CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

OCTOBER 31, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Crossroads Systems, Inc. and Subsidiaries:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Crossroads Systems, Inc. and subsidiaries (the "Company") as of October 31, 2019, and the related consolidated statements of operations, changes in equity, and cash flows for the year then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit includes performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also includes evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I and II is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and it is not a required part of the consolidated financial statements. Such information has not been subjected to the auditng procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Baker Tilly Virchow Krause, LLP

BAKER TILLY VIRCHOW KRAUSE, LLP
We have served as the Company's auditor since 2018
Plano, Texas
January 28, 2020

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
OCTOBER 31, 2019

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	1,656,114
Restricted cash		2,583,057
Interest receivable		893,343
Current portion of notes receivable		1,447,842
Current portion of other notes receivable		339,429
Inventory		11,796,430
Prepaid expenses and other current assets		351,547
Total current assets		19,067,762
NOTES RECEIVABLE, net of current maturities and allowance of $0		115,435,031
OTHER NOTES RECEIVABLE, net of current maturities and allowance of $0		6,463,049
GOODWILL		18,566,966
DEFERRED TAX ASSET		19,680,324
OTHER NON-CURRENT ASSETS		36,083
TOTAL ASSETS	$	179,249,215
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$	289,230
Accrued liabilities		609,546
Escrow liabilities		2,646,581
Current portion of credit facilities		66,167,346
Current portion of other note payable		179,327
Current portion of acquisition notes payable		2,495,168
Total current liabilities		72,387,198
CREDIT FACILITIES, net of current maturities		45,608,430
OTHER NOTE PAYABLE, net of current maturities		1,335,571
ACQUISITION NOTES PAYABLE, net of current maturities		12,418,163
OTHER LONG-TERM LIABILITIES		156,049
TOTAL LIABILITIES		131,905,411
EQUITY		
Common stock, $0.001 par value: 75,000,000 shares authorized, 5,971,994 shares issued and outstanding		5,972
Additional paid in capital		242,358,843
Accumulated deficit		(213,074,517)
Crossroads Systems, Inc. stockholders' equity		29,290,298
Non-controlling interests		18,053,506
TOTAL EQUITY		47,343,804
TOTAL LIABILITIES AND EQUITY	$	179,249,215

The accompanying notes are an integral part of these consolidated financial statements.

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED OCTOBER 31, 2019

REVENUES	
Interest income	$ 11,986,113
Property sales	25,330,557
Other revenue	387,265
Total revenues	37,703,935
COSTS AND EXPENSES	
Interest expense	6,343,947
Cost of properties sold	21,138,085
General and administrative	1,962,626
Salaries and wages	2,788,032
Total costs and expenses	32,232,690
Income from operations	5,471,245
OTHER EXPENSES	
Interest expense	(1,110,230)
Total other expenses	(1,110,230)
Income before income tax provision	4,361,015
INCOME TAX PROVISION	1,990,988
NET INCOME	2,370,027
Less: net income attributable to non-controlling interests	617,582
NET INCOME ATTRIBUTABLE TO CONTROLLING INTERESTS	$ 1,752,445

The accompanying notes are an integral part of these consolidated financial statements.

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED OCTOBER 31, 2019

	Common Stock		Additional Paid-In	Accumulated	Non-Controlling	Total
	Shares	Amount	Capital	Deficit	Interests	Equity
BALANCE, OCTOBER 31, 2018	5,971,994	$ 5,972	$ 242,358,843	$ (214,826,962)	$ 15,546,075	$ 43,083,928
Preferred equity issuance	-	-	-	-	2,500,000	2,500,000
Preferred dividend distributions	-	-	-	-	(610,151)	(610,151)
Net income	-	-	-	1,752,445	617,582	2,370,027
BALANCE, OCTOBER 31, 2019	5,971,994	$ 5,972	$ 242,358,843	$ (213,074,517)	$ 18,053,506	$ 47,343,804

The accompanying notes are an integral part of these consolidated financial statements.

