

XAI Octagon Floating Rate & Alternative Income Term Trust (the “Trust”)

**Interim Financial Information
(Unaudited)**

June 30, 2018

The financial information provided herein is as of June 30, 2018, is unaudited and is presented without notes. For additional information please refer to (i) the Trust's audited financial statements dated September 30, 2017, including accompanying notes thereto and the report of the Trust's independent registered public accounting firm thereon, appearing in the Trust's annual report to shareholders for the fiscal year ended September 30, 2017, as contained in the Trust's Form N-CSR filed with the SEC on December 7, 2017, and (ii) the Trust's unaudited financial statements dated March 31, 2018, including accompanying notes thereto, appearing in the Trust's semi-annual report to shareholders for the period ended March 31, 2018, as contained in the Trust's Form N-CSRS filed with the SEC on June 6, 2018. You may obtain a copy of the Trust's annual and semi-annual report by calling (888) 903-3358 or visiting the Trust's website at www.xainvestments.com.

XAI Octagon Floating Rate & Alternative Income Term Trust

Statement of Assets and Liabilities

June 30, 2018 (Unaudited)

ASSETS:

Investments, at value (Cost \$122,201,405)	\$	120,435,809
Cash		883,390
Receivable for investment securities sold		8,488,141
Interest receivable		539,874
Prepaid expenses and other assets		21,968
Total Assets		130,369,182

LIABILITIES:

Payable for legal and audit fees		75,345
Payable for investor support services fees		19,581
Payable for printing		27,704
Payable for custodian fees		3,095
Payable for investment securities purchased		10,855,875
Leverage facility (Net of \$144,345 deferred costs)		38,720,655
Interest due on leverage facility		341,283
Distributions payable to common shareholders		576,011
Accrued investment advisory fee payable		124,368
Accrued fund accounting and administration fees payable		47,242
Accrued chief compliance officer fee payable		2,433
Accrued trustees' fees payable		4,888
Other payables and accrued expenses		5,982
Total Liabilities		50,804,462
Net Assets	\$	79,564,720

COMPOSITION OF NET ASSETS:

Paid-in capital	\$	81,643,540
Distributions in excess of net investment income		(1,160,613)
Accumulated net realized gain		847,389
Net unrealized depreciation		(1,765,596)
Net Assets	\$	79,564,720

Common shares of beneficial interest outstanding, at \$0.01 par value, and unlimited common shares authorized		8,347,991
Net Asset Value per Common Share	\$	9.53

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Statement of Operations

For the 9 months Ended June 30, 2018 (Unaudited)

INVESTMENT INCOME:

Dividends	\$	144,487
Interest		6,175,565
Total Investment Income		6,320,052

EXPENSES:

Investment advisory fees	\$	1,493,501
Fund accounting and administration fees		185,570
Legal and audit fees		195,528
Custodian fees		15,696
Chief compliance officer fees		22,438
Trustees' fees and expenses		126,888
Printing expense		25,421
Transfer agent fees		32,848
Investor support services fees		175,706
Loan commitment fees		64,083
Interest on leverage facility		858,715
Other expenses		65,583
Total Expenses Before Waivers		3,261,977
Fees waived or reimbursed by the Advisor		(406,500)
Net Expenses		2,855,477
Net Investment Income		3,464,575

REALIZED AND UNREALIZED GAIN ON INVESTMENTS:

Net realized gain on:		
Investment securities		847,389
Change in unrealized appreciation/(depreciation) on:		
Investment securities		(1,765,596)
Net Realized and Unrealized Loss on Investments		(918,207)
Net Increase in Net Assets from Operations	\$	2,546,368

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Statements of Changes in Net Assets

	For the 9 months Ended June 30, 2018 (Unaudited)	For the Period September 27, 2017 (Commencement of Operations) to September 30, 2017
OPERATIONS:		
Net investment income/(loss)	\$ 3,464,575	\$ (17,117)
Net realized gain	847,389	-
Change in unrealized appreciation/(depreciation)	(1,765,596)	-
Net Increase/(Decrease) in Net Assets from Operations	2,546,368	(17,117)
DISTRIBUTIONS TO SHAREHOLDERS:		
From net investment income	(4,608,071)	-
Net Decrease in Net Assets from Distributions to Common Shareholders	(4,608,071)	-
CAPITAL SHARE TRANSACTIONS:		
Proceeds from sale of common shares (net of offering costs of \$21,750 and \$145,000)	10,635,750	70,905,000
Net asset value of common shares issued to stockholders from reinvestment of dividends	2,781	-
Net Increase from Capital Share Transactions	10,638,531	70,905,000
Net Increase in Net Assets	8,576,828	70,887,883
NET ASSETS:		
Beginning of period	\$ 70,987,892	\$ 100,009
End of period [*]	\$ 79,564,720	\$ 70,987,892
<i>* Including distributions in excess of net investment income:</i>	<i>\$ (1,160,613)</i>	<i>\$ (17,117)</i>

