

Brazil Minerals, Inc.
Form 10-Q
August 14, 2017

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission File Number 000-55191

Brazil Minerals, Inc.

(Exact name of registrant as specified in its charter)

Nevada 39-2078861
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

Rua Vereador João Alves Praes, nº 95-A
Olhos D'Água, MG 39398-000, Brazil
(Address of principal executive offices)

(213) 590-2500

(Registrant's telephone number)

1443 East Washington Boulevard, Suite 278, Pasadena, California 91104
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or, an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company", in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 11, 2017 the registrant had 77,988,838 shares of common stock, par value \$0.001 per share, issued and outstanding.

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Item 1. FINANCIAL STATEMENTS

BRAZIL MINERALS, INC.
CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2017 AND DECEMBER 31, 2016

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$7,862	\$7,139
Taxes recoverable	27,845	28,264
Prepaid expenses	11,498	7,258
Inventory	77,745	78,911
Deposits and advances	4,290	-
Total current assets	129,240	121,572
Capital assets:		
Property and equipment, net	382,930	421,927
Other assets:		
Intangible assets, net	620,767	630,089
Total assets	\$1,132,937	\$1,173,588
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$375,456	\$333,415
Convertible notes payable, net of debt discounts totaling \$212,680 and \$137,113, respectively	468,299	349,030
Loans payable	52,000	-
Related party payable	430,788	310,259
Total current liabilities	1,326,543	992,704
Long term liabilities:		
Other noncurrent liabilities	191,464	191,391
Total liabilities	1,518,007	1,184,095
Stockholders' deficit:		
Series A preferred stock, \$0.001 par value. 10,000,000 shares authorized; 1 share issued and outstanding	1	1
Common stock, \$0.001 par value. 100,000,000 and 30,000,000 shares authorized, respectively; 71,673,437 and 64,752,286 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	71,673	64,752
Additional paid-in capital	44,949,279	44,690,704

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Accumulated other comprehensive loss	(495,129)	(489,516)
Stock purchase warrants	218,656	218,656
Accumulated deficit	(46,451,332)	(45,823,698)
Total Brazil Minerals, Inc. stockholders' deficit	(1,706,852)	(1,339,101)
Non-controlling interest	1,321,782	1,328,594
Total stockholders' deficit	(385,070)	(10,507)
Total liabilities and stockholders' deficit	\$1,132,937	\$1,173,588

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

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BRAZIL MINERALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(Unaudited)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenue	\$9,058	\$1,513	\$12,454	\$4,069
Cost of revenue	43,682	24,123	76,877	64,832
Gross margin	(34,624)	(22,610)	(64,423)	(60,763)
Operating expenses:				
Professional fees	67,466	57,190	77,259	96,122
General and administrative	93,659	95,111	154,160	194,686
Compensation and related costs	60,710	51,956	144,349	95,805
Stock based compensation	-	35,068	-	57,568
Total operating expenses	221,835	239,325	375,768	444,181
Loss from operations	(256,459)	(261,935)	(440,191)	(504,944)
Other expense (income):				
(Gain) loss on derivative liabilities	-	(76,416)	-	(158,410)
Interest on promissory notes	26,691	97,887	51,030	116,468
Amortization of debt discounts and other fees	86,035	-	152,346	117,742
Other expense (income)	45	(1)	45	(1)
Total other expense (income)	112,771	21,470	203,421	75,799
Loss before provision for income taxes	(369,230)	(283,405)	(643,612)	(580,743)
Provision for income taxes	-	-	-	-
Net loss	(369,230)	(283,405)	(643,612)	(580,743)
Loss attributable to non-controlling interest	(10,901)	(7,255)	(15,978)	(13,985)
Net loss attributable to Brazil Minerals, Inc. stockholders	\$(358,329)	\$(276,150)	\$(627,634)	\$(566,758)
Basic and diluted loss per share				
Net loss per share attributable to Brazil Minerals, Inc. common stockholders	\$(0.01)	\$(0.02)	\$(0.01)	\$(0.03)
Weighted-average number of common shares outstanding:				
Basic and diluted	45,795,240	15,489,547	57,396,866	17,259,861
Comprehensive loss:				
Net loss	\$(369,230)	\$(283,405)	\$(643,612)	\$(580,743)
Foreign currency translation adjustment	(43,249)	80,651	(5,613)	155,700
Comprehensive loss	(412,479)	(202,754)	(649,225)	(425,043)
Comprehensive loss attributable to noncontrolling interests	(10,901)	15,235	(15,978)	17,184
Comprehensive loss attributable to Brazil Minerals, Inc. stockholders	\$(401,578)	\$(217,989)	\$(633,247)	\$(442,227)

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

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BRAZIL MINERALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(UNAUDITED)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities of continuing operations:		
Net loss	\$(643,612)	\$(580,743)
Adjustments to reconcile net loss to cash used in operating activities:		
Stock based compensation and services	-	57,568
Unrealized (gain) loss from change in derivative liabilities	-	(158,410)
Amortization of debt discounts	144,945	133,088
Amortization of deferred financing costs	7,402	-
Excess fair market value of common stock issued in satisfaction of related party liabilities	-	38,784
Depreciation and amortization	40,518	17,688
Changes in operating assets and liabilities:		
Accounts receivable	-	2,673
Prepaid expenses	(11,498)	-
Inventory	-	(12,832)
Deposits and advances	(4,414)	(1,226)
Accounts payable and accrued expenses	47,159	134,269
Accrued salary due to officer	87,500	21,917
Other noncurrent liabilities	2,998	-
Net cash provided by (used in) operating activities	(329,002)	(347,224)
Cash flows from investing activities:		
Acquisition of capital assets	(6,615)	-
Net cash provided by (used in) investing activities	(6,615)	-
Cash flows from financing activities:		
Loan from officer	31,857	35,623
Net proceeds from sale of common stock	24,963	243,200
Proceeds from sale of subsidiary common stock to noncontrolling interests	9,166	-
Proceeds from convertible notes payable	214,460	30,000
Proceeds from loans payable	77,000	-
Repayment of loans payable	(25,000)	-
Net cash provided by (used in) financing activities	332,446	308,823
Effect of exchange rates on cash and cash equivalents	4,765	(16,985)
Net increase (decrease) in cash and cash equivalents	1,594	(55,386)
Cash and cash equivalents at beginning of period	6,268	64,364

