

TORTOISE ENERGY INFRASTRUCTURE CORP  
Form N-CSR  
January 31, 2007

As filed with the Securities and Exchange Commission on [date]  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM N-CSR**  
**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**  
Investment Company Act file number **811-21462**  
**Tortoise Energy Infrastructure Corporation**  
(Exact name of registrant as specified in charter)  
**10801 Mastin Blvd., Suite 222, Overland Park, KS 66210**  
(Address of principal executive offices) (Zip code)  
**David J. Schulte**  
**10801 Mastin Blvd., Suite 222, Overland Park, KS 66210**  
(Name and address of agent for service)  
**913-981-1020**  
Registrant's telephone number, including area code

Date of fiscal year end: **November 30**

Date of reporting period: **November 30, 2006**

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**Item 1. Report to Stockholders.**

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**Company at a Glance**

Tortoise Energy Infrastructure Corp. is a pioneering closed-end investment company investing primarily in equity securities of Master Limited Partnerships (MLPs) operating energy infrastructure assets.

**Investment Objectives: Yield, Growth and Quality**

Our goal is to provide our stockholders with a high level of total return with an emphasis on current distributions. In seeking to achieve **yield**, we target distributions to our stockholders that are roughly equal to the underlying yield on a direct investment in MLPs. We accomplish this by maintaining our strategy of investing primarily in energy infrastructure companies with attractive current yields and growth potential.

Tortoise Energy achieves dividend **growth** as revenues of our underlying companies grow with the economy, with the population and through rate increases. This revenue growth leads to increased operating profits, and when combined with internal expansion projects and acquisitions, is expected to provide attractive growth in distributions to Tortoise Energy. We also seek dividend growth through capital market strategies involving timely debt and equity offerings by Tortoise Energy that are primarily invested in MLP issuer direct placements.

We seek to achieve **quality** by investing in companies operating infrastructure assets that are critical to the U.S. economy. Often these assets would be difficult to replicate. We also back experienced management teams with successful track records. By investing in Tortoise Energy, our stockholders have access to a portfolio that is diversified through geographic regions and across product lines, including natural gas, natural gas liquids, crude oil and refined products.

**About Master Limited Partnerships**

MLPs are limited partnerships whose units trade on public exchanges such as the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX) and NASDAQ. Buying MLP units makes an investor a limited partner in the MLP. There are currently more than 50 MLPs in the market, mostly in industries related to energy, natural resources and real estate.

Tortoise Energy invests primarily in MLPs in the energy infrastructure sector. Energy infrastructure MLPs are engaged in the transportation, storage and processing of crude oil, natural gas and refined products from production points to the end users. Our investments are primarily in mid-stream (mostly pipeline) operations, which typically produce steady cash flows with less exposure to commodity prices than many alternative investments in the broader energy industry. With the growth potential of this sector along with our disciplined investment approach, we endeavor to generate a predictable and increasing dividend stream for our investors.

#### **A Tortoise Energy Investment Versus a Direct Investment in MLPs**

Tortoise Energy seeks to provide its stockholders with an efficient alternative to investing directly in MLPs. A direct investment in a MLP potentially offers the opportunity to receive an attractive distribution that is approximately 80 percent tax deferred, with a historically low correlation to returns on stocks and bonds. However, the tax characteristics of a direct MLP investment are generally undesirable for tax-exempt investors such as retirement plans. Tortoise Energy is structured as a C Corporation accruing federal and state income taxes, based on taxable earnings and profits. Because of this innovative structure, pioneered by Tortoise Capital Advisors, institutions and retirement accounts are able to join individual stockholders as investors in MLPs.

Additional features of Tortoise Energy include:

One Form 1099 per stockholder at the end of the year, thus avoiding multiple K-1s and multiple state filings for individual partnership investments;

A professional management team, with nearly 100 years combined investment experience, to select and manage the portfolio on your behalf;

The ability to access investment grade credit markets to enhance the dividend rate; and

Access to direct placements and other investments not available through the public markets.

#### **Summary Financial Information (Unaudited)**

Year Ended November 30

2006

Market value per share	\$ 36.13
Net asset value per share	31.82
Total net assets	532,433,365
Unrealized appreciation of investments (excluding interest rate swap contracts) before deferred taxes	186,051,459
Unrealized appreciation of investments and interest rate swap contracts after deferred taxes	111,580,962
Net investment loss	(5,798,038)
Total realized gain after deferred taxes	5,524,349
Total investment return based on market value <sup>(1)</sup>	34.50%
Net operating expenses before leverage costs and taxes as a percent of average total assets <sup>(2)</sup>	0.98%
Distributable cash flow as a percent of average net assets <sup>(3)</sup>	7.54%

(1) See footnote 6 to the Financial Highlights on page 22 for further disclosure.

(2) Represents expenses, after fee reimbursement.

(3) See Key Financial Data which illustrates the calculation of distributable cash flow.

#### **Allocation of Portfolio Assets**

November 30, 2006 (Unaudited)

(Percentages based on total investment portfolio)

(Unaudited)

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January 22, 2007

Fellow Stockholders,

Tortoise Energy Infrastructure Corp.'s (Tortoise Energy) fiscal 2006 results reflect our commitment to **yield, growth and quality**.

Our portfolio companies exceeded performance expectations as a result of growing energy demand, internal growth projects and acquisitions. This performance, coupled with a strong equity market, low interest rates and strengthening investor confidence in the sector, led to an outstanding year for Tortoise Energy.

#### **Performance Review and Outlook**

Tortoise Energy's total return for fiscal year 2006 was 34.5 percent based on market value, including the reinvestment of quarterly dividends. Our dividends for the year of \$2.02 grew 12.8 percent over the \$1.79 paid the prior year. Our most recent dividend of \$0.53 per common share was our eighth consecutive dividend increase since full investment of the initial public offering proceeds. It represents an annualized dividend rate of \$2.12 and is a 16.5 percent increase over the 2005 fourth quarter annualized dividend rate of \$1.82.

The average annual percentage increase of distributions of our portfolio companies was 17 percent as compared to their distributions for the prior year. The strength of our portfolio is evidenced by our selection of quality companies, led by excellent management teams who focus on low-risk infrastructure assets and stable recurring revenue streams. We maintain our expectation that our long-term dividend growth will be approximately 4 percent on an annual basis.

*(Unaudited)*

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#### **Investment Review**

In order to increase dividends and long-term stockholder value, we issue debt and equity to allow us to make attractive investments, primarily through issuer direct placements.

In June 2006, Tortoise Energy continued its history of innovation in the capital marketplace by putting in place a universal shelf registration statement which allows the company to issue, in multiple offerings, up to \$125 million in common stock, preferred stock or debt securities. The flexible nature of the shelf will allow us to efficiently raise funds to invest in opportunities we believe will increase dividends and long-term stockholder value.

Under the shelf registration, we completed a \$50 million public offering of common stock in August 2006 and an additional \$52 million common stock offering in December 2006. The proceeds of these offerings were used primarily to repay outstanding debt under a revolving credit facility utilized to fund attractive direct placements and open market purchases.

Since its inception in February 2004 through the date of this letter, Tortoise Energy has helped finance growth in the energy infrastructure MLP sector through the completion of 25 direct purchases from MLP issuers or their affiliates totaling nearly \$327 million.

#### **Master Limited Partnership Investment Overview and Outlook**

In 2006, the MLP market continued to play a vital role in the expansion of U.S. energy infrastructure. Lehman Brothers estimated that approximately \$4 billion was spent on internal growth projects in the 2006 calendar year compared to approximately \$3 billion in 2005. Expected internal growth project costs for the next few years exceed \$17 billion. In addition, acquisition activity through December 31, 2006 remained strong, with more than \$11 billion of mainly natural gas assets entering the MLP sector. We anticipate acquisitions in 2007 will also drive distribution growth, since MLPs currently own less than 50 percent of the refined product, crude oil and natural gas midstream assets in the United States.

*(Unaudited)*

These organic growth projects and acquisitions will require equity and debt financing that could provide direct placement opportunities for Tortoise Energy.

**Conclusion**

Population and economic growth trends should continue to increase U.S. energy demand. We believe energy infrastructure will directly benefit, providing investors an attractive return with minimal exposure to risks associated with volatile energy commodity prices. We hope that investors seeking expertise in RIT and MLP portfolio management will find Tortoise Energy a compelling option.

Thank you to our stockholders for your continued support. As always, we will strive to deliver a rewarding return and we will remain steadfast to our objective of providing you with an attractive yield, dividend growth and a portfolio of quality companies. We look forward to seeing you at the annual stockholders meeting on April 13, 2007. For those unable to attend, please access our webcast of the meeting at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com).

Sincerely,

The Managing Directors

Tortoise Capital Advisors, L.L.C.

H. Kevin Birzer      Zachary A. Hamel      Kenneth P. Malvey      Terry Matlack      David J. Schulte  
*(Unaudited)*

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Key Financial Data *(Unaudited)*

*(dollar amounts in thousands unless otherwise indicated)*

	<b>Year Ended November 30,</b>	
	<b>2005</b>	<b>2006</b>
<b>Total Distributions Received from Investments</b>		
Distributions received from master limited partnerships	\$ 36,172	\$ 45,985
Dividends paid in stock	4,403	5,862
Dividends from common stock	95	97
Short-term interest and dividend Income	1,121	746

	<b>Year Ended November 30,</b>	
	<u>                    </u>	<u>                    </u>
Total from investments	41,791	52,690
<b>Operating Expenses Before Leverage Costs and Current Taxes</b>		
Advisory fees, net of reimbursement	4,805	6,254
Other operating expenses	1,450	1,309
	<u>6,255</u>	<u>7,563</u>
Distributable cash flow before leverage costs and current taxes	35,536	45,127
Leverage costs <sup>(2)</sup>	7,779	11,032
Current income tax expense	214	472
<b>Distributable Cash Flow<sup>(3)</sup></b>	<u>\$ 27,543</u>	<u>\$ 33,623</u>
Dividends paid on common stock	\$ 26,506	\$ 31,969
Dividends paid on common stock per share	1.79	2.02
Payout percentage for period <sup>(4)</sup>	96.2%	95.1%
Total assets, end of period	695,978	928,431
Average total assets during period <sup>(5)</sup>	663,318	773,568
Leverage (Tortoise Notes, Preferred Stock and short-term credit facility) <sup>(6)</sup>	235,000	267,450
Leverage as a percent of total assets	33.8%	28.8%
Unrealized appreciation net of deferred taxes, end of period	84,456	196,037
Net assets, end of period	404,274	532,433
Average net assets during period <sup>(7)</sup>	414,802	446,210
Net asset value per common share	27.12	31.82
Market value per share	28.72	36.13
Shares outstanding	14,906	16,732
<b>Selected Operating Ratios<sup>(8)</sup></b>		

**As a Percent of Average Total Assets**

Total distributions received from investments	6.30%	6.81%
Operating expenses before leverage costs and current taxes	0.94%	0.98%
Distributable cash flow before leverage costs and current taxes	5.36%	5.83%

**As a Percent of Average Net Assets**

Distributable cash flow	6.64%	7.54%
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(1) Q1 is the period from December through February. Q2 is the period from March through May. Q3 is the period from June through August. Q4 is the period from September through November.

(2) Leverage costs include interest expense, auction agent fee, interest rate swap expenses and preferred dividends.

(3) Net investment income (loss), before income taxes on the Statement of Operations is adjusted as follows to reconcile to Distributable Cash Flow (DCF): increased by the return of capital on MLP distributions and the value of paid-in-kind distributions; and decreased by dividends to preferred stockholders, current taxes, and realized and short-term unrealized losses (gains) on interest rate swap settlements.

(4) Dividends paid as a percentage of Distributable Cash Flow.

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

(6) The balance on the short-term credit facility was \$32,450,000 as of November 30, 2006.

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

(8) Annualized for period less than one full year.

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## 2006

2005 Q4 <sup>(1)</sup>	Q1 <sup>(1)</sup>	Q2 <sup>(1)</sup>	Q3 <sup>(1)</sup>	Q4 <sup>(1)</sup>
\$ 10,188	\$ 10,601	\$ 11,074	\$ 11,715	\$ 12,595
1,197	1,242	1,186	1,689	1,745
26	31	32	34	
218	197	199	194	156
11,629	12,071	12,491	13,632	14,496
1,300	1,248	1,550	1,660	1,796
397	343	310	321	335
1,697	1,591	1,860	1,981	2,131
9,932	10,480	10,631	11,651	12,365
2,488	2,661	2,723	2,864	2,784
214	59	137	138	138
\$ 7,230	\$ 7,760	\$ 7,771	\$ 8,649	\$ 9,443
\$ 6,764	\$ 7,155	\$ 7,472	\$ 8,494	\$ 8,848
0.455	0.48	0.50	0.51	0.53
93.6%	92.2%	96.2%	98.2%	93.7%
695,978	718,266	758,684	835,250	928,431
725,506	704,996	735,142	786,791	865,220
235,000	235,000	235,000	235,000	267,450
33.8%	32.7%	31.0%	28.1%	28.8%
84,456	99,072	129,299	148,264	196,037
404,274	410,642	432,077	492,866	532,433
421,244	411,181	419,521	446,196	507,852
27.12	27.55	28.91	29.59	31.82
28.72	29.42	28.75	30.62	36.13
14,906	14,906	14,944	16,655	16,732
6.43%	6.94%	6.74%	6.87%	6.72%
0.94%	0.92%	1.00%	1.00%	0.99%
5.49%	6.02%	5.74%	5.87%	5.73%
6.88%	7.65%	7.35%	7.69%	7.46%

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## Management's Discussion

The information contained in this section should be read in conjunction with our Financial Statements and the Notes thereto. In addition, this report contains certain forward-looking statements. These statements include the plans and

*objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, or continue or the neg thereof or other variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth in the Risk Factors section of our public filings with the SEC.*

#### **Overview**

Tortoise Energy seeks is to provide a growing dividend stream to our investors, and when combined with MLP growth prospects, the investment offers the opportunity for an attractive total return. We seek to provide our stockholders with an efficient vehicle to invest in the energy infrastructure sector. While we are a registered investment company under the Investment Company Act of 1940, as amended (the 1940 Act ), we are not a regulated investment company for federal tax purposes. Our dividends do not generate unrelated business taxable income (UBTI) and our stock may therefore be suitable for holding by pension funds, IRAs and mutual funds, as well as taxable accounts.

We invest primarily in MLPs through private and public market purchases. MLPs are publicly traded partnerships whose equity interests are traded in the form of units on public exchanges, such as the NYSE. Our private purchases principally involve providing financing directly to an MLP through equity investments, which we refer to as direct placements. MLPs typically use this financing to fund growth, acquisitions, recapitalizations, debt repayments and bridge financings. We generally invest in companies that are publicly reporting, but for which private financing offers advantages. These direct placement opportunities generally arise from our long-term relationships with energy infrastructure MLPs and our unique expertise in origination, structuring, diligence and investment oversight.

#### **Critical Accounting Policies**

The financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments. Our critical accounting policies are those applicable to the valuation of investments and certain revenue recognition matters as discussed in Note 2 in the Notes to Financial Statements.

#### **Determining Dividends Distributed to Stockholders**

Our portfolio generates cash flow from which we pay dividends to stockholders. We pay dividends out of our distributable cash flow ( DCF ). Our Board of Directors reviews the dividend rate quarterly, and may adjust the quarterly dividend throughout the year. Our goal is to declare what we believe to be sustainable increases in our regular quarterly dividends. We intend to reinvest the after-tax proceeds of sales of investments in order to maintain and grow our dividend rate. We have targeted to pay at least 95 percent of DCF on an annualized basis.

#### **Determining DCF**

DCF is simply distributions received from investments less our total expenses. The total distributions received from our investments includes the amount received by us as cash distributions from MLPs, paid-in-kind distributions, and dividend and interest payments. The total expenses include current or anticipated operating expenses, leverage costs and current income taxes on our operating income. Each are summarized for you in the table on pages 6 and 7 and are discussed in more detail below.

*(Unaudited)*

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#### Management's Discussion

*(Continued)*

The key financial data table discloses the calculation of DCF. The difference between distributions received from investments in the DCF calculation and net investment income (loss) before taxes as reported in the Statement of Operations, is reconciled as follows: (1) the Statement of Operations, in conformity with U.S. generally accepted accounting principles (GAAP), recognizes distribution income from MLPs and common stock on their ex-dates, whereas the DCF calculation reflects distribution income on their pay dates; (2) GAAP recognizes that a significant portion of the cash distributions received from MLPs are treated as a return of capital and therefore excluded from

investment income, whereas the DCF calculation includes the return of capital; and (3) distributions received from investments in the DCF calculation include the value of dividends paid-in-kind (additional stock), whereas such amounts are not included as income for GAAP purposes. The treatment of expenses in the DCF calculation also differs from what is reported in the Statement of Operations. In addition to the expenses that are included in net investment income (loss) before taxes in the Statement of Operations, the DCF calculation reflects dividends to preferred stockholders and realized and short-term unrealized gains (losses) on interest swap settlements as additional leverage costs, as well as current tax expense.

#### **Distributions Received from Investments**

Our ability to generate cash is dependent on the ability of our portfolio of investments to generate cash flow from their operations. In order to maintain and grow our dividend to our stockholders, we evaluate each holding based upon its contribution to our investment income, our expectation for its growth rate, and its risk relative to other potential investments.

We concentrate on MLPs we believe can expect an increasing demand for services from economic and population growth. Our disciplined investment process seeks to select well-managed businesses with real, hard assets and stable recurring revenue streams.

Our focus remains primarily on investing in fee-based service providers that operate long-haul, interstate pipelines. We further diversify among issuers, geographies and energy commodities, while seeking to achieve a dividend yield equivalent to a direct investment in energy infrastructure MLPs. In addition, most energy infrastructure companies are regulated and utilize an inflation escalator index that factors in inflation as a cost pass-through. So, over the long-term, we believe MLPs will outpace interest rate increases and produce positive returns.

Total distributions received from our investments relating to DCF for the fiscal year ended 2006 was approximately \$52.7 million, representing a 26.1 percent increase as compared to \$41.8 million for the fiscal year ended 2005. This increase reflects full-year earnings on \$235 million long-term leverage, partial-year earnings from the investment of approximately \$48 million of net proceeds from equity issued in August and distribution increases from our MLP investments. The average annual percentage increase of distributions of our MLPs as compared to the distributions of the prior year was 17 percent. In addition, total distributions received from investments represented 6.81 percent of average total assets for the year, an increase from 6.30 percent as compared to fiscal year 2005.

#### **Expenses**

We incur two types of expenses: (1) operating expenses, consisting primarily of the advisory fee; and (2) leverage costs. On a percentage basis, operating expenses before leverage costs and current taxes were an annualized 0.98 percent of average total assets for the fiscal year ended 2006, as compared to 0.94 percent for the year ended 2005. Operating expenses before leverage costs and current taxes for fiscal year ended 2006 increased 20.9 percent as compared to the year ended 2005, primarily as a result of increased advisory fees. Advisory fees increased as a result of growth in average total assets and from the impact of the contractual reduction in reimbursed advisory fees from 0.23 percent of managed assets to 0.10 percent which took effect March 1, 2006. The reimbursement will continue until 2009. Other operating expenses decreased 9.7 percent as compared to fiscal year 2005, reflecting lower non-asset based costs and general operating efficiencies realized during the year.

*(Unaudited)*

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#### Management's Discussion

*(Continued)*

Leverage costs consist of four major components: (1) the direct interest expense, which will vary from period to period as all of our Tortoise Notes and revolving credit line have variable rates of interest; (2) the auction agent fees, which are the marketing costs for the variable rate leverage; (3) the realized gain or loss on our swap arrangements; and (4) our preferred dividends, which also carry a variable rate dividend. We have locked-in all of our long-term leverage costs through interest rate swap agreements, converting our variable rate obligations to fixed rate obligations for the term of the swap agreements. With very little short-term interest rate risk in Tortoise Energy, we now have an all-in weighted average cost of leverage of 4.52 percent with a remaining weighted average maturity of approximately



5 1/2 years. Details of our interest rate swap contracts are disclosed in Note 11 of our Notes to Financial Statements. As indicated in Note 11, Tortoise Energy has agreed to pay U.S. Bank a fixed rate while receiving a floating rate based upon the one-month or one-week U.S. Dollar London Interbank Offered Rate ( LIBOR ). LIBOR is the primary global benchmark or reference rate for short-term interest rates and is intended to approximate our variable rate payment obligations. The spread between the fixed rate and floating LIBOR rate is reflected in our Statement of Operations as a realized or unrealized gain when the LIBOR rate exceeds the fixed rate (U.S. Bank pays Tortoise Energy the net difference) or a realized or unrealized loss when the fixed rate exceeds the LIBOR rate (Tortoise Energy pays U.S. Bank the net difference). We realized approximately \$1.5 million in gains on interest rate swap settlements during the year as compared to approximately \$855,000 in losses for the fiscal year ended 2005. This reflects the increase in average LIBOR rates to approximately 5.0 percent for fiscal year ended 2006 as compared to approximately 3.2 percent for the year ended 2005.

Leverage costs increased to \$11.0 million for the fiscal year ended 2006 as compared to \$7.8 million for year ended 2005, due to an increase in average leverage outstanding, the full implementation of the swap agreements and interest expense associated with short-term lines of credit utilized during the current fiscal year.

#### **Distributable Cash Flow**

For fiscal year ended 2006 our DCF was \$33.6 million, an increase of \$6.1 million or 22.1 percent as compared to fiscal year 2005. This increase is the net result of growth in distributions and expenses as outlined above. Current income tax expense reflects estimated Canadian taxes payable by Tortoise Energy on Canadian income allocated to the company. We paid dividends of \$32.0 million (\$2.02 per share), representing approximately 95.1 percent of DCF during fiscal year 2006. This is an increase of \$5.5 million or 20.6 percent as compared to fiscal year 2005. On a per share basis, we paid a \$0.53 dividend on November 30, 2006, a 3.9 percent increase over 3rd Quarter 2006. The annualized run rate of \$2.12 per share equates to an 8.5 percent yield on our IPO price of \$25.00. With the growth in distributions from the MLPs in which we invest, we expect the dividend to continue to grow at least 4 percent annually.

#### **Taxation of our Distributions**

We invest in partnerships which have larger distributions of cash than the accounting income which they generate. Accordingly, the distributions include a return of capital component for accounting and tax purposes on our books. Dividends declared and paid by Tortoise Energy in a year generally differ from taxable income for that year, as such dividends may include the distribution of current year taxable income or returns of capital.

The taxability of the dividend you receive depends on whether Tortoise Energy has annual earnings and profits. If so, those earnings and profits are first allocated to the preferred shares, and then to the common shares. Because most of the distributions we have received from MLPs are not income for tax purposes, we currently have very little taxable income to offset against our expenses.

*(Unaudited)*

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#### Management's Discussion

*(Continued)*

In the event Tortoise Energy has earnings and profits, our dividend, like any other corporate dividend, would be taxable at the 15 percent qualified dividend rate. Our dividend would include a taxable component for either of two reasons: first, the tax characterization of the distributions we receive from MLPs could change and become less return of capital and more in the form of income. Second, we could sell an MLP investment in which Tortoise Energy has a gain. The unrealized gain we have in the portfolio is reflected in the Statement of Assets and Liabilities. Tortoise Energy's investments at value are \$924.6 million, with an adjusted cost of \$602.6 million. The \$322 million difference reflects gain that would be realized if those investments were sold at those values. A sale could give rise to earnings and profits in that period and make the distributions taxable qualified dividends. Note, however, that the Statement of Assets and Liabilities reflects as a deferred tax liability the possible future tax liability we would pay if all investments were liquidated at their indicated value. It is for these two reasons that we inform you of the tax treatment after the close of each year because both of these items are unpredictable until the year is over. For book purposes, dividends

for fiscal year 2006, were comprised entirely of return of capital. For tax purposes, dividends for fiscal year 2006 were approximately comprised of 11 percent qualified dividend income and 89 percent return of capital. This information will be reported to stockholders on Form 1099-DIV and available on our Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com).

### **Liquidity and Capital Resources**

Tortoise Energy had total assets of \$928 million at fiscal year end 2006. Our total assets reflect the value of our investments, which are itemized in the Schedule of Investments. It also reflects cash, interest and other receivables and any expenses that may have been prepaid. During the year, total assets grew from \$696 million to \$928 million, an increase of 33 percent. This change was primarily the result of an increase in unrealized appreciation of investments of \$144 million, increase of leverage of \$32 million and \$48 million in net equity proceeds from the issuance of 1,675,050 common shares. The Statement of Operations reflects unrealized appreciation before deferred tax expense of \$183 million, which includes \$39 million in MLP distributions treated as return of capital.