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 2,370,027
Adjustments to reconcile net income to net cash used in operating activities:	
Loss on derivative related activity	403,369
Amortization of deferred financing fees	45,800
Provision for income taxes	1,984,962
Changes in operating assets and liabilities:	
Interest receivable	(161,836)
Notes receivable	(14,662,839)
Inventory	(4,308,159)
Prepaids and other assets	(15,478)
Accounts payable	233,088
Accrued liabilities	(304,732)
Escrow liabilities	113,233
Net cash used in operating activities	(14,302,565)
CASH FLOWS FROM FINANCING ACTIVITIES	
Preferred equity contributions	2,500,000
Preferred equity dividend distributions	(610,151)
Borrowings on credit facilities, net	35,922,085
Principal payments on credit facilities	(19,328,516)
Principal payments on other notes payable	(168,071)
Principal payments on acquisition note payable	(4,639,155)
Net cash provided by financing activities	13,676,192
Net change in cash and cash equivalents and restricted cash	(626,373)
Cash and cash equivalents and restricted cash at beginning of period	4,865,544
Cash and cash equivalents and restricted cash at end of period	$ 4,239,171
SUPPLEMENTAL INFORMATION	
Cash paid for interest	$ 7,398,591
Cash paid for income taxes	$ 6,026

The accompanying notes are an integral part of these consolidated financial statements.

1. COMPANY PROFILE AND NATURE OF OPERATIONS

Crossroads Systems, Inc. (OTC Pink: CRSS) (the "Company", "CRSS" or "Parent") was an intellectual property licensing company headquartered in Austin, Texas. Founded in 1996 as a product solutions company, Crossroads created some of the storage industry's most fundamental patents and licensed patents to more than 50 companies prior to filing for re-organization under Chapter 11 of the Federal Bankruptcy Code on August 13, 2017.

On December 18, 2017, the Parent closed on the acquisition of 100% of the common equity of Capital Plus Financial, LLC ("CPF"), a Texas based community development financial institution ("CDFI"). CPF's mission is to make homeownership available to the Hispanic market throughout Texas. CPF is also a certified B Corporation which is a group of for-profit companies certified to meet rigorous standards of social and environmental performance, accountability and transparency. CPF operates in Texas where it acquires, renovates, and sells single family homes providing seller financing through notes receivable.

Principals of Consolidation

The consolidated financial statements include the accounts of CRSS and CPF. Capital Mortgage Servicing, LLC ("CMS") is wholly owned by CPF. (collectively, "we", "us", or the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The operations are for the period from November 1, 2018 through October 31, 2019.

Cash and Cash Equivalents

The Company considers all currency on hand, money market accounts, and highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash includes escrow accounts related primarily to CMS's mortgage servicing obligations.

Notes Receivable

The Company originates predominantly 30 year notes receivable through sales of rehabilitated homes or purchases notes receivable that are secured by an assignment of a deed of trust. The Company intends to hold the notes for the long-term as it has the ability to fund the notes receivable through borrowings from lenders that are secured by the notes receivable and properties. Notes receivable are stated at their unpaid principal balances less an allowance for loan losses. The average contractual interest rate per note was approximately 10.55% as of October 31, 2019. Interest income is recognized monthly per the terms of the respective loan agreements. Notes receivable have maturities that range from 4 to 30 years. All of the Company's loans and underlying collateral are located in Texas.

The Company uses payment history to monitor the credit quality of the notes receivable on an ongoing basis. The Company assesses the carrying value of its notes receivable for impairment when it determines that impairment indicators are present. Notes are evaluated for impairment when it is probable the Company will be unable to collect all amounts due for scheduled principal and interest payments, including notes in the process of repossession. Impaired notes are generally measured based on the fair value of the collateral. Impaired notes, or portions thereof, are charged off when deemed uncollectible. A specific reserve is created for impaired notes based on the fair value of the underlying collateral. No specific impairment was deemed necessary as of October 31, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Notes Receivable, Continued

The Company may also receive escrow payments for property taxes and insurance included in its note receivable collections. The liabilities associated with these escrow collections totaled $2,646,581 as of October 31, 2019 and are included in escrow liabilities on the consolidated balance sheet.

The Company purchased $2,677,288 in notes receivable from third-parties at face value near the time they were originated during the year ended October 31, 2019. The Company did not sell any notes during the year ended October 31, 2019.

Allowance for Loan Losses on Notes Receivable

The allowance for loan losses reflects management's estimate of probable and inherent losses in the notes receivable balances that may be uncollectible based upon review and evaluation of the loan portfolio as of the consolidated balance sheet date. An allowance for loan losses is determined after giving consideration to, among other things, the loan characteristics, including the financial condition of borrowers, the value and liquidity of collateral, delinquency and historical loss experience.

