

**Fiscal Second Quarter
Shareholder Report for
the Three Months Ended
April 30, 2021**

Crossroads Systems, Inc.

Delaware **74-284664**
(State of Incorporation) (IRS Employer Identification No.)

**4514 Cole St.
Suite 1600
Dallas, TX 75205**
(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 April 30, 2021

Dear Shareholder:

At this moment last year, we were dealing with the pending impact of COVID-19 and working alongside state and local partners to mitigate the immediate fallout to our business and our borrowers. Today, as the U.S. starts to find its way back to normalcy, we find ourselves in the strongest financial position we have ever been in.

I would like to extend a warm welcome to those of you who are new to the Crossroads and Capital Plus Financial story. As I have said in the past, Capital Plus is a double-bottom line business. For us, our social impact is just as important as our financial performance, and we are always working diligently to identify opportunities that enable us to maximize returns to all stakeholders.

In December of 2020, I penned a piece in the Silicon Valley Business Journal in which I called upon the government to extend much-needed financial support to small businesses across the country. Throughout the pandemic-ravaged year, I had the chance to hear firsthand from minority small business owners, many of whom were depending on the next round of PPP loans to keep their businesses afloat and employees on payroll. We were well equipped to lead the charge for the program's second draw as a result of our CDFI status, our focus on delivering financial products and support to low to moderate income borrowers, and our expertise in culturally sensitive underwriting.

We applaud the administration's intentional efforts to give CDFIs an unobstructed head start in the latest PPP round and a similar landscape to finish PPP. That three CDFIs finished to be the top 10 PPP lenders in the country is validation of the role that CDFIs play in delivering relief to the most underserved businesses and communities. Last quarter we highlighted our intention to participate in the second federal PPP program and announced our partnership with Blueacorn. With the help of loan service providers like Blueacorn and tremendous referral partnerships with banking institutions who were either not participating in the 2021 round or needed an outlet for nonbank customers, we were able to issue and approve loan applications at an unprecedentedly rapid pace. Within just five months, we have approved 472,036 loans at an average amount of \$16,062. In total, this amounts to \$7.6 billion in funding, more than 80% of which went directly to companies and independent contractors of color. As a result of our early dominance in PPP lending, Capital Plus was ranked the fourth largest PPP lender by net dollar amount and the second largest by the number of loans approved. Blueacorn's early traction amongst sole proprietors and independent contractors was critical to scaling the operation and enabling us to compete with the country's largest financial institutions.

Operationally, the approval process was an incredibly secure one. 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. Whereas most lenders use one to two layers of identity verification and customer compliance mechanisms, we used four. This investment

in KYC ‘knowing your customers’ substantially reduced fraud, which is evidenced by a negligible rate of active fraud cases of less than .25bps. While we have dealt with applicant frustration of having to re-verify information and/or identity before funding, we made the decision that we would rather have frustrated applicants than fraudulent borrowers. The team at Blueacorn has detected, reported, and most importantly, stopped an overwhelming number of fraudsters at the gate. Our focus with Blueacorn now turns to forgiveness but ever mindful of impact, and how we can stabilize the hundreds of thousands of businesses served. 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.

The program will result in Capital Plus holding the \$7.6 billion in loans on its balance sheet until they are forgiven. Given the comprehensive underwriting process and the simplified forgiveness paperwork that most of our borrowers are eligible for, we anticipate full forgiveness. In terms of interest, we issue PPP loans at a rate of 1%. With a 35-bps cost of capital through the SBA’s credit facility, we recognize a 65-bps spread, which nets out as interest income. Additionally, as of April 30, 2021, the balance sheet held \$440 million of restricted cash, which is being held to fund loans in future periods.