The Company has a \$60 million credit facility with U.S. Bank, N.A. maturing June 13, 2007. The credit facility has a variable annual interest rate equal to the one-month LIBOR rate plus 0.75 percent. Proceeds from the credit facility are primarily used to facilitate direct placement equity investments. At November 30, 2006, we had approximately \$32 million outstanding under the facility.

Total leverage outstanding of \$267 million is comprised of \$165 million in auction rate senior notes rated Aaa and AAA by Moody's Investors Service Inc. and Fitch Ratings, respectively, \$70 million in money market preferred shares rated Aa2 and AA by Moody's Investors Service Inc. and Fitch Ratings, respectively, and \$32 million outstanding under the credit facility. Total leverage represented 28.8 percent of total assets at November 30, 2006 as compared to 33.8 percent at November 30, 2005. Our long-term target for leverage remains approximately 33 percent of total assets. We expect to use our line of credit to make desirable investments as they become available and to reach our targeted leverage amount. As the line of credit increases in size we would issue additional Tortoise Notes or Preferred Stock to repay the line and provide longer-term capital for our Company.

Our Board of Directors has approved a policy permitting temporary increases in the amount of leverage from 33 percent to 38 percent of total assets at the time of incurrence, to allow participation in investment opportunities. The policy requires leverage to be within the limits set forth in the 1940 Act (300 percent and 200 percent asset coverage for debt and preferred shares, respectively) and indicates that leverage will be reduced to our long-term target over time in an orderly fashion from portfolio sales and/or an equity offering.

*(Unaudited)*

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### Business Description

November 30, 2006

#### **Tortoise Energy**

Tortoise Energy Infrastructure Corp. (Tortoise Energy) commenced operations in February 2004. Tortoise Energy's investment objective is to seek a high level of total return with an emphasis on current distributions paid to stockholders and dividend growth. For purposes of Tortoise Energy's investment objective, total return includes capital appreciation of, and all distributions received from, securities in which Tortoise Energy will invest regardless of the tax character of the distributions.

Tortoise Energy seeks to provide its stockholders with an efficient vehicle to invest in a portfolio of publicly traded master limited partnerships (MLPs) in the energy infrastructure sector. Similar to the tax characterization of distributions made by MLPs to its unitholders, Tortoise Energy believes a significant portion of its distributions to stockholders will be treated as a return of capital.

Tortoise Energy is regulated as a non-diversified investment management company, for which Tortoise Capital Advisors, L.L.C. (the Adviser) serves as the Company's investment adviser.

#### **Energy Infrastructure Industry**

Energy infrastructure companies engage in the business of transporting, processing, storing, distributing or marketing natural gas, natural gas liquids (primarily propane), coal, crude oil or refined petroleum products, or exploring, developing, managing or producing such commodities. Tortoise Energy typically invests in energy infrastructure

companies operating in the United States. Energy infrastructure companies (other than most pipeline MLPs) do not operate as public utilities or local distribution companies, and are therefore not subject to rate regulation by state or federal utility commissions. However, energy infrastructure companies may be subject to greater competitive factors than utility companies, including competitive pricing in the absence of regulated tariff rates, which could cause a reduction in revenue and which could adversely affect profitability. Most pipeline MLPs are subject to government regulation concerning the construction, pricing and operation of pipelines.

Regulated pipeline MLPs are able to set prices (rates or tariffs) to cover operating costs, depreciation and taxes, and provide a return on investment. These rates are monitored by the Federal Energy Regulatory Commission (FERC) which seeks to ensure that consumers receive adequate and reliable supplies of energy at the lowest possible price while providing energy suppliers and transporters a just and reasonable return on capital investment and the opportunity to adjust to changing market conditions.

#### **Master Limited Partnerships**

Under normal circumstances, Tortoise Energy invests at least 70 percent of its total assets in equity securities of MLPs that derive at least 90 percent of their income from energy infrastructure operations and are organized as partnerships, thereby eliminating income tax at the entity level.

A MLP has two classes of partners, the general partner and the limited partners. The general partner is usually a major energy company, investment fund or the direct management of the MLP. The general partner normally controls the MLP through a two percent equity interest plus units that are subordinated to the common (publicly traded) units for at least the first five years of the partnership's existence and then only converting to common if certain financial tests are met.

As a motivation for the general partner to successfully manage the MLP and increase cash flows, the terms of most MLPs typically provide that the general partner receives a larger portion of the net income as distributions reach higher target levels. As cash flow grows, the general partner receives a greater interest in the incremental income compared to the interest of limited partners. The general partner's incentive compensation typically increases up to 50 percent of incremental income.

Nevertheless, the aggregate amount distributed to limited partners will increase as MLP distributions reach higher target levels. Given this incentive structure, the general partner has an incentive to streamline operations and undertake acquisitions and growth projects in order to increase distributions to all partners.

*(Unaudited)*

12 Tortoise Energy Infrastructure Corp.

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#### Business Description

*(Continued)*

Energy infrastructure MLPs in which Tortoise Energy invests can generally be classified in the following categories:

Pipeline MLPs are common carrier transporters of natural gas, natural gas liquids (primarily propane, ethane, butane and natural gasoline), crude oil or refined petroleum products (gasoline, diesel fuel and jet fuel). Pipeline MLPs also may operate ancillary businesses such as storage and marketing of such products. Revenue is derived from capacity and transportation fees. Historically, pipeline output has been less exposed to cyclical economic forces due to its low cost structure and government-regulated nature. In addition, pipeline MLPs do not have direct commodity price exposure because they do not own the product being shipped.

Processing MLPs are gatherers and processors of natural gas as well as providers of transportation, fractionation and storage of natural gas liquids (NGLs). Revenue is derived from providing services to natural gas producers, which require treatment or processing before their natural gas commodity can be marketed to utilities and other end user markets. Revenue for the processor is fee based, although it is not uncommon to have some participation in the prices of the natural gas and NGL commodities for a portion of revenue.

Propane MLPs are distributors of propane to homeowners for space and water heating. Revenue is derived from the resale of the commodity on a margin over wholesale cost. The ability to maintain margin is a key to profitability. Propane serves approximately three percent of the household energy needs in the U.S., largely for homes beyond the geographic reach of natural gas distribution pipelines. Approximately 70 percent of annual

cash flow is earned during the winter heating season (October through March). Accordingly, volumes are weather dependent, but have utility type functions similar to electricity and natural gas.

Coal MLPs own, lease and manage coal reserves. Revenue is derived from production and sale of coal, or from royalty payments related to leases to coal producers. Electricity generation is the primary use of coal in the U.S. Demand for electricity and supply of alternative fuels to generators are the primary drivers of coal demand. Coal MLPs are subject to operating and production risks, such as: the MLP or a lessee meeting necessary production volumes; federal, state and local laws and regulations which may limit the ability to produce coal; the MLPs ability to manage production costs and pay mining reclamation costs; and the effect on demand that the Clean Air Act standards have on coal end-users.

Tortoise Energy invests primarily in equity securities of MLPs, which currently consist of the following instruments: common units, convertible subordinated units and I-Shares. Almost all MLP common units and I-Shares in which Tortoise Energy invests are listed and traded on the NYSE, AMEX or NASDAQ. Tortoise Energy also may purchase MLP common units through direct placements that are not initially readily tradable. MLP convertible subordinated units are not listed or publicly traded and are typically purchased in direct transactions with MLP affiliates or institutional holders of such shares.

MLP common unitholders have typical limited partner rights, including limited management and voting rights. MLP common units have priority over convertible subordinated units upon liquidation. Common unit holders are entitled to minimum quarterly distributions (MQD), including arrearage rights, prior to any distribution payments to convertible subordinated unit holders or incentive distribution payments to the general partner. MLP convertible subordinated units are convertible into common units on a one-to-one basis after the passage of time and/or achievement of specified financial goals. MLP convertible subordinated units are entitled to MQD after the payments to holders of common units and before incentive distributions to the general partner. MLP convertible subordinated units do not have arrearage rights. I-Shares have similar features to common units except that distributions are payable in additional I-Shares rather than cash. Tortoise Energy invests in I-Shares only if it has adequate cash to satisfy its distribution targets.

Although Tortoise Energy also may invest in equity and debt securities of energy infrastructure companies that are organized and/or taxed as corporations, it is likely that any such investments will be in debt securities because the dividends from equity securities of such corporations typically do not meet Tortoise Energy's investment objective. Tortoise Energy may also invest in securities of general partners or other affiliates of MLPs and private companies operating energy infrastructure assets.

#### **Summary of Investment Policies**

Under normal circumstances, Tortoise Energy will invest at least 90 percent of its total assets (including assets obtained through leverage) in securities of energy infrastructure companies, and will invest at least 70 percent of its total assets in equity securities of MLPs.

*(Unaudited)*

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#### **Business Description**

*(Continued)*

Tortoise Energy has adopted the following additional nonfundamental investment policies:

Tortoise Energy may invest up to 30 percent of its total assets in restricted securities. Subject to this policy, the Company may invest without limitation in illiquid securities.

Tortoise Energy may invest up to 25 percent of total assets in debt securities of energy infrastructure companies, including securities rated below noninvestment grade (commonly referred to as junk bonds).

Tortoise Energy will not invest more than 10 percent of total assets in any single issuer.

Tortoise Energy will not engage in short sales.

#### **Tax Status of Company**

Unlike most investment companies, Tortoise Energy is not treated as a regulated investment company under the U.S. Internal Revenue Code of 1986, as amended (the Internal Revenue Code). Therefore, Tortoise Energy is obligated to

pay federal and applicable state corporate taxes on its taxable income. Unlike regulated investment companies, Tortoise Energy is not required to distribute substantially all of its income and capital gains. Tortoise Energy invests a substantial portion of its assets in MLPs.

Although the MLPs generate income taxable to Tortoise Energy, the Company expects the MLPs to pay cash distributions in excess of the taxable income reportable by the Company. Similarly, Tortoise Energy expects to distribute cash in excess of its taxable income to its stockholders and intends to distribute substantially all of its distributable cash flow (generally, cash from operations less certain operating expenses and reserves).

#### **Summary of Tax Features for U.S. Stockholders**

Stockholders of Tortoise Energy hold stock of a corporation. Shares of stock differ substantially from partnership interests for federal income tax purposes. Unlike holders of MLP common units, stockholders of Tortoise Energy will not recognize an allocable share of Tortoise Energy's income, gains, losses and deductions. Stockholders recognize income only if Tortoise Energy pays distributions from current or accumulated earnings and profits allocable to the particular shares held by a stockholder. Such distributions will be taxable to a stockholder in the current period as dividend income. Dividend income will be treated as qualified dividends for federal income tax purposes, currently subject to favorable capital gains rates. If distributions exceed Tortoise Energy's allocated current or accumulated earnings and profits, such excess distributions will constitute a tax-free return of capital to the extent of a stockholder's basis in its stock. To the extent excess distributions exceed a stockholder's basis, the amount in excess of basis will be taxed as capital gain.

Based on the historical performance of MLPs, Tortoise Energy expects that a significant portion of distributions to holders of stock will constitute a tax-free return of capital. In addition, earnings and profits are treated generally, for federal income tax purposes, as first being used to pay distributions on the MMP Shares, and then to the extent remaining, if any, to pay distributions on common stock. There is no assurance that Tortoise Energy will make regular distributions or that Tortoise Energy's expectation regarding the tax character of its distributions will be realized. The special tax treatment for qualified dividends is scheduled to expire as of December 31, 2010.

Upon the sale of stock, a stockholder generally will recognize capital gain or loss measured by the difference between the sale proceeds received by the stockholder and the stockholder's federal income tax basis in its stock sold, as adjusted to reflect return(s) of capital. Generally, such capital gain or loss will be long-term capital gain or loss if stock were held as a capital asset for more than one year.

#### **Distributions**

Tortoise Energy intends to pay out substantially all of its Distributable Cash Flow (DCF) to stockholders through quarterly distributions. DCF is the amount received by Tortoise Energy as cash or paid-in-kind distributions from MLPs or their affiliates, and dividend and interest payments received, less current or anticipated operating expenses, dividends on MMP shares, taxes on Company taxable income, and leverage costs paid by Tortoise Energy. Tortoise Energy's Board of Directors adopted a policy to target distributions to stockholders in an amount of at least 95 percent of DCF on an annual basis. Distributions will be paid each fiscal quarter out of DCF, if any. There is no assurance that Tortoise Energy will continue to make regular distributions.

*(Unaudited)*

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#### Schedule of Investments

	<b>November 30, 2006</b>	
	<b>Shares</b>	<b>Value</b>
<b>Master Limited Partnerships and Related Companies</b>	<b>172.5%</b>	
<b>Crude/Refined Products Pipelines</b>	<b>92.8%</b>	
Buckeye Partners, L.P.	567,102	\$ 26,024,311
Enbridge Energy Partners, L.P.	925,300	46,320,518

	<b>November 30, 2006</b>	
Holly Energy Partners, L.P. <sup>(2)</sup>	427,070	17,163,943
Kinder Morgan Management, LLC <sup>(3)(4)</sup>	1,590,621	73,168,566
Magellan Midstream Partners, L.P.	2,190,213	84,783,145
Plains All American Pipeline, L.P.	2,370,094	119,689,747
Sunoco Logistics Partners, L.P.	934,625	45,366,698
TEPPCO Partners, L.P.	869,520	34,233,002
Valero, L.P.	860,689	47,234,612
		<hr/> 493,984,542 <hr/>
<b>Natural Gas/Natural Gas Liquid Pipelines 15.6%</b> <sup>(1)</sup>		
DCP Midstream Partners, L.P.	23,300	774,725
Enterprise GP Holdings, L.P.	71,400	2,485,434
Enterprise Products Partners, L.P.	2,323,940	65,721,023
ONEOK Partners, L.P.	231,655	14,001,228
		<hr/> 82,982,410 <hr/>
<b>Natural Gas Gathering/Processing 48.9%</b> <sup>(1)</sup>		
Boardwalk Pipeline Partners, L.P.	108,000	3,223,800
Copano Energy, LLC	592,448	35,019,601
Crosstex Energy, L.P.	268,587	10,085,442
Crosstex Energy, L.P. <sup>(4)(5)</sup>	712,760	22,701,406
Eagle Rock Energy Partners, L.P.	13,500	255,015
Energy Transfer Equity, L.P. <sup>(5)</sup>	729,661	20,342,949
Energy Transfer Partners, L.P.	1,722,250	94,034,850
Hiland GP Holdings, L.P.	39,050	927,438
Hiland Partners, L.P.	41,048	2,164,461
MarkWest Energy Partners, L.P. <sup>(2)</sup>	1,016,877	57,555,238
Universal Compression Partners, L.P.	84,700	2,109,877
Williams Partners, L.P.	310,380	12,005,499
		<hr/> 260,425,576 <hr/>
<b>Shipping 4.2%</b> <sup>(1)</sup>		
<b>United States 3.8%</b> <sup>(1)</sup>		
K-Sea Transportation Partners, L.P. <sup>(2)</sup>	571,300	20,452,540
<b>Republic of the Marshall Islands 0.4%</b> <sup>(1)</sup>		
Teekay LNG Partners, L.P.	67,200	2,121,504
		<hr/> 22,574,044 <hr/>

	<b>November 30, 2006</b>	
	<b>Shares</b>	<b>Value</b>
<b>Propane Distribution 11.0%</b> <sup>(1)</sup>		
Inergy, L.P.	1,916,784	\$ 56,755,974
Inergy Holdings, L.P.	49,715	1,921,982
		<u>58,677,956</u>
Total Master Limited Partnerships and Related Companies (Cost \$596,669,344)		<u>918,644,528</u>
	<b>Principal Amount</b>	
<b>Promissory Note 1.0%</b> <sup>(2)</sup>		
<b>Shipping 1.0%</b> <sup>(3)</sup>		
E.W. Transportation, LLC Unregistered, 9.12%, Due 3/31/2009 (Cost \$5,240,533) <sup>(5)(6)</sup>	\$ 5,283,023	5,240,533
		<u>5,240,533</u>
	<b>Shares</b>	
<b>Short-Term Investments 0.1%</b> <sup>(4)</sup>		
<b>Investment Company 0.1%</b> <sup>(4)</sup>		
First American Government Obligations Fund Class Y, 5.01% <sup>(8)</sup> (Cost \$673,845)	673,845	673,845
		<u>673,845</u>
<b>Total Investments 173.6%</b> <sup>(1)</sup> (Cost \$602,583,722)		<b>924,558,906</b>
<b>Auction Rate Senior Notes (31.0%)</b> <sup>(7)</sup>		(165,000,000)
<b>Interest Rate Swap Contracts 0.0%</b> <sup>(9)</sup>		(202,951)
\$345,000,000 notional Unrealized Depreciation, Net		(156,922,590)
<b>Liabilities in Excess of Cash and Other Assets (29.5%)</b> <sup>(9)</sup>		(70,000,000)
<b>Preferred Shares at Redemption Value (13.1%)</b> <sup>(9)</sup>		<u>532,433,365</u>
<b>Total Net Assets Applicable to Common Stockholders 100.0%</b> <sup>(1)</sup>		<b>\$ 532,433,365</b>

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

(2) Due to the Company's ownership percentage, this investment is deemed an affiliated company. See Note 7 to the financial statements for further disclosure.

(3) Security distributions are paid in kind. Related company of master limited partnership.

(4) Non-income producing.

(5) Fair valued securities represent a total market value of \$48,284,888 which represents 9.1% of net assets. These securities are deemed to be restricted; see Note 6 to the financial statements for further disclosure.

(6) Security is a variable rate instrument. Interest rate is as of November 30, 2006.

(7) Rate indicated is the 7-day effective yield as of November 30, 2006.

(8) All or a portion of the security is segregated as collateral for the unrealized depreciation on the interest rate swap contracts.

(9) See Note 11 to the financial statements for further disclosure.

See accompanying Notes to the Financial Statements.

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## Statement of Assets &amp; Liabilities

	<b>November 30, 2006</b>
<b>Assets</b>	
Investments at value, non-affiliated (cost \$545,719,706)	\$ 829,387,185
Investments at value, affiliated (cost \$56,864,016)	95,171,721
	<hr/>
Total investments (cost \$602,583,722)	924,558,906
Cash	386,064
Receivable for Adviser reimbursement	144,483
Interest and dividend receivable	15,801
Distribution receivable from master limited partnerships	903,327
Prepaid expenses and other assets	2,422,395
	<hr/>
Total assets	928,430,976
	<hr/>
<b>Liabilities</b>	
Payable to Adviser	1,372,586
Dividend payable on preferred shares	248,256
Short-term borrowings	32,450,000
Accrued expenses and other liabilities	487,800
Unrealized depreciation on interest rate swap contracts, net	202,951
Current tax liability	270,792
Deferred tax liability	125,965,226
Auction rate senior notes payable:	
Series A, due July 15, 2044	60,000,000
Series B, due July 15, 2044	50,000,000
Series C, due April 10, 2045	55,000,000
	<hr/>
Total liabilities	325,997,611
	<hr/>
<b>Preferred Shares</b>	
\$25,000 liquidation value per share applicable to 2,800 outstanding shares (7,500 shares authorized)	70,000,000
	<hr/>
Net assets applicable to common stockholders	\$ 532,433,365
	<hr/>
<b>Net Assets Applicable to Common Stockholders Consist of</b>	
Capital stock, \$0.001 par value; 16,732,065 shares issued and outstanding (100,000,000 shares authorized)	\$ 16,732
Additional paid-in capital	335,685,469
Accumulated net investment loss, net of deferred tax benefit	(8,705,900)
Undistributed realized gain, net of deferred tax expense	9,400,335
Net unrealized gain on investments and interest rate swap contracts, net of deferred tax expense	196,036,729
	<hr/>
Net assets applicable to common stockholders	\$ 532,433,365
	<hr/>



**November  
30, 2006**

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Net Asset Value per common share outstanding (net assets applicable to common shares, divided by common shares outstanding) \$ 31.82

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*See accompanying Notes to the Financial Statements.*

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Statement of Operations

**Year Ended  
November  
30,  
2006**

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**Investment Income**

Distributions received from master limited partnerships (including \$8,977,799 from affiliates) \$ 45,985,121  
Less return of capital on distributions (including \$7,692,964 from affiliates) (39,150,579)

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Distribution income from master limited partnerships 6,834,542  
Dividends from common stock 97,034  
Dividends from money market mutual funds 188,952  
Interest 557,385

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**Total Investment Income**

7,677,913

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**Expenses**

Advisory fees 7,241,559  
Administrator fees 499,764  
Professional fees 267,558  
Directors fees 123,630  
Reports to stockholders 123,078  
Custodian fees and expenses 78,718  
Fund accounting fees 67,856  
Registration fees 47,242  
Stock transfer agent fees 14,221  
Other expenses 86,508

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**Total Expenses before Interest Expense and Auction Agent Fees**

8,550,134

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Interest expense 8,482,876  
Auction agent fees 665,717

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**Total Interest Expense and Auction Agent Fees**

9,148,593

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**Total Expenses**

17,698,727

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Less expense reimbursement by Adviser (987,587)

	<b>Year Ended November 30, 2006</b>
<b>Net Expenses</b>	16,711,140
<b>Net Investment Loss, before Income Taxes</b>	(9,033,227)
Current tax expense	(471,753)
Deferred tax benefit	3,706,942
Income tax benefit, net	3,235,189
<b>Net Investment Loss</b>	(5,798,038)
<b>Realized and Unrealized Gain (Loss) on Investments and Interest Rate Swaps</b>	
Net realized gain on investments	7,554,238
Net realized gain on interest rate swap settlements	1,502,072
Net realized gain, before deferred tax expense	9,056,310
Deferred tax expense	(3,531,961)
Net realized gain on investments and interest rate swap settlements	5,524,349
Net unrealized appreciation of investments	186,051,459
Net unrealized depreciation of interest rate swap contracts	(3,105,467)
Net unrealized appreciation, before deferred tax expense	182,945,992
Deferred tax expense	(71,365,030)
Net unrealized appreciation of investments and interest rate swap contracts	111,580,962
<b>Net Realized and Unrealized Gain (Loss) on Investments and Interest Rate Swaps</b>	117,105,311
<b>Dividends to Preferred Stockholders</b>	(3,529,740)
<b>Net Increase in Net Assets Applicable to Common Stockholders Resulting from Operations</b>	<b>\$ 107,777,533</b>

*See accompanying Notes to the Financial Statements.*

18 Tortoise Energy Infrastructure Corp.

Statement of Changes in Net Assets

	<b>Year Ended November 30, 2006</b>	<b>2005</b>
<b>Operations</b>		
Net investment loss	\$ (5,798,038)	\$ (2,664,574)

	<b>Year Ended November 30,</b>	
Net realized gain on investments and interest rate swap settlements	5,524,349	3,910,013
Net unrealized appreciation of investments and interest rate swap contracts	111,580,962	36,586,625
Dividends to preferred stockholders	(3,529,740)	(1,639,910)
	<hr/>	<hr/>
Net increase in net assets applicable to common stockholders resulting from operations	107,777,533	36,192,154
	<hr/>	<hr/>
<b>Dividends and Distributions to Common Stockholders</b>		
Net investment income		
Return of capital	(31,969,335)	(26,506,341)
	<hr/>	<hr/>
Total dividends to common stockholders	(31,969,335)	(26,506,341)
	<hr/>	<hr/>
<b>Capital Share Transactions</b>		
Proceeds from secondary offering of 1,755,027 common shares		47,999,988
Proceeds from issuance of 263,254 common shares in connection with exercising an overallotment option granted to underwriters of the secondary offering		7,199,997
Proceeds from shelf offering of 1,675,050 common shares	50,000,243	
Underwriting discounts and offering expenses associated with the issuance of common shares	(2,202,315)	(2,443,688)
Underwriting discounts and offering expenses associated with the issuance of preferred shares		(356,815)
Issuance of 151,500 and 203,080 common shares from reinvestment of dividend distributions to stockholders, respectively	4,553,739	5,635,662
	<hr/>	<hr/>
Net increase in net assets, applicable to common stockholders, from capital share transactions	52,351,667	58,035,144
	<hr/>	<hr/>
Total increase in net assets applicable to common stockholders	128,159,865	67,720,957
<b>Net Assets</b>		
Beginning of year	404,273,500	336,552,543
	<hr/>	<hr/>
End of year	\$ 532,433,365	\$ 404,273,500
	<hr/>	<hr/>
Accumulated net investment loss, net of deferred tax benefit, at the end of year	\$ (8,705,900)	\$ (2,907,862)
	<hr/>	<hr/>

