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Brazil Minerals, Inc.  
Form 10-K  
April 14, 2016

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

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2015

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

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.)

1443 East Washington Boulevard  
Suite 278  
Pasadena, CA 91104  
(Address of principal executive offices)

Issuer's telephone number, including area code: (213) 590-2500

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has 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 ☐

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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 (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (as defined in Rule 12b-2 of the Exchange Act). Check one:

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒  
(Do not check if a smaller \  
reporting company)

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

As of June 30, 2015, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's common stock held by non-affiliates (based on the closing sales price of such shares (\$.0007) on such date as reported by Nasdaq.com) was approximately \$780,341. (For the purpose of this report it has been assumed that all officers and directors of the Registrant, as well as all stockholders holding 10% or more of the Registrant's stock, are affiliates of the Registrant.

As of April 10, 2016, there were outstanding 6,722,243,143 shares of the registrant's common stock, \$0.001 par value.

Documents incorporated by reference: None.

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## FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Forward-looking statements for Brazil Minerals, Inc. reflect current expectations, as of the date of this Annual 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, among others: 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.

## PART I

### Item 1. Description of Business.

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. Now we have 30 mineral rights. These include:

- 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) 8 mineral rights in the research permit phase ("Autorização de Resquisa"), and;
- d) 4 mineral rights in the phase of application for research permit ("Requerimento de Pesquisa").

Please refer to the table below for details on each of these mineral rights.

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DNPM Mineral Right Number	Mineral Right Status	Location	Subsidiary	Area of Mineral Right (in acres)	Minerals Currently Requested in Mineral Right Document
806.569/1977	Mining Concession ("MC")	Jequitinhonha River valley, State of Minas Gerais, Brazil ("JRV")	MDB	422	diamond, gold, sand
830.797/1982	MC	JRV	RST	102	diamond, gold
830.062/1980	MC	JRV	RST	1,177	diamond, gold
817.734/1968	MC	JRV	RST	5,202	diamond, gold
807.497/1968	MC	JRV	RST	1,178	diamond, gold
003.048/1956	MC	JRV	RST	905	diamond, gold
003.047/1956	MC	JRV	RST	1,343	diamond, gold
003.046/1956	MC	JRV	RST	1,039	diamond, gold
003.045/1956	MC	JRV	RST	1,295	diamond, gold
003.044/1956	MC	JRV	RST	678	diamond, gold
830.749/1981	Application for Mining Concession ("AMC")	JRV	RST	591	diamond, gold
830.746/1981	AMC	JRV	RST	55	diamond, gold
830.921/1980	AMC	JRV	RST	276	diamond, gold
830.919/1980	AMC	JRV	RST	318	diamond
804.492/1977	AMC	JRV	RST	986	diamond, gold
802.267/1977	AMC	JRV	RST	1,310	diamond, gold
831.742/1987	AMC	JRV	RST	294	diamond
830.998/1984	AMC	JRV	RST	730	diamond
880.239/2009	Research Permit ("RP")	Apui region, State of Amazonas, Brazil	BMIXP	24,708	gold
831.380/2014	RP	JRV	BMIXP	1,375	diamond, gold, gravel, sand
831.398/2014	RP	JRV	BMIXP	994	diamond, gold, gravel, sand
832.052/2006	RP	JRV	MDB	982	diamond, gold
830.899/2013	RP	JRV	RST	1,443	diamond, gold
830.898/2013	RP	JRV	RST	671	diamond, gold
833.685/2006	RP	JRV	RST	130	diamond, gold
832.108/2005	RP	JRV	RST	657	diamond, gold

832.059/2014	Application for Research Permit ("ARP")	JRV	BMIXP	1,152	diamond, gold, gravel, sand
832.060/2014	ARP	JRV	BMIXP	1,052	diamond, gold, gravel, sand
832.043/2007	ARP	JRV	BMIXP	19	diamond
833.938/2006	ARP	JRV	BMIXP	1,236	diamond, gold

The second manner in which we expanded as a company from 2013 to now is in the product mix output from our Brazilian subsidiaries. In 2013 we produced and sold rough diamonds and gold. In 2014 we added polished diamonds. In 2015 we added sand and mortar, a product made from our sand.

From 2013 to today, we have been taking shape as a holding company owner of different subsidiaries. We now own the following stakes:

- (1) 100% of BMIX Participações Ltda. ("BMIXP"). BMIXP owns the mineral right for a large area (24,708 acres) located in the state of Amazonas, in the Amazon region of Brazil, with a known presence of gold.
- (2) 100% of Mineração Duas Barras Ltda. ("MDB"). MDB holds title to two mineral rights, including a mining concession for diamonds, gold and sand. It also owns and operates the largest alluvial processing plant for diamonds and gold in Latin America and has a Brazilian permit to export its diamond production.

