

**FRMO CORPORATION
AND SUBSIDIARIES**

White Plains, New York

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

Including Report of Independent
Registered Public Accounting Firm

As of February 28, 2021 (Unaudited) and
May 31, 2020 and for the Three Months and Nine Months
Ended February 28/29, 2021 and 2020 (Unaudited)

**FRMO CORPORATION
AND SUBSIDIARIES**

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Three Months and Nine Months Ended February 28/29, 2021 and 2020 (Unaudited)

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Review Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
FRMO Corporation and Subsidiaries

We have reviewed the accompanying interim condensed consolidated balance sheet of FRMO Corporation and Subsidiaries (the Company) as of February 28, 2021, the related condensed consolidated statements of income (loss) and comprehensive income (loss) for the three and nine months ended February 28/29, 2021 and 2020, the condensed consolidated statement of stockholders' equity for the nine months ended February 28, 2021, and the condensed consolidated statements of cash flows for the nine months ended February 28/29, 2021 and 2020. These interim condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the interim condensed consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements as of February 28, 2021 and for the three and nine months ended February 28/29, 2021 and 2020 referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of FRMO Corporation and Subsidiaries as of May 31, 2020 (not presented herein) and, in our report dated August 14, 2020, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of May 31, 2020 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Baker Tilly US, LLP

New York, New York
April 14, 2021

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**FRMO CORPORATION
AND SUBSIDIARIES**
CONDENSED CONSOLIDATED BALANCE SHEETS
As of February 28, 2021 and May 31, 2020

| <i>ASSETS</i> | February 28, 2021 (Unaudited) | May 31, 2020 |
|--|-------------------------------------|----------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 36,737,629 | \$ 38,443,507 |
| Accounts receivable (due from related parties) | 1,227,206 | 622,007 |
| Prepaid income taxes | - | 1,771,218 |
| Equity securities, at fair value (cost of \$69,018,365 and \$57,253,157 at February 28, 2021 and May 31, 2020, respectively) | 134,969,724 | 63,835,705 |
| Other current assets | 167,357 | 142,357 |
| Total Current Assets | 173,101,916 | 104,814,794 |
| Cryptocurrency mining assets, net of accumulated depreciation of \$355,004 and \$184,035 at February 28, 2021 and May 31, 2020, respectively | 1,443,386 | 1,384,627 |
| Investments in limited partnerships and other equity investments at fair value (cost of \$35,778,495 and \$32,086,514 at February 28, 2021 and May 31, 2020, respectively) | 83,684,691 | 40,897,820 |
| Investments in Securities Exchanges | 5,061,025 | 5,061,025 |
| Other investments | 325,100 | 422,721 |
| Investment in Horizon Kinetics LLC | 12,965,410 | 10,876,157 |
| Participation in Horizon Kinetics LLC Revenue Stream | 10,200,000 | 10,200,000 |
| Total Assets | \$286,781,528 | \$173,657,144 |
| <i>LIABILITIES AND STOCKHOLDERS' EQUITY</i> | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 385,022 | \$ 157,420 |
| Income taxes payable | 3,473,708 | - |
| Current portion of mortgage note payable | 28,597 | 27,774 |
| Securities sold, not yet purchased (proceeds of \$10,667,491 and \$5,394,275 at February 28, 2021 and May 31, 2020, respectively) | 6,231,315 | 4,135,886 |
| Total Current Liabilities | 10,118,642 | 4,321,080 |
| Deferred tax liability | 18,040,892 | 6,700,817 |
| Mortgage payable, net of current portion | 737,188 | 751,027 |
| Total Liabilities | 28,896,722 | 11,772,924 |
| Stockholders' Equity | | |
| Stockholders' Equity Attributable to the Company | 163,391,863 | 114,992,841 |
| Noncontrolling interests | 94,492,943 | 46,891,379 |
| Total Stockholders' Equity | 257,884,806 | 161,884,220 |
| Total Liabilities and Stockholders' Equity | \$286,781,528 | \$173,657,144 |

See report of independent registered public accounting firm and notes to interim condensed consolidated financial statements.

