims against escrow	23.0%	23.0%	23.0%
Total	$117,947					

(1) The amount reflects the fair value of the receivable, held in escrow, that the Company expects to receive in connection with the sale of IRP.

4. Income Taxes

The Company's taxes include current and deferred income taxes. Current income taxes reflect the estimated income tax liability of the Company as of a measurement date. Deferred income taxes reflect (i) taxes on unrealized gains/(losses), which are attributable to the difference between fair market value and tax basis, (ii) 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 and (iii) the net tax benefit of accumulated net operating and capital losses, if any.

In August 2012, upon filing its income tax returns for the year-ended November 30, 2011, the Company paid federal income taxes of $185. At August 31, 2012, the Company had a net current income tax payable of $232. The payable is comprised of a federal income tax payable of $553 resulting from estimated taxable income in fiscal 2012, and a state income tax receivable of $321 resulting from the Company's estimated income tax payments being greater than its tax liability at August 31, 2012. The Company intends to pay the federal income tax liability and receive the majority of the state income tax receivable in the fiscal fourth quarter of 2012.

Components of the Company's current and deferred tax assets and liabilities are as follows:

	As of August 31, 2012
Net current tax liability	$ (232)
Deferred tax asset:	
Organizational costs	$ 15
Deferred tax liabilities:	
Net unrealized gains on investment securities	(22,611)
Basis reductions resulting from current year estimated return of capital	(1,610)
Total net deferred tax liability	$(24,206)

At August 31, 2012, the Company did not have any federal or state net operating loss carryforwards.

The Company primarily invests its equity securities issued by MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner of MLPs, the Company includes its allocable share of such MLPs' income or loss in computing its own taxable income or loss. Additionally, for income tax purposes, the Company reduces the cost basis of its MLP investments by the cash distributions received, and increases or decreases the cost basis of its MLP investments by its allocable share of the MLP's income or loss. During the fiscal year ended November 30, 2011, the Company received $15,374 in aggregate cash distributions from its MLP investments and reduced its cost basis, for income tax purposes, by the same amount. During the same period, the Company had additional cost basis reductions of $13,364 due to net allocated losses from its MLP investments.

As of August 31, 2012, the identified cost of investments for federal income tax purposes was $285,912. The cost basis for federal income tax purposes is $22,727 lower than the cost basis for GAAP reporting purposes primarily due to the additional basis adjustments attributable to the Company's share of the allocated losses from its MLP investments. Gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

	As of August 31, 2012
Gross unrealized appreciation of investments	$ 83,987
Gross unrealized depreciation of investments	(26,758)
Net unrealized appreciation of investments	$ 57,229

Components of the Company's income tax benefit (expense) were as follows:

	For the Three Months Ended August 31, 2012	For the Nine Months Ended August 31, 2012
Current income tax expense — net investment income	$ (23)	$ (23)
Deferred income tax benefit (expense) — net investment income (loss)	268	(89)
Current income tax expense — realized gains	(726)	(726)
Deferred income tax benefit (expense) — realized gains	99	(2,749)
Deferred income tax expense — unrealized gains	(9,177)	(8,727)
Income tax expense	$(9,559)	$(12,314)

Total income taxes were different from the amount computed by applying the federal statutory income tax rate of 35% to the net investment income and realized and unrealized gains (losses) on investments before taxes for the three and nine months ended August 31, 2012, as follows:

	For the Three Months Ended August 31, 2012	For the Nine Months Ended August 31, 2012
Computed federal income tax at 35%	$(9,277)	$(11,855)
State income tax, net of federal tax	(243)	(381)
Other, net	(39)	(78)
Total income tax expense	$(9,559)	$(12,314)

The Company's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Statement of Operations. As of August 31, 2012, the Company did not have any interest or penalties associated with the underpayment of any income taxes. Tax years from 2008 to the present remain open and subject to examination by tax jurisdictions.

