

**FRMO CORPORATION
AND SUBSIDIARIES**

White Plains, New York

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

Including Report of Independent
Registered Public Accounting Firm

As of November 30, 2019 (Unaudited) and
May 31, 2019 and for the Three Months and Six Months
Ended November 30, 2019 and 2018 (Unaudited)

**FRMO CORPORATION
AND SUBSIDIARIES**

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Three Months and Six Months Ended November 30, 2019 and 2018 (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 condensed consolidated balance sheet of FRMO Corporation and Subsidiaries (the "Company") as of November 30, 2019, the related condensed consolidated statements of income (loss) and comprehensive income (loss) for the three and six months ended November 30, 2019 and 2018, the condensed consolidated statement of stockholders' equity for the six months ended November 30, 2019, and the condensed consolidated statements of cash flows for the six months ended November 30, 2019 and 2018. 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 November 30, 2019 and for the three and six months ended November 30, 2019 and 2018 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, 2019 (not presented herein) and, in our report dated August 13, 2019, 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, 2019 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Baker Tilly Virchow Krause, LLP

New York, New York
January 14, 2020

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**FRMO CORPORATION
AND SUBSIDIARIES**
CONDENSED CONSOLIDATED BALANCE SHEETS
As of November 30, 2019 and May 31, 2019

<i>ASSETS</i>	November 30, 2019 (Unaudited)	May 31, 2019
Current Assets		
Cash and cash equivalents	\$ 53,573,387	\$ 53,080,680
Accounts receivable (due from related parties)	754,012	760,619
Prepaid income taxes	631,260	736,436
Equity securities, at fair value (cost of \$51,163,955 and \$43,731,538 at November 30, 2019 and May 31, 2019, respectively)	63,833,979	63,564,512
Other assets	142,357	142,357
Total Current Assets	<u>118,934,995</u>	<u>118,284,604</u>
Cryptocurrency mining assets, net of accumulated depreciation of \$97,409 and \$62,335 at November 30, 2019 and May 31, 2019, respectively	1,281,871	94,998
Investment in limited partnerships and other equity investments at fair value (cost of \$27,026,047 and \$26,208,639 at November 30, 2019 and May 31, 2019, respectively)	45,947,760	47,513,033
Investments in Securities Exchanges	5,061,025	3,641,522
Other investments	448,120	452,458
Investment in Horizon Kinetics LLC	11,838,890	11,487,950
Participation in Horizon Kinetics LLC Revenue Stream	10,200,000	10,200,000
Total Assets	<u>\$ 193,712,661</u>	<u>\$ 191,674,565</u>
<i>LIABILITIES AND STOCKHOLDERS' EQUITY</i>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 285,722	\$ 161,157
Current portion of mortgage payable	27,238	-
Securities sold, not yet purchased (proceeds of \$14,942,185 and \$11,581,064 at November 30, 2019 and May 31, 2019, respectively)	7,773,151	8,133,244
Total Current Liabilities	<u>8,086,111</u>	<u>8,294,401</u>
Deferred tax liability	9,005,911	8,383,113
Mortgage payable, net of current portion	772,762	-
Total Liabilities	<u>17,864,784</u>	<u>16,677,514</u>
Stockholders' Equity		
Stockholders' Equity Attributable to the Company	127,689,662	126,384,257
Noncontrolling interests	48,158,215	48,612,794
Total Stockholders' Equity	<u>175,847,877</u>	<u>174,997,051</u>
Total Liabilities and Stockholders' Equity	<u>\$ 193,712,661</u>	<u>\$ 191,674,565</u>