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|----------------|-------------------|----------------|
| | February 28/29, | | February 28/29, | |
| | 2021 | 2020 | 2021 | 2020 |
| | (Unaudited) | | (Unaudited) | |
| REVENUE | | | | |
| Fees and other income | \$ 1,409,390 | \$ 649,977 | \$ 2,369,150 | \$ 1,697,102 |
| Dividends and interest income, net | 1,144,715 | 247,864 | 1,313,542 | 845,918 |
| Net realized (losses) gains from investments | (200,903) | (242,477) | (2,074,138) | 821,948 |
| Equity earnings from partnerships and limited liability companies | 1,789,106 | 777,315 | 2,293,627 | 1,869,940 |
| Unrealized gains (losses) from investments subject to fair value valuation | 28,994,918 | (249,237) | 42,334,492 | (2,461,697) |
| Equity earnings from investment in The Bermuda Stock Exchange | - | - | - | 111,408 |
| Total revenue before unrealized gains (losses) from equity securities | 33,137,226 | 1,183,442 | 46,236,673 | 2,884,619 |
| Unrealized gains (losses) from equity securities | 56,344,204 | (2,906,782) | 62,022,019 | (6,348,517) |
| Total Revenue | 89,481,430 | (1,723,340) | 108,258,692 | (3,463,898) |
| OPERATING EXPENSES | | | | |
| General and administrative expenses | 269,199 | 273,559 | 880,699 | 938,620 |
| Depreciation | 58,482 | 40,673 | 170,970 | 75,746 |
| Total Expenses | 327,681 | 314,232 | 1,051,669 | 1,014,366 |
| Income (Loss) from Operations before Provision for Income Taxes | 89,153,749 | (2,037,572) | 107,207,023 | (4,478,264) |
| Provision for Income Taxes | 12,799,396 | 1,203,951 | 16,891,569 | 3,267,446 |
| Net Income (Loss) and Comprehensive Income (Loss) | 76,354,353 | (3,241,523) | 90,315,454 | (7,745,710) |
| Less net income (loss) and comprehensive income (loss) attributable to noncontrolling interests | 42,017,417 | 1,290,484 | 44,124,911 | (2,513,123) |
| Net Income (Loss) and Comprehensive Income (Loss) Attributable to the Company | \$ 34,336,936 | \$ (4,532,007) | \$ 46,190,543 | \$ (5,232,587) |
| NET INCOME (LOSS) PER COMMON SHARE | | | | |
| Basic and diluted | \$ 0.78 | \$ (0.10) | \$ 1.05 | \$ (0.12) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | | | |
| Basic | 44,032,781 | 44,032,781 | 44,022,744 | 44,015,741 |
| Diluted | 44,055,150 | 44,032,781 | 44,038,347 | 44,015,741 |

See report of independent registered public accounting firm and notes to interim condensed consolidated financial statements.

**FRMO CORPORATION
AND SUBSIDIARIES**
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Nine Months Ended February 28/29, 2021 and 2020 (Unaudited)

| | Redeemable Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings | Stockholders' Equity | | |
|---|----------------------------|--------|--------------|-----------|----------------------------|-------------------|-----------------------------|---------------------------|----------------------------|
| | Shares | Amount | Shares | Amount | | | Attributable to the Company | Non-Controlling Interests | Total Stockholders' Equity |
| | | | | | | | | | |
| BALANCE - June 1, 2019 | - | \$ - | 43,976,781 | \$ 43,976 | \$ 34,792,027 | \$ 91,548,254 | 126,384,257 | \$ 48,612,794 | \$ 174,997,051 |
| Equity Compensation | - | - | - | - | 23,040 | - | 23,040 | - | 23,040 |
| Exercise of Stock Options | - | - | 56,000 | 56 | 111,144 | - | 111,200 | - | 111,200 |
| Non-cash Compensation | - | - | - | - | 77,400 | - | 77,400 | - | 77,400 |
| Capital Accounts of Consolidated Limited Liability Company ("LLC") | - | - | - | - | 2,419,296 | - | 2,419,296 | - | 2,419,296 |
| Net loss | - | - | - | - | - | (5,232,587) | (5,232,587) | (2,513,123) | (7,745,710) |
| Capital contributed to consolidated LLC from noncontrolling interests | - | - | - | - | - | - | - | 5,549,179 | 5,549,179 |
| BALANCE - February 29, 2020 | - | \$ - | 44,032,781 | \$ 44,032 | \$ 37,422,907 | \$ 86,315,667 | \$ 123,782,606 | \$ 51,648,850 | \$ 175,431,456 |
| | | | | | | | | | |
| | Redeemable Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings | Stockholders' Equity | | |
| | Shares | Amount | Shares | Amount | | | Attributable to the Company | Non-Controlling Interests | Total Stockholders' Equity |
| | | | | | | | | | |
| BALANCE - June 1, 2020 | - | \$ - | 44,032,781 | \$ 44,032 | \$ 37,965,027 | \$ 76,983,782 | 114,992,841 | \$ 46,891,379 | \$ 161,884,220 |
| Equity Compensation | - | - | - | - | 21,440 | - | 21,440 | - | 21,440 |
| Common Stock Repurchase | - | - | (20,000) | (20) | (97,580) | - | (97,600) | - | (97,600) |
| Non-cash Compensation | - | - | - | - | 77,400 | - | 77,400 | - | 77,400 |
| Capital Accounts of Consolidated LLC | - | - | - | - | 2,207,239 | - | 2,207,239 | - | 2,207,239 |
| Net income | - | - | - | - | - | 46,190,543 | 46,190,543 | 44,124,911 | 90,315,454 |
| Capital contributed to consolidated LLC from noncontrolling interests | - | - | - | - | - | - | - | 3,476,653 | 3,476,653 |
| BALANCE - February 28, 2021 | - | \$ - | 44,012,781 | \$ 44,012 | \$ 40,173,526 | \$ 123,174,325 | \$ 163,391,863 | \$ 94,492,943 | \$ 257,884,806 |