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Cash and cash equivalents at end of period	\$7,862	\$8,978
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$-	\$-
Cash paid for income taxes	\$-	\$-
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition of capital assets with taxes receivable	\$-	\$50,100
Shares issued in connection with conversion of debt and accrued interest	\$33,683	\$154,391
Shares issued in connection with relief of related party payable	\$-	\$4,040
Value of stock options and beneficial conversion features recorded with notes payable	\$-	\$167,700
Deferred financing costs accrued in relation to the issuance of debt	\$10,675	\$-
Discount for beneficial conversion features on convertible notes	\$209,980	\$57,507
Dividends payable to Series B preferred shareholders	\$-	\$54,900

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

BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business

Brazil Minerals, Inc. ("BMIX" or the "Company") was incorporated as Flux Technologies, Corp. under the laws of the State of Nevada, U.S. on December 15, 2011. The Company, through subsidiaries, mines and sells diamonds, gold, sand and mortar. The Company, through subsidiaries, outright or jointly owns 10 mining concessions and 28 other mineral rights in Brazil, for diamonds, gold, sand, and manganese. The Company, through subsidiaries, owns one large, fixed plant and one modular, mobile plant for diamond and gold processing and recovery, a sand processing and mortar plant, trucks and earth-moving capital equipment used for mining.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 99.99% owned subsidiary, BMIX Participações Ltda. ("BMIXP"), which includes the accounts of BMIXP's wholly-owned subsidiary, Mineração Duas Barras Ltda. ("MDB").

During the year ended December 31, 2014, BMIXP acquired an initial 25% interest in RST Recursos Minerais Ltda. ("RST"), and during the first quarter of 2015, it acquired an additional 25% interest in RST, thus bringing its total ownership of RST to 50%. As of March 18, 2015, RST has been consolidated within the Company's financial statements.

On April 17, 2015, BMIXP incorporated Hercules Resources Corporation ("HRC"). On May 27, 2015, HRC formalized title to 99.99% of Hercules Brasil Comercio e Transportes Ltda. ("Hercules Brasil"). Thus, Hercules Brasil is a wholly owned subsidiary and has been consolidated within the Company's consolidated financial statements.

On July 27, 2016, upon approval by its Board of Directors, the Company entered into a stock purchase and sale agreement pursuant to which HRC transferred its 99.99% equity interest in Mineração Jupiter Ltda ("MJL") to the Company which immediately thereafter sold such equity interest to Jupiter Gold Corporation ("JGC"), a newly created company, in exchange for all of the common stock of JGC. On December 16, 2016, the Securities and Exchange Commission ("SEC") declared effective a Registration Statement filed by JGC for the sale of shares in a public offering in the U.S. As of March 31, 2017, the Company has ownership of approximately 58% of the equity of JGC. As such, the accounts and results of JGC and MJL have been included in the Company's consolidated financial statements. See Note 2 for more information.

All material intercompany accounts and transactions have been eliminated in consolidation.

Share Count

All share and per share amounts have been restated to give effect to a 1-for-500 reverse split of the Company's common stock which was filed in the state of Nevada on December 15, 2016 and became effective on January 27, 2017.

Going Concern

The consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company has limited working capital, has incurred losses in each of the past two years, and has not yet received material revenues from sales of products or services. These factors create substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

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BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The ability of the Company to continue as a going concern is dependent on the Company generating cash from its operations, from royalties, and/or from the sale of equity and/or debt securities. During the quarter ended June 30, 2017, the Company funded operations primarily through the sale of debt and equity securities and through the receipt of proceeds from revenues. Management's plan to fund its capital requirements and ongoing operations include an increase in cash received from sales of gold, diamonds, and sand. Management's secondary plan to cover any shortfall is the sale of equity securities, including common stock in the Company or common stock in JGC that it owns, and/or obtaining debt financing. There can be no assurance the Company will be successful in these efforts.

Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these consolidated financial statements have been included. Such adjustments consist of normal recurring adjustments. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016. The results of operations for the three and six months ended June 30, 2017 are not indicative of the results that may be expected for the full year.

Basis of Presentation

The consolidated financial statements of the Company have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP") of the United States of America and are presented in U.S. dollars.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Fair Value of Financial Instruments

The Company follows the guidance of Accounting Standards Codification ("ASC") Topic 820 – Fair Value Measurement and Disclosure. Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of our Company. Unobservable inputs are inputs that reflect our Company's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2017 and December 31, 2016, the Company does not have any level 2 or 3 assets or liabilities.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, taxes recoverable, prepaid expenses, inventory, deposits and other assets, accounts payable, accrued expenses, loan payable, as well as other noncurrent liabilities. The carrying amount of these financial instruments approximates fair value due to either length of maturity or interest rates that approximate prevailing market rates unless otherwise disclosed in these consolidated financial statements.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents to the extent that the funds are not being held for investment purposes. The Company's bank accounts are deposited in FDIC insured institutions. Funds held in U.S. banks are insured up to \$250,000 and funds held in Brazilian banks are insured up to \$250,000 Brazilian reais (translating into approximately \$75,600 as of June 30, 2017).

Inventory

Inventory for the Company consists of diamonds, gold, ore stockpile, parts, supplies and related production costs and is stated at lower of cost or market. The amount of any write-down of inventories to net realizable value and all losses, are recognized in the period the write-down of loss occurs. At June 30, 2017 and December 31, 2016, inventory consisted primarily of rough ore stockpiled for further gold and diamonds recovery. No value was placed on sand.