5. Concentration of Risk

The Company's investment objective is to generate both current income and capital appreciation primarily through equity and debt investments. Under normal circumstances, the Company intends to invest at least 80% of total assets in securities of Energy Companies. A key focus area for the Company's investments in the energy industry is equity and debt investments in Midstream Energy Companies structured as limited partnerships. The Company also invests in equity and debt securities of Other Energy Companies and debt securities in Upstream Energy Companies. A substantial portion of the cash flow received by the Company is derived from investments in equity securities of MLPs. The amount of cash that an MLP has available for distributions and the tax character of such distributions are dependent upon the amount of cash generated by the MLP's operations. 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 objectives.

6. Agreements and Affiliations

A. *Administration Agreement* — The Company has entered into an Administration Agreement (the "Administration Agreement") with Ultimus Fund Solutions, LLC ("Ultimus"), which may be amended from time to time. Pursuant to the Administration Agreement, Ultimus will provide certain administrative services for the Company. The Administration Agreement has automatic one-year renewals unless earlier terminated by either party as provided under the terms of the Administration Agreement.

B. *Investment Management Agreement* — The Company has entered into an investment management agreement with KAFA under which KAFA, subject to the overall supervision of the Company's Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, the Company. For providing these services, KAFA receives a management fee from the Company. In September 2012, the Company renewed its agreement with KAFA for a period of one year, which expires on September 28, 2013. The agreement may be renewed annually upon the approval of the Company's Board of Directors (including a majority of the Company's directors who are not "interested persons" of the Company, as such term is defined in the 1940 Act).

Investment Management Fee. The Company pays an amount equal on an annual basis to 1.75% of average total assets to KAFA as compensation for services rendered. This amount is payable each quarter after the end of the quarter. For purposes of calculating the management fee, the "average total assets" for each quarterly period

are determined by averaging the total assets at the last day of that quarter with the total assets at the last day of the prior quarter. Total assets (excluding deferred taxes) shall equal gross asset value (which includes assets attributable to or proceeds from the use of leverage instruments), minus the sum of accrued and unpaid dividends and distributions on common and preferred stock and accrued liabilities (other than liabilities associated with leverage and deferred taxes). Liabilities associated with leverage include the principal amount of any borrowings, commercial paper or notes that the Company may issue, the liquidation preference of outstanding preferred stock, and other liabilities from other forms of leverage such as short positions and put or call options held or written by the Company.

The Company's management fees for the three and nine months ended August 31, 2012 were $1,493 and $4,483.

C. *Portfolio Companies* — From time to time, the Company may "control" or may be an "affiliate" of one or more of its portfolio companies, as each of these terms is defined in the 1940 Act. In general, under the 1940 Act, the Company would be presumed to "control" a portfolio company if the Company and its affiliates owned 25% or more of its outstanding voting securities and would be an "affiliate" of a portfolio company if the Company and its affiliates owned 5% or more of its outstanding voting securities. The 1940 Act contains prohibitions and restrictions relating to transactions between investment companies and their affiliates (including the Company's investment adviser), principal underwriters and affiliates of those affiliates or underwriters.

The Company believes that there are several factors that determine whether or not a security should be considered a "voting security" in complex structures such as limited partnerships of the kind in which the Company invests. The Company also notes that the SEC staff has issued guidance on the circumstances under which it would consider a limited partnership interest to constitute a voting security. Under most partnership agreements, the management of the partnership is vested in the general partner, and the limited partners, individually or collectively, have no rights to manage or influence management of the partnership through such activities as participating in the selection of the managers or the board of the limited partnership or the general partner. As a result, the Company believes that many of the limited partnership interests in which it invests should not be considered voting securities. However, it is possible that the SEC staff may consider the limited partner interests the Company holds in certain limited partnerships to be voting securities. If such a determination were made, the Company may be regarded as a person affiliated with and controlling the issuer(s) of those securities for purposes of Section 17 of the 1940 Act.