See report of independent registered public accounting firm and notes to interim condensed consolidated financial statements.

**FRMO CORPORATION
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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended February 28/29, 2021 and 2020

| | February 28/29, | |
|--|----------------------|----------------------|
| | 2021 | 2020 |
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 90,315,454 | \$ (7,745,710) |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities | | |
| Non-cash compensation | 77,400 | 77,400 |
| Equity compensation | 21,440 | 23,040 |
| Net realized losses (gains) from investments | 2,074,138 | (821,948) |
| Equity earnings from partnerships and limited liability companies | (2,293,627) | (1,869,940) |
| Unrealized (gains) losses from investments subject to fair value valuation | (42,334,492) | 2,461,697 |
| Unrealized (gains) losses from equity securities | (62,022,019) | 6,348,517 |
| Equity earnings from investments in Securities Exchanges | - | (111,408) |
| Non-cash fee revenue | (536,508) | (225,383) |
| Depreciation | 170,970 | 75,746 |
| Deferred income tax (benefit) | 11,340,075 | (640,954) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (605,199) | (30,509) |
| Prepaid income taxes | 1,771,218 | 736,436 |
| Other current assets | (25,000) | - |
| Accounts payable and accrued expenses | 130,001 | 5,189 |
| Income taxes payable | 3,473,708 | 1,366,373 |
| Net Cash Flows from (used in) Operating Activities | <u>1,557,559</u> | <u>(351,454)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 479,928 | 707,067 |
| Purchases of investments | (8,305,973) | (5,347,994) |
| Proceeds from securities sold, not yet purchased | 5,496,433 | 4,990,039 |
| Purchases to cover securities previously sold | (7,789) | (1,426,247) |
| Other investments | (465,323) | (249,080) |
| Purchase of cryptocurrency mining assets | (229,729) | (611,328) |
| Net Cash Flows used in Investing Activities | <u>(3,032,453)</u> | <u>(1,937,543)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from exercise of stock options | - | 111,200 |
| Other financing activities | (230,984) | 213,289 |
| Net Cash Flows (used in) from Financing Activities | <u>(230,984)</u> | <u>324,489</u> |
| Net Change in Cash and Cash Equivalents | (1,705,878) | (1,964,508) |
| CASH AND CASH EQUIVALENTS, Beginning of Period | 38,443,507 | 53,080,680 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 36,737,629 | \$ 51,116,172 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the period for | | |
| Income taxes | \$ 306,485 | \$ 1,776,000 |
| Interest | \$ 140,987 | \$ 283,447 |
| NONCASH INVESTING ACTIVITIES | | |
| Cryptocurrency mining assets acquired through mortgage financing | \$ - | \$ 800,000 |
| Investment acquired through the contribution of other investments | \$ 5,837,522 | \$ 7,748,472 |
| Unpaid common stock repurchase | \$ 97,600 | \$ - |

See report of independent registered public accounting firm and notes to interim condensed consolidated financial statements.