Value-Added Taxes Receivable

The Company records a receivable for value added taxes recoverable from Brazilian authorities on goods and services purchased by its Brazilian subsidiaries. The Company intends to recover the taxes through the acquisition of capital equipment from sellers who accept tax credits as payments. On April 20, 2016, the Company's taxes receivable decreased by \$50,496 with the recovery of such amount being used in the acquisition of a Mercedes Benz truck, through a state- government program. As of June 30, 2017, the Company has \$27,845 in taxes recoverable.

Property and Equipment

Property and equipment are stated at cost. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of operations as other gain or loss, net.

The diamond and gold processing plants, vehicles, and other machinery are depreciated over an estimated useful life of 10 years; and computer and other office equipment over an estimated useful life of 3 years. Property and equipment as of June 30, 2017 and December 31, 2016 was \$689,854 and \$693,135 respectively. Accumulated depreciation as of June 30, 2017 and December 31, 2016, was \$306,924 and \$271,208 respectively. Property and equipment, net of accumulated depreciation as of June 30, 2017 and December 31, 2016 was \$382,930 and \$421,927 respectively.

Mineral Properties

Costs of exploration, carrying and retaining unproven mineral lease properties are normally expensed as incurred. Mineral property acquisition costs, including licenses and lease payments, are normally capitalized. Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's rights. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Impairment losses are recorded on mineral properties used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. As of June 30, 2017 and December 31, 2016, the Company did not recognize any impairment losses related to mineral properties held.

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BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Intangible Assets

For intangible assets purchased in a business combination, the estimated fair values of the assets received are used to establish their recorded values. For intangible assets acquired in a non-monetary exchange, the estimated fair values of the assets transferred (or the estimated fair values of the assets received, if more clearly evident) are used to establish their recorded values, unless the values of neither the assets received nor the assets transferred are determinable within reasonable limits, in which case the assets received are measured based on the carrying values of the assets transferred. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value. Intangible assets consist of mineral rights awarded by the Brazilian national mining department ("DNPM") and held by MDB, RST, BMIXP, and MJL.

Impairment of Long-Lived Assets

For long-lived assets, such as property and equipment and intangible assets subject to amortization, the Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Revenue Recognition

The Company recognizes revenue when products are fully delivered or services have been provided and collection is reasonably assured. Typically, the Company records revenues upon delivery of the products to the customer. As of June 30, 2017 and December 31, 2016, the Company had deposits of \$0 and \$0, respectively, related to proceeds received for future diamond and gravel sales which have been recorded as customer deposits. See Note 4 and 6 for additional information related to these agreements.

Costs of Goods Sold

Included within costs of goods sold are the costs of cutting and polishing rough diamonds and costs of production such as diesel fuel, labor, machine rentals, and transportation.

Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC Topic 718, Compensation - Stock Compensation. ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. Under ASC 718, volatility is based on the historical volatility of our stock or the expected volatility of the stock of similar companies. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

We use the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of options. Option-pricing models require the input of highly complex and subjective variables including the expected life of options granted and the expected volatility of our stock price over a period equal to or greater than the expected life of the options. Because changes in the subjective assumptions can materially affect the estimated value of our employee stock options, it is management's opinion that the Black-Scholes option-pricing model may not provide an accurate measure of the fair value of our employee stock options. Although the fair value of employee stock options is determined in accordance with ASC Topic 718 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

The Company has adopted a stock plan to attract, retain and motivate its directors, officers, employees, consultants and advisors. The Company's stock plan approved in 2013 provides for the issuance of up to 30,000 common shares for employees, consultants, directors, and advisors.

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BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Foreign Currency

The Company's Brazilian subsidiaries use the Brazilian Real, the currency of Brazil, as the functional currency. Resulting translation gains or losses are recognized as a component of accumulated other comprehensive income. Transaction gains or losses related to balances denominated in a currency other than the functional currency are recognized in the consolidated statements of operations. Net foreign currency transaction losses included in the Company's consolidated statements of operations were negligible for all periods presented.

Income Taxes

We account for income taxes in accordance with ASC Topic 740, Income Taxes. ASC 740 requires a company to use the asset and liability method of accounting for income taxes, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. As of June 30, 2017 and December 31, 2016, the Company's deferred tax assets had a full valuation allowance.

Under ASC 740, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company has identified the United States Federal tax returns as its "major" tax jurisdiction.

Basic Income (Loss) Per Share

The Company computes loss per share in accordance with ASC Topic 260, Earnings per Share, which requires presentation of both basic and diluted earnings per share on the face of the statement of operations. Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of outstanding common shares during the period. Diluted loss per share gives effect to all dilutive potential common shares outstanding during the period. As of June 30, 2017, the Company's potentially dilutive securities relate to common stock issuable in connection with convertible notes payable, options and warrants. As of June 30, 2017, if all holders of preferred stock, convertible notes payable, options and warrants exercised their right to convert their securities to common stock, the common stock issuable would be in excess of the Company's authorized, but unissued shares of common stock.

Other Comprehensive Income

Other comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, other than net income and including foreign currency translation adjustments.

Recent Accounting Pronouncements

In April 2015, the FASB issued Accounting Standard Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update requires capitalized debt issuance costs to be classified as a reduction to the carrying value of debt rather than a deferred charge, as is currently required. This update is effective for the Company for all annual and interim periods beginning after December 15, 2015 and is required to be adopted retroactively for all periods presented. The Company adopted this ASU with no impact on the accompanying consolidated financial statements as the issuance costs were already accounted for as a reduction of the carrying value of the debt.

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BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements Going Concern", which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter. The guidance is not expected to have a material impact on the Company's financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in this update simplify the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. These amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The guidance is not expected to have a material impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 840), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this standard are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for a public entity. Early adoption of the amendments in this standard is permitted for all entities and the Company must recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

We have reviewed other recent accounting pronouncements issued to the date of the issuance of these consolidated financial statements, and we do not believe any of these pronouncements will have a material impact on the Company.