- (3) 50% of RST Recursos Minerais Ltda. ("RST"). RST holds title to storied mineral rights for diamonds and gold along a premier area in the Jequitinhonha River valley, a well-known area for diamonds and gold for over two centuries. Many of the RST areas are located near MDB's plant.
- (4) 100% of Hercules Brasil Ltda. ("HBR"). HBR owns an operating mortar manufacturing plant and markets a line of three mortar products for sale to the local construction market under the brand name "Hercules".

#### Business Developments

Some significant developments to our business during 2015 in chronological order were as follows:

- In January 2015, Brazil's mining department approved the addition of sand as a mineral entity to one of our mining concessions. With the addition of sand, MDB's mining concession now permits the mining of diamonds, gold and sand. Geological work performed by an outside consultancy estimated at 454,813 tons the amount of free sand available superficially in one of several areas at our mining concession. Sand is beneficial to us in two ways: its
- (1) cash flows are independent from diamond and gold operations and it is easily obtained with very low extraction costs. Our high quality sand, as attested by geochemical analysis, is sought after for use in civil construction and preparation of multiple materials. Sand is available naturally since we are at the margins of a river, but, in particular, sand can be continuously replenished or partially replenished over time since sand is also a byproduct of the processing of gravel at our diamond and gold recovery plant.

- In March 2015, we retained José Francescatto, a well-known diamond and gold geologist, to be our Senior Geologist. Mr. Francescatto has over 36 years of experience primarily in diamond and gold properties. In particular, he was the Chief of Geology at Mineração Te jucana S/A ("Te jucana"). Te jucana has a revered history as
- (2) the most successful diamond mining company in Brazil. It mined mostly inside the Jequitinhonha River using dredges. Our subsidiary RST is the successor owner for most of Te jucana's diamond and gold properties. The river banks of the RST areas were not explored by Te jucana, and thus remain promising locations for mining. Mr. Francescatto has also worked at Kinross, a large global miner.

- During Q2 2015, and also subsequent to the end of the quarter, we announced drilling results of an area belonging to our RST subsidiary (the "RST Initial Area"). It is a dry location, amenable to a program of extraction by open surface excavation and removal and transport of its white gravel to our diamond and gold processing and recovery
- (3) plant. In relative terms, this researched locale was small compared to the total surface area of this mineral right, which measures 5.3 million square meters or 1,310 acres. While the results obtained have been highly encouraging, there is no assurance that these preliminary findings will be replicable to the entirety of or other locations in this area, or that a material amount of minerals will be found.

- (4) In April 2015, we announced that we had mined our largest rough diamond to date at 4.01 carats. This diamond was cut and polished in Brazil, and yielded a highly attractive 2.01 carat pear shaped polished diamond.
- (5) In May 2015, we launched and began production of our mortar through our newly created subsidiary, Hercules Brasil Ltda. ("HBR").

Initially, Hercules is focused on the production and sale of mortar. A medium size plant that can produce mortar, grout and other industrialized sand products has been fully built and is operating. The plant is located next to a busy asphalt highway to facilitate transportation and is 18 miles away from our MDB sand mine. It operates on electric power which lowers costs and utilizes a staff of three. At full capacity, with a staff of five, the plant has the capacity to produce up to 25,000 bags of mortar per month.

The content of sand per weight in a mortar bag ranges from approximately 80% to 90%. On a per kilogram basis, the aggregate value realized from recent mortar sales is 10 to 40 times that of raw sand. Gross product margins obtained on initial mortar sales to stores have ranged from 100% to 300% depending on the type of mortar sold.

Specialists in mortar have worked in developing proprietary formulations which utilize the MDB raw sand for the Hercules mortar. Hercules currently produces the three basic types of mortar used in Brazilian construction: AC-I, AC-II, and AC-III, which have increasing levels of strength. Although mortars have been around for a long time, some specific and innovative solutions were devised that allow Hercules to increase the quality and lower the cost of its products. We believe that initial market response has noted that Hercules products are of high quality and comparable to the best national brands.

Hercules buys sand from our MDB mine and processes it at the mortar plant, adding specific other ingredients for each type of mortar, mixing them, and finally packaging the resulting mixtures in 20-kg bags. AC-I bags have blue details, whereas AC-II bags have details in red and AC-III green.

"Hercules" is the brand name adopted for the mortar business; it has been protected as a trademark in Brazil. Initial buyers of Hercules mortar have been small construction materials stores; some are already recurrent buyers with predictable bi-weekly orders. The Company believes that over time, it will have several additional as well as larger stores and chains as customers. Some small amount of Hercules mortar has also been sold directly to retail buyers at higher gross margins. We believe that the metropolitan region of Montes Claros, northern part of Minas Gerais state, with a population of over 1 million residents, is an attractive market for our mortar.

In keeping with our entrepreneurial spirit, the entrance into construction materials added a new business which on a standalone basis can have strong prospects for margin and growth. Of relevance to us as a holding company is the fact that cash flows from the construction materials business are uncorrelated to those from diamond and gold mining.