FRMO CORPORATION AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of February 28, 2021 (Unaudited) and May 31, 2020 and for the
Three Months and Nine Months Ended February 28/29, 2021 and 2020 (Unaudited)

NOTE 1 - Nature of Business and Basis of Presentation

The interim condensed consolidated financial statements include the accounts of FRMO and its controlled subsidiaries (collectively referred to as the "Company"). As of February 28, 2021 and May 31, 2020, the Company held a 21.83% and 19.23% equity interest in Horizon Kinetics Hard Assets LLC ("HKHA"), a company formed by Horizon and certain officers, principal stockholders and directors of the Company. Due to the common control and ownership between HKHA and the Company's principal stockholders and directors, HKHA has been consolidated within the Company's financial statements. The noncontrolling interest of 78.17% and 80.77% in HKHA has been eliminated from results of operations for the periods ended February 28, 2021 and May 31, 2020. Total stockholders' equity includes, as a separate item, the amount attributable to the noncontrolling interests. The Company also holds a 4.95% interest in Horizon Kinetics LLC ("Horizon") and earns substantially all of its advisory fees from Horizon. The Company maintains its corporate office in White Plains, New York.

The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended May 31, 2020 and notes thereto. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's financial position and results of operations. The results of operations for the three months and nine months ended February 28, 2021 may not be indicative of the results that may be expected for the year ending May 31, 2021.

NOTE 2 - Summary of Significant Accounting Policies

Subsequent Events

The Company has evaluated all subsequent events from the date of the condensed consolidated balance sheets through April 14, 2021, which represents the date these interim condensed consolidated financial statements are available to be issued.

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures have had and will continue to have a material impact on global economic conditions as well as on the Company's business activities. The extent to which COVID-19 may impact the Company's revenue will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in the United States and other countries to contain and treat the disease. These events are highly uncertain and, as such, the Company cannot determine their financial impact at this time. No adjustments have been made to the amounts reported in these consolidated financial statements as a result of this matter.

**FRMO CORPORATION
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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of February 28, 2021 (Unaudited) and May 31, 2020 and for the
Three Months and Nine Months Ended February 28/29, 2021 and 2020 (Unaudited)

NOTE 3 - Adoption of New Accounting Pronouncements

The Company has determined that no recently issued accounting pronouncements will have a material impact on its interim condensed consolidated financial position, results of operations and cash flows, or do not apply to its operations.

NOTE 4 - Investments

Limited Partnerships and Limited Liability Companies and Equity Investments

The Company's investments in limited partnerships and limited liability companies and equity investments consist of the following as of February 28, 2021 and May 31, 2020:

| | As of February 28, 2021 (Unaudited) | | |
|---|-------------------------------------|---------------------|-------------------------|
| | Cost or (Proceeds) | Unrealized Gains | Estimated Fair Value |
| Equity Securities | \$ 69,018,365 | \$ 65,951,359 | \$134,969,724 |
| Investments in limited partnerships and other equity securities: | | | |
| Limited partnerships | | | |
| Investment in South LaSalle Partners, LP | \$ 5,718,057 | \$ 3,565,163 | \$ 9,283,220 |
| Investments in managed funds | | | |
| Horizon Multi-Strategy Fund, LP | \$ 13,938,636 | \$ 17,772,471 | \$ 31,711,107 |
| CDK Partners, LP | 1,345,851 | 4,231,380 | 5,577,231 |
| Polestar Fund, LP | 13,230,587 | 17,310,146 | 30,540,733 |
| Multi-Disciplinary Fund, LP | 538,941 | 215,485 | 754,426 |
| Kinetics Institutional Partners, LP | 7,059 | 17,889 | 24,948 |
| Shepherd I, LP | 12,218 | 16,996 | 29,214 |
| Total Investments in Managed Funds | 29,073,292 | 39,564,367 | 68,637,659 |
| Investment in Winland Holdings Corporation | 987,146 | 4,776,666 | 5,763,812 |
| Total investments in limited partnerships and other equity securities | \$ 35,778,495 | \$ 47,906,196 | \$ 83,684,691 |
| Securities sold, not yet purchased (liability) | \$(10,667,491) | \$ 4,436,176 | \$ (6,231,315) |

**FRMO CORPORATION
AND SUBSIDIARIES**

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of February 28, 2021 (Unaudited) and May 31, 2020 and for the
Three Months and Nine Months Ended February 28/29, 2021 and 2020 (Unaudited)

NOTE 4 - Investments (cont.)