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

**FRMO CORPORATION
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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Six Months Ended	
	November 30,		November 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
REVENUE				
Fees	\$ 515,305	\$ 500,034	\$ 1,047,125	\$ 1,042,216
Dividends and interest income, net	269,331	298,587	598,054	584,628
Net realized gains (losses) from investments	1,041,809	(372,966)	1,064,425	(405,817)
Equity (loss) earnings from partnerships and limited liability companies	(223,425)	949,677	1,092,625	1,662,750
Unrealized (losses) gains from investments subject to fair value valuation	(831,640)	1,696,656	(2,212,460)	5,214,353
Equity earnings from investment in The Bermuda Stock Exchange	71,117	54,322	111,408	117,113
Total revenue before unrealized gains (losses) from equity securities	842,497	3,126,310	1,701,177	8,215,243
Unrealized gains (losses) from equity securities	1,404,983	7,545,953	(3,441,735)	17,328,892
Total Revenue	<u>2,247,480</u>	<u>10,672,263</u>	<u>(1,740,558)</u>	<u>25,544,135</u>
OPERATING EXPENSES				
General and administrative expenses	330,268	395,713	665,061	685,627
Depreciation	20,304	10,529	35,073	18,978
Total Expenses	<u>350,572</u>	<u>406,242</u>	<u>700,134</u>	<u>704,605</u>
Income (Loss) from Operations before Provision for Income Taxes	1,896,908	10,266,021	(2,440,692)	24,839,530
Provision for Income Taxes	830,486	330,107	2,063,495	1,619,476
Net Income (Loss)	1,066,422	9,935,914	(4,504,187)	23,220,054
Less net income (loss) attributable to noncontrolling interests	1,548,140	9,351,917	(3,803,607)	19,424,934
Net (Loss) Income Attributable to the Company	<u>\$ (481,718)</u>	<u>\$ 583,997</u>	<u>\$ (700,580)</u>	<u>\$ 3,795,120</u>
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX				
Net Income (Loss)	\$ 1,066,422	\$ 9,935,914	\$ (4,504,187)	\$ 23,220,054
Change in other comprehensive income (loss)	-	-	-	-
Comprehensive Income (Loss)	1,066,422	9,935,914	(4,504,187)	23,220,054
Less comprehensive income (loss) attributable to noncontrolling interests	1,548,140	9,351,917	(3,803,607)	19,424,934
Comprehensive (loss) income attributable to the Company	<u>\$ (481,718)</u>	<u>\$ 583,997</u>	<u>\$ (700,580)</u>	<u>\$ 3,795,120</u>
NET (LOSS) INCOME PER COMMON SHARE				
Basic and diluted	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ (0.02)</u>	<u>\$ 0.09</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	<u>44,031,462</u>	<u>43,973,781</u>	<u>44,007,267</u>	<u>43,973,781</u>
Diluted	<u>44,031,462</u>	<u>44,021,101</u>	<u>44,007,267</u>	<u>44,022,432</u>

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

**FRMO CORPORATION
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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Six Months Ended November 30, 2019 (Unaudited)

	Redeemable Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Stockholders' Equity Attributable to the Company	Non-Controlling Interests	Total Stockholders' Equity
	Shares	Amount	Shares	Amount						
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	-	-	-	-	51,600	-	-	51,600	-	51,600
Capital Accounts of Consolidated Limited Liability Company	-	-	-	-	1,820,145	-	-	1,820,145	-	1,820,145
Net loss	-	-	-	-	-	-	(700,580)	(700,580)	(3,803,607)	(4,504,187)
Noncontrolling contributions	-	-	-	-	-	-	-	-	3,349,028	3,349,028
BALANCE - November 30, 2019	-	\$ -	<u>44,032,781</u>	<u>\$ 44,032</u>	<u>\$ 36,797,956</u>	<u>\$ -</u>	<u>\$ 90,847,674</u>	<u>\$ 127,689,662</u>	<u>\$ 48,158,215</u>	<u>\$ 175,847,877</u>

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

**FRMO CORPORATION
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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended November 30, 2019 and 2018