(6) In June 2015, we announced that we had cut our Brazilian fixed costs by 50% as a result of the relocation of our Brazilian administration to an office 15 miles away from our diamond, gold and sand mine operations. To facilitate oversight and communications we eliminated the Belo Horizonte office, which had been established before our acquisitions and located over 300 miles away from the MDB and RST areas. Because of savings in both labor and office costs and the elimination of travel and lodging expenses, the result of the relocation was a large decrease in Brazilian fixed costs.

(7) In July 2015, we completed all contractual cash payments for the purchase of our 50% stake in RST, a Brazilian company with 10 mining concessions and other minerals rights.. Prior to our involvement, the last time RST shares had been acquired by a publicly-traded company occurred in June 2008, when a Canadian issuer contractually agreed to pay US\$10.5 million dollars for 100% of RST. Subsequently, and as part of such contractual agreement, this Canadian buyer paid US\$2 million to the sellers, but was unable to pay the remainder due to the global financial crisis affecting its situation. RST was not explored by it or other owners since then and its areas have remained essentially untouched.

(8) In September 2015, MDB obtained a 4-year renewal of its environmental license for operations ("Licença de Operação"). MDB can reapply for continuous renewals of such license every four years. On September 8, 2015, MDB's renewal application was voted favorably by the COPAM committee, which is made up of representatives from different segments of the local community; the tally was ten votes in favor of our renewal and one abstention. This public vote was held in Montes Claros, state of Minas Gerais, the nearest large city to MDB's mine. We believe that obtaining an environmental license for any mining company in Brazil is a substantial achievement, as the process is a long and detailed, and many studies are required.

(9) In September 2015, we began to expand and improve a dirt road to connect our large diamond and gold recovery plant to the RST Initial Area a few miles away, where we intend to conduct operations for the next several years.

(10) In November 2015, we filed the necessary documents for further permitting of a 24,708-acre gold area in the state of Amazonas, Brazil. In this filing, we have added the mineral copper, also identifiable in the area. In prior filings with the Securities and Exchange Commission, we have referred to this area as "Borba". It is a mineral right located in the Apui area of Amazonas, a region of the Amazon now well known for gold deposits.

(11) In November 2015, we filed the necessary documents for further permitting of the second mineral right that belongs to MDB, and which encompasses an area of 982 acres. This mineral right has not been explored before and holds promise for future mining for diamonds and gold. Our technical team encountered in this area a type of gravel locally called "grupiária", which is known for having a lower density concentration of diamonds but yielding much larger stones diamonds when they do occur.



## Emerging Growth Company Status

We may be deemed to be an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act. As long as we remain an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding an annual nonbinding advisory vote on executive compensation and seeking nonbinding stockholder approval of any golden parachute payments not previously approved. We may take advantage of these reporting exemptions until we are no longer an "emerging growth company."

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We will remain an "emerging growth company" for up to five years, although we would cease to be an "emerging growth company" prior to such time if we have more than \$1 billion in annual revenue, more than \$700 million in market value of our common stock held by non-affiliates, or issue more than \$1 billion of non-convertible debt over a three-year period.

## Markets

### Rough Diamonds

The market for our rough diamonds is potentially global as we have attracted interest from many foreign buyers. To date we have sold our rough diamonds only in Brazil and to Brazilian institutional buyers that represent merchants from other countries. We have the necessary Siscomex export license obtained from the Brazilian regulatory agency and therefore we can export rough diamonds in the future. The export process for rough diamonds involves obtaining the Kimberly certification on each rough diamond set being exported. This certificate is obtained in the mining department and attests to the fact that we have all of the necessary licensing and that the diamonds are ethically produced. The Kimberly certification is a United Nations procedure to which Brazil is a signatory member; it seeks to eliminate from the global market the so-called "blood diamonds," mined under conditions of duress and without regard for the environment.

The price of our rough diamonds is mostly determined by the overall global market price for diamonds of similar size and characteristics; the prices are quoted in U.S. dollars per carat. For each lot available, we have had several interested and potential buyers, and normally receive multiple bids.

### Polished Diamonds

The market for our polished diamonds is global. To date we have sold our polished diamonds in Brazil and abroad. The sales in Brazil were made to a large jewelry chain that is in business since 1946 and caters to the medium-high end of the market. The sales of our diamonds to buyers from abroad were to high net worth individuals interested in acquisition for asset diversification as well as future use in jewelry pieces. Since we have the necessary Siscomex export license, the export process is rather easy for polished diamonds.