In addition, the Company considers such factors as changes in the nature and volume of the portfolio, overall portfolio quality, and current economic conditions. The Company applies multiple strategies to mitigate the risks associated with delinquent loans, including foreclosures and subsequent rehabilitation and resales. As a result, the Company historically has not experienced any significant losses and has determined that an allowance for probable and inherent loan losses was not required as of October 31, 2019.

The Company's policy is to place a note receivable on nonaccrual status when either principal or interest is past due and remains unpaid for 90 days or more. Accrued interest receivable is reversed for notes placed on nonaccrual status. Payments received on nonaccrual notes receivable are accounted for on a cash basis, first to interest and then to principal, as long as the remaining book balance of the asset is deemed to be recoverable. The accrual of interest resumes when the past due principal becomes current. The unpaid principal balance of notes receivable on nonaccrual status was $1,111,229 at October 31, 2019.

The Company assesses the collectability of notes receivable on a note by note basis to determine if formal foreclosure proceedings are necessary. The total principal balance of notes receivable for which the Company has begun formal foreclosure proceedings totaled $310,641 as of October 31, 2019.

Other Notes Receivable

From time to time, the Company will provide higher value financing for residential or commercial real estate. As of October 31, 2019, the Company had an outstanding balance of $4.96 million in such financing on three residential properties and $1.85 million for two commercial properties. The average rate on the financings for residential and commercial properties as of October 31, 2019 was 10.2% and 7.75%, respectively. The residential properties require monthly principal and interest payments based on 30-year amortization schedules maturing between 2047 and 2049. The commercial properties require at least monthly interest payments and have maturity dates ranging from November 2020 through February 2022.

Due to their individually significant balances, the Company continually monitors other notes receivable for potential losses and the need for an allowance for loan losses. As of October 31, 2019, all other notes receivable were current and in good standing, and based on the borrowers' history and values of the associated properties, the Company determined no allowance for loan losses was required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Inventory

Inventory consists of properties that are currently undergoing remodeling or are being held for sale. Inventory is stated at the lower of its cost or net realizable value using the specific identification method. Repair costs, commissions, closing costs, interest and other costs associated with individual properties are included in the cost of the property and are expensed as part of the cost of sales when the property is sold.

The Company regularly evaluates inventories that are slow-moving or incurring costs in excess of budgeted costs. The Company determined a reserve for slow-moving inventory was not necessary as of October 31, 2019.

Goodwill

Goodwill resulted from the acquisition of CPF on December 18, 2017. Goodwill is accounted for in accordance with Accounting Standards Codification ("ASC") 350, *Intangibles – Goodwill*. Management evaluates goodwill for impairment annually or when circumstances indicate the estimated fair value exceeds the reporting unit's carrying value indicating potential impairment of goodwill. The Company determined that goodwill was not impaired at October 31, 2019.

Revenue Recognition

Interest income on notes receivable and other notes receivable is recognized on the accrual basis when earned using the effective interest method. Revenue from residential home sales is recognized when title passes to the purchaser and collectability is reasonably assured. Revenue is recognized based on the contracted sales price.

Fair Value Measurement

The Company accounts for its derivative instruments in accordance with ASC 820-10, *Fair Value Measurement,* which among other things provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I measurement) and the lowest priority to unobservable inputs (level III measurements). The three levels of fair value hierarchy under ASC 820-10 are as follows:

Level I — Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives.

Level II — Significant observable inputs other than quoted prices in active markets for which inputs to the valuation methodology include: (1) Quoted prices for similar assets or liabilities in active markets; (2) Quoted prices for identical or similar assets or liabilities in inactive markets; (3) Inputs other than quoted prices that are observable for the asset or liability; (4) Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level III — Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, notes receivable, other notes receivable, credit facilities, other note payable and acquisition notes payable. The carrying amount of cash and cash equivalents approximates its fair value because it is short-term in nature. This is considered a Level I valuation technique. The credit facilities, other note payable and acquisition notes payable generally have short-term maturity dates or variable interest rates that reflect market rates and the Company has determined that their fair value approximates their carrying value. This is considered a Level II valuation technique. The Company assessed the fair value of notes receivable and other notes receivable and determined their fair value approximates their book value based on anticipated cash flows for principal and interest and relatively immaterial interest rate fluctuations, net of other factors.