*See accompanying Notes to the Financial Statements.*

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Statement of Cash Flows

**Year Ended  
November 30,  
2006**

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**Cash Flows From Operating Activities**

	<b>Year Ended November 30, 2006</b>
Distributions received from master limited partnerships	\$ 45,081,794
Interest and dividend income received	848,046
Purchases of long-term investments	(101,346,179)
Proceeds from sales of long-term investments	16,539,916
Proceeds from sales of short-term investments, net	5,022,570
Proceeds from interest rate swap contracts, net	1,502,072
Interest expense paid	(8,963,254)
Current tax expense paid	(415,222)
Operating expenses paid	(7,296,223)
Net cash used in operating activities	(49,026,480)
<b>Cash Flows From Financing Activities</b>	
Advances from revolving line of credit	82,170,000
Repayments on revolving line of credit	(49,720,000)
Issuance of common stock	50,000,243
Stock issuance costs	(2,202,315)
Dividends paid to common stockholders	(27,415,596)
Dividends paid to preferred stockholders	(3,465,210)
Net cash provided by financing activities	49,367,122
Net increase in cash	340,642
Cash beginning of year	45,422
Cash end of year	\$ 386,064
<b>Reconciliation of net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities</b>	
Net increase in net assets applicable to common stockholders resulting from operations	\$ 107,777,533
Adjustments to reconcile net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities:	
Purchases of long-term investments	(101,346,179)
Return of capital on distributions received	39,150,579
Proceeds from sales of long-term investments	16,539,916
Proceeds from sales of short-term investments, net	5,022,570
Deferred income tax expense	71,190,049
Net unrealized appreciation of investments and interest rate swap contracts	(182,945,992)
Realized gains on investments	(7,554,238)
Accretion of discount on investments	(17,287)
Amortization of debt issuance costs	57,579
Dividends to preferred stockholders	3,529,740
Changes in operating assets and liabilities:	
Increase in interest and dividend receivable	(881,365)
Increase in prepaid expenses and other assets	(66,519)
Increase in current tax liability	56,531

	<b>Year Ended November 30, 2006</b>
Increase in payable to Adviser, net of expense reimbursement	364,727
Increase in accrued expenses and other liabilities	95,876
Total adjustments	(156,804,013)
Net cash used in operating activities	\$ (49,026,480)
<b>Non-Cash Financing Activities</b>	
Reinvestment of distributions by common stockholders in additional common shares	\$ 4,553,739

*See accompanying Notes to the Financial Statements.*

20 Tortoise Energy Infrastructure Corp.

#### Financial Highlights

	<b>Year Ended November 30, 2006</b>	<b>Year Ended November 30, 2005</b>	<b>Period from February 27, 2004<sup>(1)</sup> through November 30, 2004</b>
<b>Per Common Share Data<sup>(2)</sup></b>			
Net Asset Value, beginning of period	\$ 27.12	\$ 26.53	\$ 25.00
Public offering price			25.00
Underwriting discounts and offering costs on initial public offering			(1.17)
Underwriting discounts and offering costs on issuance of preferred shares		(0.02)	(0.06)
Premiums less underwriting discounts and offering costs on secondary offering <sup>(3)</sup>			
Underwriting discounts and offering costs on shelf offering of common stock <sup>(4)</sup>	(0.14)		
Income (loss) from Investment Operations:			
Net investment loss <sup>(5)</sup>	(0.32)	(0.16)	(0.03)
Net realized and unrealized gain on investments <sup>(5)</sup>	7.41	2.67	3.77
Total increase from investment operations	7.09	2.51	3.74
Less Dividends to Preferred Stockholders:			
Net investment income			
Return of capital	(0.23)	(0.11)	(0.01)
Total dividends to preferred stockholders	(0.23)	(0.11)	(0.01)

	Year Ended November 30, 2006	Year Ended November 30, 2005	Period from February 27, 2004 <sup>(1)</sup> through November 30, 2004
Less Dividends to Common Stockholders:			
Net investment income			
Return of capital	(2.02)	(1.79)	(0.97)
	<hr/>	<hr/>	<hr/>
Total dividends to common stockholders	(2.02)	(1.79)	(0.97)
	<hr/>	<hr/>	<hr/>
Net Asset Value, end of period	\$ 31.82	\$ 27.12	\$ 26.53
	<hr/>	<hr/>	<hr/>
Per common share market value, end of period	\$ 36.13	\$ 28.72	\$ 27.06
Total Investment Return Based on Market Value <sup>(6)</sup>	34.50%	13.06%	12.51%
<b>Supplemental Data and Ratios</b>			
Net assets applicable to common stockholders, end of period (000 s)	\$ 532,433	\$ 404,274	\$ 336,553
Ratio of expenses (including current and deferred income tax expense) to average net assets before waiver: <sup>(7)(8)(9)</sup>	20.03%	9.10%	15.20%
Ratio of expenses (including current and deferred income tax expense) to average net assets after waiver: <sup>(7)(8)(9)</sup>	19.81%	8.73%	14.92%
Ratio of expenses (excluding current and deferred income tax expense) to average net assets before waiver: <sup>(7)(8)(9)(10)</sup>	3.97%	3.15%	2.01%
Ratio of expenses (excluding current and deferred income tax expense) to average net assets after waiver: <sup>(7)(8)(9)(10)</sup>	3.75%	2.78%	1.73%
Ratio of expenses (excluding current and deferred income tax expense), without regard to non-recurring organizational expenses, to average net assets before waiver: <sup>(7)(8)(9)(10)</sup>	3.97%	3.15%	1.90%
Ratio of expenses (excluding current and deferred income tax expense), without regard to non-recurring organizational expenses, to average net assets after waiver: <sup>(7)(8)(9)(10)</sup>	3.75%	2.78%	1.62%

*(Continued)*

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Financial Highlights  
*(Continued)*

	Year Ended November 30, 2006	Year Ended November 30, 2005	Period from February 27, 2004 <sup>(1)</sup> through November 30, 2004
Ratio of net investment loss to average net assets before waiver: <sup>(7)(8)(10)</sup>	(2.24)%	(1.42)%	(0.45)%
Ratio of net investment loss to average net assets			

	Year Ended November 30, 2006	Year Ended November 30, 2005	Period from February 27, 2004 <sup>(1)</sup> through November 30, 2004
after waiver: <sup>(7)(8)(10)</sup>	(2.02)%	(1.05)%	(0.17)%
Ratio of net investment loss to average net assets after current and deferred income tax expense, before waiver: <sup>(7)(8)(9)</sup>	(18.31)%	(7.37)%	(13.37)%
Ratio of net investment loss to average net assets after current and deferred income tax expense, after waiver: <sup>(7)(8)(9)</sup>	(18.09)%	(7.00)%	(13.65)%
Portfolio turnover rate <sup>(7)</sup>	2.18%	4.92%	1.83%
Tortoise Auction Rate Senior Notes, end of period (000 s)	\$ 165,000	\$ 165,000	\$ 110,000
Tortoise Preferred Shares, end of period (000 s)	\$ 70,000	\$ 70,000	\$ 35,000
Per common share amount of auction rate senior notes outstanding at end of period	\$ 9.86	\$ 11.07	\$ 8.67
Per common share amount of net assets, excluding auction rate senior notes, at end of period	\$ 41.68	\$ 38.19	\$ 35.21
Asset coverage, per \$1,000 of principal amount of auction rate senior notes and short-term borrowings <sup>(11)</sup>	\$ 4,051	\$ 3,874	\$ 4,378
Asset coverage ratio of auction rate senior notes and short-term borrowings <sup>(11)</sup>	405%	387%	438%
Asset coverage, per \$25,000 liquidation value per share of preferred shares <sup>(12)</sup>	\$ 215,155	\$ 169,383	\$ 265,395
Asset coverage ratio of preferred shares <sup>(13)</sup>	299%	272%	332%

(1) Commencement of Operations.

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

(3) The amount is less than \$0.01 per share, and represents the premium on the secondary offering of \$0.14 per share, less the underwriting discounts and offering costs of \$0.14 per share for the year ended November 30, 2005.

(4) Represents the dilution per common share from underwriting and other offering costs.

(5) The per common share data for the periods ended November 30, 2005 and 2004, do not reflect the change in estimate of investment income and return of capital, for the respective period. See Note 2C to the financial statements for further disclosure.

(6) Not annualized for periods less than a year. 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 dividends at actual prices pursuant to the Company's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

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

(8) The expense ratios and net investment loss ratios do not reflect the effect of dividend payments to preferred stockholders.

(9) The Company accrued \$71,661,802, \$24,659,420 and \$30,330,018 for years ended November 30, 2006 and 2005 and for the period from February 27, 2004 through November 30, 2004, respectively, for current and deferred income tax expense.

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

(11) Represents value of total assets less all liabilities and indebtedness not represented by auction rate senior notes, short-term borrowings and preferred shares at the end of the period divided by auction rate senior notes and short-term borrowings outstanding at the end of the period.

(12)

*Represents value of total assets less all liabilities and indebtedness not represented by preferred shares at the end of the period divided by preferred shares outstanding at the end of the period, assuming the retirement of all auction rate senior notes and short-term borrowings.*

*(13) Represents value of total assets less all liabilities and indebtedness not represented by auction rate senior notes, short-term borrowings and preferred shares at the end of the period divided by auction rate senior notes, short-term borrowings and preferred shares outstanding at the end of the period.*

*See accompanying Notes to the Financial Statements.*

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## Notes to Financial Statements

November 30, 2006

### **1. Organization**

Tortoise Energy Infrastructure Corporation (the Company) was organized as a Maryland corporation on October 29, 2003, and is a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Company's investment objective is to seek a high level of total return with an emphasis on current dividends paid to stockholders. The Company seeks to provide its stockholders with an efficient vehicle to invest in the energy infrastructure sector. The Company commenced operations on February 27, 2004. The Company's shares are listed on the New York Stock Exchange under the symbol TYG.

### **2. Significant Accounting Policies**

#### **A. Use of Estimates**

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

#### **B. Investment Valuation**

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

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

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

The Company generally values its interest rate swap contracts using industry-accepted models which discount the estimated future cash flows based on the stated terms of the interest rate swap agreement by using interest rates currently available in the market, or based on dealer quotations, if available.

#### **C. Security Transactions and Investment Income**

Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts. Distributions are recorded on the ex-dividend date. Distributions



received from the Company's investments in master limited partnerships (MLPs) generally are comprised of ordinary income, capital gains and return of capital from the MLP. The Company records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on historical information available from each MLP and other industry sources. These estimates may subsequently be revised based on information received from MLPs after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year-end of the Company.

For the period from December 1, 2004 through November 30, 2005, the Company estimated the allocation of investment income and return of capital for the distributions received from MLPs within the Statement of Operations. For this period, the Company had estimated approximately 23 percent as investment income and approximately 77 percent as return of capital.

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## Notes to Financial Statements

*(Continued)*

Subsequent to November 30, 2005, the Company reclassified the amount of investment income and return of capital it recognized based on the 2005 tax reporting information received from the individual MLPs. This reclassification amounted to an increase in pre-tax net investment income of approximately \$190,000 or \$0.01 per share (\$116,000 or \$0.007 per share, net of deferred tax expense); an increase of approximately \$139,000 or \$0.01 per share (\$85,000 or \$0.005 per share, net of deferred tax expense) in unrealized appreciation of investments; and a decrease in realized gains of approximately \$329,000 or \$0.02 per share (\$201,000 or \$0.01 per share, net of deferred tax benefit) for the period from December 1, 2005 through November 30, 2006. The reclassification is reflected in the accompanying financial statements.

### **D. Dividends to Stockholders**

Dividends to common stockholders are recorded on the ex-dividend date. The character of dividends to common stockholders made during the year may differ from their ultimate characterization for federal income tax purposes. For the year ended November 30, 2005, the Company's dividends, for book and tax purposes, were comprised entirely of return of capital as a result of the net investment loss incurred by the Company. For the year ended November 30, 2006, the Company's dividends for book purposes were comprised of 100 percent return of capital and approximately 11 percent qualified dividend income and 89 percent return of capital for tax purposes.

Dividends to preferred stockholders are based on variable rates set at auctions, normally held every 28 days.

Dividends on preferred shares are accrued on a daily basis for the subsequent 28-day period at a rate as determined on the auction date. Dividends on preferred shares are payable every 28 days, on the first day following the end of the dividend period. The character of dividends to preferred stockholders made during the year may differ from their ultimate characterization for federal income tax purposes. For the year ended November 30, 2005, for tax purposes, the Company determined the dividends to preferred stockholders were comprised entirely of return of capital. For the year ended November 30, 2006, for tax purposes, the Company determined the dividends to preferred stockholders were comprised entirely of qualified dividend income.

### **E. Federal Income Taxation**

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

### **F. Organization Expenses, Offering and Debt Issuance Costs**

The Company is responsible for paying all organizational expenses, which were expensed as incurred. Offering costs related to the issuance of common and preferred stock is charged to additional paid-in capital when the shares are issued. Offering costs (excluding underwriter commissions) of \$75,000 were charged to additional paid-in capital for the common shares issued in August 2006. Debt issuance costs related to the auction rate senior notes are capitalized and amortized over the period the notes are outstanding.

#### **G. Derivative Financial Instruments**

The Company uses derivative financial instruments (principally interest rate swap contracts) to manage interest rate risk. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not hold or issue derivative financial instruments for speculative purposes. All derivative financial instruments are recorded at fair value with changes in value during the reporting period, and amounts accrued under the derivative instruments included as unrealized gains or losses in the accompanying Statement of Operations. Monthly cash settlements under the terms of the derivative instruments are recorded as realized gains or losses in the Statement of Operations.

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#### Notes to Financial Statements

*(Continued)*

#### **H. Indemnifications**

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

#### **I. Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006, but not before the Company's last NAV calculation in the first required financial statement reporting period for its fiscal year beginning after December 15, 2006. At this time, the Company is evaluating the implications of FIN 48 and whether it will have any impact on the Company's financial statements.

In September 2006, FASB issued Statement on Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS No. 157 is effective for the Company beginning December 1, 2007. The changes to current generally accepted accounting principles from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. The Company has recently begun to evaluate the application of the statement, and is not in a position at this time to evaluate the significance of its impact, if any, on the Company's financial statements.

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

The Company's investment objective is to seek a high level of total return with an emphasis on current dividends paid to its stockholders. Under normal circumstances, the Company intends to invest at least 90 percent of its total assets in securities of domestic energy infrastructure companies, and to invest at least 70 percent of its total assets in equity

securities of MLPs. The Company will not invest more than 10 percent of its total assets in any single issuer as of the time of purchase. The Company may invest up to 25 percent of its assets in debt securities, which may include below investment grade securities. Companies that primarily invest in a particular sector may experience greater volatility than companies investing in a broad range of industry sectors. The Company may, for defensive purposes, temporarily invest all or a significant portion of its assets in investment grade securities, short-term debt securities and cash or cash equivalents. To the extent the Company uses this strategy, it may not achieve its investment objective.

#### 4. Agreements

The Company has entered into an Investment Advisory Agreement with Tortoise Capital Advisors, LLC (the Adviser ). Under the terms of the agreement, the Company will pay the Adviser a fee equal to an annual rate of 0.95 percent of the Company's average monthly total assets (including any assets attributable to leverage) minus the sum of accrued liabilities (other than deferred income taxes, debt entered into for purposes of leverage and the aggregate liquidation preference of outstanding preferred shares) ( Managed Assets ), in exchange for the investment advisory services provided. For the period following the commencement of the Company's operations through February 28, 2006, the Adviser agreed to waive or reimburse the Company for fees and expenses in an amount equal to 0.23 percent of the average monthly Managed Assets of the Company. For periods ending February 28, 2007, 2008 and 2009, the Adviser has agreed to waive or reimburse the Company for fees and expenses in an amount equal to 0.10 percent of the average monthly Managed Assets of the Company.

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#### Notes to Financial Statements

*(Continued)*

The Company has engaged U.S. Bancorp Fund Services, LLC to serve as the Company's administrator. The Company pays the administrator a monthly fee computed at an annual rate of 0.07 percent of the first \$300 million of the Company's Managed Assets, 0.06 percent on the next \$500 million of Managed Assets and 0.04 percent on the balance of the Company's Managed Assets.

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

U.S. Bank, N.A. serves as the Company's custodian. The Company pays the custodian a monthly fee computed at an annual rate of 0.015 percent on the first \$100 million of the Company's Managed Assets and 0.01 percent on the balance of the Company's Managed Assets.

#### 5. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and tax purposes. Components of the Company's deferred tax assets and liabilities as of November 30, 2006 are as follows:

Deferred tax assets:

Net operating loss carryforwards	\$ 15,907,329
Organization costs	43,633
	<u>15,950,962</u>

Deferred tax liabilities:

Net unrealized gains on investment securities and interest rate swap contracts	125,507,264
Basis reduction of investment in MLPs	16,408,924
	<u>\$ 141,916,188</u>

Total net deferred tax liability	<u>\$ 125,965,226</u>
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For the year ended November 30, 2006, the components of income tax expense include current foreign taxes of \$471,753 and deferred federal and state income taxes (net of federal tax benefit) of \$63,871,286 and \$7,318,763, respectively. As of November 30, 2006, the Company had a net operating loss for federal income tax purposes of approximately \$40,788,000. If not utilized, this net operating loss will expire as follows: \$2,883,000, \$15,979,000 and \$21,926,000 in the years ending November 30, 2024, 2025 and 2026, respectively.

Total income tax expense differs from the amount computed by applying the federal statutory income tax rate of 35 percent to net investment loss and realized and unrealized gains (losses) on investments and interest rate swap contracts before taxes for the year ended November 30, 2006, as follows:

Application of statutory income tax rate	\$ 64,039,176
State income taxes, net of federal tax benefit	7,318,763
Other, net	303,863
	<hr/>
Total	\$ 71,661,802
	<hr/>

At November 30, 2006, a valuation allowance was not recorded because the Company believes it is more likely than not, that there is an ability to utilize its deferred tax asset.

As of November 30, 2006, the aggregate cost of securities for Federal income tax purposes was \$560,276,425. At November 30, 2006, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$364,282,481 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$0.

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Notes to Financial Statements

(Continued)

**6. Restricted Securities**

Certain of the Company's investments are restricted and are valued as determined in accordance with procedures established by the Board of Directors and more fully described in Note 2. The table below shows the number of units held or principal amount, the acquisition date, acquisition cost, value per unit of such securities and percent of net assets which the securities comprise.

Investment Security		Number of Units or Principal Amount	Acquisition Date	Acquisition Cost	Value Per Unit	Percent of Net Assets
Energy Transfer Equity, L.P.	Common Units	729,661	11/27/06	\$20,000,008	\$27.88	3.8%
Crosstex Energy, L.P.	Subordinated Units	712,760	6/29/06	20,000,046	31.85	4.3
E.W. Transportation, LLC	Promissory Note	\$5,283,023	5/03/04	5,203,778	N/A	1.0
				<hr/>		
				\$45,203,832		<hr/> 9.1% <hr/>

**7. Investments in Affiliates**

Investments representing 5 percent or more of the outstanding voting securities of a portfolio company result in that company being considered an affiliated company, as defined in the 1940 Act. The aggregate market value of all securities of affiliates held by the Company as of November 30, 2006 amounted to \$95,171,721, representing 17.9 percent of net assets applicable to common stockholders. A summary of affiliated transactions for each company which is or was an affiliate at or during the year ended November 30, 2006 is as follows:

**November 30, 2006**



amount because the interest rate fluctuates with changes in interest rates available in the current market. Holders of the MMP and MMP II Shares are entitled to receive cash dividend payments at an annual rate that may vary for each rate period. The dividend rates for MMP and MMP II Shares as of November 30, 2006, were 5.57 percent. The weighted average dividend rates for MMP and MMP II Shares for the year ended November 30, 2006, were 5.23 percent. These rates include the applicable rate based on the latest results of the auction, plus commissions paid to the auction agent in the amount of 0.25 percent which is included in the auction agent fees in the accompanying Statement of Operations. Under the Investment Company Act of 1940, the Company may not declare dividends or make other distributions on shares of common stock or purchases of such shares if, at the time of the declaration, distribution or purchase, asset coverage with respect to the outstanding MMP Shares would be less than 200 percent.

The MMP Shares are redeemable in certain circumstances at the option of the Company. The MMP Shares are also subject to a mandatory redemption if the Company fails to meet an asset coverage ratio required by law, or fails to cure a deficiency in a timely manner as stated in the rating agency guidelines.

The holders of MMP and MMP II Shares have voting rights equal to the holders of common stock (one vote per share) and will vote together with the holders of shares of common stock as a single class except on matters affecting only the holders of preferred stock or the holders of common stock.

### 11. Interest Rate Swap Contracts

The Company has entered into interest rate swap contracts to protect itself from increasing interest expense on its leverage resulting from increasing short-term interest rates. A decline in interest rates may result in a decline in the value of the swap contracts, which may result in a decline in the net assets of the Company. In addition, if the counterparty to the interest rate swap contracts defaults, the Company would not be able to use the anticipated receipts under the swap contracts to offset the interest payments on the Company's leverage. At the time the interest rate swap contracts reach their scheduled termination, there is a risk that the Company would not be able to obtain a replacement transaction, or that the terms of the replacement would not be as favorable as on the expiring transaction. In addition, if the Company is required to terminate any swap contract early due to the Company failing to maintain a required 300 percent and 200 percent asset coverage of the liquidation value of the outstanding auction rate senior notes and MMP shares, respectively, or if the Company loses its credit rating on its auction rate senior notes or MMP Shares, then the Company could be required to make a termination payment, in addition to redeeming all or some of the auction rate senior notes and MMP Shares. Details of the interest rate swap contracts outstanding as of November 30, 2006, were as follows:

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### Notes to Financial Statements (Continued)

Counterparty	Maturity Date	Notional Amount	Fixed Rate Paid by the Company	Floating Rate Received by the Company	Unrealized Appreciation/ (Depreciation)
U.S. Bank, N.A.	7/10/2007	\$ 60,000,000	3.54%	1 month U.S. Dollar LIBOR	\$ 623,771
U.S. Bank, N.A.*	7/05/2011	60,000,000	4.63%	1 month U.S. Dollar LIBOR	49,335
U.S. Bank, N.A.	7/17/2007	50,000,000	3.56%	1 month U.S. Dollar LIBOR	581,010
U.S. Bank, N.A.*	7/12/2011	50,000,000	4.64%	1 month U.S. Dollar LIBOR	31,353
U.S. Bank,	5/01/2014	55,000,000	4.54%	1 week U.S. Dollar	826,321

Counterparty	Maturity Date	Notional Amount	Fixed Rate Paid by the Company	Floating Rate Received by the Company	Unrealized Appreciation/ (Depreciation)
N.A. U.S. Bank,				LIBOR	
N.A. U.S. Bank,	11/12/2020	35,000,000	5.20%	1 month U.S. Dollar LIBOR	(1,144,669)
N.A. U.S. Bank,	11/18/2020	35,000,000	5.21%	1 month U.S. Dollar LIBOR	(1,170,072)
		\$345,000,000			\$ (202,951)

\* *The Company has entered into additional interest rate swap contracts for Series A and Series B notes with settlements commencing on 7/10/2007 and 7/17/2007, respectively.*

The Company is exposed to credit risk on the interest rate swap contracts if the counterparty should fail to perform under the terms of the interest rate swap contracts. The amount of credit risk is limited to the net appreciation of the interest rate swap contract, as no collateral is pledged by the counterparty.