The price for our polished diamonds is determined just like it is for any other polished diamond, and thus primarily by the so-called four C's – color, carat weight, clarity, and cut. All of our exported diamonds to date have been certified and graded at the Gemological Institute of America ("GIA"), considered the premier analytical laboratory for diamonds and other gems in the world. The highest color grade our polished diamonds have obtained from GIA has been "E", the 2<sup>nd</sup> highest possible grade (the color scale starts at "D"). The best clarity our polished diamonds have obtained has been "VVS1", the 2<sup>nd</sup> best clarity possible. The majority of our polished diamonds have been graded F-G for color and VVS2-VS2 for clarity. Their weight has been approximately between 0.4 and 2.0 carats. The Rapaport valuation of our polished diamonds graded at GIA has been approximately \$3,250 per carat. Rapaport is a premier diamond service provider that publishes well-known, periodic pricing valuations for diamonds based on the four C's, as described above. The prices for our diamonds are quoted in U.S. dollars.

#### Gold

The market for our gold is local. There is strong demand from multiple Brazilian buyers. The price of our 96%-purity gold bars is determined by the London price for gold on the day of sale. The prices for our gold are quoted in U.S. dollars.

#### Sand

The market for our sand is local, driven by demands of residential and commercial construction. There are a large number of local buyers for our sand. Our sand was analyzed at a top analytical laboratory in Brazil and found to have very high silica levels and low organic matter, both characteristics of high quality sand. We price our sand based on whether it is retrieved by the buyer directly in our sand mine versus being delivered by us, and the size of the trucks used, which determines the volume purchased. The prices for our sand are quoted in Brazilian reais, the local currency.

#### Mortar

The market for our mortar is local, also driven by demands of residential and commercial construction. We sell mortar to stores and directly to the consumer. The prices for our mortar are quoted in Brazilian reais.

#### Demand

Demand for our products has been robust. We are constrained by logistical issues (eg., waiting for permits from the mining department to begin mining), equipment malfunction (eg., waiting for repair of excavator, tractor, etc.), and at times, working capital. There is currently no lack of buyers or demand for any of our products.

Overall, there has been an increase in the global demand for rough and polished diamonds, primarily driven by the improvement in the U.S. economy and continued repressed demand from emerging markets such as China and India. Gold has strong continued demand for both jewelry and as an alternative asset. Demand for our sand is robust given that there is no other licensed sand mine within a radius of approximately 200 miles. We have experienced good demand for our mortar, possibly because of its quality, and at times buyers had to wait for us to be able to fulfill their orders.

#### Distribution

We have not had material issues or bottlenecks with distribution of our products. For mortar, as our production grows, we expect to rely on third-party truckers to transport mortar from our factory to stores and distribution centers.

#### Competition

Diamonds, gold, and sand production are difficult fields to penetrate due to regulatory requirements, long wait times for permitting, and limited availability of new resource areas.

Our competitive position among suppliers of diamonds and gold is particularly strong because both MDB and RST are known companies in the Brazilian diamond trade and have the necessary minerals rights and environmental licenses in place. Therefore, our merchandise, whether rough diamonds, polished diamonds, or gold is able to be purchased openly and without restrictions since all of the supporting proof of provenance is available and in good order. Other producers that lack rights or licenses do not enjoy our position and can only sell into the "black market," possibly at a substantial discount and facing legal risks.

A secondary reason for our strong competitive position is that the diamonds from the Jequitinhonha River valley are known in Brazil and in global diamond centers to be of high quality. Since our sources of diamonds are secondary valley deposits, it is presumed that the primary kimberlitic source of such diamonds suffered erosion by the river for millions of years. In this lengthy process, over millions of years, smaller, but well proportioned, "hardy" gems resulted. These rough diamonds are fairly easy to be cut and polished, and yield attractive, naturally-appealing polished diamonds.

We have very little competition from other sand providers as simply there are no licensed sand mines in a large radius around our location.

We do face competition with respect to mortar. In the local market in which we operate, one finds a few "national" mortar brands, with high name recognition, and some other local brands. It is still early for us in this market, but our differentiators to date have been both quality and reasonable prices. We have also offered stores the ability to pay for our mortar in installments lasting 15 to 60 days, depending on the quantity ordered, which facilitates sales.

#### Seasonality

Our ability to mine for diamonds and gold is highly seasonal. The rainy season where our diamond and gold production is lasts from December through April. We therefore expect that during these months our revenues will be substantially lower than during other periods. The ability to retrieve sand from our sand mine is also impacted during this rainy season, but in lesser scale. The ability to produce mortar is impacted only in the strongest adverse weather such as sometimes occur in January and February, with the heaviest rains.

#### Raw Materials

We do not have any material dependence on any raw material or raw material supplier. All of the raw materials that we need are available from numerous suppliers and at market-driven prices.

#### Intellectual Property

We have secured the right to use the name "Hercules" for our mortar with the Brazilian intellectual property agency. We have proprietary formulations for three different types of mortar that we sell.

#### Government Regulation

The Brazilian mining industry is highly regulated. We spend a considerable amount of time preparing filings requested by the mining and the environmental regulatory agencies. We also spend a considerable amount of time urging these agencies to more expeditiously review our filings so that we can move to production. We consider our operations in Brazil to be in compliance with Brazilian federal, state, and municipal regulations. There is no governmental control of the selling of our diamonds (whether rough or polished), gold, sand, and mortar.



