

**XAI Octagon Floating Rate & Alternative Income Term Trust (the "Trust")**

**Interim Financial Information  
(Unaudited)**

**December 31, 2018**

The financial information provided herein is as of December 31, 2018, is unaudited and is presented without notes. For additional information please refer to (i) the Trust's audited financial statements dated September 30, 2018, 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, 2018, as contained in the Trust's Form N-CSR filed with the SEC on December 12, 2018, 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](http://www.xainvestments.com).

# XAI Octagon Floating Rate & Alternative Income Term Trust

## Statement of Assets and Liabilities

December 31, 2018 (Unaudited)

### ASSETS:

Investments, at value (Cost \$118,127,930)	\$	107,405,426
Cash		282,723
Receivable for investment securities sold		5,049,972
Interest receivable		530,145
Prepaid expenses and other assets		77,088
<b>Total Assets</b>		<b>113,345,354</b>

### LIABILITIES:

Payable for legal and audit fees		16,797
Payable to transfer agent		1,565
Payable for investor support services fees		18,626
Payable for printing		26,357
Payable for custodian fees		4,488
Payable for investment securities purchased		8,356,918
Leverage facility (Net of \$87,105 deferred costs)		33,477,895
Interest due on leverage facility		105,230
Accrued investment advisory fees payable		106,341
Accrued fund accounting and administration fees payable		34,211
Accrued chief compliance officer fees payable		5,062
Other payables and accrued expenses		10,350
<b>Total Liabilities</b>		<b>42,163,840</b>
<b>Net Assets</b>	<b>\$</b>	<b>71,181,514</b>

Commitment

### COMPOSITION OF NET ASSETS:

Paid-in capital	\$	79,106,494
Total distributable earnings		(7,924,980)
<b>Net Assets</b>	<b>\$</b>	<b>71,181,514</b>

Common shares of beneficial interest outstanding, at \$0.01 par value, and unlimited common shares authorized		8,349,459
<b>Net Asset Value per Common Share</b>	<b>\$</b>	<b>8.53</b>

# XAI Octagon Floating Rate & Alternative Income Term Trust

## Statement of Operations

For the three Months Ended December 31, 2018 (Unaudited)

### INVESTMENT INCOME:

Dividends	\$	18,269
Interest		2,896,679
<b>Total Investment Income</b>		<b>2,914,948</b>

### EXPENSES:

Investment advisory fees		492,097
Fund accounting and administration fees		75,338
Legal and audit fees		72,563
Custodian fees		5,246
Chief compliance officer fees		7,562
Trustees' fees and expenses		39,881
Printing expense		9,238
Transfer agent fees		7,283
Investor support services fees		57,894
Interest expense and amortization of deferred borrowing costs		361,842
Other expenses		19,699
<b>Total Expenses Before Waivers</b>		<b>1,148,643</b>
Fees waived or reimbursed by the Advisor		(149,958)
<b>Net Expenses</b>		<b>998,685</b>
<b>Net Investment Income</b>		<b>1,916,263</b>

### REALIZED AND UNREALIZED GAIN ON INVESTMENTS:

Net realized gain on:		
Investment securities		209,062
Change in unrealized appreciation/(depreciation) on:		
Investment securities		(8,542,222)
<b>Net Realized and Unrealized Loss on Investments</b>		<b>(8,333,160)</b>
<b>Net Decrease in Net Assets from Operations</b>	\$	<b>(6,416,897)</b>

XAI Octagon Floating Rate &  
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Statements of Changes in Net Assets

	For the 3 months Ended December 31, 2018 (Unaudited)	For the Year Ended September 30, 2018
<b>OPERATIONS:</b>		
Net investment income	\$ 1,916,263	\$ 5,253,538
Net realized gain	209,062	949,311
Change in unrealized appreciation/(depreciation)	(8,542,222)	(2,180,282)
<b>Net Increase/(Decrease) in Net Assets from Operations</b>	<b>(6,416,897)</b>	<b>4,022,567</b>
<b>TOTAL DISTRIBUTIONS TO SHAREHOLDERS</b>		
From ordinary income and gains	(1,728,338)	(3,785,195)
From tax return of capital	-	(2,551,001)
<b>TOTAL DISTRIBUTIONS TO SHAREHOLDERS</b>	<b>(1,728,338)</b>	<b>(6,336,196)</b>
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Proceeds from sale of common shares (net of offering costs of \$0 and \$21,750)	-	10,635,750
Net asset value of common shares issued to shareholders from reinvestment of dividends	5,137	11,599
<b>Net Increase from Capital Share Transactions</b>	<b>5,137</b>	<b>10,647,349</b>
<b>Net Increase/(Decrease) in Net Assets</b>	<b>(8,140,098)</b>	<b>8,333,720</b>
<b>NET ASSETS:</b>		
Beginning of period	\$ 79,321,612	\$ 70,987,892
End of period	\$ 71,181,514	\$ 79,321,612

# XAI Octagon Floating Rate & Alternative Income Term Trust

## Statement of Cash Flows

For the three Months Ended December 31, 2018 (Unaudited)

