Fiscal Third Quarter Shareholder Report for the Three Months Ended July 31, 2021

Crossroads Systems, Inc.

Delaware | **74-284664**

(State of Incorporation) *(IRS Employer Identification No.)*

8214 Westchester Drive
Suite 950
Dallas, TX 75225
(Address of principal executive office)

(214) 999-0149
(Company's telephone number)

Common Stock
$0.001 Par Value
Trading Symbol: CRSS
Trading Market: OTCQB

75,000,000 Common Shares Authorized

5,971,994 Shares Issued and Outstanding as of July 31, 2021

Dear Shareholder:

As I write to you today, we find ourselves seemingly on the other side of what has been an eventful 18 months for everyone. And while we are closely monitoring developments and the potential impact from the surging COVID-19 Delta variant, it does seem like there's light at the end of the tunnel to eventually return to some semblance of normalcy. Stepping back to a year and a half ago, this was not the case. Nearly all of us in some capacity were either fearing for our friends, families, or at-risk loved ones, and many others were also forced to contend with a potential loss of livelihood.

As an enterprise equally devoted to providing positive social impact as well as financial performance, we recognized that we had a role to play in helping Americans navigate through this generational crisis and that we were well equipped as a community development financial institution, or CDFI, to lead the charge for the Paycheck Protection Program's second draw. With the program's conclusion in May, we now have an opportunity to take a look back at what we were able to accomplish in that time and also to evaluate what's next.

In just a few short months, along with our community bank referral partners and partners at Blueacorn, we issued and approved nearly 400,000 loans and generated nearly a billion dollars in origination fees, both of which are monumental achievements that have irrevocably changed our business and impacted the lives of many Americans.

Equally important to this program were our efforts to ensure that the funds were dispersed to the people and businesses that met all necessary qualifications. We have gone through painstaking and patient detail with borrowers to try and give them every opportunity to provide the required information which is a differentiated approach than most banks would be willing to undertake. At the same time, our approval process was both rigorous and secure. Though we leaned heavily on our loan service providers for support on the front end, we were thorough in reviewing applications on the back end, using four layers of identity verification in comparison to most lenders' one or two. This investment in KYC or 'know your customers' substantially reduced fraud, which is evidenced by a negligible rate of active fraud cases of less than .0025%. Throughout the term of the program, we cumulatively detected, reported, and stopped over 80,000 applications that were withdrawn due to insufficient data or other reasons.

From here, we are now transitioning from loan origination to forgiveness. Today, we have already received approximately 85,000 applications for forgiveness and are working diligently in direct partnership with the SBA to address these requests as efficiently as we can. With the SBA's direct forgiveness online portal and dedicated helpline now available for any previously issued loans under $150,000, we plan to direct our portfolio to these resources and are aiming to have outstanding requests materially addressed over the next 90 days. We are grateful to the SBA for their partnership and assistance in making this process as seamless as possible for such a large number of requests. To date, not a single one of the applicants we have worked with has been turned away. The work does not simply stop at loaning money to businesses in need; we must find ways to educate, mentor, and ensure these businesses stabilize and thrive once the economy recovers.

While the SBA loan program has admittedly taken much of our focus over the last few months, throughout this process we have remained committed to our core mission of providing housing and loan opportunities to the low-income, largely Hispanic population in Texas. Like the rest of the U.S. housing market, Texas residential real estate remains extremely tight; inventory is hard to come by and houses that do arrive on the market are sold quickly. In response, we have been actively evaluating new markets for growth and expanding our geographic footprint. In McAllen, TX, one of our relatively recent expansion markets, we've made strides with new home development activity, and we are moving quickly to add more inventory. Still, we hope to build a larger base of homes in the quarters ahead and will be watching the market closely to identify potential opportunities that meet our criteria.