### Mining Regulation and Compliance

Mining regulation in Brazil is carried out by the mining department, a federal entity. Each state in Brazil has a state-level office of this federal entity. For each mineral right that we own, we file any paperwork related to it in the office of the mining department in the state in which such mineral right occurs.

We follow the status of any processes with the environmental agency by periodic visitation to such office. We maintain what we believe to be a good relationship with the offices of the environmental agency and believe that our methods of monitoring are adequate for our current needs.

The mining department normally inspects our operations once a year via an unannounced visit which is their standard practice. The Company estimates that it costs \$25,000 annually to currently maintain compliance with various mining regulations.

### Environmental Regulation and Compliance

Environmental regulation in Brazil is carried out by a state-level agency, which may have multiple offices, one for each region of the state. For each mineral right that we own, we file any paperwork related to it in the local office of the environmental agency that has the applicable geographical jurisdiction.

We follow the status of any processes with the environmental agency by periodic visitation to such office. We maintain a good relationship with the offices of the environmental agency and believe that our methods of monitoring are adequate for our current needs.

The environmental agency normally inspects our operations once every one or two years which is standard practice for companies in good standing. We believe that we are in compliance with environmental laws in our applicable jurisdictions. The Company estimates that it costs \$25,000 annually to currently maintain compliance with various environmental regulations.

Surface disturbance from open pit mining at MDB is in full compliance with its mining plan. Furthermore, MDB regularly recuperates areas that have been exploited. The current environmental regulations state that after all mining has ceased at MDB (however long that may take), there would still be five years of available time for any necessary recuperation to be performed. The separation process for diamonds and gold at MDB does not use any chemical products. Tests are conducted regularly and there are no records of groundwater contamination.

### Export Regulation

The export of rough diamonds from Brazil complies with the United Nations Kimberley Process certification system of which Brazil is a signatory country. This system was implemented by a large number of member countries of the United Nations to marginalize and prevent entrance to the diamond marketplace of those gems produced in areas where human exploitation and other specific illicit activities exist. To our knowledge, Brazil was never a jurisdiction that had any issues of these types.

Two of our subsidiaries have been granted export licenses, and therefore we can export either rough or polished diamonds. Gold is too heavy and is best sold locally, since its price is essentially the same as abroad. There is no cost

to maintain the export license active.

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## Employees and Independent Contractors

As of March 25, 2016, we had 11 full-time equivalent employees and 2 part-time contractors. We also periodically retain consultants to provide specific services deemed necessary. We consider our employee relations to be very good.

## Form & Year of Organization & History to Date

We were incorporated in the State of Nevada on December 15, 2011. From inception until December 2012, we were focused in the software business, which generated minimal revenues and was discontinued when the current management team and business focus began. The Company changed its name to Brazil Minerals, Inc. in December 2012.

## Available Information

We maintain a website at [www.brazil-minerals.com](http://www.brazil-minerals.com). We make available free of charge, through the Public Filings section of the Investors tab on our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The information on our website is not, and shall not be deemed to be, a part hereof or incorporated into this or any of our other filings with the SEC.

Our SEC filings are available from the SEC's internet website at [www.sec.gov](http://www.sec.gov) which contains reports, proxy and information statements and other information regarding issuers that file electronically. These reports, proxy statements and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549.

## Item 1A. Risk Factors.

Some, but not all, of our operating risk factors and the risks of any investment in our stock are listed below.

### Risks Related to Our Operations

We have a limited operating history.

Our current business model and management team has been in place only since December 2012. Our limited operating history makes it difficult to evaluate our business or prospective operations. As an early stage company, we are subject to all of the risks inherent in the initial organization, financing, expenditures, complications, and delays inherent in a new business. Investors should evaluate an investment in us in light of the uncertainties encountered by developing companies in a competitive environment. Our business is dependent upon the implementation of our business plan. There can be no assurance that our efforts will be successful or that we will ultimately be able to attain

profitability.

Our ability to execute our business plan depends primarily on the continuation of a favorable mining environment in Brazil.

Mining operations in Brazil are heavily regulated. Any significant change in mining legislation or other changes in Brazil's current mining environment may slow down or alter our business prospects.

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We do not have any reserves compliant with SEC Industry Guide 7.

Vaaldiam, a company which formally owned the mining concession which MDB now owns, performed geological studies in a subset of such mineral rights area leading to the publication of an NI 43-101 technical report in 2007, with an update in 2008, as required by the rules of the Canadian securities administrator. These NI 43-101 technical reports differ from the standards generally permitted in reports filed with the SEC. Therefore, investors should be aware that we have no "reserves" as strictly defined by SEC Industry Guide 7 since we have not performed any studies that follow the SEC Industry Guide 7, and that some or all of our mineralized material may never be confirmed or converted into SEC Industry Guide 7 compliant "reserves."