| | As of May 31, 2020 | | |
|---|-----------------------|------------------------------|-------------------------|
| | Cost or (Proceeds) | Unrealized Gains (Losses) | Estimated Fair Value |
| Equity Securities | <u>\$ 57,253,157</u> | <u>\$ 6,582,548</u> | <u>\$ 63,835,705</u> |
| Investments in limited partnerships and other equity securities: | | | |
| Limited partnerships | | | |
| Investment in South LaSalle Partners, LP | <u>\$ 5,778,028</u> | <u>\$ 324,245</u> | <u>\$ 6,102,273</u> |
| Investments in managed funds | | | |
| Horizon Multi-Strategy Fund, LP | \$ 11,152,033 | \$ 2,863,025 | \$ 14,015,058 |
| CDK Partners, LP | 1,316,481 | 1,114,339 | 2,430,820 |
| Polestar Fund, LP | 12,811,294 | 4,568,797 | 17,380,091 |
| Multi-Disciplinary Fund, LP | 553,341 | 15,919 | 569,260 |
| Kinetics Institutional Partners, LP | 4,070 | 9,162 | 13,232 |
| Shepherd I, LP | <u>10,832</u> | <u>1,092</u> | <u>11,924</u> |
| Total Investments in Managed Funds | <u>25,848,051</u> | <u>8,572,334</u> | <u>34,420,385</u> |
| Investment in Winland Holdings Corporation | <u>460,435</u> | <u>(85,273)</u> | <u>375,162</u> |
| Total investments in limited partnerships and other equity securities | <u>\$ 32,086,514</u> | <u>\$ 8,811,306</u> | <u>\$ 40,897,820</u> |
| Securities sold, not yet purchased (liability) | <u>\$ (5,394,277)</u> | <u>\$ 1,258,391</u> | <u>\$ (4,135,886)</u> |

Investments in Unconsolidated Entities

Investment in Securities Exchanges

Investments in securities exchanges are carried at cost and consist of the following as of February 28, 2021 (unaudited) and May 31, 2020:

| | |
|------------------------------------|---------------------|
| Miami International Holdings, Inc. | \$ 4,322,905 |
| OneChicago, LLC | 246,000 |
| CNSX Markets, Inc. | 243,040 |
| American Financial Exchange, LLC | <u>249,080</u> |
| Total securities exchanges | <u>\$ 5,061,025</u> |

The Company holds a 1.41% interest in CNSX Markets, Inc. and less than a 1.00% interest in other stock exchanges.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 - Investments (cont.)

Other Investments

The following are the Company's other investments as of February 28, 2021 and May 31, 2020:

| | February 28, 2021 <u>(Unaudited)</u> | May 31, 2020 <u></u> |
|--------------------------------------|--|----------------------------|
| Cryptocurrency Mining Entities | | |
| HK Cryptocurrency Mining, LLC | \$ 31,664 | \$ 38,886 |
| Horatio Mining, LLC | - | 54,706 |
| HK Cryptocurrency Mining II, LLC | 129,524 | 128,919 |
| HM Tech, LLC | <u>87,851</u> | <u>123,949</u> |
| Total cryptocurrency mining entities | 249,039 | 346,460 |
| Digital Currency Group, Inc. | <u>76,261</u> | <u>76,261</u> |
| Total other investments | <u><u>\$ 325,300</u></u> | <u><u>\$ 422,721</u></u> |

Investments under the Equity Method of Accounting

The Company's investment in Horizon is accounted for under the equity method of accounting. This investment has been reviewed for impairment with none being noted.

Investment Concentration

The following are the approximate amounts of the Company's investments in equity securities held directly and indirectly, through its various investments in managed funds, amounting to greater than 10% of stockholders' equity attributable to the Company ("Equity"). None of the Company's other direct or indirect investments were greater than 10% of Equity as of February 28, 2021 and May 31, 2020.

| <u>Investment</u> | <u>As of February 28, 2021</u> | | <u>As of May 31, 2020</u> | |
|-------------------|--------------------------------|------------------------------|---------------------------|------------------------------|
| | <u>Amount</u> | <u>Percent of Equity</u> | <u>Amount</u> | <u>Percent of Equity</u> |
| | (unaudited) | | | |
| Investment A | \$ 61,635,000 | 37.7% | \$ 28,247,000 | 24.6% |
| Investment B | \$ 36,128,000 | 22.1% | -NA- | |

**FRMO CORPORATION
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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of February 28, 2021 (Unaudited) and May 31, 2020 and for the
Three Months and Nine Months Ended February 28/29, 2021 and 2020 (Unaudited)

NOTE 5 - Fair Value Measurements

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of February 28, 2021 and May 31, 2020, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair values.