Along with the windfall associated with the PPP loan program, our core single-family mortgage business continued to perform exceptionally well. CPF’s outstanding mortgage loan portfolio balance at the end of the quarter grew to \$132 million. Income from property sales increased 59% to \$6.6 million from \$4.2 million. Additionally, we have seen consistent portfolio outperformance with respect to delinquency. For the fourth consecutive quarter, our borrowers have collectively represented a single-family delinquency rate lower than that reported by the Federal Home Loan Mortgage Corporation (Freddie Mac), reaffirming the notion that our borrowers are in fact creditworthy and deserve access to traditional mortgage financing.

The housing market in Texas is extremely tight right now, and the demand for new housing bodes well not just for our core business, but also for our borrowers’ financial health. An analysis of housing trends for the first calendar quarter of 2021 conducted by Texas A&M University showed that single-family housing starts have increased 25.1% year-over-year. Accompanied by a 10.4% annual increase in the Texas home price index, we have conclusive evidence to suggest that these trends are not dying anytime soon. As we continue to ramp up our small business and alternative lending initiatives, we are also committed to capitalizing on the growth in the single-family mortgage business by increasing our housing inventory, growing our sales team, and finding new, innovative ways to provide housing to prospective borrowers.

Last year signaled to CEOs that we are living in a different era—one where racial equity is a business and moral imperative. This has been core to Capital Plus’ mission since its inception. As Capital Plus worked on the frontlines issuing PPP loans, we uncovered

hurdles in the banking system for Black and minority individuals and businesses. Organizations like One Million Truths (OMT), a platform dedicated to truth and reconciliation in America, shine light on endemic bias and systemic racism by documenting first-person testimonies from Black Americans about their experiences with racism. These truths are submitted under 18 different categories, including banking, and are helping Capital Plus tell the stories of Black-owned businesses that have not received funding due to what could be systemic racism and endemic bias. Together, we are committed to improving economic opportunities for Black and minority-owned businesses and achieving fairness and balance while doing the necessary work to restore confidence in the banking system. Capital Plus is proud to issue some of its PPP earnings to support One Million Truths and its mission.

Over the last 18 months, we have worked tirelessly to show that Capital Plus' business belongs inside the traditional banking system where we can leverage our success. While we made some progress in demonstrating that a minority led institution can profitably serve minorities safely and soundly, our goal was not reached on the acquisition of Rice Bancshares. Officially, we were invited to withdraw our application and reapply given how much has changed for the company in 2021. Though we are disappointed that our success and scale in reaching underserved businesses in communities of color was ultimately a barrier to our bank application, it will not deter us from staying true in our mission to break down barriers to capital not just for small businesses but also for the users of basic banking services. Our extensive experience in the banking space as well as our participation in this round of PPP lending has reasserted an inconvenient truth: the banking system is riddled with bias and there is much work to be done to create a more inclusive and equitable one.

Our strategic analysis concludes that we are now overcapitalized. In order to be good stewards of capital and fulfill our duty to our business and to shareholders, we intend to pay out a special dividend of \$40 per share on July 26, 2021. We will still retain \$120 million of liquidity to further our mission. We will continue to achieve our double bottom line mission of achieving acceptable returns for our shareholders while delivering exceptional impact on the communities we serve.

As a CDFI, Capital Plus retains its strong commitment to creating economic opportunity for minority individuals and small businesses in communities that are disenfranchised, underserved, underbanked, and underfunded. When communities are underserved, they are undeveloped, individuals are undervalued, and growth opportunities are lost. These small businesses are the backbone of community value and identity which also affect real estate, neighborhood desirability, and safety. The focus of our transformation over the coming months is to break down the barriers to capital that low to moderate income and minority individuals face.

Capital Plus is far from the first CDFI and MDI applicant to combat the inequities of the banking system, but it is quickly becoming one of the most impactful. The events of the past few months as well as those that will transpire over the coming weeks will play a significant role in the transformation of our business from a single-family mortgage lending institution in Texas to a nationally recognized small business lender. We are thankful that you are joining us in this journey and welcome your continued support of our social enterprise.

Saludos Cordiales,

Robert H. Alpert & Eric A. Donnelly