NOTE 2 –ACQUISITIONS

RST Recursos Minerais Ltda

In June 2014, the Company entered into an agreement to purchase 25% of the equity of RST for cash payments of 250,000 Brazilian Reais and the issuance of shares of the Company's common stock valued at 100,000 Brazilian Reais. In connection with this agreement the Company issued 2,858 shares of common stock with a value of \$43,868 and made cash payments of \$107,858. At December 31, 2014, the investment was accounted for using the equity method. Effective March 18, 2015, the Company purchased an additional 25% of RST from a third party for \$400,000 Brazilian Reais or \$124,680. Under the terms of the agreement, the Company is to make monthly payments ranging from \$75,000 Brazilian Reais to \$100,000 Brazilian Reais beginning March 25, 2015. As of December 31, 2015, all required payments had been made. In December 2015, the 2,858 shares of common stock previously issued with a value of \$43,868 were returned to the Company. The Company reversed the initial amount of the investment recorded upon return.

As a result of the additional 25% acquired, the Company owns 50% of RST and has consolidated the operations in the Company as of March 18, 2015. The remaining 50% ownership is held by Brazil Mining, Inc. ("BMI"), a Marshall

Islands corporation which is deemed to be controlled by the Company's Chief Executive Officer. On the date of consolidation, the Company determined the fair market value of RST to be \$570,548. The fair market value was based upon the average price paid by the Company for the 50% ownership, including the relief of monies advanced to RST and increasing for the non-controlling interest which represents 50%. The Company allocated 100% of the fair market value to the mineral rights held by RST.

The purpose of the Company's acquisition of RST was due to the quality of its mineral assets, close proximity to the Company's MDB original diamond and gold processing plant, and attractive acquisition price. Pro-forma financial statements have not been provided as the assets, liabilities and operations of RST are not significant.

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BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Jupiter Gold Corporation and Mineração Jupiter Ltda

On July 27, 2016, upon approval by its Board of Directors, the Company entered into a stock purchase and sale agreement pursuant to which HRC transferred its 99.99% equity interest in MJL to the Company which immediately thereafter sold such equity interest to JGC in exchange for the acquisition of 4,000,000 shares of JGC common stock at par value, which totaled \$4,000.

Subsequent to the agreement, the Company transferred approximately 41% of its ownership in JGC to noncontrolling interests through both sales of JGC common stock at \$1.00 per share to outside investors and conversions of certain of the Company's notes payable and preferred stock into JGC common stock. As a result of these transactions, a noncontrolling interest of \$1,328,594 was recognized in the consolidated financial statements.

NOTE 3 – COMPOSITION OF CERTAIN FINANCIAL STATEMENT ITEMS

Intangible Assets

Intangible assets consist of mining rights at MDB and RST and are not amortized as the mining rights are perpetual. The carrying value was \$620,767 and \$630,089 at June 30, 2017 and December 31, 2016, respectively.

Accounts Payable and Accrued Liabilities

	As of June 30, 2017	As of December 31, 2016
Accounts payable and other accruals	\$ 157,398	\$ 162,976
Accrued interest	218,058	170,439
Total	\$ 375,456	\$ 333,415

NOTE 4 – CONVERTIBLE PROMISSORY NOTES PAYABLE

Convertible Notes Payable - Fixed Conversion Price

On January 7, 2014, the Company issued to a family trust a Senior Secured Convertible promissory note in the principal amount of \$244,000 (the "Note") and warrants to purchase an aggregate of 488,000 shares of the Company's common stock, par value \$0.001 per share at an exercise price of \$62.50 per share through December 26, 2018 (the "Warrants"). The Company received gross proceeds of \$244,000 for the sale of such securities. The outstanding principal of the Note bears interest at the rate of 12% per annum. All principal on the Note was payable on March 31, 2015 (the "Maturity Date"), which as of the date of this filing is past due and in technical default. The Company is in negotiations with the note holder to satisfy, amend the terms or otherwise resolve the obligation in default. No demand for payment has been made. As a result of the default, the interest rate on the Note increased to 30% per annum. Interest was payable on September 30, 2014 and on the Maturity Date. As of June 30, 2017, the Company has accrued

interest payable totaling \$201,009. The Note is convertible at the option of the holder into common stock of the Company at a conversion rate of one share for each \$50.00 of principal and interest converted. A debt discount related to the value of the warrants in the amount of \$10,252 was recorded and was being amortized over the life of the note. As of December 31, 2015, the discount was fully amortized.

In January 2015, the Company issued four convertible promissory notes totaling \$200,000 in proceeds and options to purchase an aggregate of 80,000 shares of the Company's common stock at an exercise price of \$2.50 per share for a period of three years. The convertible promissory notes incur interest at 10.0% and are due January 30, 2018. The convertible promissory notes are convertible at the option of the holder at a rate of \$1.25 per share. A debt discount related to the relative fair market value of the options in the amount of \$22,423 and an implied beneficial conversion features of \$22,423 were recorded, totaling \$44,846 and are being amortized over the life of the notes. During the years ended December 31, 2016 and 2015, \$27,406 and \$17,440 of the discount was amortized to interest expense, respectively. As of December 31, 2016, the discount was fully amortized to interest expense, and the notes were converted into 160,000 shares of the Company's common stock, 192,000 shares of JGC common stock, and 384,000 stock purchase warrants for JCG common stock. The 192,000 shares of JGC common stock were valued at \$192,000, or \$1.00 per share, which represents fair market value as of such date. The 384,000 warrants are exercisable at \$1.50 for a two-year period from issuance. The JGC warrants were valued at \$37,426 using the Black-Scholes option pricing model and the following assumptions: an exercise price of \$1.50, a stock price of \$1.00 on the date of grant, an expected dividend yield of 0%, an expected volatility of 40.0%, a risk-free interest rate of 0.71% and an expected term of 2.0 years. As a result, a noncontrolling interest of \$229,425 was recorded in the consolidated financial statements.

BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In January 2015, the Company purchased machinery and equipment from a third party making an initial deposit of \$10,910 (\$35,000 Brazilian Reais), issuing notes payable totaling \$38,963 (\$125,000 Brazilian Reais) payable in five equal monthly installments starting March 15, 2015 and \$43,638 in customer deposits (\$140,000 Brazilian Reais) in which are to be satisfied through gravel produced by MDB. The note payable was convertible into common stock of the Company at the market rate on the date of issuance and thus a beneficial conversion feature was not recorded. In June 2015, the Company cancelled this agreement returning the machinery and equipment and forfeiting amounts already paid to the seller.

In June 2015, the Company issued three convertible promissory notes and received an aggregate \$100,000 in proceeds. The convertible promissory notes incur interest at 10.0% per annum and are due December 31, 2016. The convertible promissory notes are convertible at the option of the holder at a 40% discount to the average of the five lowest closing prices of the Company's common stock over the previous 20 days. In addition, the notes conversion rate has a ceiling of \$15.00 and a floor of \$0.0165. A debt discount related to the beneficial conversion feature of \$87,720 was recorded and is being amortized over the life of the notes. During the year ended December 31, 2015, the discount was fully amortized to interest expense, and the notes were converted into 100 shares of Series B Preferred Stock; see Note 5.

Convertible Notes Payable - Variable Conversion Price

At various times to fund operations, the Company issues convertible notes payable in which the conversion features that are variable. In addition, some of these convertible notes payable have on issuance discounts and other fees withheld. Due to the variable conversion price, the Company may be required to record a derivative liability in connection with the convertible notes payable. The combination of the original issue discount ("OID"), fees paid and allocation to the derivative liabilities resulted in various discounts to the convertible notes payable. The discounts are being amortized over the term of the convertible notes payable.

During the year ended December 31, 2016, the Company issued to one noteholder in various transactions \$242,144 in convertible promissory notes with fixed floors and received an aggregate of \$232,344 in proceeds. The convertible promissory notes each bear interest at 8.0% per annum and mature one year from issuance. After six months from issuance, each convertible promissory note is convertible at the option of the holder at a 50% discount to the lowest traded price of the Company's common stock over the previous 20 days. In addition, each note's conversion rate has a floor of \$0.0001. Total debt discounts related to the beneficial conversion features of \$241,852 were recorded and are being amortized over the life of the notes.

During the six months ended June 30, 2017, the Company issued to one noteholder in various transactions \$225,135 in convertible promissory notes with fixed floors and received an aggregate of \$214,460 in proceeds. The convertible promissory notes each bear interest at 8.0% per annum and mature one year from issuance. After six months from issuance, each convertible promissory note is convertible at the option of the holder at a 50% discount to the lowest traded price of the Company's common stock over the previous 20 days. In addition, each note's conversion rate has a floor of \$0.0001. Total debt discounts related to the beneficial conversion features of \$220,655 were recorded and are being amortized over the life of the notes.

Including the convertible notes payable discussed in the preceding paragraphs, as of June 30, 2017, the Company has \$468,299 in principal of notes payable. These convertible notes have maturity dates ranging from currently due to June 2018. The combination of the OID, fees paid and allocation to the derivative liabilities resulted in various discounts to these convertible notes payable with a remaining total of \$212,680. During the six months ended June 30, 2017 and 2016, \$152,346 and \$97,912 of the discounts were amortized to interest expense, respectively.

During the six months ended June 30, 2017 and 2016, the Company issued 5,121,151 and 5,183,869 shares of common stock upon conversion of \$33,682 and \$154,391, respectively, in convertible notes payable and accrued interest.

Convertible Customer Deposits

In July 2015, as discussed below in Note 6, the Company has previously provided customers with the option to convert their deposits of diamonds into common stock if the diamonds are not delivered on the scheduled timeline.

BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Derivative Liabilities

In connection with convertible notes payable the Company records derivative liabilities for the conversion feature. The derivative liabilities are valued on the date of issuance of the convertible note payable and revalued at each reporting period. During the year ended December 31, 2015 the Company recorded derivative liabilities of \$281,345 based upon the following Black-Scholes option pricing model average assumptions: an exercise price of \$0.75 to \$0.025, our stock price on the date of grant (\$1.65 to \$0.05), expected dividend yield of 0%, expected volatility of 218% to 313%, risk free interest rate of 0.12% and an expected term of 0.50 years. Upon initial valuation, the derivative liability exceeded the face value of the convertible note payable of \$302,111, a day one loss on derivative liability of \$372,878 was recorded.

On June 30, 2016, the derivative liabilities were revalued at \$122,935 resulting in a gain of \$158,410 related to the change in fair market value of the derivative liabilities. The derivative liabilities were revalued using the Black-Scholes option pricing model with the following average assumptions: an exercise price of \$0.00005 to \$0.00007, our stock price on the date of valuation (\$0.0001), expected dividend yield of 0%, expected volatility of 360%, risk-free interest rate of 0.39%, and an expected term of 0.5 years.

As of June 30, 2017, no derivative liability was recorded.

Future Potential Dilution

Most of the Company's convertible notes payable contain adjustable conversion terms with significant discounts to market. As of June 30, 2017, the Company's convertible notes are convertible into an aggregate of approximately 87,395,750 shares of common stock. Due to the variable conversion prices on some of the Company's convertible notes, the number of common shares issuable is dependent upon the traded price of the Company's common stock.

NOTE 5 – STOCKHOLDERS' DEFICIT

Authorized and Amendments

On March 21, 2016, the Company amended its Articles of Incorporation to increase the authorized number of shares of its common stock to 20 million shares. On August 23, 2016, the Company further amended its Articles of Incorporation to increase the authorized number of shares of its common stock to 25 million shares. On November 2, 2016, the Company further amended its Articles of Incorporation to increase the authorized number of shares of its common stock to 30 million shares. The Company filed a 1-for-500 reverse split with the state of Nevada on December 15, 2016, which became effective on January 27, 2017. On February 15, 2017, the Company further amended its Articles of Incorporation to increase the authorized number of shares of its common stock to 100 million shares. See Note 8.