Deferred Financing Fees

The Company incurred costs for deferred financing fees when obtaining the acquisition note payable to Veritex Community Bank detailed in Note 6. The debt issuance costs are presented as a deduction against the corresponding debt on the consolidated balance sheet. The deferred financing fees are amortized over the respective debt agreement with amortization expense included in other interest expense in the accompanying consolidated statement of operations. Amortization expense was $45,800 for the year ended October 31, 2019. Net deferred financing fees were $177,749 as of October 31, 2019.

Stock-Based Compensation

The Company recognizes compensation expense related to stock options and restricted stock on a straight-line basis over the requisite service period based on the estimated fair value of the awards on the date of grant. Compensation cost associated with stock options granted is determined using a calculated option value. The calculated value of each stock option grant was derived using the Black Scholes option-pricing model based on significant inputs including the Company's common stock price on the grant date, risk-free interest rate, expected option life, and expected volatility. The Company used the contractual life as the expected option life since no historical data exists. The Company used historical common stock data to estimate expected volatility for valuation of the stock options.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates that could change in the near term and have a significant impact on the consolidated financial statements include the deferred tax assets and allowance for loan losses.

Income Taxes

The Company accounts for income taxes using the liability method of accounting. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not such assets will not be realized. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes, Continued

The Company recognizes the financial statement benefit of a tax position that does not meet the more-likely-than-not threshold only after expiration of the statute of limitations of the relevant tax authority sustains our position following an audit. For tax positions meeting the more likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon the ultimate settlement with the relevant tax authority. We recognize interest and penalties related to uncertain tax positions in income tax expense. There were no identified tax benefits or liabilities that were considered uncertain positions at October 31, 2019.

Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk are cash, cash equivalents, and notes receivable. The notes receivable are secured by the residential homes that were financed through the loan. The Company maintains deposits with major financial institutions, which from time-to-time, may exceed the federally insured limits at each institution. The Company had cash and restricted cash in financial institutions that exceeded federally insured limits of approximately $3.4 million. Management believes any potential credit risk is minimal.

Risks and Uncertainties

The Company's business is affected, directly and indirectly, by domestic and international economic and political conditions and by governmental monetary and fiscal policies. Conditions such as inflation, recession, real estate values, volatile interest rates, governmental monetary policy and other factors beyond the Company's control may adversely affect the Company's results of operations. Adverse economic conditions could result in an increase in notes receivable delinquencies, foreclosures and non-performing assets and a decrease in the value of property or other collateral which secures the Company's loans.

The Company relies on various forms of revolving and long-term borrowings to finance its working capital requirements and has historically demonstrated the ability to obtain additional financing or refinance maturing obligations as needed to support the Company’s ongoing financing needs. As disclosed in Note 6 of these consolidated financial statements, the Company had approximately $73.8 million in current debt obligations maturing within one year prior to refinancing the Oakwood Bank debt on January 21, 2020, which extended the maturity date to January 25, 2025 and reduced the current debt obligations on the consolidated balance sheet as of October 31, 2019 to approximately $66.2 million.

3. NOTES RECEIVABLE

The principal balance outstanding on the notes receivable and the expected principal collections for the next five years and thereafter are as follows for the years ending October 31:

2020	$ 1,447,842
2021	1,416,905
2022	1,560,569
2023	1,718,041
2024	1,849,025
Thereafter	108,890,491
	$ 116,882,873

3. NOTES RECEIVABLE, CONTINUED

A detailed aging of notes receivable that are past due as of October 31, 2019 are as follows:

		%
Total notes receivable	$ 116,882,873	100.0
Past due notes receivable:		
31-60 days past due	$ 3,414,668	2.9
61-90 days past due	384,014	0.3
91-120 days past due	274,135	0.2
Greater than 120 days past due	837,094	0.7
Total past due notes receivable	$ 4,909,911	4.1

4. OTHER NOTES RECEIVABLE

The principal balance outstanding on the other notes receivable and the expected principal collections for the next five years and thereafter are as follows for the years ending October 31:

2020	$ 339,429
2021	780,912
2022	828,626
2023	41,391
2024	45,776
Thereafter	4,766,344
	$ 6,802,478

All other notes receivable were current and in good standing as of October 31, 2019.

5. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at October 31, 2019:

Interest payable	$ 346,434
Professional fees	110,000
Salaries and wages	97,622
Other accrued liabilities	55,490
	$ 609,546

6. DEBT

Credit Facilities

The Company uses various types of credit facilities to finance notes receivable and inventories. The loans are secured by notes receivable or inventories. Loans with Happy State bank and Oakwood bank were guaranteed by certain owners of the Company prior to the expiration of the guarantees in December 2019 and January 2020, respectively.

In connection with the credit facilities, the Company has agreed to comply with certain financial and non-financial covenants provided for in the agreements. Management was not aware of any covenant violations for the year ended October 31, 2019.

6. DEBT, CONTINUED

Credit Facilities, Continued

On January 21, 2020, the Oakwood Bank debt was refinanced, extending the maturity date to January 25, 2025 and increasing available funds to $10 million. The refinancing is reflected in the following schedules.

The Company had the following credit facilities as of October 31, 2019:

Lender	Interest Rate	Maturity Date	Balance
Texas Citizens Bank 9950	5.00%	9/20/2035 (a)	$ 3,599,134
First National Bank of Ballinger	4.25%	6/2/2020	9,957,777
First National Bank of Ballinger	5.75% (b)	2/20/2022	1,495,635
Bank SNB Term	4.35%	9/30/2020	16,805,736
Happy State Bank Interim Construction	5.75% - 6.00% (b)	FY 2020	884,325
Happy State Bank Interim Lot	6.00% (b)	4/15/2020	531,818
Happy State Bank Interim 2	6.50% (b)	5/17/2021 (c)	9,261,694
Happy State Bank Term	6.25%	9/18/2041	16,580,543
Happy State Bank Term 4	5.50%	10/1/2043	2,161,683
Oakwood Bank	5.25%	1/25/2025	5,081,208
Green Bank	5.76% (b)	4/25/2020 (a)	24,301,888
Legacy Bank Texas	5.28% (b)	6/11/2021	21,114,335
			111,775,776
Less current portion of credit facilities			(66,167,346)
Credit facilities, net of current maturities			$ 45,608,430

(a) These facilities are due on demand and presented as current.
(b) These facilities require only monthly interest payments through maturity.
(c) This facility allows for incramental borrowings, each due within a 12 month period.

Future minimum principal payments for the credit facilities are as follows for the years ending October 31:

2020	$ 66,167,346
2021	21,969,118
2022	2,356,070
2023	866,391
2024	872,668
Thereafter	19,544,183
	$ 111,775,776

Acquisition Notes Payable

To fund consideration in the December 18, 2017 acquisition of CPF, the Company entered into a $22,000,000 note payable with Veritex Community Bank (the “Veritex Note”) and a $2,200,000 note payable to CrossFirst Bank (the “CrossFirst Note”).

6. DEBT, CONTINUED

Acquisition Notes Payable, Continued

Veritex Note

The Veritex Note bears interest at the annual LIBOR rate plus an applicable margin of 4.50%, which was 6.35% at October 31, 2019. The Veritex Note requires monthly principal payment of $207,931, plus interest, through maturity on December 18, 2024, the date at which all unpaid principal and interest is due. The Veritex Note is collateralized by certain operating assets of the Company not already collateralized by the credit facilities. The balance on the Veritex Note, net of amortizing deferred financing fees of $177,749, was $12,891,703 at October 31, 2019.

CrossFirst Note

The CrossFirst Note was created to fund $2,200,000 of the purchase price in the acquisition of CPF to money market accounts in the seller's names at CrossFirst Bank to serve as collateral over the duration of the note. The CrossFirst Note requires a monthly interest payment at the CrossFirst Bank money market account rate plus an applicable margin of 1.00%, which was 2.49% at October 31, 2019. The CrossFirst Note was set to mature on December 14, 2019 but was amended effective December 14, 2019, subsequent to the consolidated balance sheet date, extending the CrossFirst Note maturity to December 14, 2021, when all unpaid principal and interest will be due. The balance on the CrossFirst Note was $2,199,377 at October 31, 2019.