In making such a determination as to whether to treat any class of limited partnership interests the Company holds as a voting security, the Company considers, among other factors, whether or not the holders of such limited partnership interests have the right to elect the board of directors of the limited partnership or the general partner. If the holders of such limited partnership interests do not have the right to elect the board of directors, the Company generally has not treated such security as a voting security. In other circumstances, based on the facts and circumstances of those partnership agreements, including the right to elect the directors of the general partner, the Company has treated those securities as voting securities and, therefore, as affiliates. If the Company does not consider the security to be a voting security, it will not consider such partnership to be an "affiliate" unless the Company and its affiliates own more than 25% of the outstanding securities of such partnership.

There is no assurance that the SEC staff will not consider that other limited partnership securities that the Company owns and does not treat as voting securities are, in fact, voting securities for the purposes of Section 17 of the 1940 Act. If such determination were made, the Company will be required to abide by the restrictions on "control" or "affiliate" transactions as proscribed in the 1940 Act. The Company or any portfolio company that it controls, and its affiliates, may from time to time engage in certain of such joint transactions, purchases, sales and loans in reliance upon and in compliance with the conditions of certain exemptive rules promulgated by the SEC. The Company cannot make assurances, however, that it would be able to satisfy the conditions of these rules with respect to any particular eligible transaction, or even if the Company were allowed to engage in such a transaction,

that the terms would be more or as favorable to the Company or any company that it controls as those that could be obtained in arm's length transaction. As a result of these prohibitions, restrictions may be imposed on the size of positions that may be taken for the Company or on the type of investments that it could make.

As of August 31, 2012, the Company believes that Buckeye Partners, L.P., MarkWest Energy Partners, L.P. and PVR Partners, L.P. meet the criteria described above and are therefore considered affiliates of the Company.

Direct Fuels Partners, L.P. — At August 31, 2012, the Company held a 39.9% limited partnership interest in Direct Fuels Partners, L.P. ("Direct Fuels"). The Company believes that the limited partnership interests of Direct Fuels should not be considered voting securities for purposes of the 1940 Act because of the limited scope and character of the rights of such securities. The Company's President and Chief Executive Officer serves as a director on the board of the general partner for Direct Fuels. Although the Company does not own any interest in the general partner of Direct Fuels, it believes that it is an affiliate of Direct Fuels under the 1940 Act by virtue of its participation on the board of the general partner.

Plains All American GP LLC and Plains All American Pipeline, L.P.— Robert V. Sinnott is a member of the Company's Board of Directors and Chief Executive Officer of Kayne Anderson Capital Advisors, L.P. ("KACALP"), the managing member of KAFA. Mr. Sinnott also serves as a director on the board of Plains All American GP LLC ("Plains GP"), the general partner of Plains All American Pipeline, L.P. ("PAA"). Members of senior management of KACALP and KAFA and various affiliated funds managed by KACALP, including the Company, own units of Plains GP. Various advisory clients of KACALP and KAFA, including the Company, own units in PAA. The Company believes that it is an affiliate of Plains GP and PAA under the 1940 Act by virtue of (i) the ownership interests in the general partner by the Company and other affiliated Kayne Anderson funds and (ii) Mr. Sinnott's participation on the board of Plains GP.

ProPetro Services, Inc. — At August 31, 2012, the Company held 19.6% of ProPetro Services, Inc. ("ProPetro") outstanding common stock. The Company's President and Chief Executive Officer and one of its Executive Vice Presidents serve as directors on ProPetro's board of directors. The Company believes that it is an affiliate of ProPetro by virtue of its common stock ownership and its participation on its board of directors.

VantaCore Partners LP — At August 31, 2012, the Company held a 23.4% limited partnership interest in VantaCore Partners LP ("VantaCore"). The Company believes that the limited partnership interests of VantaCore should not be considered voting securities for purposes of the 1940 Act because of the limited scope and character of the rights of such securities. One of the Company's Senior Vice Presidents serves as Chairman of the board of directors of the general partner for VantaCore. Although the Company does not own any interest in the general partner of VantaCore, it believes it is an affiliate of VantaCore under the 1940 Act by virtue of its participation on the board of the general partner.

7. Derivative Financial Instruments

As of August 31, 2012, the Company held no derivative instruments, and during the nine months ended August 31, 2012, the Company did not have any activity involving derivative instruments. See Note 2 — Significant Accounting Policies.