	November 30,	
	2019	2018
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (4,504,187)	\$ 23,220,054
Adjustments to reconcile net (loss) income to net cash flows from operating activities		
Non-cash compensation	51,600	51,600
Equity compensation	23,040	31,120
Net realized (gain) loss from investments	(1,064,425)	405,817
Equity earnings from partnerships and limited liability companies	(1,092,625)	(1,662,750)
Unrealized losses (gains) from investments subject to fair value valuation	2,212,460	(5,214,353)
Unrealized losses (gains) from equity securities	3,441,735	(17,328,892)
Equity earnings from investments in Securities Exchanges	(111,408)	(117,113)
Non-cash fee revenue	(128,175)	(25,712)
Depreciation	35,073	18,978
Deferred income tax expense	622,798	856,325
Changes in operating assets and liabilities:		
Accounts receivable	6,607	(29,177)
Prepaid income taxes	105,176	168,493
Other current assets	-	51,001
Accounts payable and accrued expenses	124,565	(26,319)
Income taxes payable	-	46,396
Net Cash Flows (used in) provided by Operating Activities	<u>(277,766)</u>	<u>445,468</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	411,890	743,418
Purchases of investments	(2,456,430)	(4,184,169)
Proceeds from securities sold, not yet purchased	3,842,785	5,415,146
Purchases to cover securities previously sold	(497,946)	(4,638,014)
Other investments	(249,080)	(125,000)
Purchase of cryptocurrency mining assets	(421,946)	(45,107)
Net Cash Flows provided by (used in) Investing Activities	<u>629,273</u>	<u>(2,833,726)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of other consolidated subsidiary equity	30,000	155,000
Proceeds from exercise of stock options	111,200	-
Net Cash Flows from Financing Activities	<u>141,200</u>	<u>155,000</u>
Net Change in Cash and Cash Equivalents	492,707	(2,233,258)
CASH AND CASH EQUIVALENTS, Beginning of Period	53,080,680	53,617,453
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 53,573,387</u>	<u>\$ 51,384,195</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for		
Income taxes	<u>\$ 1,306,000</u>	<u>\$ 502,744</u>
Interest - margin	<u>\$ 192,736</u>	<u>\$ 204,713</u>
NONCASH INVESTING ACTIVITIES		
Cryptocurrency mining assets acquired through mortgage financing	<u>\$ 800,000</u>	<u>\$ -</u>
Investment acquired through the contribution of other investments	<u>\$ 5,139,170</u>	<u>\$ 5,064,932</u>

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

FRMO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of November 30, 2019 (Unaudited) and May 31, 2019 and for the
Three Months and Six Months Ended November 30, 2019 and 2018 (Unaudited)

NOTE 1 - Nature of Business and Basis of Presentation

The condensed consolidated financial statements include the accounts of FRMO and its controlled subsidiaries (collectively referred to as the "Company"). The Company holds a 4.95% interest in Horizon Kinetic LLC ("Horizon") and earns substantially all of its advisory fees from Horizon. As of November 30, 2019 and May 31, 2019, the Company held a 18.64% and 15.49% 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 81.36% and 84.51% in HKHA has been eliminated from results of operations for the periods ended November 30, 2019 and May 31, 2019. Total stockholders' equity includes as a separate item the amount attributable to the noncontrolling interests. The Company maintains its corporate office in White Plains, New York.

The accompanying unaudited condensed 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, 2019 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 six months ended November 30, 2019 may not be indicative of the results that may be expected for the year ending May 31, 2020.

NOTE 2 - Summary of Significant Accounting Policies

Investment Valuation

As of November 30, 2019 and May 31, 2019, investments in limited partnerships and limited liability companies are valued using data inputs from September 30, 2019 and March 31, 2019, respectively, the dates of the most current available information. Management reviews relevant market and related data to reconcile for the period from October 1 through November 30. Subsequent market volatility was not significant and has not been reflected in these condensed consolidated financial statements as of November 30, 2019.

Cryptocurrency Mining Assets

Cryptocurrency mining assets consists of building and computer equipment utilized in the Company's cryptocurrency mining operations and are reported at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The Company estimates the useful life for computer equipment is three years, and building is 39 years.

The Company reviews its real estate asset to evaluate the necessity of recording impairment losses for market changes due to declines in the estimated fair value of the property. In evaluating potential impairment, management considers the current estimated fair value compared to the carrying value of the asset. At November 30, 2019, due the recent acquisition, the fair value of the real estate asset is estimated to be equal to or in excess of the carrying value.

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As of November 30, 2019 (Unaudited) and May 31, 2019 and for the
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NOTE 2 - Summary of Significant Accounting Policies (cont.)

Subsequent Events

The Company has evaluated all subsequent events from the date of the condensed consolidated balance sheets through January 14, 2020, which represents the date these condensed consolidated financial statements are available to be issued.