### CASH FLOWS FROM OPERATING ACTIVITIES:

Net decrease in net assets from operations	\$ (6,416,897)
Adjustments to reconcile net decrease in net assets from operations to net cash provided by operating activities:	
Purchases of investment securities	(24,986,336)
Proceeds from disposition of investment securities	32,260,586
Discounts accreted/premiums amortized	(27,869)
Reductions to CLO equity cost basis	469,311
Net realized gain on:	
Investment securities	(209,062)
Net change in unrealized appreciation/(depreciation) on:	
Investment securities	8,542,222
Net purchase of short-term investment securities	(2,585,523)
Amortization of deferred costs	28,620
(Increase)/Decrease in assets:	
Receivable for investment securities sold	1,642,175
Interest receivable	50,792
Prepaid expenses and other assets	(77,088)
Increase/(Decrease) in liabilities:	
Payable for investment securities purchased	(927,973)
Interest due on leverage facility	(245,985)
Accrued investment advisory fees payable	17,300
Accrued fund accounting and administration fees payable	(27,311)
Payable for legal and audit fees	(115,677)
Payable for investor support services fees	(849)
Payable for printing	(769)
Payable for custodian fees	(2,728)
Accrued chief compliance officer fees payable	62
Payable to transfer agent	(5,485)
Other payables and accrued expenses	5,778

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<b>Net Cash Provided by Operating Activities</b>	<b>7,387,294</b>
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### CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on leverage facility	(5,300,000)
Distributions paid - common shareholders	(2,299,276)

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<b>Net Cash Used in Financing Activities</b>	<b>(7,599,276)</b>
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<b>Net Decrease in Cash</b>	<b>(211,982)</b>
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<b>Cash, beginning balance</b>	<b>494,705</b>
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<b>Cash, ending balance</b>	<b>\$ 282,723</b>
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### Supplemental disclosure of cash flow information:

Cash paid for interest on leverage facility	\$ 579,105
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### Non-cash activity:

Reinvestment of distributions	\$ 5,137
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# XAI Octagon Floating Rate & Alternative Income Term Trust

## Financial Highlights

For a Share Outstanding Throughout the Periods Presented

	For the 3 months Ended December 31, 2018 (Unaudited)		For the Year Ended September 30, 2018		For the Period September 27, 2017 (Commencement of Operations) to September 30, 2017	
<b>PER COMMON SHARE OPERATING PERFORMANCE:</b>						
Net asset value - beginning of period	\$	9.50	\$	9.78	\$	9.78 <sup>(a)</sup>
<b>INCOME/(LOSS) FROM INVESTMENT OPERATIONS:</b>						
Net investment income/(loss) <sup>(b)</sup>		0.23		0.64		(0.00) <sup>(c)</sup>
Net realized and unrealized loss on investments		(0.99)		(0.16)		—
<b>Total Income/(Loss) from Investment Operations</b>		<b>(0.76)</b>		<b>0.48</b>		<b>(0.00)<sup>(c)</sup></b>
<b>DISTRIBUTIONS TO COMMON SHAREHOLDERS:<sup>(d)</sup></b>						
From ordinary income		(0.21)		(0.45)		—
From tax return of capital		—		(0.31)		—
<b>Total Distributions to Common Shareholders</b>		<b>(0.21)</b>		<b>(0.76)</b>		<b>—</b>
Net asset value per common share - end of period	\$	8.53	\$	9.50	\$	9.78
Market price per common share - end of period	\$	7.31	\$	9.80	\$	10.12
<b>Total Investment Return - Net Asset Value<sup>(e)</sup></b>		<b>(7.98%)</b>		<b>5.22%</b>		<b>0.00%</b>
<b>Total Investment Return - Market Price<sup>(e)</sup></b>		<b>(23.55%)</b>		<b>4.89%</b>		<b>1.20%</b>

### RATIOS AND SUPPLEMENTAL DATA:

Net assets attributable to common shares, end of period (000s)	\$	71,182	\$	79,322	\$	70,988
Ratio of expenses excluding waivers to average net assets		5.87% <sup>(f)</sup>		5.60%		5.00% <sup>(f)</sup>
Ratio of expenses including waivers to average net assets		5.11% <sup>(f)</sup>		4.87%		2.20% <sup>(f)</sup>
Ratio of expenses excluding interest expense to average net assets		3.26% <sup>(f)(g)</sup>		3.35% <sup>(g)</sup>		2.20% <sup>(f)</sup>
Ratio of net investment income including waivers to average net assets		9.80% <sup>(f)</sup>		6.57%		(2.20%) <sup>(f)</sup>
Portfolio turnover rate		22%		119%		0%

### LEVERAGE FACILITY:

Aggregate principal amount, end of period (000s)	\$	33,565	\$	(38,865)	\$	N/A
Asset coverage, end of period per \$1,000	\$	3,121	\$	3,041	\$	N/A

<sup>(a)</sup> After deduction of offering expenses charged to capital.

<sup>(b)</sup> Calculated using average common shares outstanding.

<sup>(c)</sup> Less than \$(0.005) per share.

<sup>(d)</sup> The per share amounts of distributions related to ordinary income and tax return of capital are based on amounts determined under U.S. federal income tax regulations which differs from the per share amounts from investment operations which are based on amounts determined under U.S. GAAP.

<sup>(e)</sup> 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.

<sup>(f)</sup> Annualized.

<sup>(g)</sup> Includes amortization of deferred borrowing costs.