We have no plans to perform any studies that follow the SEC Industry Guide 7 at this time. The primary reason is that we know or have a good indication as to where diamondiferous and auriferous gravel layers are located, or can readily identify new locations using relatively inexpensive drilling and research methods without the need for an expensive study. At this time, the Company is focused on growing revenues and not in growing mineral assets compliant to Industry Guide 7. In the future, if and when we achieve cash flow profitability from operations, it is possible that we will revalue all or a substantial portion of our mineral rights utilizing the SEC Industry Guide 7 or other appropriate methodology.

We may be unable to find sources of funding if and when needed, resulting in the failure of our business.

We expect to generate sufficient revenues from a new mining area to enter production in 2016 that will significantly diminish or eliminate our need for funding to execute our business plan. If there is any delay in getting this new area in operations, or if the revenues from such area are much lower than expected, we may require more funding than anticipated.

As of today, and before the start of mining in this new and promising area, we need additional equity or debt financing beyond our existing cash to operate. This additional financing may not become available and, if available, may not be available on terms that are acceptable to us. If we do obtain acceptable funding, the terms and conditions of receiving such capital would likely result in further dilution. If we are not successful in raising capital or sufficient capital, we will have to modify our business plans and substantially reduce or eliminate operations, or as an extreme measure seek reorganization. In these events, you could lose a substantial part or all of your investment.

Our quarterly and annual operating and financial results and our revenue are likely to fluctuate significantly in future periods.

Our quarterly and annual operating and financial results are difficult to predict and may fluctuate significantly from period to period. Our revenues, net income, and results of operations may fluctuate as a result of a variety of factors that are outside our control including, but not limited to, lack of sufficient working capital, equipment malfunction and breakdowns, inability to timely find spare machines or parts to fix the broken equipment, regulatory or licensing delays, and severe weather phenomena.

We do not intend to pay regular future dividends on our common stock and thus stockholders must look to appreciation of our common stock to realize a gain on their investments.

We have never paid a dividend and we do not have any plans to pay dividends in the foreseeable future. Our future dividend policy is within the discretion of our Board of Directors and will depend upon various factors, including future earnings, if any, our capital requirements and general financial condition, and other factors. Accordingly, stockholders must look solely to appreciation of our common stock to realize a gain on their investment. This appreciation may not occur, or may occur over a longer timeframe that is less interesting to short-term oriented investors.

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We depend upon Marc Fogassa, our Chief Executive Officer and Chairman.

Our success is largely dependent upon the personal efforts of Marc Fogassa. Currently he is our only management team member that is fluent and fully conversant in both Portuguese, the language of Brazil, and English. The loss of the services of Mr. Fogassa would have a material adverse effect on our business and prospects. We maintain key-man life insurance on the life of Mr. Fogassa.

#### Risks Related to Our Capital Stock

Our Series A Preferred Stock has the effect of concentrating voting control over us in Marc Fogassa, our Chairman and Chief Executive Officer.

One share of our Series A Preferred Stock is issued, outstanding and held by Marc Fogassa, our Chairman and Chief Executive Officer. The Certificate of Designations, Preferences and Rights of our Series A Convertible Preferred provides that for so long as Series A Preferred Stock is issued and outstanding, the holders of Series A Preferred Stock shall vote together as a single class with the holders of our Common Stock, with the holders of Series A Preferred Stock being entitled to 51% of the total votes on all matters regardless of the actual number of shares of Series A Preferred Stock then outstanding, and the holders of Common Stock and any other class or series of capital stock entitled to vote with the Common Stock being entitled to their proportional share of the remaining 49% of the total votes based on their respective voting power.

Our stock price may be volatile.

The market price of our Common Stock has been and is likely to continue to be volatile and could fluctuate in price in response to various factors, many of which are beyond our control, including the following:

- (1) our ability to grow and/or maintain revenue;
- (2) our ability to achieve profitability;
- (3) our ability to raise capital when needed;
- (4) our sales of our common stock;
- (5) our ability to execute our business plan;
- (6) our ability to acquire additional mineral properties;
- (7) legislative, regulatory, and competitive developments; and
- (8) economic and other external factors.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

Because our common stock trades on the over-the-counter (OTC) market, you may not be able to buy and sell our common stock at optimum prices and you may face liquidity issues.

The trading of our stock on the OTC imposes, among others, the following risks:

- Availability of quotes and order information
- Liquidity risks

·Dealer's spreads

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Our convertible debt securities outstanding may adversely affect the market price for our common stock.

To the extent that any remaining convertible debt securities are converted into our common stock, the existing stockholder percentage ownership will be diluted and any sales in the public market of the common stock underlying such options may adversely affect prevailing market prices for our common stock. A similar situation will occur if our outstanding options and warrants are exercised.

We may seek to raise additional funds, finance acquisitions or develop strategic relationships by issuing capital stock that would dilute your ownership.