Future minimum principal payments for the acquisition notes payable are as follows for the years ending October 31:

2020	$ 2,495,168
2021	2,495,168
2022	4,694,545
2023	2,495,168
2024	2,495,168
Thereafter	415,863
	$ 15,091,080

Other Note Payable

The Company assumed a note payable in the December 2017 acquisition of CPF with an outstanding principal balance as of the date of the acquisition totaling $1,827,750 (the "Other Note"). The Other Note is subordinate to the other debt obligations, accrues interest at 6.50% per annum, calls for monthly payments of principal and interest of $22,710, and matures on December 31, 2026. The balance on the Other Note was $1,514,898 at October 31, 2019.

Future minimum principal payments for the Other Note is as follows for the years ending October 31:

2020	$ 179,327
2021	191,337
2022	204,151
2023	217,823
2024	232,411
Thereafter	489,849
	$ 1,514,898

7. DERIVATIVES

The Company uses derivatives to manage risks related to changing interest rates. The Company does not enter into derivative contracts for speculative purposes. The Company is obligated under a master interest rate swap agreement with Bank SNB to fix the variable interest rate portion of the Bank SNB term note, which is based on the daily prime rate, to a fixed rate of 4.07%. The maturity date of this agreement is September 30, 2020. The swap agreement was not designated as a cash flow hedge and therefore, gains or losses on the swap agreement, as well as the other offsetting gains or losses on the hedged items attributable to the hedged risk, are recognized in current operations.

ASC 815-10, *Derivatives and Hedging,* requires derivative instruments to be measured at fair value and recorded in the consolidated balance sheet as either assets or liabilities. The interest rate swap agreement is considered a Level II investment. The Company recognized a loss of $403,369 for the year ended October 31, 2019 which was included with interest expense in costs and expenses in the consolidated statement of operations. The fair value of the derivative instrument is included in other non-current assets and was $11,543 at October 31, 2019.

8. OPERATING LEASES

The Company is obligated, as lessee, under non-cancelable operating lease agreements for office space located in Bedford, Texas and Houston, Texas. The lease agreements require monthly payments of $12,600 through their expiration in December 2022.

Future minimum payments required under non-cancelable operating lease agreements are as follows for the years ending October 31:

2020	$	151,200
2021		151,200
2022		151,200
2023		25,200
	$	478,800

Rent expense associated with non-cancelable operating leases for the year ended October 31, 2019 was $151,200.

9. STOCKHOLDERS' EQUITY

The Company is authorized to issue up to 75 million shares of $0.001 par value common stock and 25 million shares of $0.001 par value preferred stock. As of October 31, 2019, 5,971,994 shares of common stock were issued and outstanding and no shares of preferred stock were issued and outstanding.

10. STOCK BASED COMPENSATION

The Company has granted incentive stock options ("ISOs") through the 2018 Stock Incentive Plan ("Stock Plan"). As of October 31, 2019, there were 797,760 shares authorized for issuance under the Stock Plan.

Stock option awards granted under the Stock Plan generally vest 100% three years from the grant date. Vested options do not expire while the recipient is an employee of the Company but are forfeited upon resignation or termination. Outstanding options were granted at an exercise price equal to the average of the Company's stock price over the 30 day period prior to the grant date. The exercise of stock options are fulfilled through the issuance of previously authorized but unissued common stock shares. During the year ended October 31, 2019, 5,000 stock options previously awarded to an employee at an exercise price of $7.47 were forfeited upon the employee's resignation. There were no outstanding stock options as of October 31, 2019.

11. NON-CONTROLLING INTERESTS – CPF PREFERRED EQUITY

CPF has 36 preferred units at $500,000 per unit outstanding as of October 31, 2019 with 5 new preferred units issued for $2.5 million during the year then ended.

The rights and privileges of preferred units are as follows:

- Duration and Voting: preferred units have no maturity date and have no voting rights.
- Dividends: Holders of preferred units are entitled to receive cumulative dividends at an annual rate of 3.50% through June 2022 and reset to the prime rate on a quarterly bases thereafter for the remainder of the investment.
- Conversion and Redemption: preferred units are not convertible into common units or any other equity of CPF or the Company and are redeemable at the Company's option after the fifth anniversary of the date of issuance.
- Liquidation preference: holders of preferred units are entitled to a liquidation preference equal to all dividends in arrears plus the initial capital contribution.

During the year ended October 31, 2019, CPF paid preferred dividends totaling $610,151 and had an accrued balance of $53,506 at October 31, 2019.