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Statement of Cash Flows

For the 9 months Ended June 30, 2018 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net increase in net assets from operations	\$ 2,546,368
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:	
Purchases of investment securities	(231,900,627)
Proceeds from disposition of investment securities	109,677,401
Discounts accreted/premiums amortized	6,214,928
Reductions to CLO Equity cost basis	(3,183,420)
Net realized gain on:	
Investment securities	(847,389)
Net change in unrealized depreciation on:	
Investment securities	1,765,596
Net purchase of short-term investment securities	(2,163,018)
Amortization of deferred costs	64,803
(Increase)/Decrease in assets:	
Receivable for investment securities sold	(8,488,141)
Interest receivable	(539,874)
Receivable due from advisor	8,570
Prepaid expenses and other assets	(21,968)
Increase/(Decrease) in liabilities:	
Payable for investment securities purchased	10,855,875
Interest due on loan facility	341,283
Accrued investment advisory fees payable	124,368
Accrued fund accounting and administration expense	44,968
Accrued audit and legal expense	63,345
Accrued trustees' fees payable	4,888
Payable for investor support services fees	18,025
Accrued printing expense	19,754
Accrued custody expense	2,900
Accrued chief compliance officer fee payable	2,104
Accrued transfer agency expense	(260)
Other payables and accrued expenses	4,859
Net Cash Used in Operating Activities	(115,384,662)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from leverage facility (Net of \$208,428 deferred costs)	38,656,572
Proceeds from shares sold - common shares	10,657,500
Distributions paid - common shareholders	(4,029,279)
Offering costs paid for sale of shares	(166,750)
Net Cash Provided by Financing Activities	45,118,043

Net Decrease in Cash	(70,266,619)
Cash, beginning balance	\$ 71,150,009
Cash, ending balance	\$ 883,390

Supplemental disclosure of cash flow information:

Cash paid on interest on leverage facility	\$ 581,515
Reinvestment of distributions	\$ 2,781

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Financial Highlights

For a Share Outstanding Throughout the Periods Presented

	For the 9 months Ended June 30, 2018 (Unaudited)	For the Period September 27, 2017 (Commencement of Operations) to September 30, 2017
PER COMMON SHARE OPERATING PERFORMANCE:		
Net asset value - beginning of period	\$ 9.78	\$ 9.78 ^(a)
INCOME/(LOSS) FROM INVESTMENT OPERATIONS:		
Net investment income/(loss) ^(b)	0.42	(0.00) ^(c)
Net realized and unrealized loss on investments	(0.12)	-
Total Income from Investment Operations	0.30	(0.00)^(c)
DISTRIBUTIONS TO COMMON SHAREHOLDERS:		
From net investment income	(0.55)	-
Total Distributions to Common Shareholders	(0.55)	-
Net asset value per common share - end of period	\$ 9.53	\$ 9.78
Market price per common share - end of period	\$ 9.14	\$ 10.12
Total Investment Return - Net Asset Value^(d)	3.28%	0.00%
Total Investment Return - Market Price^(d)	(4.27%)	1.20%
RATIOS AND SUPPLEMENTAL DATA:		
Net assets attributable to common shares, end of period (000s)	\$ 79,565	\$ 70,988
Ratio of expenses excluding waivers to average net assets	5.44% ^(e)	5.00% ^(e)
Ratio of expenses including waivers to average net assets	4.76% ^(e)	2.20% ^(e)
Ratio of expenses excluding interest on loan to average net assets	3.22% ^(e)	2.20% ^(e)
Ratio of net investment income including waivers to average net assets	5.78% ^(e)	(2.20%) ^(e)
Portfolio turnover rate	106%	0%
LEVERAGE FACILITY:		
Aggregate principal amount (Net of \$144 deferred costs), end of period (000s)	\$ 38,721	\$ N/A
Average borrowings outstanding during the period (000s)	\$ 37,359	\$ N/A
Asset coverage, end of period per \$1,000	\$ 3,055	\$ N/A

^(a) After deduction of offering expenses charged to capital.

^(b) Calculated using average common shares outstanding.

^(c) Less than \$(0.005) per share.

^(d) Total investment return is calculated assuming a purchase of common share at the opening on the first day and a sale at closing on the last day of each period reported. Dividends and distributions are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust's dividend reinvestment plan. Total investment returns do not reflect brokerage commissions, if any, and are not annualized.

^(e) Annualized.