NOTE 3 - Adoption of New Accounting Pronouncements

The Company has determined that no recently issued accounting pronouncements will have a material impact on its 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 November 30, 2019 and May 31, 2019:

	As of November 30, 2019 (Unaudited)		
	Cost or (Proceeds)	Unrealized Gains	Fair Value
Equity Securities	\$ 51,163,955	\$ 12,670,024	\$ 63,833,979
Investments in limited partnerships and other equity securities:			
Limited partnerships			
Investment in South LaSalle Partners, LP	\$ 5,746,875	\$ 1,334,929	\$ 7,081,804
Investments in managed funds			
Horizon Multi-Strategy Fund, LP	\$ 6,958,610	\$ 9,358,983	\$ 16,317,593
CDK Partners, LP	1,426,165	1,343,119	2,769,284
Polestar Fund, LP	11,811,874	6,661,818	18,473,692
Multi-Disciplinary Fund, LP	601,741	15,069	616,810
Kinetics Institutional Partners, LP	9,792	5,749	15,541
Shepherd I, LP	10,555	3,105	13,660
Total Investments in Managed Funds	20,818,737	17,387,843	38,206,580
Investment in Winland Holdings Corporation	460,435	198,941	659,376
Total investments in limited partnerships and other equity securities	\$ 27,026,047	\$ 18,921,713	\$ 45,947,760
Securities sold, not yet purchased (liability)	\$(14,942,185)	\$ 7,169,034	\$ (7,773,151)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of November 30, 2019 (Unaudited) and May 31, 2019 and for the
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NOTE 4 - Investments (cont.)

	As of May 31, 2019		
	Cost or (Proceeds)	Unrealized Gains	Fair Value
Equity Securities	\$ 43,731,538	\$ 19,832,974	\$ 63,564,512
Investments in limited partnerships and other equity securities:			
Limited partnerships			
Investment in South LaSalle Partners, LP	\$ 5,753,268	\$ 1,673,937	\$ 7,427,205
Investments in managed funds			
Horizon Multi-Strategy Fund, LP	\$ 6,464,011	\$ 10,148,441	\$ 16,612,452
CDK Partners, LP	1,435,786	1,446,042	2,881,828
Polestar Fund, LP	11,478,409	7,793,533	19,271,942
Multi-Disciplinary Fund, LP	596,586	10,645	607,231
Kinetics Institutional Partners, LP	9,879	6,246	16,125
Shepherd I, LP	10,265	3,871	14,136
Total Investments in Managed Funds	19,994,936	19,408,778	39,403,714
Investment in Winland Holdings Corporation	460,435	221,679	682,114
Total investments in limited partnerships and other equity securities	\$ 26,208,639	\$ 21,304,394	\$ 47,513,033
Securities sold, not yet purchased (liability)	\$(11,581,064)	\$ 3,447,820	\$ (8,133,244)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of November 30, 2019 (Unaudited) and May 31, 2019 and for the
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NOTE 4 - Investments (cont.)

Investments in Unconsolidated Entities

Investment in Securities Exchanges

Investments in securities exchanges consist of the following as of November 30, 2019 and May 31, 2019:

	November 30, 2019 <u>(Unaudited)</u>	May 31, 2019 <u></u>
Miami International Holdings, Inc.	\$ 4,322,905	\$ 250,000
The Bermuda Stock Exchange	-	2,902,482
OneChicago, LLC	246,000	246,000
CNSX Markets, Inc.	243,040	243,040
American Financial Exchange, LLC	249,080	-
Total securities exchanges	<u>\$ 5,061,025</u>	<u>\$ 3,641,522</u>

On September 23, 2019, the Bermuda Monetary Authority authorized the transfer of the Company's shares in The Bermuda Stock Exchange to Miami International Holdings, Inc. ("MIH") in exchange for 603,393 shares of common stock of MIH. The transaction was completed on October 23, 2019, resulting in a realized gain of \$1,059,015. The Company's ownership interest in MIH is approximately 1.00%.

Though October 23, 2019, the Company held a 40.08% interest in the Bermuda Stock Exchange, and currently holds a 1.41% interest in CNSX Markets, Inc. and less than a 1.00% interest in other stock exchanges.