We may largely finance our operations by issuing equity securities, which would materially reduce the percentage ownership of our existing stockholders. Furthermore, any newly issued securities could have rights, preferences, and privileges senior to those of our existing common stock. Moreover, any issuances by us of equity securities may be at or below the prevailing market price of our stock and in any event may have a dilutive impact on ownership interest of existing common stockholders, which could cause the market price of stock to decline. We may also raise additional funds through the incurrence of debt or the issuance or sale of other securities or instruments senior to our common shares. The holders of any debt securities or instruments we may issue could have rights superior to the rights of our common stockholders.

Our common stock is currently defined as "penny stock" and the rules imposed on the sale of the shares may affect your ability to resell any shares you may purchase, if at all.

Our common stock is defined as a "penny stock" under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and rules of the SEC. The Exchange Act and such penny stock rules generally impose additional sales practice and disclosure requirements on broker-dealers who sell our securities to persons other than certain accredited investors who are, generally, institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 jointly with spouse, or in transactions not recommended by the broker-dealer. For transactions covered by the penny stock rules, a broker-dealer must make a suitability determination for each purchaser and receive the purchaser's written agreement prior to the sale. In addition, the broker-dealer must make certain mandated disclosures in penny stock transactions, including the actual sale or purchase price and actual bid and offer quotations, the compensation to be received by the broker-dealer and certain associated persons, and deliver certain disclosures required by the SEC. Consequently, the penny stock rules may affect the ability of broker-dealers to make a market in or trade our common stock and may also affect a stockholder's ability to resell any of our shares in the public markets.

#### Item 1B. Unresolved Staff Comments.

None.

#### Item 2. Properties.

Our main assets are:

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- (1) 100% of BMIX Participações Ltda. ("BMIXP"). BMIXP owns the mineral right for a large area (24,708 acres) located in the state of Amazonas, in the Amazon region of Brazil, with known presence of gold.
- (2) 100% of Mineração Duas Barras Ltda. ("MDB"). MDB holds title to two mineral rights, including a mining concession for diamonds, gold and sand. It also owns and operates the largest alluvial processing plant for diamonds and gold in Latin America and has a Brazilian permit to export its diamond production.

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(3) 50% of RST Recursos Minerais Ltda. ("RST"). RST holds title to storied mineral rights for diamonds and gold along a premier are in the Jequitinhonha River valley, a well-known area for diamonds and gold for over two centuries. Many of the RST areas are located near MDB's plant.

(4) 100% of Hercules Brasil Ltda. ("HBR"). HBR owns an operating mortar manufacturing plant and markets a line of three mortar products for sale to the local construction market under the brand name "Hercules".

Within our subsidiaries, we own title to 30 mineral rights as detailed in the table below. These include: 10 mining concessions, the highest level of mineral right in Brazil ("Concessão de Lavra"), 8 mineral rights in the phase just below mining concession ("Requerimento de Lavra"), 8 mineral rights in the research permit phase ("Autorização de Resquisa"), and 4 mineral rights in the phase of application for research permit ("Requerimento de Pesquisa").

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DNPM Mineral Right Number	Mineral Right Status	Location	Subsidiary	Area of Mineral Right (in acres)	Minerals Currently Requested in Mineral Right Document
806.569/1977	Mining Concession ("MC")	Jequitinhonha River valley, State of Minas Gerais, Brazil ("JRV")	MDB	422	diamond, gold, sand
830.797/1982	MC	JRV	RST	102	diamond, gold
830.062/1980	MC	JRV	RST	1,177	diamond, gold
817.734/1968	MC	JRV	RST	5,202	diamond, gold
807.497/1968	MC	JRV	RST	1,178	diamond, gold
003.048/1956	MC	JRV	RST	905	diamond, gold
003.047/1956	MC	JRV	RST	1,343	diamond, gold
003.046/1956	MC	JRV	RST	1,039	diamond, gold
003.045/1956	MC	JRV	RST	1,295	diamond, gold
003.044/1956	MC	JRV	RST	678	diamond, gold
830.749/1981	Application for Mining Concession ("AMC")	JRV	RST	591	diamond, gold
830.746/1981	AMC	JRV	RST	55	diamond, gold
830.921/1980	AMC	JRV	RST	276	diamond, gold
830.919/1980	AMC	JRV	RST	318	diamond
804.492/1977	AMC	JRV	RST	986	diamond, gold
802.267/1977	AMC	JRV	RST	1,310	diamond, gold
831.742/1987	AMC	JRV	RST	294	diamond
830.998/1984	AMC	JRV	RST	730	diamond
880.239/2009	Research Permit ("RP")	Apui region, State of Amazonas, Brazil	BMIXP	24,708	gold
831.380/2014	RP	JRV	BMIXP	1,375	diamond, gold, gravel, sand
831.398/2014	RP	JRV	BMIXP	994	diamond, gold, gravel, sand
832.052/2006	RP	JRV	MDB	982	diamond, gold
830.899/2013	RP	JRV	RST	1,443	diamond, gold
830.898/2013	RP	JRV	RST	671	diamond, gold
833.685/2006	RP	JRV	RST	130	diamond, gold

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832.108/2005	RP	JRV	RST	657	diamond, gold
832.059/2014	Application for Research Permit ("ARP")	JRV	BMIXP	1,152	diamond, gold, gravel, sand
832.060/2014	ARP	JRV	BMIXP	1,052	diamond, gold, gravel, sand
832.043/2007	ARP	JRV	BMIXP	19	diamond
833.938/2006	ARP	JRV	BMIXP	1,236	diamond, gold

Other material assets of each of our subsidiaries and further details are described immediately below.