8. Investment Transactions

For the nine months ended August 31, 2012, the Company purchased and sold securities in the amount of $98,463 and $97,076 (excluding short-term investments), respectively.

9. Restricted Securities

From time to time, certain of the Company's investments may be restricted as to resale. For instance, private investments that are not registered under the Securities Act of 1933, as amended, cannot be offered for public

sale in a non-exempt transaction without first being registered. In other cases, certain of the Company's investments have restrictions such as lock-up agreements that preclude the Company from offering these securities for public sale.

At August 31, 2012, the Company held the following restricted investments:

Investment	Acquisition Date	Type of Restriction	Number of Units or Principal ($) (in 000s)	Cost Basis	Fair Value	Fair Value Per Unit	Percent of Net Assets	Percent of Total Assets
Level 3 Investments[1]								
Buckeye Partners, L.P.								
Class B Units	6/10/11	(2)	100	$ 5,002	$ 4,636	$46.18	1.9%	1.3%
DCP Midstream Partners, LP								
Common Units	7/2/12	(2)	28	983	1,177	41.85	0.5	0.3
Direct Fuels Partners, L.P.[3]								
Class A Common Units	6/11/07	(4)	2,500	40,295	42,500	17.00	17.1	12.1
Class A Convertible Preferred Units[5]	5/14/09	(4)	97	1,952	1,929	20.00	0.8	0.5
Class B Convertible Preferred Units[5]	8/25/09	(4)	27	538	538	20.00	0.2	0.2
Class C Convertible Preferred Units[5]	11/20/09	(4)	20	408	406	20.00	0.2	0.1
Class D Preferred Units[6]	(7)	(4)	324	6	6,496	20.05	2.6	1.9
Plains All American GP LLC[8]								
Common Units	(7)	(4)	3	4,520	7,877	2,261	3.2	2.2
ProPetro Services, Inc.								
Common Shares	2/15/07	(4)	150,097	13	8,880	0.06	3.6	2.5
Secured Term Loan	2/15/07	(4)	$ 13,206	38,495	13,206	n/a	5.3	3.8
VantaCore Partners LP[9][10][11]								
Class A Common Units	(7)	(4)	2,187	24,653	19,681	9.00	7.9	5.6
Class A Preferred Units	(7)	(4)	224	—	3,586	16.00	1.4	1.0
Class B Preferred Units	8/3/11	(4)	133	1,868	2,135	16.00	0.8	0.6
Total				$118,733	$113,047		45.5%	32.1%
Level 2 Investments[12]								
Senior Notes and Secured Term Loans								
Aurora Oil & Gas Limited	2/1/12	(2)	$ 3,500	$ 3,454	$ 3,657	n/a	1.5%	1.0%
Crestwood Holdings Partners, LLC	3/20/12	(4)	19,485	19,193	19,899	n/a	8.0	5.6
CrownRock LP	8/12/11	(4)	3,250	3,050	3,453	n/a	1.4	1.0
EP Energy LLC	4/10/12	(4)	2,750	2,750	2,994	n/a	1.2	0.9
Foresight Energy LLC	8/6/10	(4)	5,000	4,975	5,112	n/a	2.1	1.4
Halcón Resources Corporation	7/24/12	(2)	3,000	3,067	3,068	n/a	1.2	0.9
PetroBakken Energy Ltd.	1/25/12	(2)	750	746	769	n/a	0.3	0.2
Southern Pacific Resource Corp.	5/5/11	(2)	1,975	2,013	1,990	n/a	0.8	0.6
Total				$ 39,248	$ 40,942		16.5%	11.6%
Total of all restricted securities				$157,981	$153,989		62.0%	43.7%

(1) Securities are valued using inputs reflecting the Company's own assumptions as more fully described in Note 2 — Significant Accounting Policies and Note 3 — Fair Value.

(2) Unregistered or restricted security of a publicly traded company.

(3) The Company's investment in Direct Fuels includes 200 incentive distribution rights (20% of total outstanding incentive distribution rights) for which the Company assigns a value of zero.