As of December 31, 2016, the Company had 30 million common shares authorized with a par value of \$0.001 per share.

As of June 30, 2017, the Company had 100 million common shares authorized with a par value of \$0.001 per share.

Series A Preferred Stock

On December 18, 2012, the Company filed with the Nevada Secretary of State a Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock ("Series A Stock") to designate one share of a new series of preferred stock. The Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock provides that for so long as Series A Stock is issued and outstanding, the holders of Series A Stock shall vote together as a single class with the holders of the Company's Common Stock, with the holders of Series A Stock being entitled to 51% of the total votes on all such matters regardless of the actual number of shares of Series A Stock then outstanding, and the holders of Common Stock are entitled to their proportional share of the remaining 49% of the total votes based on their respective voting power.

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BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Series B Preferred Stock

On August 26, 2015, the Company filed with the Nevada Secretary of State a Certificate of Designations, Preferences and Rights (the "Certificate of Designations") of par value \$0.001 Series B Convertible Preferred Stock ("Series B Stock") to designate 1,000,000 shares of a new series of preferred stock. The Series B Stock has an original issue price of \$1,000 per share. Cumulative dividends on such shares are payable annually (or upon conversion of such stock into Common Stock) in Common Stock at the rate of 10% per stated share value per annum. The holders of Series B Stock shall be entitled to vote on all matters as one class with the holders of Common Stock, with the holders of Series B Stock being entitled to such number of votes as shall equal the number of whole and fractional shares of Common Stock into which such share is then convertible. At any time until December 31, 2016 each holder of Series B Stock could have elected to convert all or a portion of the preference amount into shares of Common Stock at a conversion price which is a 40% discount to the average of the lowest 5 closing prices of the Common Stock in the 20-day period before a notice of conversion is given, but the conversion price would not have been higher than \$15.00 nor lower than \$0.0165. During the three months ended March 31, 2016, the Company accrued dividends of \$27,450, recorded as interest expense. On December 31, 2016, all outstanding shares of Series B Stock automatically converted into Common Stock at the applicable conversion price.

During the year ended December 31, 2015, the Company issued 273 shares of Series B Stock for \$270,000 in cash proceeds. In addition, six shares of Series B Stock were issued to a placement agent.

As discussed in Note 4, during the year ended December 31, 2015, the Company issued 100 shares of Series B Stock in satisfaction of \$100,000 in convertible notes payable. In connection with the exchange, the Company recorded other expense of \$66,667 due to the Series B Stock having an estimated fair market value of \$166,667 on the date of the exchange. The Company estimated the fair market value of the Series B Stock based upon the number of common shares it could be converted into.

See Note 6 for discussion related to the exchange of customer deposits received in connection with the delivery of diamonds for 668 shares of Series B Stock.

During the year ended December 31, 2016, the Company issued 34.5 shares of Series B Stock for \$55,500 in cash proceeds.

During the year ended December 31, 2016, the Company entered into an agreement with the holders of its Series B Preferred Stock whereby the holders exchanged 471.3 shares preferred stock for 785,248 shares of Jupiter Gold Corporation common stock and options to purchase common stock of Jupiter Gold. The options were issued in two tranches. The first tranche of 581,548 options are exercisable at \$1.50 for a one-year period from issuance. The second tranche of 785,248 options are exercisable at \$1.50 for a two-year period from issuance. The options were valued at \$97,349 using the Black-Scholes option pricing model and the following assumptions: an exercise price of \$1.50, a stock price of \$1.00 on the date of grant, an expected dividend yield of 0%, an expected volatility of 40.0%, a risk-free interest rate of 0.56%-0.72% and an expected term of 1.0-2.0 years. As a result, a noncontrolling interest of \$890,346 was recorded in the consolidated financial statements.

In accordance with the Certificate of Designations, the remainder Series B Preferred Stock were converted to common stock of the Company on December 31, 2016. As of December 31, 2016, there was no Series B Preferred Stock

outstanding.

Series C Preferred Stock

On December 29, 2015, the Company filed with the Nevada Secretary of State a Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock ("Series C Stock") to designate 1,000,000 shares of a new series of preferred stock. The Series C Stock has an original issue price of \$1,000 per share. Cumulative dividends on such shares are payable annually (or upon conversion of such stock into Common Stock) in Common Stock at the rate of \$0.04 per share per annum. The holders of Series C Stock shall be entitled to vote on all matters as one class with the holders of Common Stock, with the holders of Series C Stock being entitled to such number of votes as shall equal the number of whole and fractional shares of Common Stock into which such share is then convertible. At any time until December 31, 2016 each holder of Series C Stock could have elected to convert all or a portion of the preference amount into shares of Common Stock at a conversion price which is the lower of \$0.04 or the volume weighted average price of the Company's Common Stock for the 90 trading days before a notice of conversion with a floor of \$0.02. On December 31, 2016, all outstanding shares of Series C Stock would automatically be converted into Common Stock at the applicable conversion price.

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BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On December 29, 2015, the Company issued 200,000 shares of Series C Stock in exchange for 2,000,000 shares of common stock in which had been previously sold for \$80,000 in proceeds. In connection with the exchange, the Company recorded other expense of \$170,000 due to the Series C Stock having an estimated fair market value of \$250,000 on the date of the exchange. The Company estimated the fair market value of the Series C Stock based upon the number of common shares it could be converted into.

On July 30, 2016, the Company entered into an agreement with the holders of its Series C Preferred Stock whereby the holders exchanged all of the Preferred C Stock outstanding, namely 200,000 such shares, for 125,000 shares of Jupiter Gold Corporation common stock. As a result, a noncontrolling interest of \$125,000 was recorded in the consolidated financial statements.

As of December 31, 2016, there was no Series C Preferred Stock outstanding.

Six Months Ended June 30, 2017 Transactions

During the six months ended June 30, 2017, the Company issued 1,800,000 shares of common stock for cash proceeds of \$28,500.