| | As of February 28, 2021 (Unaudited) | | | | |
|---|---|---|----------------|---|--|
| | Fair Value Measurements at Reporting Date Using | | | | |
| | Investments Measured at Net Asset Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | Total | | | |
| Assets (at fair value): | | | | | |
| Money Market Mutual Funds included in Cash and Cash Equivalents | \$ 34,091,292 | \$ - | \$ 34,091,292 | \$ - | \$ - |
| Other Investments: | | | | | |
| Equity Securities | \$ 134,969,724 | \$ - | \$ 134,969,724 | \$ - | \$ - |
| Investment in Limited Partnerships and other Equity Investments | 83,684,691 | 77,920,879 | - | 5,763,812 | - |
| Total Other Investments | \$ 218,654,415 | \$ 77,920,879 | \$ 134,969,724 | \$ 5,763,812 | \$ - |
| Liabilities (at fair value): | | | | | |
| Common Stocks | \$ 6,231,315 | \$ - | \$ 6,231,315 | \$ - | \$ - |

**FRMO CORPORATION
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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of February 28, 2021 (Unaudited) and May 31, 2020 and for the
Three Months and Nine Months Ended February 28/29, 2021 and 2020 (Unaudited)

NOTE 5 - Fair Value Measurements (cont.)

| | As of May 31, 2020 | | | |
|---|---|--|---|--|
| | Fair Value Measurements at Reporting Date Using | | | |
| | Quoted Prices | | | |
| | Investments Measured at Net Asset Total | in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets (at fair value): | | | | |
| Money Market Mutual Funds included in Cash and Cash Equivalents | \$ 35,694,672 | \$ - | \$ 35,694,672 | \$ - |
| Other Investments: | | | | |
| Equity Securities | \$ 63,835,705 | \$ - | \$ 63,835,705 | \$ - |
| Investment in Limited Partnerships and other Equity Investments | 40,897,820 | 40,522,658 | - | 375,162 |
| Total Other Investments | \$ 104,733,525 | \$ 40,522,658 | \$ 63,835,705 | \$ 375,162 |
| Liabilities (at fair value): | | | | |
| Common Stocks | \$ 4,135,886 | \$ - | \$ 4,135,886 | \$ - |

NOTE 6 - Income Taxes

The Company files a consolidated federal income tax return and a combined state/city tax return with its wholly-owned subsidiary, Fromex Equities Corp. HKHA, included in consolidated net income (loss) before taxes is a pass-through entity subject to K-1 reporting and is not included in the Company's consolidated income tax return. Pass-through income allocated to the Company is based on the Company's ownership percentage as of February 28/29, 2021 and 2020, which was 21.83% and 18.86% respectively. Income tax attributable to the remaining noncontrolling interest of 78.17% and 81.14% represents a permanent difference related to "consolidation of noncontrolling interests" in the reconciliation table below of federal statutory rate to effective tax rate.

The Company records adjustments related to prior years' taxes during the period when they are identified, generally when the tax returns are filed. The effect of these adjustments on the current and prior periods (during which the differences originated) is evaluated based upon quantitative and qualitative factors and are considered in relation to the interim condensed consolidated financial statements taken as a whole for the respective periods. These adjustments resulted in an increase of \$464,863 to the provision for income taxes during the three months and nine months ended February 28, 2021, and an increase of \$1,340,359 to the provision for income taxes during the three months and nine months ended February 29, 2020. These adjustments are listed as "True-up of prior year tax" in the reconciliation table below of federal statutory rate to effective tax rate, and are primarily related to pass through items from investment partnerships and allocations of state and city income subject to taxation. These adjustments to prior year income taxes represent 1.98% and 7.35% of income before taxes for the years ended May 31, 2020 and 2019.

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NOTE 6 - Income Taxes (cont.)

The provision for income taxes is comprised of the following:

| | Three Months Ended | | Nine Months Ended | |
|---|----------------------|---------------------|----------------------|---------------------|
| | February 28/29, | | February 28/29, | |
| | 2021 | 2020 | 2021 | 2020 |
| | (Unaudited) | | (Unaudited) | |
| Current | | | | |
| Federal | \$ 2,272,977 | \$ 1,206,525 | \$ 3,076,152 | \$ 1,952,664 |
| State and City | 1,744,547 | 1,261,178 | 2,475,342 | 1,955,736 |
| Total Current | <u>4,017,524</u> | <u>2,467,703</u> | <u>5,551,494</u> | <u>3,908,400</u> |
| Deferred | | | | |
| Federal | 8,801,314 | (1,263,752) | 12,009,380 | (1,267,433) |
| State and City | (19,442) | - | (669,305) | 626,479 |
| Total Deferred | <u>8,781,872</u> | <u>(1,263,752)</u> | <u>11,340,075</u> | <u>(640,954)</u> |
| Total Provision for Income Taxes | <u>\$ 12,799,396</u> | <u>\$ 1,203,951</u> | <u>\$ 16,891,569</u> | <u>\$ 3,267,446</u> |