12. RELATED PARTY ACTIVITIES

The Company leases office space in Dallas, Texas on a month to month basis from Southwest Federated, Inc., a related party through common ownership. Monthly payments under the lease were $4,500 and total rental payments for the year ended October 31, 2019 were $54,000.

13. CONTINGENCIES

The Company is party to certain legal proceedings in the ordinary course of business. Common legal proceedings include, among other things, breach of contract and unlawful eviction. Although litigation is inherently uncertain, based on past experience and the information currently available, management does not believe that such claims will have a material adverse effect on the Company's financial position, liquidity, or results of operations.

14. INCOME TAXES

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. A reconciliation of the provision for income taxes is as follows for the year ended October 31, 2019:

Current	$ 6,026
Deferred	1,984,962
	$ 1,990,988

Income tax expense is computed by applying the Federal corporate tax rate of 21% for the year ended October 31, 2019 and is reconciled to the provision for income taxes as follows:

Federal income taxes	$ 786,121
Changes in valuation allowance - federal	1,707,339
State taxes, net of federal	(674,321)
Expiration of NOLs & credit carryovers	360,026
Other	(188,177)
	$ 1,990,988

14. INCOME TAXES, CONTINUED

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred taxes as of October 31, 2019 were as follows:

Deferred tax assets:		
Net operating loss carryforward	$	28,340,683
Research & experimentation credits		5,078,587
State credits		1,259,649
Other		346,184
Total deferred tax assets		35,025,103
Valuation allowance		(14,698,773)
Total net deferred tax assets	$	20,326,330
Deferred tax liabilities:		
Goodwill	$	(464,151)
State credits - federal		(179,250)
Other		(2,605)
Total deferred tax liabilities	$	(646,006)
Total net deferred tax assets	$	19,680,324

As of October 31, 2019, the Company had federal net operating loss carry-forwards (“NOL's”) and research and experimentation credits (“R&E Credits”) available to reduce future taxable income of approximately $135.0 million and $5.1 million, respectively. Such deferred tax assets expire as follows:

2020 - 2022	$	60,500,000
2023 - 2027		25,700,000
2028 - 2032		22,100,000
2033 - 2037		31,800,000
	$	140,100,000

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. While the Company projects annual taxable income to increase steadily into the future, future profitability depends heavily on the Company’s ability to borrow at rates averaging those incurred during the year ended October 31, 2019. Positive or negative changes in average borrowing rates greater than 0.50% could materially affect estimates of future taxable income and any related valuation allowances.

On the basis of this evaluation, as of October 31, 2019, a valuation allowance of $14.7 million has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized, which is due primarily to the significant amount of deferred tax assets expiring over the next three years. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased.

15. SUBSEQUENT EVENTS

In accordance with ASC 855, *Subsequent Events*, the Company evaluated all material events or transactions that occurred after October 31, 2019, the consolidated balance sheet date, and through January 28, 2020, the date the consolidated financial statements were issued, noting the following transaction for disclosure as a subsequent event.

On November 18, 2019, the Company announced it had reached a definitive agreement to acquire Rice Bancshares, Inc. ("RBI"), a registered bank holding company and owner of The First State Bank, a Texas Banking Association. The transaction is subject to regulatory approval.

RBI, through The First State Bank, operates four full service banking locations in low to moderate income tracts in Dallas, Texas. As of September 30, 2019, The First State Bank had a reported $150 million in assets and total equity capital of $20.1 million. The Company intends to merge the financial mortgage assets of CPF into The First State Bank so the Company's affordable housing platform is contained in a wholly owned community development corporation (“CDC”) subsidiary of the bank. The Company intends for The First State Bank to become a CDFI Bank and Minority Depository Institution once all required regulatory applications are filed.