## 12. Common Stock

The Company has 100,000,000 shares of capital stock authorized and 16,732,065 shares outstanding at November 30, 2006. Transactions in common shares for the years ended November 30, 2005 and 2006, were as follows:

Shares at November 30, 2004	12,684,154
Shares sold through secondary offering and exercise of overallotment options	2,018,281
Shares issued through reinvestment of dividends	203,080
	14,905,515
Shares at November 30, 2005	14,905,515
Shares sold through shelf offering	1,675,050
Shares issued through reinvestment of dividends	151,500
	16,732,065
Shares at November 30, 2006	16,732,065

## 13. Credit Facility

On June 13, 2006, the Company entered into a \$20 million unsecured committed credit facility maturing June 13, 2007, with U.S. Bank, N.A. On July 25, 2006, the principal amount of the credit facility was increased to \$60 million. The credit facility has a variable annual interest rate equal to the one-month LIBOR rate plus 0.75 percent. Proceeds from the credit facility are used to execute the Company's investment objective. The average principal balance and interest rate for the period during which the credit facility was utilized was approximately \$15.8 million and 6.09 percent, respectively. At November 30, 2006, the principal balance outstanding was \$32.45 million.

## 14. Subsequent Event

On December 13, 2006, the Company issued 1,500,000 shares of common stock through a shelf offering registration statement that became effective on June 23, 2006. The net proceeds of approximately \$50.2 million from this offering were used to retire a portion of the Company's short-debt under the existing unsecured credit facility fully described in Note 13.

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We have audited the accompanying statement of assets and liabilities of Tortoise Energy Infrastructure Corporation (the Company), including the schedule of investments, as of November 30, 2006, and the related statements of operations and cash flows for the year then ended and the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for the periods indicated therein. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2006, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Tortoise Energy Infrastructure Corporation at November 30, 2006, the results of its operations and its cash flows for the year then ended and the changes in its net assets for each of the two years in the period then ended, and the financial highlights for the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Kansas City, Missouri

January 16, 2007

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Company Officers and Directors (*Unaudited*)

November 30, 2006

Name and Age*	Position(s) Held with Company and Length of Time Served	Principal Occupation During past Five Years	Number of Portfolios in Fund Complex Overseen by Director <sup>2</sup>	Other Public Company Directorships Held by Director
<b>Independent Directors</b>				
Conrad S. Ciccotello, (Born 1960)	Director since 2003	Tenured Associate Professor of Risk Management and Insurance, Robinson College of Business, Georgia State University (faculty member since 1999); Director of Graduate Personal Financial Planning (PFP) Programs, Editor, Financial Services Review, (an academic journal dedicated to the study of individual financial management); formerly, faculty member, Pennsylvania State	3	None



University (1997-1999).

John R. Graham, (Born 1945)	Director since 2003	Executive-in-Residence and Professor of Finance, College of Business Administration, Kansas State University (has served as a professor or adjunct professor since 1970); Chairman of the Board, President and CEO, Graham Capital Management, Inc., primarily a real estate development and investment company and a venture capital company; and Owner of Graham Ventures, a business services and venture capital firm; formerly, CEO, Kansas Farm Bureau Financial Services, including seven affiliated insurance or financial service companies (1979-2000).	3	Erie Indemnity Company; Kansas State Bank
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Charles E. Heath, (Born 1942)	Director since 2003	Retired in 1999. Formerly, Chief Investment Officer, GE Capital's Employers Reinsurance Corporation (1989-1999). Chartered Financial Analyst (CFA) since 1974.	3	None
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- (1) As a result of their respective positions held with the Adviser or its affiliates, these individuals are considered interested persons within the meaning of the 1940 Act.
- (2) This number includes Tortoise North American Energy Corporation (TYN) and Tortoise Energy Capital Corporation (TYY). The Adviser also serves as investment adviser to TYN, TYY and Tortoise Capital Resources Corporation (TTO), a fund that intends to elect to become a business development company in the first half of 2007. Each independent director is also an independent director of TTO.

\* The address of each director and officer is 10801 Mastin Boulevard, Suite 222, Overland Park, Kansas 66210.  
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Company Officers and Directors (Unaudited)  
November 30, 2006 (Continued)

Name and Age*	Position(s) Held with Company and Length of Time Served	Principal Occupation During past Five Years	Number of Portfolios in Fund Complex Overseen by Director <sup>2</sup>	Other Public Company Directorships Held by Director
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Interested Directors and Officers<sup>1</sup>

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H. Kevin Birzer, (Born 1959)	Director and Chairman of the Board since 2003	Managing Director of the Adviser since 2002; Partner, Fountain Capital Management (1990-present); formerly, Vice President, Corporate Finance Department, Drexel Burnham Lambert (1986-1989); Vice President, F. Martin Koenig & Co., an investment management firm (1983-1986).	3	None
Terry C. Matlack, (Born 1956)	Director and Chief Financial Officer since 2003, Chief Compliance Officer from 2004 through May 2006; Assistant Treasurer since November 2005; Treasurer from 2003 to November 2005	Managing Director of the Adviser since 2002; Managing Director, KCEP (2001-present); formerly, President, GreenStreet Capital, a private investment firm (1998-2001).	3	None
David J. Schulte, (Born 1961)	President and Chief Executive Officer since 2003	Managing Director of the Adviser since 2002; Managing Director, KCEP (1993-present); CFA since 1992.		None
Zachary A. Hamel, (Born 1965)	Secretary since 2003	Managing Director of the Adviser since 2002; Partner, Fountain Capital Management (1997-present).		None
Kenneth P. Malvey, (Born 1965)	Treasurer since November 2005; Assistant Treasurer from 2003 to November 2005	Managing Director of the Adviser since 2002; Partner, Fountain Capital Management (2002-present); formerly, Investment Risk Manager and member of the Global Office of Investments, GE Capital's Employers Reinsurance Corporation (1996-2002).		None

- (1) As a result of their respective positions held with the Adviser or its affiliates, these individuals are considered interested persons within the meaning of the 1940 Act.
- (2) This number includes Tortoise North American Energy Corporation ( TYN ) and Tortoise Energy Capital Corporation ( TYY ). The Adviser also serves as investment adviser to TYN, TYY and TTO. Mr. Bizer is also a

director and Chairman of the Board of TTO. Mr. Matlack is also a director of TTO and is the Chief Financial Officer and Assistant Treasurer of each of TYY, TYN and TTO. Mr. Schulte is the President and Chief Executive Officer of each of TYY, TYN and TTO. Mr. Hamel is the Secretary of each of TYY, TYN and TTO. Mr. Malvey is the Treasurer of each of TYY, TYN and TTO.

- \* The address of each director and officer is 10801 Mastin Boulevard, Suite 222, Overland Park, Kansas 66210.  
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Additional Information *(Unaudited)*

**Director and Officer Compensation**

The Company does not compensate any of its directors who are interested persons nor any of its officers. The following table sets forth information with respect to the aggregate compensation paid by the Company to each independent director during fiscal 2006 for their services as a director. The Company did not pay any special compensation to any of its directors or officers.

<b>Independent Directors</b>	<b>Aggregate Compensation from Company</b>
Conrad S. Ciccotello	\$40,480
John R. Graham	\$36,480
Charles E. Heath	\$35,480
Aggregate Compensation Paid by Company to Independent Directors	\$112,440

**Stockholder Proxy Voting Results**

The annual meeting of stockholders was held on April 12, 2006. The matters considered at the meeting, together with the actual vote tabulations relating to such matters are as follows:

1. To elect Charles E. Heath and Terry C. Matlack as Directors of the Company, each to hold office for a term of three years and until his successor is duly elected and qualified.

	<u><b>No. of Shares</b></u>
(i) Charles E. Heath	
Affirmative	13,784,978
Withheld	146,830
<b>TOTAL</b>	<b>13,931,808</b>
(ii) Terry C. Matlack*	
Affirmative	2,408
Withheld	0
<b>TOTAL</b>	<b>2,408</b>

\* Preferred stockholders are the only class of stockholders entitled to vote on this director.

John R. Graham and H. Kevin Birzer continued as directors and their terms expire on the date of the 2007 annual meeting of stockholders, and Conrad S. Ciccotello continued as a director and his term expires on the date of the 2008 annual meeting of stockholders.

2. To ratify the selection of Ernst & Young LLP as the independent registered public accounting firm of the Company for its fiscal year ending November 30, 2006.

	<u><b>No. of Shares</b></u>
Affirmative	13,806,027
Against	69,108
Abstain	56,673
<b>TOTAL</b>	<b>13,931,808</b>

Based upon votes required for approval, each of these matters passed.

### **Forward-Looking Statements**

This report contains forward-looking statements within the meaning of the Securities Act of 1933. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect Tortoise Energy Infrastructure Corporation's (the Company) actual results are the performance of the portfolio of investments held by it, the conditions in the U.S. and international financial, petroleum and other markets, and the price at which shares of the Company will trade in the public markets. These factors and additional factors are set forth in the Risk Factors section of the Company's public filings with the SEC.

### **Proxy Voting Policies**

A description of the policies and procedures that the Company uses to determine how to vote proxies relating to portfolio securities owned by the Company and information regarding how the Company voted proxies relating to the portfolio of securities during the 12-month period ended June 30, 2006 are available to stockholders (i) without charge, upon request by calling the Company at (913) 981-1020 or toll-free at (866) 362-9331 and on the Company's Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com); and (ii) on the SEC's Web site at [www.sec.gov](http://www.sec.gov).

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Additional Information (*Unaudited*)

(*Continued*)

### **Form N-Q**

The Company files its complete schedule of portfolio holdings for the first and third quarters of each fiscal year with the SEC on Form N-Q. The Company's Form N-Q and statement of additional information are available without charge upon request by calling the Company toll-free at (866) 362-9331 or by visiting the SEC's Web site at [www.sec.gov](http://www.sec.gov). In addition, you may review and copy the Company's Form N-Q at the SEC's Public Reference Room in Washington D.C. You may obtain information on the operation of the Public Reference Room by calling (800) SEC-0330. The Company's Form N-Qs are also available on the Company's Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com).

### **Statement of Additional Information**

The Statement of Additional Information (SAI) includes additional information about the fund directors and is available upon request without charge by calling the Company toll-free at (866) 362-9331.

### **Annual Certification**

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

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

### **Privacy Policy**

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

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

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

### **Important Notice About Automatic Dividend Reinvestment Plan**

The Board of Directors of the Company has approved an amendment to the Company's Automatic Dividend Reinvestment Plan (the Plan) to implement a cash purchase option described below and to clarify the procedures for open market purchases. A registration statement covering the shares to be issued by the Company pursuant to the cash

purchase option must be declared effective by the Securities and Exchange Commission prior to the Amended Plan being implemented. We expect to implement the Amended Plan on April 1, 2007, subject to such registration statement being declared effective. Registered stockholders will be notified of any delay in implementation of the Amended Plan. In addition, a notice will be posted on our Advisor's Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com) regarding the status of the expected April 1, 2007 effective date for the Amended Plan.

Upon its effectiveness, the Dividend Reinvestment and Cash Purchase Plan (the Amended Plan) will allow registered holders of the Company's common stock to make optional cash investments, in accordance with the Amended Plan, on a monthly basis. Any single investment pursuant to the cash purchase option under the Amended Plan must be in an amount of at least \$100 and may not exceed \$5,000 per month unless a request for waiver has been granted. A request for waiver should be directed to the Company at 1-866-362-9331 and the Company has the sole discretion to grant any requested waiver. Optional cash investments may be delivered to the Agent by personal check or by online access at [www.computershare.com](http://www.computershare.com). Stockholders who hold shares in street or other nominee name who want to participate in optional cash investments should contact their broker, bank or other nominee and follow their instructions. There is no obligation to make an optional cash investment at any time, and the amount of such investments may vary from time to time. Optional cash investments must be received by the Agent no later than two business days prior to the monthly payment date for purchase of common shares on the next succeeding purchase date under the Amended Plan. Scheduled optional cash purchases may be cancelled or refunded upon a participant's written request received by the Agent at least two business days prior to the purchase date. Participants will not be able to instruct the Agent to purchase common shares at a specific time or at a specific price.

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#### Additional Information (*Unaudited*)

##### (*Continued*)

If a stockholder's shares are registered directly with the Company or with a brokerage firm that participates in the Company's Plan (and upon effectiveness, the Amended Plan), all distributions are automatically reinvested for stockholders by the Agent in additional shares of common stock of the Company (unless a stockholder is ineligible or elects otherwise). Stockholders holding shares that participate in the Plan in a brokerage account may not be able to transfer the shares to another broker and continue to participate in the Plan. Stockholders who elect not to participate in the Plan (or the Amended Plan) will receive all distributions payable in cash paid by check mailed directly to the stockholder of record (or, if the shares are held in street or other nominee name, then to such nominee) by Computershare, as dividend paying agent. Distributions subject to tax (if any) are taxable whether or not shares are reinvested.

If on the distribution payment date or the purchase date for optional cash investments, the net asset value per share of the common stock is equal to or less than the market price per share of common stock plus estimated brokerage commissions, the Company will issue additional shares of common stock to participants. The number of shares will be determined by the greater of the net asset value per share or 95 percent of the market price. Otherwise, shares generally will be purchased on the open market by the Agent as soon as possible following the payment date or purchase date, but in no event later than 30 days after such date except as necessary to comply with applicable law. The plan previously provided that purchases would be made prior to the succeeding ex-dividend date. The amendments to the plan also eliminate provisions which gave the plan agent the discretion to cease open market purchases upon a subsequent change in the market discount. There are no brokerage charges with respect to shares issued directly by the Company as a result of distributions payable either in shares or in cash or as a result of optional cash investments. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Agent's open-market purchases in connection with the reinvestment of distributions or optional cash investments. If a participant elects to have the Agent sell part or all of his or her common stock and remit the proceeds, such participant will be charged a transaction fee of \$15.00 plus his or her pro rata share of brokerage commissions on the shares sold.

Stockholders may elect not to participate in the Plan (or the Amended Plan) by sending written instructions to Computershare, as dividend paying agent, at the address set forth below. Participation is completely voluntary and

may be terminated or resumed at any time without penalty by giving notice in writing to the Agent; such termination will be effective with respect to a particular distribution if notice is received prior to such record date.

Additional information about the Plan (and the Amended Plan) may be obtained by writing to Computershare Trust Company, N.A., P.O. Box 43078, Providence, R.I. 02940-3078. You may also contact Computershare by phone at (312) 588-4990 or visit their Web site at [www.computershare.com](http://www.computershare.com).

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

In approving the renewal of the Investment Advisory Agreement in November 2006, the independent directors ( Directors ) of Tortoise Energy Infrastructure Corporation (the Company ) requested and received extensive data and information from the Adviser concerning the Company and the services provided to it by the Adviser under the Investment Advisory Agreement. In addition, the Directors requested and received data and information from independent, third-party sources regarding the factors considered in their evaluation.

#### **Factors Considered**

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

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

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Additional Information (*Unaudited*)

(*Continued*)

***Investment Performance of the Company and the Adviser, Costs of the Services To Be Provided and Profits To Be Realized by the Adviser and its Affiliates from the Relationship, and Fee Comparisons.*** The Directors reviewed and evaluated information regarding the Company's performance (including quarterly, last twelve months, and from inception) and the performance of the other Adviser accounts (including other investment companies), and information regarding the nature of the markets during the performance period, with a particular focus on the MLP sector. The Directors also considered the Company's performance as compared to comparable closed-end funds for the relevant periods.

The Adviser provided detailed information concerning its cost of providing services to the Company, its profitability in managing the Company, its overall profitability, and its financial condition. The Directors have reviewed with the Adviser the methodology used to prepare this financial information. This financial information regarding the Adviser is considered in order to evaluate the Adviser's financial condition, its ability to continue to provide services under the Investment Advisory Agreement, and the reasonableness of the current management fee, and was, to the extent possible, evaluated in comparison to other closed-end funds with similar investment objectives and strategies. The Directors considered and evaluated information regarding fees charged to, and services provided to, other investment companies advised by the Adviser (including the impact of any fee reimbursement arrangements), fees charged to separate institutional accounts by the Adviser, and comparisons of fees of closed-end funds with similar investment objectives and strategies, including other MLP investment companies, to the Company. The Directors noted that the fee charged to the Company (0.95% of the Company's average monthly Managed Assets) is below the average of the fees charged in comparable closed-end MLP funds. The Directors also considered the Adviser's existing contractual agreement to waive fees and expenses in the amount of 0.10% of average monthly Managed Assets in years three through five of the Company's operations. The Directors concluded that the fees and expenses that the

Company is paying under the Advisory Agreement are reasonable given the quality of services provided under the Advisory Agreement and that such fees and expenses are comparable to, and in many cases lower than, the fees charged by advisors to comparable funds.

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

**Collateral Benefits Derived by the Adviser.** The Directors reviewed information from the Adviser concerning collateral benefits it receives as a result of its relationship with the Company. They concluded that the Adviser generally does not use the Company's or stockholder information to generate profits in other lines of business, and therefore does not derive any significant collateral benefits from them. The Directors did not, with respect to their deliberations concerning their approval of the continuation of the Investment Advisory Agreement, consider the benefits the Adviser may derive from relationships the Adviser may have with brokers through soft dollar arrangements because the Adviser does not employ any such arrangements in rendering its advisory services to the Company.

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

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

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**Office of the Company  
and of the Investment Adviser**  
Tortoise Capital Advisors, L.L.C.  
10801 Mastin Boulevard, Suite 222  
Overland Park, Kan. 66210  
(913) 981-1020  
(913) 981-1021 (fax)  
www.tortoiseadvisors.com

**Managing Directors of  
Tortoise Capital Advisors, L.L.C.**  
H. Kevin Birzer  
Zachary A. Hamel  
Kenneth P. Malvey  
Terry Matlack  
David J. Schulte

**Board of Directors of  
Tortoise Energy Infrastructure Corp.**

**H. Kevin Birzer, Chairman**  
Tortoise Capital Advisors, L.L.C.

**ADMINISTRATOR**  
U.S. Bancorp Fund Services, L.L.C.  
615 East Michigan St.  
Milwaukee, Wis. 53202

**CUSTODIAN**  
U.S. Bank, N.A.  
1555 North Rivercenter Drive, Suite 302  
Milwaukee, Wis. 53212

**TRANSFER, DIVIDEND DISBURSING  
AND REINVESTMENT AGENT**  
Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, R.I. 02940-3078  
(312) 588-4990  
www.computershare.com

**LEGAL COUNSEL**  
Blackwell Sanders Peper Martin LLP  
4801 Main St.  
Kansas City, Mo. 64112

**Terry Matlack**  
Tortoise Capital Advisors, L.L.C.

**INVESTOR RELATIONS**  
(866) 362-9331  
info@tortoiseadvisors.com

**Conrad S. Ciccotello**  
Independent

**STOCK SYMBOL**  
Listed NYSE Symbol: TYG

**John R. Graham**  
Independent

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

**Charles E. Heath**  
Independent

**Tortoise Capital Advisor s Family of Funds**

Name	Ticker/ Inception Date	Targeted Investments	Investor Suitability	Investment Restrictions	Total Assets as of 11/30/06 (\$ in millions)
Tortoise Energy	TYG Feb. 2004	U.S. Energy Infrastructure	Retirement Accounts Pension Plans Taxable Accounts	30% Restricted Securities 10% Issuer-Limited	\$928
Tortoise Capital	TYG May 2005	U.S. Energy Infrastructure	Retirement Accounts Pension Plans Taxable Accounts	50% Restricted Securities 15% Issuer-Limited	\$707
Tortoise North America	TYN Oct. 2005	Canadian and U.S. Energy Infrastructure	Taxable Accounts	50% Restricted Securities Diversified to Meet RIC Requirements	\$173

*...Steady Wins "*

**Tortoise Capital Advisors, L.L.C.**  
**Investment Adviser to**  
**Tortoise Energy Infrastructure Corp.**



**Item 2. Code of Ethics.**

The Registrant has adopted a code of ethics that applies to the Registrant's President, Chief Executive Officer and Chief Financial Officer. The Registrant has not made any amendments to this code of ethics during the period covered by this report. The Registrant has not granted any waivers from any provisions of this code of ethics during the period covered by this report.

**Item 3. Audit Committee Financial Expert.**

The Registrant's Board of Directors has determined that there is at least one audit committee financial expert serving on its audit committee. Mr. Conrad Ciccotello is the audit committee financial expert and is considered to be independent as each term is defined in Item 3 of Form N-CSR. In addition to his experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements, Mr. Ciccotello has a Ph.D. in Finance.

**Item 4. Principal Accountant Fees and Services.**

The Registrant has engaged its principal accountant to perform audit services, audit-related services and tax services during the past two fiscal years. Audit services refer to performing an audit of the Registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. Audit-related services refer to the assurance and related services by the principal accountant that are reasonably related to the performance of the audit. Tax services refer to professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. The following table details the approximate amounts of aggregate fees billed to the Registrant for the last two fiscal years for audit fees, audit-related fees, tax fees and other fees by the principal accountant.

	FYE 11/30/2006	FYE 11/30/2005
Audit Fees	\$160,000	\$237,000
Audit-Related Fees	\$17,000	\$39,000
Tax Fees	\$81,000	\$47,000
All Other Fees		
Aggregate Non-Audit Fees	\$98,000	\$86,000

The audit committee has adopted pre-approval policies and procedures that require the audit committee to pre-approve (i) the selection of the Registrant's independent registered public accounting firm, (ii) the engagement of the independent registered public accounting firm to provide any non-audit services to the Registrant, (iii) the engagement of the independent registered public accounting firm to provide any non-audit services to the Adviser or any entity controlling, controlled by, or under common control with the Adviser that provides ongoing services to the Registrant, if the engagement relates directly to the operations and financial reporting of the Registrant, and (iv) the fees and other compensation to be paid to the independent registered public accounting firm. The Chairman of the audit committee may grant the pre-approval of any engagement of the independent registered public accounting firm for non-audit services of less than \$5,000, and such delegated pre-approvals will be presented to the full audit committee at its next meeting for ratification. Under certain limited circumstances, pre-approvals are not required under securities law regulations for certain non-audit services below certain de minimus thresholds. Since the adoption of these policies and procedures, the audit committee has pre-approved all audit and non-audit services provided to the Registrant by the principal accountant, and all non-audit services provided by the principal accountant to the Adviser. None of these services provided by the principal accountant were approved by the audit committee pursuant to the de minimus exception under Rule 2.01(c)(7)(i)(C) or Rule 2.01(c)(7)(ii) of Regulation S-X. All of the principal accountant's hours spent on auditing the registrant's financial statements were attributed to work performed by full-time permanent employees of the principal accountant.

In addition, in the registrant's fiscal year ended November 30, 2006, the principal accountant billed the Adviser fees in the amount of \$20,500 in connection with determining the Adviser's compliance with AIMR-PPS® standards in 2005

and 2004, but did not bill the Adviser for any fees for non-audit services for the fiscal year ended November 30, 2005. In addition, in January 2007, the Adviser paid the principal accountant fees in the amount of \$10,000 for general tax consultation in the fiscal year ended November 30, 2006. No entity controlling, controlled by, or under common control with the Adviser that provides ongoing services to the Registrant, has paid to, or been billed for fees by, the principal accountant for non-audit services rendered to the Adviser or such entity during the Registrant's last two fiscal years. The audit committee has considered whether the principal accountant's provision of services (other than audit services) to the Registrant, the Adviser or any entity controlling, controlled by, or under common control with the Adviser that provides services to the Registrant is compatible with maintaining the principal accountant's independence in performing audit services.

**Item 5. Audit Committee of Listed Registrants.**

The Registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58) of the Securities Exchange Act of 1934, and is comprised of Mr. Conrad Ciccotello, Mr. John Graham and Mr. Charles Heath.

**Item 6. Schedule of Investments.**

Schedule of Investments is included as part of the report to shareholders filed under Item 1.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

Copies of the proxy voting policies and procedures of the Registrant and the Adviser are attached hereto as Exhibit 99.VOTEREG and Exhibit 99.VOTEADV, respectively.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

Unless otherwise indicated, information is presented as of November 30, 2006.

**Portfolio Managers**

Management of the registrant's portfolio is the responsibility of a team of portfolio managers consisting of H. Kevin Birzer, Zachary A. Hamel, Kenneth P. Malvey, Terry C. Matlack and David J. Schulte, all of whom are Managers of the Adviser, comprise the investment committee of the Adviser and share responsibility for such investment management. All decisions to invest in a portfolio company must be approved by the unanimous decision of the Adviser's investment committee and any one member of the Adviser's investment committee can require the Advisor to sell a security or can veto the investment committee's decision to invest in a security. Biographical information about each member of the Adviser's investment committee as of the date of this filing is set forth below.