Six Months Ended June 30, 2016 Transactions

During the six months ended June 30, 2016, the Company issued 700,000 shares of common stock for cash proceeds of \$21,000.

During the six months ended June 30, 2016, the Company issued 836,486 shares of common stock to its CEO in satisfaction of \$4,040 in amounts payable. The difference between the fair market value of the shares issued and the liability was recorded as additional interest expense. The shares were valued based upon the closing market price of the Company's common stock on the date the service was complete. In addition, the Company has agreed to issue additional shares of common stock if the effective price of a future common stock transaction decreases.

See Note 4 for discussion of additional common stock issuances.

Common Stock Options

In January 2015, options to purchase 800,000 shares of common stock were issued in connection with \$200,000 in convertible notes payable. See Note 4 for additional information. The options expire on January 30, 2018 and have an exercise price of \$2.50 per share. The fair value of the options was \$79,111, of which \$22,423 was allocated to the options based upon the relative fair market value. The options were valued using the Black-Scholes option pricing model with the following assumptions: our stock price on date of grant (\$1.20), expected dividend yield of 0%, expected volatility of 176%, risk-free interest rate of 1.70%, and an expected term of 3.00 years.

During the year ended December 31, 2015, the Company granted options to purchase an aggregate of 25,846 shares of common stock to non-management directors. The options were valued at \$39,200 in total. The options were valued using the Black-Scholes option pricing model with the following average assumptions: our stock price on date of grant

(\$0.90), expected dividend yield of 0%, expected volatility of 176%, risk-free interest rate of 1.70%, and an expected term of 5.00 years.

During the year ended December 31, 2016, the Company granted options to purchase an aggregate of 626,680 shares of common stock to non-management directors. The options were valued at \$25,000 in total. The options were valued using the Black-Scholes option pricing model with the following average assumptions: our stock price on date of grant (\$0.05), expected dividend yield of 0%, historical volatility of 113%, risk-free interest rate of 1.13%, and an expected term of 5.00 years.

No stock options were granted during the six months ended June 30, 2017.

See Note 6 discussion regarding options issued in connection with future diamond sales.

BRAZIL MINERALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Common Stock Warrants

In June 2015, in connection with a common stock raise, the Company issued warrants to purchase an aggregate of 62,308 shares of the Company's common stock that expire on August 31, 2017 and have an exercise price of \$0.50 per share. The value of the warrants was approximately \$30,000 based upon Black-Scholes option pricing model. No entry was required as the warrants were issued in connection with raising capital and thus would have offset any proceeds received.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases offices in Pasadena, California, U.S., and in the municipality of Olhos D'Agua, Brazil. Such costs are immaterial to the consolidated financial statements.

Diamond Delivery Agreements

On March 4, 2014, the Company received proceeds of \$500,000 from a sale of polished and GIA graded diamonds pursuant to an agreement with two buyers that agreed to receive these diamonds over a period of one year. One of the buyers has expertise and a long and successful history of investments in natural resources. As part of this transaction, the Company pledged with a third-party collateral agent an aggregate of 22,000 shares of its common stock, valued at approximately \$990,000 at the time the transaction was consummated, in order to secure the delivery of the diamonds. The number of shares pledged is subject to periodic adjustment as diamonds are delivered and as the market price of our common stock may change. The Company also issued to these buyers two-year options to purchase an aggregate of 6,000 shares of its common stock at an exercise price (subject to adjustment upon the occurrence of certain events) of \$60.00 per share, a premium of 33% above the stock price when the transaction was consummated. These options initially expired on March 4, 2016 and have an exercise price of \$60.00, which was reduced to \$40.00 per share in October 2014 and the expiration date extended to March 4, 2018. The fair value of the options was \$93,280 was calculated using the Black- Scholes option pricing model with the following assumptions: our stock price on date of grant (\$45.00), expected dividend yield of 0%, expected volatility of 78%, risk-free interest rate of 0.78%, and an expected term of 2 years. In July 2015, the Company extended these agreements until December 31, 2016. Under the new agreements, quarterly the Company is required to deliver diamonds with \$15,000 in aggregate Rappaport value. If the diamonds are not delivered, then the customer has the option of converting the required value at 50% of market. Due to the variable conversion price, the Company is recording a derivative liability upon each tranche becoming convertible. As of December 31, 2015, total amounts convertible into common stock were \$35,158. In addition, the collateral shares for this contract were increased to 930,588.

On April 30, 2014, the Company entered into Subscription Agreements with four investors (the "Buyers"), pursuant to which the Buyers agreed to pay to the Company an aggregate of \$500,000 and the Company agreed to deliver to the Buyers from time to time on or before December 31, 2015, polished and GIA-graded diamonds of at least 0.4 carats having a certain aggregate Rappaport value. The Company agreed to pledge with third party collateral agents for the

Buyers an aggregate of 16,000 shares of its common stock, valued at approximately \$800,000 at the time the transaction was consummated, in order to secure the delivery of the diamonds. The number of shares pledged is subject to periodic adjustment as diamonds are delivered and as the market price of the Company's stock may change. As of December 31, 2014, the required reserve was 246,154 shares of common stock. On the date of the agreement, the Company reserved for the Buyers or their designees, an aggregate of 7,500 shares of the Company's common stock (the "Shares") and two-year options to purchase an aggregate of 3,750 shares of Common Stock at an exercise price of \$60.00 per share, payable in cash to the Company (the "Options"). The fair value of the options was \$57,662 was calculated using the Black-Scholes option pricing model with the following assumptions: our stock price on date of grant (\$45.00), expected dividend yield of 0%, expected volatility of 78%, risk-free interest rate of 0.11%, and an expected term of 2 years. The common stock issued was valued at \$348,750 based upon the closing market price of the Company's common stock. Since the agreement contained various elements, the Company allocated the \$47,544 to the options, \$287,552 to the shares issued and \$164,904 to deferred revenue based upon the relative fair market value. In July 2015, the Company extended these agreements until December 31, 2016. Under the new agreements, quarterly the Company is required to deliver diamonds with aggregate Rappaport values ranging from \$10,000 to \$20,000. If the diamonds are not delivered, then the customer has the option of converting the required value at 50% of market. Due to the variable conversion price, the Company is recording a derivative liability upon each tranche becoming convertible. As of December 31, 2015, total amounts convertible into common stock were \$40,000. A total of 400,000 in collateral shares were issued for this contract.