(4) Unregistered security of a private company.

(5) The Direct Fuels Convertible Preferred Units consist of three classes — Class A, B and C. Each class has a liquidation preference of $20.00 per unit and is convertible into Class A Common Units. The Class A Preferred Units are convertible into Class A Common Units at a price of $20.00 per unit. The Class B

Preferred Units are convertible into Class A Common Units at a price of $18.50 per unit. The Class C Preferred Units are convertible into Class A Common Units at a price of $15.50 per unit.

(6) The Direct Fuels Class D Preferred Units are senior to Direct Fuels' Convertible Preferred Units and Class A Common Units. See Note 12 — Subsequent Events.

(7) Security was acquired at various dates during the nine months ended August 31, 2012 and/or in prior years.

(8) In determining the fair value for Plains All American GP LLC ("PAA GP"), the Company's valuation is based on publicly available information. Robert V. Sinnott, the CEO of KACALP, sits on PAA GP's board of directors (see Note 6 — Agreements and Affiliations — for more detail). Certain private investment funds managed by KACALP may value their investment in PAA GP based on non-public information, and, as a result, such valuation may be different than the Company's valuation.

(9) The Company's investment in VantaCore includes 1,823 incentive distribution rights (18% of total outstanding incentive distribution rights) for which the Company assigns a value of zero.

(10) The VantaCore Class A Preferred Units are senior to the VantaCore Common Units in liquidation preference. The Class A Preferred Units have a liquidation preference of $17.50 per unit and were issued by VantaCore to holders of the common and preferred units to the extent that such units did not receive full cash distributions.

(11) The VantaCore Class B Preferred Units have a liquidation preference of $17.50 per unit and were issued on August 3, 2011 in connection with VantaCore's acquisition of a quarry owned by a third-party. On August 3, 2012, the holders of Class B Preferred Units received 0.25 common units of VantaCore for each Class B Preferred Unit held. The Class B Preferred Units have a minimum quarterly distribution of $0.3825 per unit and are senior to all other equity classes of VantaCore in liquidation preference.

(12) These securities have a fair market value determined by the mean of the bid and ask prices provided by an agent or syndicate bank, principal market maker or an independent pricing service as more fully described in Note 2 — Significant Accounting Policies. These securities have limited trading volume and are not listed on a national exchange.

10. Credit Facility

As of August 31, 2012, the Company's amended and restated senior secured revolving credit facility (the "Credit Facility") had a total commitment amount of $85,000 and a maturity date of March 30, 2014. Outstanding loan balances accrue interest daily at a rate equal to LIBOR plus 2.00% based on current borrowings and the current borrowing base. If borrowings exceed the borrowing base attributable to "quoted" securities (generally defined as equity investments in public MLPs and midstream companies and investments in bank debt and high yield bonds which are traded), the interest rate will increase to LIBOR plus 3.00%. The Company pays a commitment fee of 0.50% per annum on any unused amounts of the Credit Facility.

The obligations under the Credit Facility are collateralized by substantially all of the Company's assets and are guaranteed by any of the Company's future subsidiaries, other than special purpose subsidiaries. The Credit Facility contains affirmative and reporting covenants and certain financial ratio and restrictive covenants, including: (a) maintaining a ratio, on a consolidated basis, of total assets (excluding deferred tax assets) less liabilities (other than indebtedness and deferred tax liabilities) to aggregate indebtedness of the Company of not less than 3.0:1.0, (b) maintaining the value of the portion of the Company's portfolio that can be converted into cash within specified time periods and valuations at no less than 10% of the principal amount outstanding under the Credit Facility during any period when adjusted outstanding principal amounts exceed a specified threshold percentage of the Company's adjusted borrowing base, (c) maintaining consolidated net assets at each fiscal quarter end of not less than the greater of: 40% of the consolidated total assets of the Company and its subsidiaries, and $85,000 plus 25% of the net proceeds from any issuance of equity securities by the Company and its subsidiaries subsequent to the closing of the Credit Facility, (d) limitations on additional indebtedness,