<b><u>Name</u></b>	<b><u>Position(s) Held With Registrant and Length of Time Served</u></b>	<b><u>Principal Occupation During Past Five Years</u></b>
H. Kevin Birzer	Director and Chairman of the Board of registrant since 2003	Managing Director of the Adviser since 2002; Partner, Fountain Capital Management, L.L.C. ( Fountain Capital ), a registered investment advisor (1990 - present). Formerly, Vice President, Corporate Finance Department, Drexel Burnham Lambert (1986-1989); and Vice President, F. Martin Koenig & Co. (1983-1986).
Zachary A. Hamel	Secretary of registrant since 2003	Managing Director of the Adviser since 2002; Partner, Fountain Capital (1997-present).
Kenneth P. Malvey	Treasurer of registrant since November 2005; Assistant Treasurer of registrant from 2003 to November 2005	Managing Director of the Adviser since 2002; Partner, Fountain Capital (2002-present). Formerly, Investment Risk Manager and member of the Global Office of Investments, GE Capital's Employers Reinsurance Corporation (1996 - 2002).
Terry C. Matlack		

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	Director and Chief Financial Officer of registrant since 2003; Assistant Treasurer of registrant since November 2005; Treasurer of registrant from 2003 to November 2005; Chief Compliance Officer of registrant from its inception through May 2006	Managing Director of the Adviser since 2002; Managing Director, Kansas City Equity Partners LC ( KCEP ), a private equity firm (2001- present). Formerly, President, GreenStreet Capital (1995 - 2001).
David J. Schulte	President and Chief Executive Officer of registrant since 2003	Managing Director of the Adviser since 2002; Managing Director, KCEP (1993-present).

Messrs. Birzer and Matlack also serve as directors of Tortoise North American Energy Corporation ( TYN ) and Tortoise Energy Capital Corporation ( TYY ), registered closed-end management investment companies, as well as Tortoise Capital Resources Corporation ( TTO ), a closed-end management investment company that intends to elect to be regulated as a business development company. Messrs. Matlack, Schulte, Hamel and Malvey also serve as officers of TYN, TYY and TTO. The Adviser also serves as the investment adviser to TYN, TYY and TTO.

The following table provides information about the other accounts managed on a day-to-day basis by each of the portfolio managers as of November 30, 2006:

Name of Manager	Number of Accounts	Total Assets of Accounts	Number of Accounts Paying a Performance Fee	Total Assets of Accounts Paying a Performance Fee
<b>H. Kevin Birzer</b>				
Registered investment companies	2	\$879,812,575	0	
Other pooled investment vehicles	5	\$1,928,523,567	1	\$42,933,012
Other accounts	182	\$1,965,319,994	0	
<b>Zachary A. Hamel</b>				
Registered investment companies	2	\$879,812,575	0	
Other pooled investment vehicles	5	\$1,928,523,567	1	\$42,933,012
Other accounts	182	\$1,965,319,994	0	
<b>Kenneth P. Malvey</b>				
Registered investment companies	2	\$879,812,575	0	
Other pooled investment vehicles	5	\$1,928,523,567	1	\$42,933,012
Other accounts	182	\$1,965,319,994	0	
<b>Terry C. Matlack</b>				
Registered investment companies	2	\$879,812,575	0	
Other pooled investment vehicles	2	\$69,933,012	2	\$69,933,012
Other accounts	160	\$185,779,727	0	
<b>David J. Schulte</b>				
Registered investment companies	2	\$879,812,575	0	
Other pooled investment vehicles	2	\$69,933,012	2	\$69,933,012
Other accounts	160	\$185,779,727	0	

**Material Conflicts of Interest**

Conflicts of interest may arise from the fact that the Adviser and its affiliates carry on substantial investment activities for other clients, in which the registrant has no interest. The Adviser or its affiliates may have financial incentives to favor certain of these accounts over the registrant. Any of their proprietary accounts or other customer accounts may compete with the registrant for specific trades. The Adviser or its affiliates may give advice and recommend securities to, or buy or sell securities for, other accounts and customers, which advice or securities recommended may differ from advice given to, or securities recommended or bought or sold for, the registrant, even though their investment

objectives may be the same as, or similar to, the registrant's objectives. When two or more clients advised by the Adviser or its affiliates seek to purchase or sell the same publicly traded securities, the securities actually purchased or sold will be allocated among the clients on a good faith equitable basis by the Adviser in its discretion and in accordance with the client's various investment objectives and the Adviser's procedures. In some cases, this system may adversely affect the price or size of the position the registrant may obtain or sell. In other cases, the registrant's ability to participate in volume transactions may produce better execution for it.

The registrant, TYY, TYN and TTO have the same investment adviser, rely on some of the same personnel and will use the same portfolio managers. To the extent certain energy infrastructure company securities meet the registrant's investment objective and the objectives of other investment companies or accounts managed by the Adviser, the registrant may compete with such companies or accounts for the same investment opportunities.

Situations may occur when the registrant could be disadvantaged because of the investment activities conducted by the Adviser and its affiliates for their other accounts. Such situations may be based on, among other things, the following: (1) legal or internal restrictions on the combined size of positions that may be taken for the registrant or the other accounts, thereby limiting the size of the registrant's position; (2) the difficulty of liquidating an investment for the registrant or the other accounts where the market cannot absorb the sale of the combined position; or (3) limits on co-investing in private placement securities under the Investment Company Act of 1940. The registrant's investment opportunities may be limited by affiliations of the Adviser or its affiliates with energy infrastructure companies.

In addition, three of the five portfolio managers are affiliates of, but not employees of, the Adviser, and each has other significant responsibilities with Fountain Capital, which conducts businesses and activities of its own in which the Adviser has no economic interest. If these separate activities become significantly greater or have greater profit potential than the Adviser's activities, there could be material competition for the efforts of these portfolio managers.

#### **Compensation**

None of Messrs. Birzer, Hamel, Malvey, Matlack or Schulte receives any direct compensation from the registrant or any other of the managed accounts reflected in the table above. All such accounts are managed by the Adviser, Fountain Capital or KCEP. Messrs. Schulte and Matlack are full-time employees of the Adviser and receive a fixed salary for the services they provide. Messrs. Birzer, Hamel and Malvey are employees of Fountain Capital and receive a fixed salary for the services they provide. Fountain Capital is paid a fixed monthly fee, subject to adjustment, for the services of Messrs. Birzer, Hamel or Malvey. Each of Messrs. Birzer, Hamel, Malvey, Matlack and Schulte own an equity interest in either KCEP or Fountain Capital, the two entities that control the Adviser, and each thus benefits from increases in the net income of the Adviser, KCEP or Fountain Capital.

#### **Securities Owned in the Registrant by Portfolio Managers**

The following table provides information about the dollar range of equity securities in the registrant beneficially owned by each of the portfolio managers as of November 30, 2006:

<b>Portfolio Manager</b>	<b>Aggregate Dollar Range of Holdings in the Registrant</b>
H. Kevin Birzer	Over \$100,000
Zachary A. Hamel	Over \$100,000
Kenneth P. Malvey	Over \$100,000
Terry C. Matlack	Over \$100,000
David J. Schulte	Over \$100,000

#### **Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**

<i>Period</i>	<i>(a) Total Number of Shares (or Units) Purchased</i>	<i>(b) Average Price Paid per Share (or Unit)</i>	<i>(c) Total Number of Shares (or Units) Purchased as</i>	<i>(d) Maximum Number (or Approximate Dollar Value)</i>
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			<i>Part of Publicly Announced Plans or Programs</i>	<i>of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</i>
Month #1 6/1/06-6/30/06	0	0	0	0
Month #2 7/1/06-7/31/06	0	0	0	0
Month #3 8/1/06-8/31/06	0	0	0	0
Month #4 9/1-06-9/30/06	0	0	0	0
Month #5 10/1/06-10/31/06	0	0	0	0
Month #6 11/1/06-11/30/06	0	0	0	0
Total	0	0	0	0

**Item 10. Submission of Matters to a Vote of Security Holders.**

None.

**Item 11. Controls and Procedures.**

(a) The Registrant's President/Chief Executive Officer and Chief Financial Officer have concluded that the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report, based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended.

(b) There were no significant changes in the Registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the Registrant's second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 12. Exhibits.**

(a) (1) *Any code of ethics or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the Registrant intends to satisfy Item 2 requirements through filing of an exhibit.* Incorporated by the reference to the Registrant's Form N-CSR filed on February 3, 2006.

(2) *Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* Filed herewith.

(3) *Any written solicitation to purchase securities under Rule 23c-1 under the Act sent or given during the period covered by the report by or on behalf of the Registrant to 10 or more persons.* None.

(b) *Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Tortoise Energy Infrastructure Corporation  
 By (Signature and Title) /s/ David Schulte  
 David J. Schulte, President and Chief Executive Officer

Date January 31, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By (Signature and Title) /s/ David Schulte  
 David J. Schulte, President and Chief Executive Officer

Date January 31, 2007

By (Signature and Title) /s/ Terry Matlack  
 Terry C. Matlack, Chief Financial Officer

Date January 31, 2007

pt">		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans		730,000 400,000
Borrowings from related parties		7,973 637,495
Proceeds from exercise of options		- 105,000
Repayments to related parties		(9,803) -
Repayments of loan payable		(41,298) (220,000)
Payments of dividend		- (39,390)
Net cash provided by financing activities - continuing operations		686,872 883,105
Net cash provided by financing activities - discontinued operations		- 10,389,337
NET CASH PROVIDED BY FINANCING ACTIVITIES		686,872 11,272,442
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS		14,107 (951,149)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(58,704) (373,885)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		82,675 539,176
Less: Cash and Cash Equivalents of Discontinued Operations at End of Period		- 137,878
CASH AND CASH EQUIVALENTS AT END OF PERIOD		\$23,971 \$27,413
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

Interest paid		\$9,727	\$45,319
Income taxes paid		\$-	\$-
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Deferred revenue received in the form of marketable securities		\$22,500	\$295,000
Unrealized gain (loss) on marketable securities available-for-sale		\$(46,750)	\$88,600
Collection of AR in the form of marketable securities		\$22,500	\$126,600
Liabilities reclassification from related parties to intercompany due to acquisition of Golden Trust		\$-	\$1,247,642
Debt discount recorded on convertible debt due to conversion feature		\$361,452	\$-
Derivative liabilities related to warrant price reset feature		\$46,667	\$-

The accompanying notes are an integral part of unaudited consolidated financial statements.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
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NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

CD International Enterprises, Inc. (“CDII”), a Florida corporation and its subsidiaries are referred to in this report as “we”, “us”, “our”, “Company”, or “CD International.”

We are a U.S. based company that sources, produces and distributes industrial products in Asia and the Americas. We also provide business and financial consulting services to public and private American and Chinese businesses. We operate in two identifiable segments, as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 280, “Segment Reporting”: Mineral Trading and Consulting. Beginning in 2006, we established our Consulting and Mineral Trading segments which grew through acquisitions of controlling interests in Chinese private companies. We consolidate these acquisitions as either wholly or majority owned subsidiaries.

In our Mineral Trading segment, we currently source, finance, manage logistics, and sell industrial commodities from North and South America for ultimate distribution in China. In our Consulting segment, we provide business and financial consulting services to U.S. public companies that operate primarily in China. The consulting fees we charge vary based upon the scope of the services.

On September 30, 2014, the Company signed a share exchange agreement with Yuwei Huang (“Mr. Huang”), a related party, selling our Magnesium segment to Mr. Huang and in return, Mr. Huang and other parties returned and cancelled 8,325,949 shares of the Company’s common stock held by such parties related to Mr. Huang and cancelled the right to receive 41,524 convertible series D preferred stock within 10 business days after the share exchange agreement was signed. Historically, the Magnesium segment represented our largest segment by revenues and assets. We produced, sold and distributed pure magnesium ingots, magnesium powder and magnesium alloy. Since 2009, the magnesium spot price had not fully recovered to the pre-2009 level and the current spot price is approximately \$2,300 per ton FOB China. Accordingly, we have generated negative gross margins and operating losses, and most of our magnesium facilities ceased production. Results of operations, financial position and cash flows associated with the Magnesium segment are separately reported as discontinued operations for all periods presented.

In addition, in April 2015, the Company sold its entire 95% equity interest in CDI Jingkun Zinc Industry Co., Ltd. (“CDI Jingkun Zinc”) and 100% equity interest in Shanghai CDI Metal Material Co., Ltd. (“CDI Metal”) to Xiaowen Zhuang, a related party individual. The Company also sold its 100% equity interest in CDI Jixiang Metal Co., Ltd. (“CDI Jixiang Metal”) to Dragon Capital Group Corp (“Dragon Capital”), a related party company. As a result, results of operations, financial position and cash flows associated with CDI Jingkun Zinc, CDI Metal and CDI Jixiang Metal are reported as discontinued operations for all periods presented. CDI Jingkun Zinc, CDI Metal and CDI Jixiang Metal were entities in the Mineral Trading segment. For additional information, see Note 10 – Discontinued Operations.

For the nine months of fiscal year 2015 and 2014, subsidiaries included in continuing operations consisted of the following:

- CDI China, Inc. (“CDI China”), a wholly owned subsidiary of CDII;
- International Magnesium Group, Inc. (“IMG”), a wholly owned subsidiary of CDII;
- CDII Minerals, Inc. (“CDII Minerals”), a wholly owned subsidiary of CDII;
- CDII Chile, Ltda. (“CDII Chile”), a wholly owned subsidiary of CDII Minerals;
- CDII Minerals de Peru SAC (“CDII Peru”), a 50% owned subsidiary of CDII Minerals;



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- Empresa Minera CDII de Bolivia S.A. (“CDII Bolivia”), a wholly owned subsidiary of CDII Minerals;
- China Direct Investments, Inc. (“China Direct Investments”), a wholly owned subsidiary of CDII;
- CDI Shanghai Management Co., Ltd. (“CDI Shanghai Management”), a wholly owned subsidiary of CDI China; and
- Capital Resource Management Co., Ltd. (“Capital Resource Management”), a wholly owned subsidiary of CDI Shanghai Management, formerly known as Capital One Resource Co., Ltd.

Basis of Presentation

We have defined various periods that are covered in this report as follows:

- “fiscal year 2015” – October 1, 2014 through September 30, 2015
- “fiscal year 2014” – October 1, 2013 through September 30, 2014
- “fiscal year 2013” – October 1, 2012 through September 30, 2013

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The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All intercompany balances and transactions have been eliminated in the consolidation. Certain information and footnote disclosures normally included in financial statements prepared in conjunction with generally accepted accounting principles have been condensed or omitted as permitted by the rules and regulations of the United States Securities and Exchange Commission (“SEC”), although the Company believes that the disclosures contained in this report are adequate to make the information presented not misleading. The consolidated balance sheet information as of September 30, 2014 was derived from the consolidated audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2014. These consolidated financial statements should be read in conjunction with the annual consolidated audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2014, and other reports filed with the SEC.

The accompanying unaudited interim consolidated financial statements reflect all adjustments of a normal and recurring nature which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or for the fiscal year taken as a whole.

#### Going Concern

For the three and nine months ended June 30, 2015, the Company has incurred a net loss from continuing operations of approximately \$2.0 million and \$2.8 million and the Company also has a working capital deficit of \$6.1 million. Its cash and cash equivalent and its revenues are not currently sufficient and cannot be projected to cover operating expenses in the coming year. These factors raise substantial doubt as to the ability of the Company to continue as a going concern. Management’s plans include attempting to raise funds through debt and equity financings, restructure on-going operations to eliminate inefficiencies and continue to sell assets to raise cash and meet operating needs. Management intends to make every effort to identify and develop sources of funds. There is no assurance that management’s plans will be successful.

#### Summary of Significant Accounting Policies

##### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of consolidated revenue and expenses during the reporting period. Significant estimates include the valuation of investments available-for-sale, the allowance for doubtful accounts receivable, the allowance for obsolete inventory, the fair value of stock based compensation, the useful life of property, plant and equipment, and the valuation of derivative liability.

We rely on assumptions such as volatility, forfeiture rate, and expected dividend yield when deriving the grant date fair value of share based compensation as well as the valuation of derivative liability. If an equity award is modified, and we expect the service conditions of the original award will be met, we will adjust our assumptions and estimates as of the modification date and compare the old equity award valued at the modification date with the new equity award valued at the modification date to calculate any incremental cost. We then continue to recognize the original grant date fair value plus any incremental cost over the modified service period.

Our estimate for allowance for uncollectible accounts is based on an evaluation of our outstanding accounts receivable, other receivables, and loans receivable including the aging of amounts due, the financial condition of our specific customers and clients, knowledge of our industry segment in Asia, and historical bad debt experience. This evaluation methodology has proven to provide a reasonable estimate of bad debt expense in the past and we intend to continue to employ this approach in our analysis of collectability. However, we are aware that given the current global economic situation, including that of China, meaningful time horizons may change. We intend to enhance our focus on the evaluation of our customers' sustainability and adjust our estimates as may be required.

We group property plant and equipment into similar groups of assets and estimate the useful life of each group of assets.

Assumptions and estimates employed in these areas are material to our reported financial condition and results of operations. Actual results could differ from these estimates.

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### Concentration of Credit Risks

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and trade accounts receivable. We deposit our cash with high credit quality financial institutions in the United States and China. As of June 30, 2015, we had no bank deposits in the United States that exceeded federally insured limits. At June 30, 2015, we had deposits of \$2,599 in banks in China. In China, there is no equivalent federal deposit insurance as in the United States, so the amounts held in banks in China are not insured. We have not experienced any losses in such bank accounts through June 30, 2015.

At June 30, 2015 and September 30, 2014, bank deposits by geographic area were as follows:

Country	June 30, 2015			September 30, 2014		
United States	\$	21,372	89%	\$	54,034	65%
China		2,599	11%		28,641	35%
Total cash and cash equivalents	\$	23,971	100%	\$	82,675	100%

In an effort to mitigate any potential risk, we periodically evaluate the credit quality of the financial institutions at which we hold deposits, both in the United States and China.

### Fair Value of Financial Instruments

We adopted the provisions of ASC Topic 820, "Fair Value Measurements". These provisions relate to our consolidated financial assets and liabilities carried at fair value and our fair value disclosures related to financial assets and liabilities. ASC Topic 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs to fair value measurements below:

- Level 1, meaning the use of quoted prices for identical instruments in active markets;
- Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable;
- Level 3, meaning the use of unobservable inputs. Observable market data should be used when available.

The carrying amounts of the Company's financial instruments, such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses, advances from customers, and other current liabilities approximate their fair value due to the short term maturities of these instruments.

The Company's loans payable approximate the fair value of such instruments based upon management's best estimate of interest rates that would be available to the Company for similar financial arrangements at June 30, 2015 and September 30, 2014.

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated. It is not, however, practical to determine

the fair value of amounts due from/to related parties due to their related party nature.

#### Recurring Fair Value Measurements

The Company uses Level 1 of the fair value hierarchy to measure the fair value of marketable securities and marks the marketable securities available-for-sale at fair value in the statement of financial position at each balance sheet date and reports the unrealized holding gains and losses for marketable securities available-for-sale in other comprehensive income (loss) until realized provided the unrealized holding gains and losses is temporary. If the fair value of investment in marketable securities available-for-sale is less than its cost basis at the balance sheet date of the reporting period for which impairment is assessed, and it is determined that the impairment is other than temporary, then an impairment loss is recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date of the reporting period.

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The Company uses Level 3 of the fair value hierarchy to measure the fair value of its derivative liabilities and revalues the derivative liabilities at every reporting period and recognizes gains or losses in the consolidated statements of operations and comprehensive income (loss) that are attributable to the change in the fair value of derivative liabilities.

The financial assets and liabilities carried at fair value on a recurring basis at June 30, 2015 are as follows:

Financial assets and liabilities	Fair value	Level 1	Level 2	Level 3
Marketable equity securities	\$ 45,602	\$ 45,602	\$ -	\$ -
Receivable of marketable equity securities	14,400	14,400	-	-
Payable to be settled with marketable securities	-	-	-	-
Derivative liabilities	(1,325,218)	-	-	(1,325,218)
	\$ (1,265,216)	\$ 60,002	\$ -	\$ (1,325,218)

The financial assets and liabilities carried at fair value on a recurring basis at September 30, 2014 are as follows:

Financial assets and liabilities	Fair value	Level 1	Level 2	Level 3
Marketable equity securities	\$ 47,352	\$ 47,352	\$ -	\$ -
Receivable of marketable equity securities	58,900	58,900	-	-
Payable to be settled with marketable securities	(55,135)	(55,135)	-	-
Derivative liabilities	(1,848,041)	-	-	(1,848,041)
	\$ (1,796,924)	\$ 51,117	\$ -	\$ (1,848,041)

#### Marketable Securities

Marketable securities that we receive from our clients as compensation are generally restricted for sale under Federal securities laws. Our policy is to liquidate securities received as compensation when market conditions are favorable for sale. Since these securities are often restricted, we are unable to liquidate them until the restriction is removed. We recognize revenue for the common stock we receive as compensation based on the fair value at the time the common stock is granted or at the time service has been rendered and for common stock purchase warrants based on the Black-Scholes valuation model. Pursuant to ASC Topic 320, "Investments – Debt and Equity Securities" our marketable securities have a readily determinable quoted price, such as from NASDAQ, NYSE Euronext, the Over the Counter Bulletin Board, and the OTC Markets Group (formerly known as the Pink Sheets) and any unrealized gain or loss is recognized as an element of comprehensive income or loss based on changes in the fair value of the security as quoted on an exchange or an inter-dealer quotation. Once liquidated, any realized gain or loss on the sale of marketable securities is reflected in our statement of operations for the period in which the securities are liquidated.

We perform an analysis of our marketable securities at least on an annual basis to determine if any of these securities have become other than temporarily impaired. If we determine that the decline in fair value is other than temporary we recognize the amount of the impairment as a realized loss into our current period net income (loss). This determination is based on a number of factors, including but not limited to (i) the percentage of the decline, (ii) the severity of the decline in relation to the enterprise/market conditions, and (iii) the duration of the decline.

## Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollars (“U.S. dollar”). The functional currency of our Chinese subsidiaries is the Renminbi (“RMB”), the official currency of the People’s Republic of China (“PRC”). Capital accounts of the consolidated financial statements are translated into U. S. dollars from RMB at their historical exchange rates when the capital transactions occurred. Assets and liabilities are translated at the exchange rates as of the balance sheet date. Income and expenditures are translated at the average exchange rates for the three and nine months periods ended June 30, 2015 and 2014, respectively. A summary of the conversion rates for the periods presented is as follows:

	June 30, 2015	September 30, 2014	June 30, 2014
Period end RMB: U.S. dollar exchange rate	6.0888	6.1534	6.1552
Average fiscal-year-to-date RMB: U.S. dollar exchange rate	6.1205	6.1400	6.1341

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The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through PRC authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at the rates applied in the translation.

#### Derivative Liabilities

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations, in accordance with ASC 815-15, "Derivative and Hedging". The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

ASC Subtopic 815-40, "Contracts in Entity's Own Equity," requires that entities recognize as derivative liabilities the derivative instruments, including certain derivative instruments embedded in other contracts that are not indexed to an entity's own stock. Pursuant to the provisions of ASC Section 815-40-15, (formerly FASB Emerging Issues Task Force ("EITF") Issue No. 07-5: Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF 07-5")), an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions.

#### Recent Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs". The amendments in the ASU are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory". The amendments in ASU 2015-11 require an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. A reporting entity should apply the amendments prospectively with earlier application permitted as of the beginning of an interim or annual reporting



period. The adoption of ASU 2015-11 is not expected to have a material impact on the Company's consolidated financial statements.

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date". The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

#### NOTE 2 – LOSS PER SHARE

Under the provisions of ASC 260, "Earnings Per Share," basic loss per common share is computed by dividing net loss attributable to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the company, subject to anti-dilution limitations.