With the government lending program entering its sunset period, and our housing business well managed and capitalized, we've had an opportunity to reevaluate what the future of Crossroads might look like going forward. What we've long known is that the US banking system is a woefully inefficient at servicing independent contractors. On both ends of the spectrum, either a self-employed person trying to get a mortgage or a gig economy worker just trying to get a small loan, the current infrastructure is not doing enough to support these people. Over the last few years, Capital Plus Financial has developed into a go-to lender for housing loans for the underbanked population in Texas. While we knew we were making a difference – helping many families secure their first homes and providing opportunities for communities that so often faced closed doors when they tried to make a way for themselves – we've also been aware that there was potential for so much more. And thanks to the massive success of the SBA program, we're now in a position to do more.

Looking ahead, we are very excited about the next chapter for Crossroads. We see substantial opportunity to represent the premier, diversified impact credit platform in the public markets in Capital Plus Financial. As one of the only publicly traded non-bank CDFIs, our PPP experience has catapulted us from a single asset and regional focus to a national platform with hundreds of thousands of borrowers across multiple lines of business. As we've noted before, we focus our business on a "double bottom line" result: creating significant, tangible impact across all we do, and generating strong returns on tangible common equity for our shareholders. There are firms that attempt the former, and those that attempt the latter, but we believe our combination of both will distinguish us in the quarters and years to come.

Relatedly, this morning we announced a strategic relationship with Enhanced Capital Group ("ECG"), a national impact lender, to deploy flexible capital to women and minority owned small businesses, small businesses located in underserved areas, and to renewable energy and community redevelopment projects across the country. Like CPF, Enhanced Capital Group has multi-decade track record achieving double bottom line results across a wide array of end markets. Under this partnership, both Crossroads and ECG will be combining their respective impact footprints and diversifying product and service offerings to deliver capital to areas including underserved and low-income communities at an unprecedented scale. In practice, ECG will originate its future production on our balance sheet in exchange for a management fee and incentive fee, providing a win-win for both organizations.

We expect ECG-originated assets, in aggregate and with proper financing in place, to yield in excess of 20% return on equity for Crossroads, while dramatically expanding our impact footprint. ECG will also help CPF raise additional low cost funding in the debt and preferred equity markets, which should allow ECG to tap into its billion dollar pipeline to deploy a diversified pool of impact products across the U.S. Put plainly, this agreement sets up our CPF subsidiary as one of the nation's most impactful, institutionally-backed CDFI's in the nation.

At a high level, partnering with ECG will enable us to further our mission on a much greater scale, geographically and thematically, providing flexible lending solutions to small businesses throughout the U.S. Whereas our ability to reach the underbanked community was previously centralized to strategic locales in the state of Texas with a specific demographic makeup, the ECG partnership allows us to expand our reach to much of the continental United States; ECG and its affiliates have deployed approximately $4 billion since inception, with employees in 10 states and investments in 37, including Washington D.C. and Puerto Rico. Expanding our reach to new markets is an important step in our mission to help a larger segment of the population.

To aid in CPF's expanded mission, we've appointed former Maryland Deputy Attorney General Thiruvendran "Thiru" Vignarajah as CEO. Thiru is a talented operator with a world-class background and a passion for solving the issue of inequity in the financial system and being a champion for the less fortunate. I look forward to working with him closely as we aim to become a market-leading, ethically mandated private credit provider.

With this agreement now in place, we intend to explore uplisting onto a national exchange in coming quarters. The Crossroads story and mandate has no doubt broadened; we can now provide aid and services on a national level. Coupled with the financial strength of our operations, the timing is right for us to increase our access to institutional capital and to tell our story to a larger audience that's now aligned with our future growth plans. I look forward to sharing further updates in the near future.

In just a few short months we’ve been able to accumulate significant financial resources, build meaningful new strategic partnerships, and attract talented leadership, which, together, will allow us to accelerate our growth trajectory and realize our vision of a more equitable financial future for all.

Saludos Cordiales,

Eric A. Donnelly