Deferred tax assets and liabilities are determined using the enacted tax rates applicable to the period the temporary differences are expected to be recovered. Accordingly, the current period income tax provision is affected by the enactment of 2020 tax rates. The net deferred income taxes on the balance sheets reflect temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and income tax purposes, tax effected at a various rates depending on whether the temporary differences are subject to federal taxes, state and city taxes, or both.

The tax effects of temporary differences which give rise to the deferred tax liability consist of the following as of February 28, 2021 and May 31, 2020:

| | February 28, 2021 | May 31, 2020 |
|--|----------------------|---------------------|
| | (Unaudited) | |
| Deferred Tax (Asset) Liability | | |
| Investments in limited partnerships | \$ 4,437 | \$ 1,324,677 |
| Investment in unconsolidated limited liability companies | 132,660 | 132,660 |
| Deferral of gain from like-kind exchange | 3,381,578 | 3,390,962 |
| Unrealized gain from investments | <u>14,522,217</u> | <u>1,852,518</u> |
| Total Net Deferred Tax Liability | <u>\$ 18,040,892</u> | <u>\$ 6,700,817</u> |

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NOTE 6 - Income Taxes (cont.)

A reconciliation of the federal statutory rate to the effective tax rate is as follows for the three months and nine months ended February 28/29, 2021 and 2020:

| | Three Months Ended February 28/29, | | | | Nine Months Ended February 28/29, | | | |
|---|---------------------------------------|---------------|---------------------|----------------|--------------------------------------|---------------|---------------------|----------------|
| | 2021 | | 2020 | | 2021 | | 2020 | |
| | (Unaudited) | | (Unaudited) | | (Unaudited) | | (Unaudited) | |
| Income (loss) before taxes | \$ 89,153,749 | 100.00% | \$ (2,037,572) | 100.00% | \$ 107,207,023 | 100.00% | \$ (4,478,264) | 100.00% |
| Computed expected tax expense | \$ 18,722,287 | 21.00% | \$ (427,890) | 21.00% | \$ 22,513,475 | 21.00% | \$ (940,435) | 21.00% |
| State and City taxes, net of federal benefit | 1,015,543 | 1.14% | 410,415 | -20.14% | 1,592,871 | 1.49% | 935,874 | -20.90% |
| (Decrease) increase in allocation of income to State and City | (7,414) | -0.01% | - | 0.00% | (7,414) | -0.01% | 505,320 | -11.28% |
| True-up of prior year tax | 464,863 | 0.52% | 1,340,359 | -65.78% | 464,863 | 0.43% | 1,340,359 | -29.93% |
| Permanent differences | 1,265,816 | 1.42% | 248,374 | -12.19% | 1,015,999 | 0.95% | 809,110 | -18.07% |
| Other | 22 | 0.00% | (35,976) | 1.77% | 82 | 0.00% | (33,208) | 0.74% |
| Income taxes before consolidation of noncontrolling interests | 21,461,117 | 24.07% | 1,535,282 | -75.34% | 25,579,876 | 23.86% | 2,617,020 | -58.44% |
| Permanent differences related to consolidation of non controlling interests | (8,661,721) | -9.72% | (331,331) | 16.26% | (8,688,307) | -8.10% | 650,426 | -14.52% |
| Total provision for income taxes | <u>\$ 12,799,396</u> | <u>14.35%</u> | <u>\$ 1,203,951</u> | <u>-59.08%</u> | <u>\$ 16,891,569</u> | <u>15.76%</u> | <u>\$ 3,267,446</u> | <u>-72.96%</u> |

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NOTE 7 – Mortgage Payable

On November 8, 2019, the Company acquired a building to be used in certain business operations for \$1,050,000 located in North Carolina. The building was purchased subject to an \$800,000 mortgage with a 3.9% interest rate with a maturity date of November 6, 2024. The mortgage is also collateralized by an assignment of all rents received from the building. The building is rented to a related party, subject to a lease that calls for \$11,450 per month in rent through November 2024.