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The following table presents the computation of basic and diluted loss per share for the three and nine months ended June 30, 2015 and 2014:

	For the Three Months Ended June 30, 2015	For the Three Months Ended June 30, 2014	For the Nine Months Ended June 30, 2015	For the Nine Months Ended June 30, 2014
Net loss allocable to common stockholders:				
Net loss from continuing operations	\$ (2,033,517)	\$ (278,846)	\$ (2,820,925)	\$ (2,998,091)
Net Income (loss) from discontinued operations	3,482,953	(1,727,910)	3,482,953	(10,591,027)
Net income (loss) allocable to common stockholders	1,449,436	(2,006,756)	662,028	(13,589,118)
Less: preferred stock dividends	20,130	20,130	60,390	60,390
Net income (loss) allocable to common stockholders less preferred stock dividends	\$ 1,429,306	\$ (2,026,886)	\$ 601,638	\$ (13,649,508)
Basic weighted average common shares outstanding				
	67,347,474	63,209,636	65,649,672	62,492,530
Dilutive weighted average common shares outstanding				
	67,347,474	63,209,636	65,649,672	62,492,530
Net income (loss) per common share - basic:				
Net loss from continuing operations	\$ (0.03)	\$ (0.00)	\$ (0.04)	\$ (0.05)
Net income (loss) from discontinued operations	0.05	(0.03)	0.05	(0.17)
Net income (loss) per common share - basic	\$ 0.02	\$ (0.03)	\$ 0.01	\$ (0.22)
Net income (loss) per common share - diluted:				
Net loss from continuing operations	\$ (0.03)	\$ (0.00)	\$ (0.04)	\$ (0.05)
Net income (loss) from discontinued operations	0.05	(0.03)	0.05	(0.17)
Net income (loss) per common share - diluted	\$ 0.02	\$ (0.03)	\$ 0.01	\$ (0.22)

Common stock equivalents are not included in the denominator in periods when anti-dilutive. We excluded 9,000,000 shares of our common stock issuable upon exercise of options, 777,778 shares of our common stock issuable upon exercise of warrants, 53,340,968 shares issuable upon conversion of series A preferred stock and 53,104,575 shares of common stock issuable upon conversion of convertible debt for the nine months ended June 30, 2015 as their effect was anti-dilutive. We excluded 9,000,480 shares of our common stock issuable upon exercise of options, 2,129,130

shares of our common stock issuable upon exercise of warrants and 30,394,981 shares issuable upon conversion of series A preferred stock for the nine months ended June 30, 2014 as their effect was anti-dilutive.

NOTE 3 – MARKETABLE SECURITIES AVAILABLE-FOR-SALE

Marketable securities available-for-sale and marketable securities available-for-sale-related party as of June 30, 2015 and September 30, 2014 consisted of the following financial instruments:

Company	June 30, 2015	% of Total	September 30, 2014	% of Total
Dragon Capital Group, Corp. – related party	\$ 40,000	88%	\$ 40,000	84 %
China Logistics Group, Inc.	5,602	12%	7,352	16%
Marketable securities available-for-sale	\$ 45,602	100%	\$ 47,352	100%

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All the securities were received from our clients as consulting fees. During the nine months ended June 30, 2015 and 2014, we collected marketable securities originated from accounts receivable in the amount of \$22,500 and \$126,600, separately, and we collected marketable securities originated from deferred revenue in the amount of \$22,500 and \$295,000, respectively. We categorize the securities as investments in marketable securities available-for-sale or investments in marketable securities available-for-sale-related party. These securities are quoted either on an exchange or on the over the counter market system. Some of the securities are restricted and cannot be readily sold by us absent a registration of those securities under the Securities Act of 1933 (the "Securities Act") or the availability of an exemption from the registration requirements under the Securities Act. Our policy is to liquidate the securities on a regular basis. As these securities are often restricted, we are unable to liquidate them until the restriction is removed. Unrealized gains or losses on marketable securities available-for-sale and on marketable securities available-for-sale-related party are recognized on a periodic basis as an element of comprehensive income based on changes in the fair value of the security. Once liquidated, realized gains or losses on the sale of marketable securities available-for-sale and marketable securities available-for-sale-related party are reflected in our net income for the period in which the security was liquidated.

The marketable securities available-for-sale-related party totaled \$40,000 and \$40,000 at June 30, 2015 and September 30, 2014, respectively and composed solely of the securities of Dragon Capital Group, Corp. ("Dragon Capital"). Mr. Lisheng (Lawrence) Wang, the CEO and Chairman of the Board of Dragon Capital, is the brother of James (Yuejian) Wang, the CEO of the Company. These securities were issued by Dragon Capital as compensation for consulting services. Dragon Capital is a non-reporting company whose securities are quoted on the OTC Pink Tier of the OTC Markets Group. As such, under Federal securities laws, securities of Dragon Capital generally cannot be resold by us in absence of a registration of those securities under the Securities Act or unless there exists an available exemption from such registration.

Our marketable securities available-for-sale are carried at fair value. Under the guidance of ASC320, "Investments", we periodically evaluate our marketable securities to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other-than-temporary" is not intended to indicate that the decline is permanent. It indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding impairment charge to earnings is recognized. In this assessment for various securities at June 30, 2015 and September 30, 2014, the guidance in ASC 320, "the Investment-Debt and Equity Securities", is carefully followed. In accordance with ASC 320-10-35-33, when an entity has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security shall be deemed other-than-temporarily impaired in the period in which the decision to sell is made. However, an entity shall recognize an impairment loss when the impairment is deemed other than temporary impairment even if a decision to sell has not been made.

For the nine months ended June 30, 2015 and 2014, we had no loss related to other than temporary impairment.

Marketable securities available-for-sale and marketable securities available-for-sale-related party are either valued at the date received or at the date when services are rendered. The table below provides a summary of the changes in the fair of marketable securities for the nine months ended June 30, 2015:

For the Nine Months Ended June 30, 2015

	September 30, 2014	Fair value received/sold	Cost basis adjustment for other than temporary impairment	Unrealized loss	June 30, 2015
Investment in marketable securities available-for-sale	\$ 7,352	\$ -	\$ -	\$ 1,750	\$ 5,602
Investment in marketable securities available-for-sale - related party	40,000	45,000	-	45,000	40,000
Total investment in securities available-for-sale	\$ 47,352	\$ 45,000	\$ -	\$ 46,750	\$ 45,602

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## NOTE 4 – ACCOUNTS RECEIVABLE AND ACCOUNTS RECEIVABLE - RELATED PARTY

Accounts receivables generally include trade receivables and receivables of marketable securities available-for-sale. These receivables are carried at fair market value. The changes in the fair market value of the marketable securities underlying the receivables are reflected in earnings for each period. At June 30, 2015 and September 30, 2014, the fair value of available-for-sale securities receivable was \$14,400 and \$58,900, respectively. At June 30, 2015, we also had \$13,139 of trade receivables related to the consulting service provided which were not in the form of marketable securities available-for-sale.

At June 30, 2015, we have \$14,400 receivable due from 9,000,000 share of common stock of China Logistic, Inc (OTC: CHLO). At September 30, 2014, we have \$18,900 receivable due from 9,000,000 shares of common stock of China Logistics Group, Inc (OTC: CHLO), and \$40,000 related party receivable due from 50,000,000 shares of common stock of Dragon Capital (Pink Sheet: DRGV), a related party.

## NOTE 5 - LOANS PAYABLE

Loans payable at June 30, 2015 and September 30, 2014 consisted of the following:

Description	June 30, 2015	September 30, 2014
China Direct Investments loan from four Chinese citizens. Due on February 28, 2013, and currently in default. 12% annual interest rate. Secured by 5,099,115 shares of the common stock of China Education International, Inc., which are deemed worthless. (1)	\$ 1,000,000	\$ 1,000,000
China Direct Investments loan from Marc Siegel, with an original principal of \$92,125. Due on March 31, 2013. Lenders agreed to waive interest. Secured by pledge of certain assets of CDII. The Company paid off the Marc Siegel loan on January 13, 2015.	-	32,125
China Direct Investments loan from Draco Resources, Inc. Due on March 18, 2015 with 2% annual interest rate. The loan is unsecured.	200,000	200,000
CDII loan from TCA Global Credit Master Fund, LP. Due on January 31, 2015 with 10% annual interest rate and secured by pledge of assets of CDII. (2)	650,000	650,000
China Direct Investments loan from Kong Tung, a Chinese citizen. Due on January 7, 2015 and currently in default. 2% interest rate per month. Secured by pledge of assets of CDII. (3)	600,000	-
China Direct Investments loan from Yewen Xi, a Chinese citizen. \$500,000 is due on December 31, 2015 and \$200,000 is due on May 31, 2016. 12% annual interest rate. Yewen Xi has the right to convert the outstanding principal amount and interest into common stock of CDII at the fixed conversion price of \$0.03 per share upon maturity. Secured by	700,000	-

pledge of assets of CDII.

CDII loan from Money Works Direct. 11.25% interest rate per month. Secured by pledge of assets of CDII. Due on September 14, 2015 and the Company paid off this loan and accrued interests on July 17, 2015.

	20,827	-
Total	3,170,827	1,882,125
Less: current portion	(3,170,827)	(1,882,125)
Loans payable, long-term	\$ -	\$ -

(1) On May 28, 2015, we entered into four stock purchase agreements with four Chinese citizens converting the four promissory notes originally signed on August 21, 2012 in an aggregate amount of \$1,000,000 into 20 million shares of CDII common stock at \$0.05 per share. On August 7, 2015, the Company issued 20 million shares of CDII common stock to the lenders.

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- (2) On July 30, 2014, we closed a senior secured revolving credit facility agreement (the “Credit Agreement”) with TCA Global Credit Master Fund, LP (“TCA”), a Cayman Islands limited partnership. Pursuant to the Credit Agreement, TCA agreed to loan us up to a maximum of \$5 million for working capital purposes. The initial credit line is \$2,000,000 subject to funding in the discretion of TCA. In connection with the closing, an initial take down of \$650,000 was funded by TCA. Any increase in the amount of the credit line from the initial amount up to the maximum amount is at the discretion of TCA. On July 31, 2014, we issued 3,154,115 restricted shares of our common stock valued at about \$0.06 per share to TCA for a total of \$175,000 for advisory services provided. Based on the Credit Agreement, upon an event of default, the lender may convert all or any portion of the outstanding principal and accrued interest payables into shares of the Company’s common stock equal to the 85% of the average of the lowest daily volume weighted average price (“VWAP”) of the five business days prior to the conversion day. On December 12, 2014, TCA claimed this loan was in default due to the Company’s failure to provide timely monthly reporting. The Company recorded derivative liabilities and debt discount of \$361,452 on December 12, 2014. Since the loan was in default, the full amount of \$361,452 debt discount was charged to interest expense on the same day. Also see Note 6 for derivative liabilities and Note 11 for discussion of lawsuit filed by TCA against the Company and James (Yuejian) Wang related to this loan agreement.
- (3) On April 7, 2014, China Direct Investments borrowed \$600,000 from Kong Tung, who was the former Director of the Company. The Company recorded this loan and interest payable as a related party transaction. Since Kong Tung resigned his position as a Director of the Company on March 26, 2015, the Company reclassified the principal of the related party loan of \$600,000 and related party interest payable of \$141,600 as of March 31, 2015 to loan payable and interest payable, respectively.

NOTE 6 – DERIVATIVE LIABILITIES

As described in Note 5, the Company issued convertible note with variable conversion price upon default. The conversion option embedded in the convertible note contains no explicit limit to the number of shares to be issued upon settlement and as a result is classified as a liability under ASC 815. The Company accounted for the embedded conversion option in accordance with ASC 815-40, which requires the Company to bifurcate the embedded conversion options as liability at the date the note becomes convertible and to record changes in fair value relating to the conversion option liability in the statement of operations and comprehensive income as of each subsequent balance sheet date. The debt discount related to the convertible note is amortized over the life of the note using the effective interest method. The Company’s conversion option liabilities are valued using Black Scholes pricing models. Where possible, the Company verifies the values produced by its pricing models to market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measures of volatility and correlations of such inputs. These consolidated financial liabilities do not trade in liquid markets, and as such, model inputs cannot generally be verified and do involve significant management judgment. Such instruments are typically classified within Level 3 of the fair value hierarchy.

The table below shows the Black Scholes Option Pricing Model inputs used by the Company to value the conversion option derivative liability, as well as the determined value of the option liability at each measurement date:

Date	Shares	Debt Principal	Volatility	Dividend Yield	Risk Free Rate	Expected Term (in years)	Fair Value of Conversion Option
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							Liability
12/12/2014	23,675,105	650,000	130.96%	0.00%	0.09%	0.5	361,452
6/30/2015	53,104,575	650,000	220.33%	0.00%	0.11%	0.5	497,201

As of June 30, 2015 and September 30, 2014, the carrying amounts of the derivative liabilities for convertible note were \$497,201 and \$0, respectively. The net changes in fair value of derivative liabilities of convertible note were expense of \$220,273 and \$135,749 during the three and nine months ended June 30, 2015, respectively.

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The Company also issued warrants with exercise price subject to adjustment if the Company, at any time while the warrant is outstanding, shall issue rights, options or warrants to all holders of common stock (and not to the holders) entitling them to subscribe for or purchase shares of common stock at a price per share less than the VWAP on the record date, then, the exercise price shall be multiplied by a fraction, of which the denominator shall be the number of shares of the common stock outstanding on the date of issuance of such rights, options or warrants plus the number of additional shares of common stock offered for subscription or purchase, and of which the numerator shall be the number of shares of the common stock outstanding on the date of issuance of such rights, options or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such VWAP. The price reset provision makes the warrant not indexed to the Company's own stock, and therefore requires the warrant to be treated as derivative liabilities as provided under EITF 07-05.

In addition, the Company issued convertible preferred stock and the conversion price of the preferred stock is subject to adjustment if the Company issues or sells shares of common stock for a consideration per share less than the conversion or exercise price then in effect, or issue options, warrants or other securities convertible or exchangeable for shares of common stock at a conversion or exercise price less than the conversion price of the preferred stock then in effect. If either of these events should occur, the conversion price is reduced to the lowest price at which these securities were issued or are exercisable. These clauses were referred to as the "Anti-Dilution Rights". The Anti-Dilution Rights of the beneficial conversion feature make the conversion option not indexed to the company's own stock, and therefore requires the conversion feature to be treated as derivative liabilities as provided under EITF 07-05.

The Company used maximum value method to determine the fair value of derivative liabilities related to warrants and preferred stock conversion option.

As of June 30, 2015 and September 30, 2014, the carrying amounts of the derivative liabilities for warrants were \$11,900 and \$0, respectively. As of June 30, 2015 and September 30, 2014, the carrying amounts of the derivative liabilities for preferred stock conversion option were \$816,117 and \$1,848,041, respectively. The net changes in fair value of derivative liabilities of warrants and preferred stock were income of \$401,331 and \$1,066,691 during the three and nine months ended June 30, 2015, respectively, and income of \$425,827 and expense of \$425,446 during the three and nine months ended June 30, 2014, respectively.

Below is the reconciliation of the fair value of the Company's derivative liabilities during the nine months ended June 30, 2015:

Beginning balance as of September 30, 2014	\$ 1,848,041
Additions due to convertible note - TCA loan	361,452
Additions due to warrants	46,667
Change in fair value of derivative liabilities	(930,942)
Ending balance as of June 30, 2015	\$ 1,325,218

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## NOTE 7 - RELATED PARTY TRANSACTIONS

## List of Related Parties

We have specified the following persons and entities as related parties with ending balances as of June 30, 2015 and September 30, 2014:

- Yuwei Huang, our executive vice president of our discontinued magnesium segment, and a member of our board of Directors, is the chairman of YiWei Magnesium and the chief executive officer and vice chairman of Shanxi Gu County Golden Magnesium Co., Ltd. (“Golden Magnesium”). Yuwei Huang resigned as a Director of the Company July 29, 2015;
- Taiyuan Yiwei Magnesium Industry Co., Ltd. (“Yiwei Magnesium”), a company organized under the laws of the PRC, is a minority interest owner in Chang Magnesium;
- Shanxi Rixuan Yiwei Magnesium Co., Ltd. (“Rixuan Magnesium”), owned by Yuwei Huang;
- Taiyuan Golden Magnesium Co., Ltd. (“Taiyuan Golden Magnesium”), owned by Yuwei Huang;
- Lifei Huang, is the daughter of Yuwei Huang;
- Pine Capital Enterprises Inc. (“Pine Capital”), a company organized under the laws of the Cayman Islands and of which Lifei Huang is the registered representative;
- Wheaton Group Corp. (“Wheaton”), a company organized under the laws of Brunei Darussalam and of which Lifei Huang is the registered representative;
- Xiaowen Zhuang, a management member of CDI Shanghai Management;
- Kong Tung, a member of the Board of Directors, and chairman of Golden Magnesium, Beauty East International Ltd. (“Beauty East”), and Golden Trust Magnesium Industry Co., Ltd. (“Golden Trust Magnesium”). He resigned as a Director of the Company on March 26, 2015;
- Xumin Cui, the son-in-law of Yuwei Huang;
- James (Yuejian) Wang, the CEO of the Company;
- Lawrence Wang, the brother of James (Yuejian) Wang;
- Dragon Capital Group, Corp. (“Dragon Capital”), a company organized under the laws of Nevada, USA, the principal owner of Dragon Capital is Lawrence Wang; and
- Mining & Logistics SRL (“Mining & Logistics”), a company organized under the laws of Bolivia and is owned by a management member of CDII Bolivia.

At June 30, 2015 and September 30, 2014, other receivables-related parties for working capital purposes were \$0 and \$3,255, respectively, as follows:

CD International Subsidiary	Related Party	June 30, 2015	September 30, 2014
CDII Chile	Kong Tung	\$ -	\$ 3,255
Total Other Receivables -Related Parties		\$ -	\$ 3,255

As of June 30, 2015, loan payables and other payables – related parties were \$1,312,585 consisting of loan payables – related parties of \$379,982 and other payables – related parties of \$932,603 as set forth below:

## Loan Payables – Related Parties

At June 30, 2015 and September 30, 2014, loan payables – related party was for working capital purposes, which were \$379,982 and \$1,023,072, respectively, as follows:

CD International Subsidiary	Related Party	June 30, 2015	September 30, 2014
China Direct Investments	Kong Tung	\$ -	\$ 669,600
China Direct Investments	James (Yuejian) Wang	379,982	353,472
<b>Total Loan Payables -Related Parties</b>		<b>\$ 379,982</b>	<b>\$ 1,023,072</b>

From time to time, China Direct Investments borrowed loans from James (Yuejian) Wang. At June 30, 2015 and September 30, 2014, CDII owed James (Yuejian) Wang a total of \$379,982 and \$353,472, including aggregate principal loan amount of \$300,000 and accrued interest of \$79,982 and \$53,472, respectively. The loans bear interest at 12% per annum with principal of \$270,000 due on December 31, 2013, and \$30,000 due on September 30, 2014. These loans are currently in default.

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On April 7, 2014, China Direct Investments borrowed \$600,000 from Kong Tung, who was the former Director of the Company. Since Kong Tung resigned his position as a Director of the Company on March 26, 2015, the Company reclassified the principal of the related party loan payable of \$600,000 and related party interest payable of \$141,600 as of March 31, 2014 to loan payable and interest payable.

#### Other Payables – Related Parties

At June 30, 2015 and September 30, 2014, other payables – related party for working capital purposes were \$932,603 and \$560,491, respectively, as follows:

CD International Subsidiary	Related Party	June 30, 2015	September 30, 2014
China Direct Investments	James (Yuejian) Wang	\$ 868,828	\$ 485,464
China Direct Investments	Dragon Capital	9,117	19,124
CDI Shanghai Management	Xiaowen Zhuang	46,643	46,152
CDI Shanghai Management	Dragon Capital	8,015	9,751
<b>Total Other Payable - Related Parties</b>		<b>\$ 932,603</b>	<b>\$ 560,491</b>

#### Revenue – Related Parties

The Company provided consulting service to one of its related companies, Dragon Capital. The consulting revenues of \$10,000 and \$23,750 were recognized for the three and nine months ended June 30, 2015, respectively, compared with the consulting revenues of \$15,000 and \$51,250 recognized for the three and nine months ended June 30, 2014, respectively.

#### NOTE 8 – CAPITAL STOCK

##### Preferred Stock and Related Dividends

As of June 30, 2015 and September 30, 2014, there were 1,006 shares of series A convertible preferred stock outstanding. The series A preferred stock has a stated value per share of \$1,000, carries an 8% per annum dividend rate payable quarterly in arrears and was initially convertible into our common stock at \$7.00 per share. The dividends are payable in cash or shares of our common stock, at our option, subject to certain provisions. The terms of the Series A preferred stock provide that if we sell common stock at a price per share less than the then conversion price of the preferred stock, then we are required to reduce the conversion price of the series A convertible preferred stock to the lower price of the subsequent sale. Since we have issued securities at prices lower than the exercise price of the \$7.00 per share conversion price of the series A preferred stock, we reduced the exercise price of those outstanding securities. At June 30, 2015, the conversion price of the series A preferred is adjusted to \$0.03.

The dividends calculated at \$20,130 per quarter are payable in cash or shares of our common stock at our option subject to certain provisions. If paid in shares of common stock, the stock shall be valued at the lower of the conversion price or the average of the weighted average price of the 10 consecutive trading days immediately preceding the dividend date. During the nine months ended June 30, 2015, we did not pay off dividends in cash or our common stock on our series A convertible preferred stock. During the nine months ended June 30, 2014, we paid \$39,390 of dividends in cash. As of June 30, 2015 and September 30, 2014, accrued dividend payable is \$128,645 and \$68,255, respectively. The conversion price of the preferred stock is subject to adjustment, and therefore requires the

conversion feature to be treated as derivative liabilities as provided under EITF 07-05. See Note 6 for discussions on derivative liabilities.

#### Common Stock

We have 1,000,000,000 shares of common stock, par value \$.0001, authorized. At June 30, 2015, there were 67,347,474 shares of common stock issued and outstanding and there were 60,847,474 shares of common stock issued and outstanding at September 30, 2014.

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During the nine months ended June 30, 2015, we issued a total of 6,500,000 shares of our common stock to consultants for services, valued at \$265,000. During the nine months ended June 30, 2014, we issued a total of 4,810,000 shares of our common stock comprising 1,610,000 shares to consultants for services, valued at \$161,439 and 3,200,000 shares in connection with the exercise of 3,200,000 stock options for consideration of \$160,000, including the actual net cash receipts of \$105,000, \$12,150 in receivables which had been collected in December of 2014, and \$42,850 to settle our debts and accrued liabilities in the amount of \$75,002, resulting in a gain of \$32,152 on settlement due to the excess of liabilities forgiven.

### Options

The following table sets forth our stock option activities during the nine months ended June 30, 2015:

Description	Shares underlying options	Weighted average exercise price
Balance at September 30, 2014	9,000,480	\$ 0.05
Outstanding and exercisable at September 30, 2014	3,000,480	\$ 0.05
Expired	(480)	11.25
Balance at June 30, 2015	9,000,000	\$ 0.05
Outstanding and Exercisable at June 30, 2015	3,000,000	\$ 0.05

As of June 30, 2015 and September 30, 2014, we had 3,000,000 and 3,000,480 shares underlying options outstanding and exercisable, respectively.

The remaining contractual life and exercise price of options outstanding and exercisable at June 30, 2015 are as follows:

Number of options outstanding and exercisable	Exercise price	Remaining contractual life (Years)
3,000,000	\$ 0.05	2.25
3,000,000	\$ 0.05	

The Company recognized a total of \$72,801 and \$154,911 stock option expenses for the nine months ended June 30, 2015 and 2014, respectively. The value of options was calculated using Black Scholes Option Pricing Model based upon the following assumptions: dividend yield of 0%, volatility of 120% - 139%, risk free rate of 0.48% - 1.20%, and an expected term of 2.5 to 4.5 years.

### Common Stock Purchase Warrants

A summary of the status of our outstanding common stock purchase warrants granted as of June 30, 2015 and changes during the period is as follows:

	Shares underlying warrants	Weighted average exercise price
Outstanding and exercisable at September 30, 2014	2,129,130	\$ 2.20
Expired	(1,351,352)	2.31
Balance at June 30, 2015	777,778	\$ 2.00(1)

Outstanding and exercisable at June 30, 2015	777,778	\$	2.00
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The following information applies to all warrants outstanding and exercisable at June 30, 2015.

Number of Warrants outstanding and exercisable	Exercise Price	Remaining contractual life (Years)
777,778	\$ 2.00(1)	1.01
777,778	\$ 2.00	1.01

(1) The exercise price is subject to adjustment if the Company, at any time while the warrant is outstanding, shall issue rights, options or warrants to all holders of common stock (and not to the holders) entitling them to subscribe for or purchase shares of common stock at a price per share less than the VWAP on the record date, then, the exercise price shall be multiplied by a fraction, of which the denominator shall be the number of shares of the common stock outstanding on the date of issuance of such rights, options or warrants plus the number of additional shares of common stock offered for subscription or purchase, and of which the numerator shall be the number of shares of the common stock outstanding on the date of issuance of such rights, options or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such VWAP.