SUPPLEMENTAL INFORMATION

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES

SUPPLEMENTAL SCHEDULE I: CONSOLIDATED BALANCE SHEET

OCTOBER 31, 2019

UNAUDITED

	Crossroads Systems, Inc.	Capital Plus Financial, LLC	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 34,030	$ 1,622,084	$ -	$ 1,656,114
Restricted cash	-	2,583,057	-	2,583,057
Interest receivable	-	893,343	-	893,343
Current portion of notes receivable	-	1,447,842	-	1,447,842
Current portion of other notes receivable	-	339,429	-	339,429
Intercompany receivables	-	18,579,160	(18,579,160)	-
Inventory	-	11,796,430	-	11,796,430
Prepaid expenses and other current assets	203,385	148,162	-	351,547
Total current assets	237,415	37,409,507	(18,579,160)	19,067,762
NOTES RECEIVABLE, net of current maturities and allowance of $0	-	115,435,031	-	115,435,031
OTHER NOTES RECEIVABLE, net of current maturities and allowance of $0	-	6,463,049	-	6,463,049
GOODWILL	18,566,966	-	-	18,566,966
DEFERRED TAX ASSET	19,680,324	-	-	19,680,324
INVESTMENT IN SUBSIDIARY	24,507,703	-	(24,507,703)	-
OTHER NON-CURRENT ASSETS	-	36,083	-	36,083
TOTAL ASSETS	$ 62,992,408	$ 159,343,670	$ (43,086,863)	$ 179,249,215
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accounts payable	$ 10,162	$ 279,068	$ -	$ 289,230
Accrued liabilities	199,457	410,089	-	609,546
Escrow liabilities	-	2,646,581	-	2,646,581
Intercompany payables	18,579,160	-	(18,579,160)	-
Current portion of credit facilities	-	66,167,346	-	66,167,346
Current portion of other note payable	-	179,327	-	179,327
Current portion of acquisition notes payable	2,495,168	-	-	2,495,168
Total current liabilities	21,283,947	69,682,411	(18,579,160)	72,387,198
CREDIT FACILITIES, net of current maturities	-	45,608,430	-	45,608,430
OTHER NOTE PAYABLE, net of current maturities	-	1,335,571	-	1,335,571
ACQUISITION NOTES PAYABLE, net of current maturities	12,418,163	-	-	12,418,163
OTHER LONG-TERM LIABILITIES	-	156,049	-	156,049
TOTAL LIABILITIES	33,702,110	116,782,461	(18,579,160)	131,905,411
EQUITY				
Common stock, $0.001 par value: 75,000,000 shares authorized, 5,971,994 shares issued and outstanding	5,972	-	-	5,972
Additional paid in capital	242,358,843	13,351,925	(13,351,925)	242,358,843
Accumulated earnings (deficit)	(213,074,517)	11,155,778	(11,155,778)	(213,074,517)
Crossroads Systems, Inc. stockholders' equity	29,290,298	24,507,703	(24,507,703)	29,290,298
Non-controlling interests	-	18,053,506	-	18,053,506
TOTAL EQUITY	29,290,298	42,561,209	(24,507,703)	47,343,804
TOTAL LIABILITIES AND EQUITY	$ 62,992,408	$ 159,343,670	$ (43,086,863)	$ 179,249,215

See report of independent registered public accounting firm regarding supplemental information.

CROSSROADS SYSTEMS, INC. AND SUBSIDIARIES

SUPPLEMENTAL SCHEDULE II: CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED OCTOBER 31, 2019

UNAUDITED

	Crossroads Systems, Inc.	Capital Plus Financial, LLC	Eliminations	Total
REVENUES				
Interest income	$ -	$ 11,986,113	$ -	$ 11,986,113
Property sales	-	25,330,557	-	25,330,557
Other revenue	-	387,265	-	387,265
Total revenues	-	37,703,935	-	37,703,935
COSTS AND EXPENSES				
Interest expense	-	6,343,947	-	6,343,947
Cost of properties sold	-	21,138,085	-	21,138,085
General and administrative	427,742	1,534,884	-	1,962,626
Salaries and wages	27,970	2,760,062	-	2,788,032
Total costs and expenses	455,712	31,776,978	-	32,232,690
Income (loss) from operations	(455,712)	5,926,957	-	5,471,245
OTHER EXPENSES				
Interest expense	(1,110,230)	-	-	(1,110,230)
Total other expenses	(1,110,230)	-	-	(1,110,230)
Income (loss) before income tax provision	(1,565,942)	5,926,957	-	4,361,015
INCOME TAX PROVISION	1,990,988	-	-	1,990,988
NET INCOME (LOSS)	(3,556,930)	5,926,957	-	2,370,027
Less: net income attributable to non-controlling interests	-	617,582	-	617,582
NET INCOME (LOSS) ATTRIBUTABLE TO CONTROLLING INTERESTS	$ (3,556,930)	$ 5,309,375	$ -	$ 1,752,445

See report of independent registered public accounting firm regarding supplemental information.