The following table presents contractual payments of the Company's obligation under this mortgage as of February 28, 2021:

| <u>For the Year Ending May 31,</u> | <u>Total</u> |
|------------------------------------|-----------------------|
| | (Unaudited) |
| Remainder of fiscal year | \$ 7,045 |
| 2022 | 28,876 |
| 2023 | 30,023 |
| 2024 | 31,215 |
| 2025 | <u>668,626</u> |
| Total | <u><u>765,785</u></u> |

NOTE 8 - Net Income Per Common Share and Per Common Share Equivalent

Basic and diluted earnings per common share is calculated by dividing net income allocated to common stock by the weighted average common shares outstanding during the period. The weighted average number of shares of common stock used in the calculation of diluted earnings per share is adjusted for the dilutive effects of potential common shares including the assumed exercise of vested stock options based on the treasury stock method. Assumed exercise or conversion of potential common shares is only when the weighted average market price for the period exceeds the exercise price and the conversion price, and that the entity records earnings from continuing operations, as the inclusion of such adjustments would otherwise be anti-dilutive to earnings per share from continuing operations.

Potential common shares consist of unexercised stock options of 56,000 the nine months ended February 28/29, 2021 and 2020.

As of February 28/29, 2021 and 2020 there were 56,000 and 32,000 vested options, respectively, with an exercise price below the weighted average market price of the Company's common stock during the period.

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NOTE 8 - Net Income Per Common Share and Per Common Share Equivalent (cont.)

The reconciliation of the weighted average number of common shares used in the calculation of basic and diluted earnings per common share follows for the three months and nine months ended February 28/29:

| | Three Months Ended February 28, | | Nine Months Ended February 29, | |
|---|------------------------------------|-------------------|-----------------------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | (Unaudited) | | (Unaudited) | |
| Weighted Average Common Shares | | | | |
| Outstanding | 44,032,781 | 44,032,781 | 44,022,744 | 44,015,741 |
| Effect of Dilutive Securities, common share equivalents: | | | | |
| Exercise of stock options | 22,369 | - | 15,603 | - |
| Dilutive Potential Common Share Equivalents | <u>44,055,150</u> | <u>44,032,781</u> | <u>44,038,347</u> | <u>44,015,741</u> |

NOTE 9 - Stockholders' Equity

Redeemable Preferred Stock

The number of authorized Series R preferred shares is 5,000 with a par value of \$.001 per share. These shares are each convertible to 1,000 shares of the Company's common stock at the option of either the Company or the holder. There were no shares of preferred stock outstanding as of February 28, 2021 and May 31, 2020.

Common Stock

On October 14, 2020, the Company repurchased 20,000 shares of its common stock from Steven Bregman, the Company's director, President and Chief Financial Officer. These shares were repurchased pursuant to a Repurchase Agreement authorizing the Company to repurchase up to 360,000 shares of its common stock. The purchase price was \$4.88 per share and as of February 28, 2021 the purchase has not yet been paid.

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NOTE 9 - Stockholders' Equity (cont.)

Stock Options

A summary of option activity as of February 28, 2021, and changes during the nine months then ended, is as follows:

| <i>Stock Options</i> (Unaudited) | Number of Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|---------------------|--|---|---------------------------------|
| Outstanding at June 1, 2020 | 56,000 | \$ 6.95 | 3.36 | \$ - |
| Granted | 8,000 | \$ 6.04 | 6.61 | \$ 67,680 |
| Exercised | - | \$ - | - | \$ - |
| Forfeited | <u>(8,000)</u> | <u>\$ 6.67</u> | <u>-</u> | <u>\$ -</u> |
| Outstanding at February 28, 2021 | <u>56,000</u> | <u>\$ 6.86</u> | <u>3.61</u> | <u>\$ 428,000</u> |
| Vested and Exercisable at February 28, 2021 | <u>56,000</u> | <u>\$ 6.86</u> | <u>3.61</u> | <u>\$ 428,000</u> |

All stock options were vested as of February 28, 2021 and May 31, 2020.

The aggregate intrinsic value of options outstanding and options exercisable at February 28, 2021 and May 31, 2020 is calculated as the difference between the exercise price of the underlying options and the market price of FRMO's common stock for the shares that had exercise prices that were lower than the \$14.50 and \$4.80 closing price of FRMO's common stock on February 28, 2021 and May 31, 2020, respectively.

As of February 28, 2021, there was no unrecognized compensation cost related to unvested options.