(e) limitations on liens, (f) limitations on mergers and other fundamental changes, (g) limitations on dividends and other specified restricted payments, (h) limitations on disposition of assets, (i) limitations on transactions with affiliates, (j) limitations on agreements that prohibit liens on properties of the Company and its subsidiaries, (k) limitations on sale and leaseback transactions, (l) limitations on specified hedging transactions, (m) limitations on changes in accounting treatment and reporting practices, (n) limitations on specified amendments to the Company's investment management agreement during the continuance of a default, (o) limitations on the aggregate amount of unfunded commitments, and (p) limitations on establishing deposit, securities or similar accounts not subject to control agreements in favor of the lenders. The Credit Facility also contains customary representations and warranties and events of default.

Under the terms of the Credit Facility, if an investment becomes non-performing, it will reduce the Company's borrowing base and could cause the Company to be in default under the terms of its loans under the Credit Facility. Debt investments are generally characterized as non-performing if such investments are in default of any payment obligations, and private MLP equity investments are generally characterized as non-performing if such investments fail to pay cash distributions, in their most recent fiscal quarter, that are greater than 80% of their minimum quarterly distribution amount.

Under the terms of the Credit Facility, if borrowings exceed 90% of borrowing base, the Credit Facility restricts the Company in the amount of distributions the Company may pay to stockholders to no more than the amount of Distributable Cash Flow for the current quarter and prior three quarters. As of August 31, 2012, the Company had $77,000 borrowed under its Credit Facility (at an interest rate of 2.24%), which represented 59.6% and 66.1% of its borrowing base and quoted borrowing base of $129,159 and $116,468, respectively. The maximum amount that the Company can borrow under its Credit Facility is limited to the lesser of the commitment amount of $85,000 and its borrowing base.

As of August 31, 2012, the Company was in compliance with all financial and operational covenants required by the Credit Facility.

11. Common Stock

The Company has 200,000,000 shares of common stock authorized. Transactions in common shares for the nine months ended August 31, 2012 were as follows:

Shares outstanding at November 30, 2011	10,342,730
Shares issued through reinvestment of dividends and distributions	48,865
Shares outstanding at August 31, 2012	10,391,595

12. Subsequent Events

On September 20, 2012, the Company received $1,887 of its $4,900 receivable held in escrow related to the 2011 sale of IRP. The payment was a result of the August 2012 settlement of claims made by James River in June 2012. The recovery for this portion of the escrow that was settled was approximately 92%. The remaining escrow amount could take 12 to 24 months to settle.

On September 28, 2012, the Company declared its quarterly distribution of $0.43 per common share for the fiscal third quarter for a total of $4,468. The distribution was paid on October 26, 2012 to stockholders of record on October 17, 2012. Of this total, pursuant to the Company's dividend reinvestment plan, $352 was reinvested into the Company through the issuance of 13,535 shares of common stock.

On October 23, 2012, Direct Fuels redeemed all of its Class D Preferred Units at the liquidation preference amount for these units ($20 per unit) plus accrued dividends. The Company received $6,801 in cash from this redemption and intends to reinvest these proceeds in a manner consistent with the Company's investment policies.

KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY
REPURCHASE DISCLOSURE
(UNAUDITED)

Notice is hereby given in accordance with Section 23(c) of the 1940 Act, that the Company may from time to time purchase shares of its common stock in the open market.

Directors and Corporate Officers

Kevin S. McCarthy	Chairman of the Board of Directors, President and Chief Executive Officer
William R. Cordes	Director
Barry R. Pearl	Director
Albert L. Richey	Director
Robert V. Sinnott	Director
William L. Thacker	Director
Terry A. Hart	Chief Financial Officer and Treasurer
David J. Shladovsky	Chief Compliance Officer and Secretary
J.C. Frey	Executive Vice President, Assistant Secretary and Assistant Treasurer
James C. Baker	Executive Vice President
Ron M. Logan, Jr.	Senior Vice President
Jody C. Meraz	Vice President

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Administrator
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Please visit us on the web at *http://www.kaynefunds.com* or call us toll-free at 1-877-657-3863.

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