

**Shareholder Report for
the Fourth Quarter & Fiscal Year Ended
October 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: OTCQX**

75,000,000 Common Shares Authorized

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

Dear Shareholder:

The holidays provide a time for many to reflect on the year that's passed and, in many traditions, to express gratitude for the things and people we have in our lives. As we get closer to the end of 2021, I cannot help but be grateful for the countless individuals and groups who have collectively supported our business, as employees, as partners, as investors, and as stakeholders of all kinds. I am also appreciative of the opportunity to do so much for those in need; while the year has been a great success for Crossroads, it's also been incredibly difficult for many others. As a CDFI, our mandate has always been to provide positive social impact as well as financial performance, but this year we saw that our business and others like it can do both and so much more.

Today, our work within the PPP is nearly complete. We're continuing to work closely with the SBA to address the remaining loan forgiveness applications as efficiently as we can, not only to let us move forward, but also to let our loan recipients close this chapter in their lives as well. As of the end of the fourth quarter, we have completed about 62% or approximately 230,000 loan forgiveness applications, and we anticipate processing the remaining requests over the next few quarters. The process has been quite painless for the borrowers, and we are most appreciative of the SBA's direct forgiveness portal and incredible customer service team.

We're looking forward to having this process in our rearview mirror as well. While loan forgiveness applications are ongoing, GAAP regulation dictates that we adjust our income to account for loans not yet forgiven. In practice, this means that we're deferring approximately \$69 million in what we had previously considered PPP income until the loans are fully forgiven, which is forecasted for the next couple of quarters. The end result of this reclassification over time will be a net neutral impact with increased earnings being recognized in subsequent quarters to offset the one-time negative revenue we have in this period. For context, had we not made the adjustment to reflect GAAP, our earnings for the year would have been normalized to roughly \$6 million, which is greater than our fiscal year 2020 and also reflects significant investments in legal and headcount to support some of our newer initiatives. We're confident that our investors have backed out PPP income and expenses as one time but, nonetheless, wanted to communicate this accounting reclassification.

This adjusted financial performance reflects the results of our operations within Crossroads' core business: providing housing and loan opportunities to the low- and middle-income minority communities in Texas. Conditions in our areas of influence continue to reflect circumstances in most of the country, which is an extremely tight market, with scarce inventory that sells quickly. Overall, we completed 24 property sales in the fourth quarter, accounting for \$4.6 million in revenue. The delinquency rate at year end was 3.4% over the most recent 30-day window, compared to 0.9% in the prior year period, in part due to a reduction in widespread rent freezes due to the COVID-19

pandemic. While inventory is expected to remain a challenge in 2022, we are actively evaluating new markets for growth and expanding our geographic footprint to build a larger base of homes in the quarters ahead.

As we reflect on the year that was, we must also be mindful of the mission ahead. Over the last twelve months, we've evolved from a single asset class and regional focus to a national platform with hundreds of thousands of borrowers across multiple lines of business. While we're putting PPP behind us operationally, a lot of work around underserved people and businesses still remains.

In service of this expanded mission, we recently announced a partnership with Enhanced Capital Group and acquired Rise Line Business Credit, both national lending firms. These transactions will enable us to further our mission on a much greater scale, geographically and thematically, as we deploy flexible capital to women and minority businesses, small businesses located in underserved areas, and to renewable energy and community redevelopment projects across the country. Our partners' commitments to supporting investments in climate finance, impact real estate, and small businesses mirrors our own longstanding values.

With Enhanced, in just a few short months we've already generated roughly \$8 million in new loans and expect significant growth over the next few quarters as we operationalize the process. Through Enhanced we've also invested another \$8 million in solar related projects through a targeted fund, providing us with another climate impact investment vehicle.

With Rise Line, we closed on a merger in September and are starting to build a pipeline with \$25 million in potential deals in process, covering an even broader mandate of small business opportunities, including new areas such as manufacturing, distribution, retail and consumer products, business services, staffing, and technology services.

Clearly, we have plenty to do in returning to our work in the private sector, but there's also more to do in partnership with the administration who has graciously granted all CDFIs varying amounts of money to support our range of initiatives.

It is our hope we can partner *with* and set an example *for* larger institutions to demonstrate the concrete ways to support diversity, combat inequality and truly make a difference for underserved communities in the United States. Longer term, we hope to create an anchor program to perennially serve these causes. The work does not simply stop at loaning money to businesses in need; we must find ways to educate, mentor, and ensure these businesses and entrepreneurs, who are looking to make a real, positive impact, are supported. We will continue to champion communities that need representation and use our platform to get others involved as well.

Entering 2022, our business is stronger than ever. And while we have worked many long hours and sleepless nights over the last eighteen plus months, I have never been more invigorated by our mission or more convinced in our ability to make a difference where it matters. I would be remiss if I did not once again acknowledge all those who have shared in this endeavor, most of whom will not get the public recognition they deserve for devoting themselves to our cause these many months and going forward. Together, we are proving every day that it's possible to do good for others while also still excelling financially. Thank you for supporting us in that worthwhile mission.

Saludos Cordiales,

Eric A. Donnelly