1)BMIX Participações Ltda. ("BMIXP")

BMIXP holds title to a mineral rights claim for gold covering an area of 9,999.11 hectares, or approximately 24,708 acres, in region of Apui, State of Amazonas in Brazil. This area has had its final report submitted to us in November 2015 to the local mining department. Recently, we were notified that our report was approved, and that of amount of mineralized material that the local mining department believes to exist in our area is 4 million ounces of gold (however, this is not an SEC Industry Guide 7-compliant number and therefore we make no representations as to having actual reserves).

We are in the process of evaluating potential partnerships for exploring this large gold area. The Apui region of the Brazilian Amazon is considered by expert geologists to be a richly mineralized area for gold, and to contain other minerals such as copper. Any online search of Apui elicits multiple examples of areas in which prospectors were able to extract gold with facility, being that many veins are fairly superficial.

## 2) Mineração Duas Barras Ltda. ("MDB")

MDB owns a large alluvial diamond and gold processing and recovery plant, capable of processing upwards of 45 tons of gravel per hour of operation. It is our best information that this plant was built by South African mining engineers hired for the task and cost \$2.5 million to construct. It is regarded as the largest such plant in Latin America.

MDB has title to two mineral rights. One is a mining concession for diamond, gold, and sand (discussed below). The other, physically separated, is an area for which we have submitted the application to mine. Both of the MDB mineral rights are located on the left margin of the Jequitinhonha River in the State of Minas Gerais in Brazil. The Jequitinhonha River valley is a well-known area for diamond and gold production; it has hosted alluvial production since the 18th century.

MDB's plant, mining concession, and mineral right are all approximately one and half hour drive from Montes Claros, Brazil, a city of approximately 500,000 people. The first hour of the drive is on asphalt roads followed by a half-hour on dirt roads. Montes Claros has the infrastructure needed by MDB and also benefits from having an airport with regular carrier service to large Brazilian cities, including São Paulo and Belo Horizonte.

### MDB's Mining Concession

MDB's mining concession ("Concessão de Lavra") covers an area of 422 acres. It allows for the exploration and commercialization of diamonds, gold, and sand. "Concessão de Lavra" is the highest level of mineral right in Brazil. It permits the owner to mine in perpetuity provided that environmental licenses are kept current and that mining guidelines are followed.

There are no liens or other encumbrances on MDB's mining concession, and there are no fees to be paid to maintain such claim. Therefore, we have no outright payments to maintain MDB's mining concession.

Brazilian law guarantees the owner of the land from which the subsoil is mined a royalty of at least 0.1% of gross revenues. However, most Brazilian mining companies negotiate with the landowner and pay a higher royalty rate as an incentive for greater cooperation. MDB has a contract that pays the surface landowner a 6% royalty rate on any gross revenues from material mined in MDB's titled mining concession. Additionally, MDB pays "CEFEM" royalties to Brazil's tax authority if and when it sells diamonds and gold. These royalty rates are fixed by federal decree and currently are 0.1% on diamond sales and 1% on gold sales.

### MDB's Other Mineral Right ("MDB-2")

MDB's other mineral right covers an area of 982 acres. In February 2016, we filed with the mining department a detailed application with technical study for commercial mining of this area. We also filed the appropriate permit with the environmental department. We are monitoring both applications.



MDB-2 has not been mined commercially before, but prior to our ownership it has had prospector activity, something viewed by experts as a positive sign. In the plot within MDB-2 for which initial commercial exploration is targeted, our technical team identified both "grupiária" and alluvial gravel available for processing for diamonds and gold. "Grupiária" is a thicker rock mixture known locally for having a lower density diamond concentration, but larger diamonds where they do occur. Anecdotally, diamonds that are 5 to 10-carats in weight are reported from such material, although we have not had independent confirmation. Commercial exploration, when permitted, will be via open-sky, surface mining, with a small, moveable pre-processing structure, which will filter and concentrate material for transport to our large diamond and gold processing plant. We cannot estimate as to when MDB-2 will be operating on a commercial basis, although we have reason to believe it could be sometime in late 2016.

We intend to perform all of the necessary studies to move MDB-2 to the mining concession status as soon as possible in the future. There is no current recurring cost to the mining department to upkeep this ar