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On December 30, 2015, the diamond agreements described were exchanged for 668 shares of Series B Stock. Under the terms of the agreement, all obligations under the agreement to deliver diamonds and other guarantees were removed, including the derivative liability. On the date of the exchange the Company determined that the value of the Series B Stock was \$1,113,333 based upon the number of common shares the Series B Stock is convertible into. The agreement relieved \$543,630 in customer deposits, \$182,300 in derivative liabilities less a remaining discount of \$68,057, a total relief of \$657,873. The Company recorded the excess value of the Series B Stock issued of \$455,460 as a loss on extinguishment.

NOTE 7 - RELATED PARTY TRANSACTIONS

Brazil Mining, Inc.

Previously the Company had amounts due from Brazil Mining, Inc. ("BMI"), a related party through common management. The loans did not incur interest and were due on demand. During the year ended December 31, 2015, BMI transferred equipment with a carrying value of \$44,854 to the Company as a partial offset to the amounts due. During December 2015, in satisfaction of the remaining receivable, BMI transferred the rights to two mineral right properties. At the time of the transfer, the Company's subsidiary RST retained a 50% ownership in these rights, thus, the value of the two mineral rights transferred is included within consolidation of RST. Thus, the Company recorded other expense of \$93,580 during the year ended December 31, 2015 as the assets had already been reflected at their fair market value on the Company's financial statements.

Chief Executive Officer

As of June 30, 2017 and December 31, 2016, amounts payable to the Chief Executive Officer for accrued salaries, retirement contributions, and advances made net of any repayments included within related party payable were \$430,788 and \$310,259, respectively.

NOTE 8 - SUBSEQUENT EVENTS

In accordance with FASB ASC 855-10 Subsequent Events, the Company has analyzed its operations subsequent to June 30, 2017 to the date these consolidated financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these consolidated financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the notes to those financial statements appearing elsewhere in this Report.

This Quarterly Report contains forward-looking statements. Forward-looking statements for Brazil Minerals, Inc. reflect current expectations, as of the date of this Quarterly Report, and involve certain risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors. Factors that could cause future results to materially differ from the recent results or those projected in forward-looking statements include: unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production; market fluctuations; government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection; competition; the loss of services of key personnel; unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of infrastructure as well as general economic conditions.

Description of Business

Overview

Brazil Minerals, Inc. ("Brazil Minerals", the "Company", "we", "us", or "our"), together with its subsidiaries, is engaged in the business of acquiring controlling positions or significant positions with oversight roles in companies in Brazil in the minerals area or in industries related to minerals. We consolidate the results of our controlled subsidiaries in this Annual Report.

Our progress has been steady, and can be measured in at least two quantifiable ways. First, in terms of mineral assets, in early 2013, our initial year of operations under the current business model and management team, we had 3 mineral rights. As of June 30, 2017, we had 37 mineral rights, as follows:

- a) 10 mineral rights that are mining concessions, the highest level of mineral right in Brazil ("Concessão de Lavra");
- b) 8 mineral rights that have status just below mining concession ("Requerimento de Lavra"), which allows us to apply for both an upgrade to mining concession and to conduct limited commercial mining;
- c) 7 mineral rights in the research permit phase ("Autorização de Resquisa"); and
- d) 12 mineral rights in the phase of application for research permit ("Requerimento de Pesquisa").

From 2013 to today, we have been taking shape as a holding company owner of different subsidiaries. As of June 30, 2017, we owned the following stakes:

- (1) 100% of BMIX Participações Ltda ("BMIXP");
- (2) 100% of Mineração Duas Barras Ltda ("MDB");
- (3) 50% of RST Recursos Mineraiis Ltda. ("RST");
- (4) 100% of Hercules Resources Corporation ("HRC");
- (4) 100% of Hercules Brasil Ltda. ("HBR");
- (5) 58% of Jupiter Gold Corporation ("JGC").

At the end of the first quarter of 2017, we achieved the deployment of a modular gold and diamond processing plant in one of our mining concessions. The plant uses centrifugation as the primary method of gold separation. Material identified as potentially containing diamonds is retrieved and further processed in specific high-precision equipment for detection of diamonds.

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This modular plant is owned by JGC and is solely operated by Brazil Minerals which retains 100% of the diamonds and 50% of the gold recovered from it, while the other 50% of gold is for the account of JGC. Under standard U.S. GAAP consolidation of financial results for subsidiaries, any gold revenues obtained by JGC are added to the revenues of Brazil Minerals.

Results of Operations

For the Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

For the three months ended June 30, 2017, we had revenues of \$9,058 as compared to revenues of \$1,513 for the three months ended June 30, 2016, an increase of 498.7%. This increase is explained by testing and adjustments for mining in 2017, as compared to the same period in 2016.

For the three months ended June 30, 2017, our consolidated cost of goods sold was \$43,682, consisting entirely of production expenses, as compared to our consolidated cost of goods sold in the three months ended June 30, 2016 which was \$24,123, and increase of 81.8%.

For the three months ended June 30, 2017, our gross loss was \$34,624, as compared to our gross loss for the three months ended June 30, 2016 of \$22,610, an increase of 53.1%. This result was primarily due the increase in the consolidated cost of goods sold which was greater than the increase in revenues.

For the three months ended June 30, 2017, we had an aggregate of \$221,835 in operating expenses, as compared to an aggregate of \$239,325 in operating expenses for the three months ended June 30, 2016, a decrease of 7.3%. This decline was due to lower general and administrative expenses, and stock-based compensation, which more than offset an increase in professional fees, and compensation and related costs.