Other Investments

The following are the Company's other investments as of November 30, 2019 and May 31, 2019:

	November 30, 2019 <u>(Unaudited)</u>	May 31, 2019 <u></u>
Cryptocurrency Mining Entities		
HK Cryptocurrency Mining, LLC	\$ 49,849	\$ 56,467
Horatio Mining, LLC	54,732	48,621
HK Cryptocurrency Mining II, LLC	128,170	126,109
HM Tech, LLC	139,108	145,000
Total cryptocurrency mining entities	<u>371,859</u>	<u>376,197</u>
Digital Currency Group, Inc.	76,261	76,261
Total other investments	<u>\$ 448,120</u>	<u>\$ 452,458</u>

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NOTE 4 - Investments (cont.)

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. The Company's prior investment in the Bermuda Stock Exchange was accounted for under the equity method of accounting.

Investment Concentration

As of November 30, 2019 and May 31, 2019, the Company had one investment in an equity security held directly and indirectly, through its various investments in managed funds, amounting to approximately \$26,345,000 and \$26,562,000, respectively, which represents 20.6% and 21.0%, respectively, of stockholders' equity attributable to the Company ("Equity"). None of the Company's other direct or indirect investments were greater than 10% of Equity.

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 November 30, 2019 and May 31, 2019, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair values.

	As of November 30, 2019 (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	\$ 50,179,702	\$ -	\$ 50,179,702	\$ -
Other Investments:				
Equity Securities	\$ 63,833,979	\$ -	\$ 63,833,979	\$ -
Investment in Limited Partnerships and other Equity Investments	45,947,760	45,288,384	-	659,376
Total Other Investments	\$ 109,781,739	\$ 45,288,384	\$ 63,833,979	\$ 659,376
Liabilities (at fair value):				
Common Stocks	\$ 7,773,151	\$ -	\$ 7,773,151	\$ -

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NOTE 5 - Fair Value Measurements (cont.)

	As of May 31, 2019							
	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	\$ 48,481,777	\$ -	\$ 48,481,777	\$ -				
Other Investments:								
Equity Securities	\$ 63,564,512	\$ -	\$ 63,564,512	\$ -				
Investment in Limited Partnerships and other Equity Investments	47,513,033	46,830,919	-	682,114				
Total Other Investments	\$ 111,077,545	\$ 46,830,919	\$ 63,564,512	\$ 682,114				
Liabilities (at fair value):								
Common Stocks	\$ 8,133,244	\$ -	\$ 8,133,244	\$ -				

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 November 30, 2019 and 2018, which was 18.64% and 13.91% respectively. Income tax attributable to the remaining noncontrolling interest of 81.36% and 86.09% 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 condensed consolidated financial statements taken as a whole for the respective periods. These adjustments have not been significant to the Company's financial statements.

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NOTE 6 - Income Taxes (cont.)

The provision for income taxes is comprised of the following for the three months and six months ended November 30:

	Three Months Ended		Six Months Ended	
	November 30,		November 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Current				
Federal	\$ (599,515)	\$ 140,688	\$ 746,139	\$ 539,838
State and City	240,316	56,649	694,558	223,313
Total Current	<u>(359,199)</u>	<u>197,337</u>	<u>1,440,697</u>	<u>763,151</u>
Deferred				
Federal	582,217	127,642	(3,681)	889,078
State and City	607,468	5,128	626,479	(32,753)
Total Deferred	<u>1,189,685</u>	<u>132,770</u>	<u>622,798</u>	<u>856,325</u>
Total Provision for Income Taxes	<u>\$ 830,486</u>	<u>\$ 330,107</u>	<u>\$ 2,063,495</u>	<u>\$ 1,619,476</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 new 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 November 30, 2019 and May 31, 2019:

	November 30, 2019	May 31, 2019
	(Unaudited)	
Deferred Tax Liability		
Investments in limited partnerships	\$ -	\$ 622,616
Investment in unconsolidated limited liability companies	132,660	230,672
Deferral of gain from like-kind exchange	3,419,460	2,779,555
Unrealized gain from investments	<u>5,453,791</u>	<u>4,750,270</u>
Total Deferred Tax Liability	<u>\$ 9,005,911</u>	<u>\$ 8,383,113</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 six months ended November 30, 2019 and 2018:

	Three Months Ended				Six Months Ended			
	November 30,		November 30,		November 30,		November 30,	
	2019	2018	2019	2018	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Income (loss) before taxes	\$ 1,896,908	100.00%	\$ 10,266,021	100.00%	\$ (2,440,692)	100.00%	\$ 24,839,530	100.00%
Computed expected tax expense	\$ 398,351	21.00%	\$ 2,155,864	21.00%	\$ (512,545)	21.00%	\$ 5,216,301	21.00%
State and City taxes, net of federal benefit	166,609	8.78%	44,752	0.44%	525,459	-21.53%	176,417	0.71%
Increase in allocation of income to State and City	505,320	26.64%	-	0.00%	505,320	-20.70%	-	0.00%
Permanent differences								
Permanent differences related to consolidation								
of noncontrolling interests	(377,869)	-19.92%	(2,297,945)	-22.38%	981,757	-40.22%	(4,738,339)	-19.08%
Other permanent differences	140,075	7.38%	423,330	4.12%	560,736	-22.97%	990,713	3.99%
Other	(2,000)	-0.11%	4,106	0.04%	2,768	-0.11%	(25,616)	-0.10%
Total Provision for Income Taxes	\$ 830,486	43.77%	\$ 330,107	3.22%	\$ 2,063,495	-84.53%	\$ 1,619,476	6.52%

NOTE 7 - 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 and 107,000 for the six months ended November 30, 2019 and 2018.

As of November 30, 2019 and 2018 there were 32,000 and 83,000 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 7 - 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 six months ended November 30:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Weighted Average Common Shares				
Outstanding	44,031,462	43,973,781	44,007,267	43,973,781
Effect of Dilutive Securities, common share equivalents:				
Exercise of stock options	-	47,320	-	48,651
Dilutive Potential Common Share Equivalents	44,031,462	44,021,101	44,007,267	44,022,432

NOTE 8 – Mortgage Payable

On November 8, 2019, the Company acquired a building to be used in its cryptocurrency mining operations for \$1,050,000 located in Graham, North Carolina. The building was purchased subject to an \$800,000 mortgage and first deed of trust to Home Trust Bank. The interest rate is fixed at 3.9%, with monthly payments of \$4,830, which includes principal and interest through October 6, 2024 and a balloon payment of \$659,731 on the 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 HM Tech, LLC, subject to a lease that calls for \$11,450 per month in rent through November 2024. The Company owns a minority interest in HM Tech, LLC.

The following table presents contractual payments of the Company’s obligation under this mortgage as of November 30, 2019:

For the Year Ending May 31,	Total
	(Unaudited)
Remainder of fiscal year	\$ 28,977
2021	57,955
2022	57,955
2023	57,955
2024	57,955
Thereafter	681,532
Total	942,329

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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 November 30, 2019 and May 31, 2019.

Stock Options

A summary of option activity as of November 30, 2019, and changes during the six months then ended, is as follows:

<i>Stock Options (Unaudited)</i>	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at June 1, 2019	104,000	\$ 4.34	2.06	\$ 329,040
Granted	8,000	\$ 6.10	6.87	\$ 9,440
Exercised	(56,000)	\$ 1.99	-	\$ 290,200
Forfeited	-	\$ -	-	-
Outstanding at November 30, 2019	<u>56,000</u>	<u>\$ 6.95</u>	<u>3.86</u>	<u>\$ 44,400</u>
Vested and Exercisable at November 30, 2019	<u>56,000</u>	<u>\$ 6.95</u>	<u>3.86</u>	<u>\$ 44,400</u>

All stock options granted during the six months ended November 30, 2019 were vested as of grant date. All stock options were vested as of November 30, 2019 and May 31, 2019.

The aggregate intrinsic value of options outstanding and options exercisable at November 30, 2019 and May 31, 2019 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 \$7.28 and \$7.25 closing price of FRMO's common stock on November 30, 2019 and May 31, 2019, respectively.

As of November 30, 2019, there was no unrecognized compensation cost related to unvested options.