#### NOTE 9 - SEGMENT INFORMATION

For the nine months ended June 30, 2015 and 2014, the Company operated in two reportable business segments - (1) Mineral Trading segment, where we sell and distribute of a variety of products, including iron ore products, non-ferrous metals, recycled materials, and industrial commodities, and (2) Consulting segment where we provide business and financial consulting services to U.S. public companies that operate primarily in China. The Company's reportable segments are strategic business units that offer different products. They are managed separately based on the fundamental differences in their operations. Information with respect to these reportable business segments for the three and nine months ended June 30, 2015 and 2014 are as follows:

	For the Three Months Ended June 30, 2015	For the Three Months Ended June 30, 2014	For the Nine Months Ended June 30, 2015	For the Nine Months Ended June 30, 2014
Revenues:				
Mineral Trading	\$ -	\$ 5,976	\$ -	\$ 469,216
Consulting	74,636	207,059	247,052	665,706
-Include: revenues from related parties	10,000	15,000	23,750	51,250
Total revenue:	\$ 74,636	\$ 213,035	\$ 247,052	\$ 1,134,922
Depreciation:				
Mineral Trading	\$ -	\$ 1,989	\$ 24	\$ 12,455
Consulting	4,251	9,519	14,696	22,294
Total depreciation:	\$ 4,251	\$ 11,508	\$ 14,720	\$ 34,749
Interest expenses and interest expenses – related parties:				
Mineral Trading	\$ -	\$ 515	\$ -	\$ 7,904
Consulting	76,625	48,194	581,510	98,072

Total interest expenses and interest expenses – related parties:	\$	76,625	\$	48,709	\$	581,510	\$	105,976
Net loss from continuing operations:								
Mineral Trading	\$	(39)	\$	(222,494)	\$	(35,023)	\$	(987,954)
Consulting		(2,033,478)		(56,352)		(2,785,902)		(2,010,137)
Total net loss from continuing operations:	\$	(2,033,517)	\$	(278,846)	\$	(2,820,925)	\$	(2,998,091)

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Total tangible assets by segment as of June 30, 2015 and September 30, 2014 are as follows:

	June 30, 2015	September 30, 2014
Mineral Trading	\$ 3,454	\$ 3,478
Consulting	68,962	83,204
Total assets	\$ 72,416	\$ 86,682

#### NOTE 10 – DISCONTINUED OPERATIONS

##### Subsidiaries Disposed

In April 2015, the Company sold its entire 95% equity interest in CDI Jingkun Zinc and 100% equity interest in CDI Metal to Xiaowen Zhuang, a related party individual. The Company also sold its 100% equity interest in CDI Jixiang Metal to Dragon Capital, a related party company. As a result, results of operations, financial position and cash flows associated with CDI Jingkun Zinc, CDI Metal and CDI Jixiang Metal are reported as discontinued operations for all periods presented. The Company had a gain on disposal of subsidiaries of \$3,482,953 in the three months ended June 30, 2015. CDI Shanghai Management and Capital Resource Management had other receivables in the amount of \$490,156 and \$1,411,720, respectively, from the disposed entities as of March 31, 2015. In connection with the disposal, all the receivables were deemed uncollectable and as a result were written off. The write-off of receivables for total amount of \$1,901,876 was presented as impairment on other current assets.

On September 30, 2014, the Company entered into a share exchange agreement to dispose its Magnesium segment as a result of the repositioning of the Company in view of the deterioration of operating results from Magnesium segment. The Company sold the Magnesium segment to Mr. Huang and in return, Mr. Huang and other parties have returned and cancelled 8,325,949 shares of the Company's common stock held by such parties related to Mr. Huang. In addition, 41,524 shares of convertible series D preferred stock were cancelled within 10 business days after the share exchange agreement was signed. Pursuant to the terms of the agreement, the Company sold its 100% equity interest in Asia Magnesium Corporation Limited ("Asia Magnesium"), 100% interest in Beauty East, 100% equity interest in Marvelous Honor Holdings Inc. ("Marvelous Honor"), entire 51% equity interest in Baotou Changxin Magnesium Co., Ltd ("Baotou Changxin Magnesium"), 100% equity interest in Lingshi Magnesium, entire 80% equity interest in Taiyuan Ruiming Yiwei Magnesium Co., Ltd. ("Ruiming Magnesium"), entire 51% equity interest in Chang Magnesium, entire 100% equity interest in Taiyuan Changxin Yiwei Trading Co., Ltd. ("Chang Trading"), 100% equity interest in Golden Trust Magnesium, and 100% equity interest in International Magnesium Trading Corp. ("IMTC").

##### Summarized Financial Information for Discontinued Operations

The following table presents the results of discontinued operations for the three and nine months ended June 30, 2015 and 2014:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2015	2014	2015	2014
Revenues	\$ -	\$ 13,387,572	\$ -	\$ 32,146,571
Cost of revenues	-	14,324,587	-	34,981,757

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Loss before income taxes	-	(1,790,330 )	-	(12,849,756)
Income tax expense	-	-	-	-
Loss from discontinued operations	-	(1,790,330 )	-	(12,849,756)
Gain from disposal, net of taxes	3,482,953	-	3,482,953	-
Total income (loss) from discontinued operations	\$ 3,482,953	\$ (1,790,330 )	\$ 3,482,953	\$ (12,849,756)

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CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 11- COMMITMENTS AND CONTINGENCIES

Income Tax Matters

The IRS is currently auditing our consolidated income tax return for 2008. The IRS has proposed an adjustment to our 2008 taxable income and penalties of approximately \$4.6 million (approximately \$3.1 million in income tax and \$1.5 million in penalties) primarily related to transfer pricing issues pursuant to IRC section 482. In May 2013, the case was sent to the Appeals division of the Internal Revenue Service. At present we are in the process of waiting for the Service to assign an examiner to determine the validity of our position as it relates to the transfer pricing issue and revenue reorganization of restricted stock. We retained an independent accounting firm that has conducted an independent transfer pricing study, an evaluation of the tax basis value of marketable securities received for services, and an analysis of the allocation of the related costs and expenses associated with such revenues. As a result of such study and as a result of net operating tax loss carry forwards, we believe that no income tax or penalties will be assessed against us by the IRS and we intend to vigorously defend our position including an appeal in the U.S. Tax Court. If we are unable to defend our position, any such adjustment could have a material effect on the Company's results of operations and financial position and liquidity.

Legal Contingencies

Our wholly owned subsidiaries, China Direct Investments and Capital Resource Management, and our Company are involved in the following litigation with a shareholder of Linkwell Corporation, Ltd. ("Plaintiff"):

On January 9, 2013, Plaintiff filed a petition in the United States District Court for the Southern District of Florida (Case No. 12-cv-62539-WJZ) to complain that Linkwell's directors (Director Defendants) breached their fiduciary duties to Linkwell and its shareholders by entering into a transaction intended to obscure their "secret transfer" of Linkwell's valuable subsidiaries to themselves or entities they control or Ecolab, Inc. without fair compensation being paid to Linkwell and by causing Linkwell to file and disseminate materially misleading information.

In addition, Plaintiff contended that the "Non-Director Defendants" – including the Company and its subsidiaries, China Direct Investments and Capital Resource Management – aided and abetted those breaches and conspired with the Director Defendants to commit those breaches. The Plaintiff also contended that all defendants were unjustly enriched and are liable for attorney's fees. China Direct Investments and Capital Resource Management are alleged to have acted as consultants who were the "principal moving force" behind the challenged transaction, for which consulting services each is alleged to have received shares of Linkwell common stock.

Subsequent to the filing of the initial complaint, Linkwell's Board of Directors unwound the challenged transaction and the shares received by China Direct Investments and Capital Resource Management were returned to Linkwell. The Company, as well as China Direct Investments and Capital Resource Management, has denied all liability and intends to contest the matter vigorously.

On February 14, 2014, Metamining, Inc., Metamining Nevada, Inc., Song Qiang Chen, and Ling Li submitted their objections to Linkwell's affidavit pursuant to Federal Rule of Civil Procedure 37 for payment of expenses including attorney's fees. The Company has also produced documents and interrogatory responses in response to discovery served by Linkwell. A pretrial conference is scheduled for August 28, 2015. As of June 2014, the Plaintiff claimed that his attorneys' fees and costs exceeded \$1 million. As of June 12, 2015, the Company has paid to the attorney of the Plaintiff, Wolf Haldenstein Adler Freeman & Herz, LLP, \$33,000 for the attorney fees claimed.

On April 28, 2015, TCA Global Credit Master Fund, LP. ("TCA") filed a complaint/petition in the Circuit Court of for the 17th Judicial Circuit in and for Broward County, Florida. (Case No. 15-007210). The complaint/petition alleges that: 1) the Company is in breach of credit facility agreement by CD International Enterprises, Inc.; 2) the court should order foreclosure of security interest against CD International Enterprises, Inc., CDI China, Inc., China Direct Investments, Inc., CDII Minerals, Inc. International Magnesium Group, Inc., and James (Yuejian) Wang; 3) the Company is in breach of revolving convertible promissory note by CD International Enterprises, Inc.; 4) the Company is in breach of guaranty against James (Yuejian) Wang and CDI China, Inc., China Direct Investments, Inc., CDII Minerals, Inc. International Magnesium Group, Inc.; 5) the Company has made fraudulent misrepresentation as to CD International and James (Yuejian) Wang; and 6) the Company has made negligent misrepresentation as to CD International Enterprises, Inc. and James (Yuejian). TCA demanded the repayment of principal of \$650,000 and interest payable of \$46,123. In addition, TCA demanded the payment of default interest and penalties on the note in the amount of \$30,145 and \$106,115 on the advisory fee, respectively. The Company considered the allegations without merits, denied such allegations and intends to vigorously defend the position. The Company has entered a counter claim against TCA in violation of Florida Usury Laws. Currently both sides have suspended the litigation and are preparing to settle. The Company did not record additional expenses related to the case.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 12 - SUBSEQUENT EVENTS

On July 17, 2015, the Company repaid the loan of \$30,000 borrowed from Money Works Direct and related interest of \$11,593 and received a replacement loan of \$100,000 at a lowered monthly interest rate of approximately 4.21%. The loan is due in nine and half months.

On August 7, 2015, the Company issued 20 million shares of common stock to four Chinese citizens pursuant to the stock purchase agreement signed on May 28, 2015, in which the four Chinese citizens agreed to convert their promissory notes originally signed on August 21, 2012 in an aggregate amount of \$1,000,000 into 20 million shares of CDII common stock at \$0.05 per share. The original promissory notes were due on February 28, 2013 and bear an interest rate of 12% per annum.

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

The following discussion and analysis of our consolidated financial condition and results of operations for the three and nine months ended June 30, 2015 and 2014 should be read in conjunction with the consolidated financial statements and other information presented in our Annual Report on Form 10-K for the year ended September 30, 2014 as filed with the Securities and Exchange Commission on June 12, 2015 and with the consolidated financial statements and other information presented in this Quarterly Report on Form 10-Q.

### OVERVIEW OF OUR OPERATIONS

#### Our Business

We are a U.S. company that manages a portfolio of entities in China and the United States of America. We used to operate in three identifiable business segments, as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 280, “Segment Reporting”: Magnesium, Mineral Trading and Consulting. Beginning in 2006, we established our Magnesium and Mineral Trading segments which have grown through acquisitions of controlling interests of Chinese private companies. We consolidate these acquisitions as either our wholly or majority owned subsidiaries. Through our U.S. based industrial commodities business, we source, finance, manage logistics, and sell industrial commodities from South America for ultimate distribution in China. We also provide business and management consulting services to public and private American and Chinese businesses.

We currently operate our business in two segments. Mineral Trading segment and Consulting segment. Our Mineral Trading segment sources and distributes industrial commodities, and our Consulting segment provides business and management consulting services to American and Chinese companies that operate primarily in China and the Americas.

Our Mineral Trading segment engages in the source and distribution of the global purchase and sale of industrial commodities in the Americas, which include mineral ores and non-ferrous metals. We have realigned our investments to our industrial commodities business in the Americas to maximize our profits and cash flow over the past fiscal year of 2013. We have focused on the South American market and have established offices in Chile, Peru and Bolivia, but the operation costs were very high and, given the continuing drop of the iron ore market price, we closed offices in Chile and Peru on September 30, 2014.

Our Consulting segment provides services to public and private American and Chinese entities seeking access to the U.S. and Chinese capital markets. These services include general business consulting, Chinese regulatory advice, translation services, formation of entities in the PRC, coordination of professional resources, mergers and acquisitions, strategic alliances and partnerships, advice on effective means of accessing U.S. capital markets, coordination of Sarbanes-Oxley compliance, and corporate asset evaluations. We also provide EB-5 consulting services and look into opportunities to work with local firms for appropriate funding programs.

### OUR OUTLOOK

A significant portion of our business and operations are in China and, accordingly, its national economy plays a significant role in our results of operations. China's economy grew by 7.4% in 2014 while China's economy expanded by 7.0% in 2015. Furthermore, China's housing market and particularly its real estate construction market experienced a significant correction due to a tighter regulatory environment, bank lending curbs, and slower demand during fiscal



2013. In response to this slowdown, China's Central Bank cut the nation's commercial banks' reserve requirement ratio by 0.5 percentage point, the first such cut since December 2008, and in June 2012 cut the interest rate twice, in order to provide additional liquidity for commercial lending. This represents a significant shift in China's economic policy signaling that China has put economic growth at the top of its agenda, rather than concerns about inflation. Residential property sales plunged 9.9% on year in the first 10 months of 2014.

According to Ministry of Commerce of China, in 2014, China's import and export totaled \$4,328 billion (26,400 billion RMB), with a year-on-year growth of 2.3%. China's export was \$2,359 billion (14,391 billion RMB), up by 4.9% and its import was \$2,974 billion (12,042 billion RMB), and decreased by 0.9%, with trade surplus of \$385 billion (2,349 billion RMB). In December 2014, China's import and export totaled \$405.41 billion with a year-on-year growth of 4%. China's export was \$227.51 billion, up by 9.7%, and its import was \$177.9 billion, down by 2.4%, with trade surplus of \$49.61 billion. In the first quarter of 2015, China's import and export totaled US\$ 904.17 billion, down by 6.3% year-on-year. Export was US\$ 513.93 billion, up by 4.7% year-on-year, and import was US\$ 390.23 billion, down by 17.6%, with trade surplus of US\$ 123.70 billion. In June 2015, China's import and export totaled US\$ 337.49 billion, down by 1.2% year on year. Export was US\$ 192.01 billion, up by 2.8%, and import was US\$ 145.48 billion, down by 6.1%, with trade surplus of US\$ 46.54 billion.

According to Ministry of Commerce of China, in the first-half year of 2015, China's import and export totaled \$1,881 billion (11,532 billion RMB), with a year-on-year decreased by 6.9%. China's export was \$1,072 billion (6,572 billion RMB), up by 1.0% and its import was \$809 billion (4,959 billion RMB), and down by 15.5%, with trade surplus of \$263 billion (1,613 billion RMB).

The overall economic environment, particularly in China, showed no improvement, and our Mineral Trading segment continued to struggle with lower customer demand due to tightened credit conditions in China impacting customer financing needs to purchase our products in 2014 and 2015. We still face a number of challenges in continuing the growth of our business, which is primarily tied to the overall health of the global economy.

Information On Trends Impacting Our Reporting Segments Follows:

#### Mineral Trading Segment.

Due to surplus of Iron Ore in Chinese ports, the shutdown of many steel mills in China for environmental reasons, and with an overall lower performing GDP and performance of the Chinese economy, the iron ore price has dropped substantially in the past quarter. Likewise, the major global Iron Ore producers have opened up new mining sites and expect to increase deliveries throughout 2015, creating more supply in a market that requires less demand. We expect the copper market to be steady in 2015, due to production is generally seen as keeping pace with exceeding demand and inventories of a number of commodities are not low enough to bolster prices. Manganese Ore prices have been stable over the last quarter, creating a solid market for exporters, and we expect market will be stable in 2015. Worldwide demand for copper metal (produced from refined copper and recycled scrap) is projected to advance 4.7 percent per year to 37.2 million metric tons in 2019. Robust gains in building construction expenditures are expected to boost the use of copper wire, tube, and other mill products in applications such as building wire, plumbing, and architecture. Increased infrastructure investment, particularly in developing countries, will further benefit copper suppliers, as updates to national power grids drive the production of wire and cable. In addition, advances in global manufacturing output are expected to bolster the use of copper metal in industrial machinery, domestic appliances, and other durable goods. Nevertheless, competition from competitive materials, such as plastic pipe in plumbing applications, will restrain faster overall growth. Global production of refined copper is forecast to expand 4.6 percent per year to 29.1 million metric tons in 2019. The Asia/Pacific region is expected to see the fastest annual gains, led by increased output in China and India. North America is also projected to see copper mine output grow at a strong pace, supported by major expansions in Mexico and Canada. Advances in construction spending are also forecast to fuel copper demand in North America, particularly in the US, where building construction activity will significantly accelerate. More moderate increases in copper demand are forecast for Western Europe, where construction and manufacturing output will climb at a below average pace.

#### Consulting Segment.

We believe demand for our consulting services will slightly improve in fiscal 2015 and 2016. Since 2011, we launched a marketing initiative for our new One-Stop China Value™ program in an effort to capitalize on the current environment. This program is designed to implement a broad range of strategies to enhance and maximize shareholder value for China-based U.S. public companies. Other marketing plans include sponsoring trade symposiums, investment forums, and forming strategic alliances with industry and trade associations. Presently, a good amount of small to medium sized Chinese internet companies that do not meet Shanghai or Hong Kong listing standards are still seeking listing on the U.S. capital market. Moreover, we have developed Immigrant Investor Program, which is known as the EB-5 program (Employment Based Visa-Category 5). EB-5 sets a minimum investment of \$500,000 and foreign investors must be able to prove that their money has created at least 10 jobs for U.S. citizens. In return, the

foreign investors get U.S. permanent residence (the “green cards”). Since its inception in 1990, the EB-5 program has generated approximately \$6.8 billion in foreign investments in American companies and created at least 50,000 American Jobs. Chinese investors account for an overwhelming 80% of the total EB-5 investment, while South Korea, Taiwan, Mexico and Venezuela make up a large chunk of the rest. In 2014, Chinese nationals accounted for 90% of EB-5 visas issued, compared to just 13% in 2004, according to government data compiled by CNNMoney.

#### GOING CONCERN

Our financial statements have been prepared assuming we will continue as a going concern. The report of our independent registered accounting firm on our financial statements for the year ended September 30, 2014 contained a qualification as to our ability to continue as a going concern. For the three and nine months ended June 30, 2015, we reported a net loss from continuing operations of approximately \$2.0 million and \$2.8 million. At June 30, 2015, we had a working capital deficit of \$6.1 million. For the three and nine months ended June 30, 2015, our revenues declined by approximately 65% and 78% from the comparable period in fiscal 2014. These, among other issues, raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of these uncertainties.

## RESULTS OF OPERATIONS

For the three and nine months ended June 30, 2015 and 2014, subsidiaries included in continuing operations consisted of the following:

- CDI China, Inc
- International Magnesium Group, Inc.
- CDII Minerals, Inc.
- CDII Chile, Ltda.
- CDII Minerals de Peru SAC
- Empresa Minera CDII de Bolivia S.A.
- China Direct Investments, Inc.
- CDI Shanghai Management Co., Ltd.
- Capital Resource Management Co., Ltd.

We have generated negative gross margins and operating losses. Results of operations, financial position and cash flows associated with Magnesium segment, CDI Jingkun Zinc, CDI Metal and CDI Jixiang Metal are separately reported as discontinued operations for all periods presented.

## Summary of Selected Consolidated Financial Information

(Dollars in thousands)	For the Three Months Ended June 30,		2014		% Increase (Decrease)
	2015	% of Revenues	Amount	% of Revenues	
Mineral Trading	\$ -	0%	\$ 6.0	3%	(100 %)
Consulting segment	74.6	100%	207.0	97%	(64%)
Consolidated Revenues	\$ 74.6	100%	\$ 213.0	100%	(65%)
Cost of revenues	19.8	27%	30.7	14%	(35%)
Gross profit	54.8	73%	182.3	86%	(70%)
Total operating expenses	2,207.5	2,959%	817.1	384%	170%
Total net loss from continuing operations	\$ 2,033.5	2,725%	\$ 278.9	131%	(629%)

(Dollars in thousands)	For the Nine Months Ended June 30,		2014		% Increase (Decrease)
	2015	% of Revenues	Amount	% of Revenues	
Mineral Trading	\$ -	0%	\$ 469.2	41%	(100 %)
Consulting segment	247.1	100%	665.7	59%	(63%)
	\$ 247.1	100%	\$ 1,134.9	100%	(78%)

Consolidated					
Revenues					
Cost of revenues	49.8	20%	713.0	63%	(93%)
Gross profit	197.3	80%	421.9	37%	(53%)
Total operating expenses	3,442.6	1,393%	3,073.7	271%	12%
Total net loss from continuing operations	\$ 2,820.9	1,142%	\$ 2,998.1	264%	(6%)

## Analysis of Operating Results by Segment

A summary of our comparative operating results by segment for the three and nine months ended June 30, 2015 and 2014 is as follows:

Mineral Trading Segment (Dollars in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Total revenues	\$ -	\$ 6.0	\$ -	\$ 469.2
Cost of revenues	-	0.1	-	599.6
Gross profit	-	5.9	-	(130.4)
Total operating expenses (income)	(0.4)	228.0	34.4	898.0
Operating income (loss)	\$ 0.4	\$ (222.1)	\$ (34.4)	\$ (1,028.4)

Consulting Segment (Dollars in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Total revenues	\$ 74.6	\$ 207.0	\$ 247.1	\$ 665.7
Cost of revenues	19.8	30.7	49.8	113.4
Gross profit	54.8	176.3	197.3	552.3
Total operating expenses	2,208.0	589.1	3,408.3	2,175.7
Operating loss	\$ (2,153.2)	\$ (412.8)	\$ (3,211.0)	\$ (1,623.4)

## Revenues

Revenues in the three month ended June 30, 2015 decreased by 65%, as compared to the three month ended June 30, 2014, primarily due to the decreased revenue generated from our Consulting segment and we do not have revenue generated in our Mineral Trading segment. Revenue in the nine months ended June 30, 2015 decreased by 78%, as compared to the nine months ended June 30, 2014, also primarily due to a decrease of approximately \$470,000 in revenues generated from our Mineral Trading segment, and a decrease of approximately \$419,000 in revenue generated from our Consulting segment. Our Consulting segment revenues primarily consist of consulting and advisory service fees we received from certain publicly traded U.S. companies with their primary business operations located in the PRC. We receive a fixed number of shares of their marketable securities or fees from those client companies, including both recurring and one-time transaction fees for services provided to clients. Consulting segment revenues vary from period to period depending upon the timing, nature and scope of services we provide to a particular client and performance of our client companies' stock price. Our Consulting segment generated approximately \$75,000 and \$247,000 in revenues during the three and nine months ended June 30, 2015, as compared to \$207,000 and \$666,000 during the three and nine months ended June 30, 2014, primarily due to the declining value of our client companies' stock, coupled with a reduction in scope of consulting and transactional services provided to the new clients during the three and nine months ended June 30, 2015, respectively.

## Gross Profit

Our consolidated gross profit in the three and nine months ended June 30, 2015 decreased by approximately \$128,000 and \$225,000 as compared to the three and nine months ended June 30, 2014, respectively. Our consolidated gross profit margin decreased to 73% and increased to 80% in the three and nine months ended June 30, 2015, as compared

to gross profit margin of 86% and 37% during the three and nine months ended June 30, 2014, respectively. The decrease in gross profit margin during the three months ended June 30, 2015 was primarily attributable to a lack of revenue to offset costs incurred as we continue to provide services to client companies with less revenue recognized. The increase in gross profit margin during the nine months ended June 30, 2015 was primarily attributable to the lowered cost of revenue from the reduced production activities.

Gross profit in our Consulting segment for the three and nine months ended June 30, 2015 was approximately \$55,000 and \$197,000 with a margin of 73% and 80%, as compared to a gross profit of \$176,000 and \$552,000, respectively, with margins of 85% and 83% for the three and nine months ended June 30, 2014. The decrease in gross profit and gross profit margin were primarily due to lowered revenue resulting from the reduced scale of operations in the three and nine months ended June 30, 2015 compared with the same period in fiscal year 2014.

## Total Operating Expenses

Total operating expenses, net of other operating income, increased by approximately \$1,390,000 and \$369,000, or 170% and 12%, in the three and nine months ended June 30, 2015, as compared to same period in fiscal year 2014, respectively. The increase was primarily due to a \$1,902,000 impairment loss on the receivables from the disposed operations in China in the Consulting segment, and offset by the decrease of \$511,000 and \$1,533,000 in general and administrative expenses during the three and nine months ended June 30, 2015, as compared to the same period in fiscal year 2014.

General and administrative expenses in our Consulting segment for the three months ended June 30, 2015 decreased by approximately \$283,000, or 48% as compared to the three months ended June 30, 2014, this decrease is primarily due to the expiration of our employment contract with several employees and downsizing of the office space in U.S. headquarters and China based operation. Comparing the three months ended June 30, 2015 to the same period of fiscal 2014, we had a decrease of approximately \$148,000 in employee payroll, a decrease of \$24,000 in insurance expense, a decrease of \$17,000 in accounting fee, a decrease of \$12,000 in office expense with telephone fee, a decrease of \$66,000 in office rent, a decrease of \$24,000 in travel expense, and a decrease of \$10,000 in meal and entertainment expense.

General and administrative expenses in our Consulting segment for the nine months ended June 30, 2015 decreased by approximately \$669,000, or 31% as compared to the nine months ended June 30, 2014, primarily due to the expiration of our employment contract with several employees. Comparing the nine months ended June 30, 2015 to the same period of fiscal 2014, we had a decrease of approximately \$312,000 in employee payroll, a decrease of \$58,000 in insurance expense, a decrease of \$86,000 in accounting consulting fee, a decrease of \$36,000 in office expense with telephone fee, a decrease of \$92,000 in office rent, a decrease of \$26,000 in meal and entertainment expense, a decrease of \$79,000 in public relation expenses and press release, a decrease of \$15,000 in finance service fee and a decrease of \$13,000 in travel expense, which were offset by an increase of \$55,000 consulting service fee.

General and administrative expenses in our Mineral Trading segment for the three and nine months ended June 30, 2015 decreased by approximately \$228,000 and \$864,000, or 100% and 96% as compared to the three and nine months ended June 30, 2014, primarily due to the decreased fees including traveling expenses, office rents, employee and consulting expenses in Chile and US offices.

## Other Income and Expenses

In the three months ended June 30, 2015, other income was approximately \$119,000, as compared to other income of \$356,000 in the three months ended June 30, 2014. For the three months ended June 30, 2015 compared with the same period in fiscal year 2014, we have a decrease of approximately \$245,000 in change in fair value of derivative liability related to our preferred stock, convertible note and warrants which is non-cash gain, a decrease of approximately \$30,000 for gain on revaluation of receivable and payable of marketable securities available-for-sale, an increase of approximately \$28,000 in interest expenses and interest expenses – related parties, and offset by a decrease of approximately \$71,000 for realized loss on marketable securities available-for-sale.

In the nine month ended June 30, 2015, other income was approximately \$424,000, as compared to other expense of \$346,000 in the nine months ended June 30, 2014. For the nine months ended June 30, 2015 compared with the same period in fiscal year 2014, we have an increase of approximately \$1,356,000 in change in fair value of derivative liability related to our preferred stock, convertible note and warrants which is non-cash gain, offset by an increase of approximately \$476,000 in interest expenses and interest expenses – related parties primarily related to amortization of



debt discount, a decrease of approximately \$22,000 for realized gain on marketable securities available-for-sale, and a decrease of approximately \$97,000 in bad debt recovery and reversal of the over accrued expenses.

#### Income Taxes

During the nine months ended June 30, 2015 and 2014, we did not record any income tax expense, since the loss was significant.

#### Net Loss from Continuing Operations

Net loss from continuing operations for the three and nine months ended June 30, 2015 amounted to approximately \$2,034,000 and \$2,821,000 as compared to net loss of \$279,000 and \$2,998,000 for the three and nine months ended June 30, 2014, respectively. The changes in net loss from continuing operations resulted from the factors discussed above. The net loss from continuing operations for the three months ended June 30, 2015 primarily consisted of \$306,000 in general and administrative expense, and impairment loss on other assets of \$1,902,000, offset by \$119,000 in other income in the three months ended June 30, 2015. The net loss from continuing operations for the nine months ended June 30, 2015 primarily consisted of \$3,443,000 in operating expense, offset by \$424,000 in other income in the nine months ended June 30, 2015.

## Discontinued Operations

As described elsewhere in this report, in April 2015, the Company sold its entire 95% equity interest in CDI Jingkun Zinc and 100% equity interest in CDI Metal to Xiaowen Zhuang, a related party individual. The Company also sold its 100% equity interest in CDI Jixiang Metal to Dragon Capital, a related party company. As a result, results of operations, financial position and cash flows associated with CDI Jingkun Zinc, CDI Metal and CDI Jixiang Metal are also reported as discontinued operations for all periods presented. The Company recorded a gain on disposal of subsidiaries of \$3.5 million in the three months and nine months ended June 30, 2015, respectively, as compared to a loss of \$1.8 million and \$12.8 million from discontinued operations for the three and nine months ended June 30, 2014.

## Net Income/Loss

Net income for the three and nine months ended June 30, 2015 amounted to approximately \$1.5 million and \$0.7 million, as compared to net loss of approximately \$2.1 million and \$15.8 million for the three and nine months ended June 30, 2014 respectively. For the three months ended June 30, 2015, we had a decrease of \$1.8 million in losses from discontinued operations, together with an increase of \$3.5 million from the gain on disposal of subsidiaries, which was offset by the \$1.9 million increase in impairment on other current assets. For the nine months ended June 30, 2015 compared with the same period in fiscal year 2014, we had a decrease of \$12.8 million in losses from discontinued operations, together with an increase of \$3.5 million from the gain on disposal of subsidiaries.

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash. As of June 30, 2015, we had a working capital deficit of \$6.1 million, as compared to that of \$7.1 million as of September 30, 2014. We rely upon cash generated from our operations, the sale of our subsidiaries, access under factoring and other lending relationships and advances from related parties to fund our operations. We do not have any commitments for capital expenditures.

Our Mineral Trading segments have operating losses, and revenues from our Consulting segment vary greatly from period to period. Our Consulting segment generally receives full payment in advance for consulting services to be provided over the term of the contract, primarily in the form of our client companies' common stock. For transactions in which we advise a new client company on entering into the U.S. public market for the first time, it may take some additional time for us to receive our transaction fees due to the necessary compliance and regulatory filing process, and it is possible that at such time, if ever, when we are able to sell the securities we receive as compensation, the funds we receive upon the sale will be equal to the amount of revenue we initially recognized. In addition, revenues from this segment do not provide cash to pay costs or operating expenses until we are able to liquidate those securities, on which there are no assurances. As a result of the working capital deficit and the operating losses incurred, our cash flow from operations is not sufficient to sustain our operations and satisfy our obligations as they become due.

On May 28, 2015, we entered into Stock Purchase Agreements with four Chinese citizens, who were the original lenders in the Secured Promissory Notes between these four individuals and the Company dated August 21, 2012 (the "Original Notes"). The four Original Notes were issued to these four Chinese citizens (collectively, the "Lenders") in an aggregate principle amount of \$1,000,000 for value received. These promissory notes were due on February 29, 2013 and bear an interest rate of 12% per annum. As per the terms of the Stock Purchase Agreements, the Lenders agreed to convert the principle amount of the Original Notes into a total of 20,000,000 shares of the Company's common stock at

a purchase price of \$0.05 per share, issuable on or before May 28, 2015. On August 7, 2015, the Company issued four stock certificates to these Chinese citizens totaling 20 million shares of CDII common stock.

Our cash balance as of June 30, 2015 amounted to approximately \$24,000, a decrease of \$59,000, as compared to September 30, 2014. During the nine months ended June 30, 2015, we had cash outflow of approximately \$760,000 used in operating activities, and offset by the net cash provided by financing activities of \$687,000.

Our marketable securities available-for-sale, including marketable securities available-for-sale -related party, as of June 30, 2015 approximately totaled \$46,000, a decrease of \$2,000 as compared to September 30, 2014. We received of \$45,000 on marketable securities for services provided to clients in our Consulting segment, which were offset by \$47,000 decrease of non-cash unrealized loss on marketable securities available-for-sale and marketable securities available-for-sale- related party in the nine months ended June 30, 2015.

Our accounts receivable, including account receivable – related party, as of June 30, 2015 amounted to \$28,000, a decrease of \$31,000 as compared to September 30, 2014, which was primarily due to the collection of accounts receivable from the related party.

Prepaid expenses and other current assets consist of prepayments to vendors for services and inventory, other receivables, loans receivable, VAT tax refunds, and security deposits. Prepaid expenses and other current assets as of June 30, 2015 amounted to \$1,062,000, an increase of \$70,000 as compared to September 30, 2014, primarily due to the advance payment to the suppliers in the nine month ended June 30, 2015.

Accounts payable and accrued expenses represent payables associated with the general operations within each segment, including accrued payrolls. Accounts payable and accrued expenses as of June 30, 2015 amounted to \$778,000, an increase of \$8,000 as compared to September 30, 2014, primarily due to the increased accrued interest payable.

Certain events may have negative impacts on our liquidity position during fiscal year 2015:

Our short term loans of \$200,000 matured by March 18, 2015 and \$650,000 matured by January 31, 2015, and currently are in default. While we intend to extend the maturity date for these loans, we have not entered into any agreements with the lenders for such extension. In the event we are unable to extend the term of these loans, or we are unable to repay these obligations when due, we may have to seek additional financing, and no assurances can be given that such financing would be available on a timely basis, on terms that are acceptable or at all. Failure to meet the repayment or other obligations of our existing debt on or before its due date could materially adversely affect our business, results of operations and financial condition and threaten our financial viability.

We maintain cash and cash equivalents in the United States and China. At June 30, 2015 and September 30, 2014, bank deposits by geographic area, were as follows (dollars in thousands):

Country	June 30, 2015		September 30, 2014		
United States	\$	21,372	89%	\$ 54,034	65%
China		2,599	11%	28,641	35%
Total cash and cash equivalents	\$	23,971	100%	\$ 82,675	100%

#### Analysis of Cash Flows

In the first nine months of fiscal year, 2015, our net decrease in cash amounted to \$58,704, which comprised of \$759,683 used in operating activities, \$686,872 provided by financing activities, and \$14,107 from non-cash favorable effect of prevailing exchange rate on our cash position.

#### Cash Used in Operating Activities

Net cash used in operating activities of continuing operations for the first nine months of fiscal year 2015 amounted to approximately \$760,000, which was primarily due to a net income of \$662,000 adjusted by loss from discontinued operations of \$3.5 million and non-cash items such as loss on impairment on other current assets of \$1.9 million in our Consulting segment, loss on revaluation for accounts receivable and accounts payable of \$28,000, depreciation of \$15,000, \$338,000 for the stock based compensation, amortization of debt discount of \$361,000, an increase of \$35,000 in accounts payable and accrued expenses, an increase of \$866,000 in other payable to related parties, offset by a gain on change in fair value of derivative liability of \$931,000, an increase of \$10,000 in prepaid expense and other current assets and a decrease of \$528,000 in other liabilities.

Net cash used in operating activities of continuing operations for the first nine months of fiscal year 2014 amounted to approximately \$1,337,000, which was primarily due to a net loss of \$15.8 million adjusted by loss from discontinued

operations of \$12.8 million and non-cash items such as loss due to revaluation of accounts receivable and accounts payable of \$37,000, depreciation of \$35,000, stock-based compensation to the consultants and stock option and warrant expenses of \$316,000, a loss on revaluation of derivative liability of \$425,000, an increase of \$524,000 in advance from customers, a decrease of \$399,000 in other receivable and prepaid expenses from related parties, and a decrease of \$369,000 in prepaid expenses and other current assets, offset by a decrease of \$440,000 in accounts payable and accrued expenses, an increase of \$62,000 in accounts receivable, and a realized gain on sale of marketable securities available-for-sale of \$22,000.

#### Cash Provided by Investing Activities

Net cash provided by investing activities of continuing operations for the first nine months of fiscal year 2015 amounted to \$0.

Net cash provided by investing activities of continuing operations for the first nine months of fiscal year 2014 amounted to \$392,000, as a result of proceeds from sales of marketable securities available-for-sale.

#### Cash Provided by Financing Activities

Net cash provided by financing activities of continuing operations for the first nine months of fiscal year 2015 amounted to approximately \$687,000, primarily due to \$730,000 proceeds from loans, offset by \$41,000 repayments for loan payable.

Net cash provided by financing activities of continuing operations for the first nine months of fiscal year 2014 amounted to approximately \$883,000, primarily due to \$105,000 proceeds from exercise of option, \$637,000 borrowing from related parties and \$400,000 proceeds from borrowing loans, offset by \$39,390 payments for dividend and \$220,000 repayment of short-term loan.

#### Series A Convertible Preferred Stock and Related Dividends

As of June 30, 2015, 1,006 shares of Series A convertible preferred stock remained outstanding. During the first nine months of fiscal year 2015, we did not pay of accrued ordinary dividends in cash or our common stock on our Series A convertible preferred stock. During the first nine months of fiscal year 2014, we paid \$39,390 of accrued ordinary dividends in cash on our Series A convertible preferred stock.

#### OFF BALANCE SHEET ITEMS

Under SEC regulations, we are required to disclose our off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, such as changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. An off-balance sheet arrangement means a transaction, agreement or contractual arrangement to which any entity that is not consolidated with us is a party, under which we have:

- Any obligation under certain guarantee contracts,
- Any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets,
- Any obligation under a contract that would be accounted for as a derivative instrument, except that it is both indexed to our stock and classified in stockholder's equity in our statement of financial position, and
- Any obligation arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

We do not have any off-balance sheet arrangements that we are required to disclose pursuant to these regulations. In the ordinary course of business, we enter into operating lease commitments, purchase commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with generally accepted accounting principles in the United States.

#### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of significant accounting policies are discussed in further detail in the notes to the consolidated financial statements appearing in this report. We believe that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition.

## Revenue Recognition

We follow the guidance of Accounting Standards Codification (ASC) 605, "Revenue Recognition," and the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104 and SAB Topic 13 for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

## Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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 reporting period. Actual results when ultimately realized could differ from those estimates. Significant estimates in fiscal 2014 and fiscal 2015 include valuation of marketable securities available-for-sale, allowance for doubtful accounts, the allowance for obsolete inventory, fair value of share-based compensation, the useful lives of property, plant and equipment and fair value of derivative liability.

## Fair Value of Financial Instruments

We follow ASC 820, "Fair Value Measurements and Disclosures," as amended by Financial Accounting Standards Board (FASB) Financial Staff Position (FSP) No. 157 and related guidance. Those provisions relate to our financial assets and liabilities carried at fair value and our fair value disclosures related to financial assets and liabilities. ASC 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, assuming the transaction occurs in the principal or most advantageous market for that asset or liability.

There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs. We use Level 1 inputs for our fair value measurements whenever there is an active market, with actual quotes, market prices, and observable inputs on the measurement date. We use Level 2 inputs for our fair value measurements whenever there are quoted prices for similar securities in an active market or quoted prices for identical securities in an inactive market. We use observable market data whenever available.

## Marketable Securities

Our marketable securities available-for-sale are carried at fair value. We make fair value measurements for the carrying amount of the marketable securities available-for-sale quarterly pursuant to ASC 820, "Fair Value Measurements and Disclosures," as amended by FASBFSP No. 157 and related guidance. We record an unrealized gain/(loss) on changes in fair value of such marketable securities in the equity section of our balance sheet as Other Comprehensive Income (OCI), pursuant to ASC 320, "Investments – Debt and Equity Securities". We make an analysis at the least on an annual basis to determine if and when such unrealized (loss) has become other than temporarily impaired, and reclassify it as a realized (loss) into our current period's net income/(loss). This determination is based



on a number of factors, including but not limited to (i) the percentage of the decline, (ii) the severity of the decline in relation to the enterprise/market conditions, and (iii) the duration of the decline.

All securities (exclusive of preferred stock and common stock purchase warrants) received from our clients as compensation are quoted either on the Over the Counter Bulletin Board or the OTC Markets (formerly known as the Pink Sheets). The securities are typically restricted as to resale. Our policy is to liquidate securities received as compensation when market conditions are favorable for sale. As these securities are often restricted, we are unable to liquidate these securities until the restriction is removed. We recognize revenue for common stock based on the fair value at the time common stock is granted and for common stock purchase warrants based on the Black-Scholes valuation model. Unrealized gains or losses on marketable securities available-for-sale and on marketable securities available-for-sale - related party are recognized as an element of comprehensive income based on changes in the fair value of the security as quoted on an exchange or an inter-dealer quotation system. Once liquidated, a realized gain or loss on the sales of marketable securities available-for-sale and marketable securities available-for-sale - related party is reflected in our net income for the period in which the securities are liquidated.

## Comprehensive income

We follow ASC 205, "Presentation of Financial Statements," and ASC 220, "Reporting Comprehensive Income," to recognize the elements of comprehensive income. Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders. Comprehensive income for the fiscal 2014 and fiscal 2015 included net income, foreign currency translation adjustments, unrealized gains or losses on available-for-sale marketable securities, net of income taxes, and unrealized gains or losses on available-for-sale marketable securities -related party, net of income taxes.

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

Not applicable to a smaller reporting company.

## ITEM 4. CONTROLS AND PROCEDURES.

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in the Exchange Act that are designed to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms and that such information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Management, with the participation of our CEO, performed an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2015 and 2014. Based on that evaluation solely as a result of the significant deficiencies in our internal control over financial reporting identified in our Annual Report on Form 10-Q for nine months ended June 30, 2015, our management, including our CEO, concluded that our disclosure controls and procedures were not effective as of June 30, 2015 and 2014.

The specific significant deficiencies identified by our management were as follows:

A lack of a fully integrated corporate-wide financial accounting system, including lack of internal control over securities portfolio management and evaluation and lack of business reporting procedures,

Failure to obtain approval of the board of directors prior to the issuance of shares of common stock, including failure to obtain board approval for grants under our various stock compensation plans.

The material weakness identified by our management was as follows:

A lack of qualified accounting personnel who have sufficient knowledge in dealing with the complex U.S. GAAP accounting and financial issues in our cross border operations.

A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness; yet important enough to merit attention by those responsible for oversight of a registrant's financial reporting. And, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the

company's annual or interim financial statements would not be prevented or detected on a timely basis. We expect the significant deficiencies will be remediated by the end of fiscal 2015. Until such time, however, as these significant deficiencies in our internal control over financial reporting are remediated, we expect to have continuing weaknesses in our internal control over financial reporting, disclosure controls and related procedures.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that, due to the significant deficiencies described above, our internal control over financial reporting was not effective as of June 30, 2015.

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### Remediation of Significant Deficiencies and Material Weakness in Internal Control over Financial Reporting

Through our increased awareness and remediation efforts, we believe that our actions will result in an improvement in our internal control over financial reporting in fiscal 2015. Specifically, we will plan initiating a corporate-wide ERP implementation, conduct ongoing US GAAP trainings, and through our internal reviews and improved control procedures, we will identify certain prior accounting errors and make appropriate error corrections and disclosures, to prevent potential future material misstatements. In addition, we plan to make improvement throughout fiscal 2015 to achieve our overall remediation target and objectives. Management believes that the actions described above will remediate the remaining significant deficiencies we have identified in fiscal 2015. As we work towards improvement of our internal control over financial reporting and implement the remediation measures, we may supplement or modify these remediation measures as appropriate.

Our management believes that our disclosure controls and procedures provide a reasonable level of assurance of achieving their objectives. Our management does not expect, however, that our disclosure controls and procedures or internal financial controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the first quarter of fiscal 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

Our wholly owned subsidiaries, China Direct Investments, Inc. (“China Direct”) and Capital Resource Management Co., Ltd. (“Capital Resource”), and our Company are involved in the following litigation with a shareholder of Linkwell Corporation, Ltd. (“Plaintiff”):

On January 9, 2013, Plaintiff filed a petition in the United States District Court for the Southern District of Florida (Case No. 12-cv-62539-WJZ) to complain that Linkwell’s directors (Director Defendants) breached their fiduciary duties to Linkwell and its shareholders by entering into a transaction intended to obscure their “secret transfer” of Linkwell’s valuable subsidiaries to themselves or entities they control or Ecolab, Inc. without fair compensation being paid to Linkwell and by causing Linkwell to file and disseminate materially misleading information.

In addition, Plaintiff contended that the “Non-Director Defendants” – including the Company and its subsidiaries, China Direct and Capital Resource – aided and abetted those breaches and conspired with the Director Defendants to commit those breaches. The Plaintiff also contended that all defendants were unjustly enriched and are liable for attorney’s fees. China Direct and Capital Resource are alleged to have acted as consultants who were the “principal moving force” behind the challenged transaction, for which consulting services each is alleged to have received shares of Linkwell stock.

Subsequent to the filing of the initial complaint, Linkwell’s Board of Directors unwound the challenged transaction and the shares received by China Direct and Capital Resource were returned to Linkwell. The Company, as well as China Direct and Capital Resource, has denied all liability and intends to contest the matter vigorously.

On February 14, 2014, Metamining, Inc., Metamining Nevada, Inc., Song Qiang Chen, and Ling Li submitted their objections to Linkwell's affidavit pursuant to Federal Rule of Civil Procedure 37 for payment of expenses including attorney's fees. The Company has also produced documents and interrogatory responses in response to discovery served by Plaintiff. A pretrial conference is scheduled for August 28, 2015. As of June 2014, the Plaintiff claimed that his attorneys' fees and costs exceeded \$1 million. As of June 12, 2015, the Company has paid to the attorney of the Plaintiff, Wolf Haldenstein Adler Freeman & Herz, LLP, \$33,000 for the attorney fees claimed.

On April 28, 2015, TCA Global Credit Master Fund, LP. ("TCA") filed a complaint/petition in the Circuit Court of for the 17th Judicial Circuit in and for Broward County, Florida. (Case No. 15-007210). The complaint/petition alleges that the Company is in 1) breach of credit facility agreement by CD International Enterprises, Inc.; 2) foreclosure of security interest against CD International Enterprises, Inc., CDI China, Inc., China Direct Investments, Inc., CDII Minerals, Inc. International Magnesium Group, Inc., and James (Yuejian) Wang; 3) breach of revolving convertible promissory note by CD International Enterprises, Inc.; 4) breach of guaranty against James (Yuejian) Wang and CDI China, Inc., China Direct Investments, Inc., CDII Minerals, Inc. International Magnesium Group, Inc.; 5) fraudulent misrepresentation as to CD International and James (Yuejian) Wang; and 6) negligent misrepresentation as to CD International Enterprises, Inc. and James (Yuejian). The Company denied such allegations. The company will vigorously defend and has entered into a counter claim against TCA in violation of Florida Usury Laws. Currently both sides have suspended the litigation and are preparing to settle.

ITEM 1A. RISK FACTORS.

Before you invest in our securities, you should be aware that there are various risks. You should consider carefully these risk factors, together with all of the other information included in this annual report before you decide to purchase our securities. If any of the following risks and uncertainties develop into actual events, our business, financial condition or results of operations could be materially adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable to a smaller reporting company.

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

Not applicable to a smaller reporting company.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable to our operations.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

Exhibit No.	Description of Exhibit
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31.1*	Section 302 Certificate of Chief Executive Officer.
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31.2*	Section 302 Certificate of Chief Financial Officer.
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32.1*	Section 906 Certificate of Chief Executive Officer and Chief Financial Officer.
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101.INS**	XBRL INSTANCE DOCUMENT
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101.SCH**	XBRL TAXONOMY EXTENSION SCHEMA
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101.CAL**	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
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101.DEF**	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
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101.LAB**	XBRL TAXONOMY EXTENSION LABEL LINKBASE
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101.PRE**	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
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+	Management contract or compensatory plan or arrangement.
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*	Filed herewith.
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**	In accordance with Regulation S-T, the XBRL-formatted interactive data files that comprise Exhibit 101 in this Annual Report on Form 10-K shall be deemed “furnished” and not “filed”.
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CD INTERNATIONAL ENTERPRISES, INC.

Date: September 11,  
2015

By:

/s/ Yuejian (James) Wang

Yuejian (James) Wang, Chief Executive Officer,  
President and Chairman



