

CD INTERNATIONAL ENTERPRISES, INC.  
Form 10-Q  
August 14, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33694

CD INTERNATIONAL ENTERPRISES, INC.  
(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of incorporation or  
organization)

13-3876100  
(I.R.S. Employer Identification No.)

431 Fairway Drive, Suite 200, Deerfield Beach, Florida  
(Address of principal executive offices)

33441  
(Zip Code)

954-363-7333  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. 49,033,194 shares of common stock were issued and outstanding as of August 10, 2012.

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### Cautionary Note Regarding Forward-Looking Information and Factors That May Affect Future Results

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company’s future prospects and make informed investment decisions. This Quarterly Report on Form 10-Q and other written and oral statements that we make from time to time contain such forward-looking statements that set out anticipated results based on management’s plans and assumptions regarding future events or performance. We have tried, wherever possible, to identify such statements by using words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “will” and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated sales efforts, expenses, the outcome of contingencies, such as legal proceedings, and financial results. A list of factors that could cause our actual results of operations and financial condition to differ materially is set forth below, and these factors are discussed in greater detail under Item 1A – “Risk Factors” of our 2011 Annual Report on Form 10-K, our subsequent filings with the Securities and Exchange Commission and in Item 1A. of this report:

- Delisting of our common stock by The NASDAQ Stock Market.
  - Continued global economic weakness is expected to reduce demand for our products in each of our segments.
  - Fluctuations in the pricing and availability of magnesium and in levels of customer demand.
  - Changes in the prices of magnesium and magnesium-related products.
  - Our ability to implement our expansion plans for growing our business through increased magnesium production capacity and acquisitions and development of our commodity trading business.
  - Fluctuations in the cost or availability of coke gas and coal.
  - Loss of orders from any of our major customers.
  - The value of the equity securities we accept as compensation is subject to adjustment which could result in losses to us in future periods.
  - Our ability to effectively integrate our acquisitions and to manage our growth and our inability to fully realize any anticipated benefits of acquired business.
  - Our need for additional financing which we may not be able to obtain on acceptable terms, the dilutive effect additional capital raising efforts in future periods may have on our current shareholders and the increased interest expense in future periods related to additional debt financing.
- Adverse outcome of the bankruptcy of CDII Trading
- Our dependence on certain key personnel.
  - Difficulties we have in establishing adequate management, cash, legal and financial controls in the PRC.
  - Our ability to maintain an effective system of internal control over financial reporting.
  - The lack various legal protections in certain agreements to which we are a party and which are material to our operations which are customarily contained in similar contracts prepared in the United States.
  - Potential impact of PRC regulations on our intercompany loans.
  - Our ability to assure that related party transactions are fair to our company.
  - Yuwei Huang, our executive vice president – magnesium, director and an officer of several of our magnesium subsidiaries and his daughter Lifei Huang is also an owner and executive officer of several companies which directly compete with our magnesium business.

- The impact of a loss of our land use rights.
- Our ability to comply with the United States Foreign Corrupt Practices Act which could subject us to penalties and other adverse consequences.
- Limits under the Investment Company Act of 1940 on the value of securities we can accept as payment for our business consulting services.
- Our acquisition efforts in future periods may be dilutive to our then current shareholders.
- The risks and hazards inherent in the mining industry on the operations of our basic materials segment.
- Our inability to enforce our rights due to policies regarding the regulation of foreign investments in the PRC.
- The impact of environmental and safety regulations, which may increase our compliance costs and reduce our overall profitability.
- The effect of changes resulting from the political and economic policies of the Chinese government on our assets and operations located in the PRC.
- The impact of Chinese economic reform policies.
- The influence of the Chinese government over the manner in which our Chinese subsidiaries must conduct our business activities.

- The impact on future inflation in the PRC on economic activity in the PRC.
- The impact of any natural disasters and health epidemics in China.
- The impact of labor laws in the PRC may adversely affect our results of operations.
- The limitation on our ability to receive and use our revenues effectively as a result of restrictions on currency exchange in the PRC.
- Fluctuations in the value of the RMB may have a material adverse effect on your investment.
- The market price for shares of our common stock has been and may continue to be highly volatile and subject to wide fluctuations.

We caution that the factors described herein and other factors could cause our actual results of operations and financial condition to differ materially from those expressed in any forward-looking statements we make and that investors should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time, and it is not possible for us to predict all of such factors. Further, we cannot assess the impact of each such factor on our results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

## INDEX OF CERTAIN DEFINED TERMS USED IN THIS REPORT

We have defined various periods that are covered in this report as follows:

- “fiscal 2012” — October 1, 2011 through September 30, 2012.
- “fiscal 2011” — October 1, 2010 through September 30, 2011.

We used in this report the terms:

- “CD International”, “we”, “us” or “our” refers to CD International Enterprises, Inc., a Florida corporation formerly known as China Direct Industries, Inc., and our subsidiaries;
- “CDI China”, refers to CDI China, Inc., a Florida corporation, and a wholly owned subsidiary of CD International; and
- “PRC” refers to the People’s Republic of China.

### Magnesium Segment

- “Chang Magnesium”, refers to Taiyuan Changxin Magnesium Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI China;
- “Chang Trading”, refers to Taiyuan Changxin YiWei Trading Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of Chang Magnesium;
- “Asia Magnesium”, refers to Asia Magnesium Corporation Limited, a company organized under the laws of Hong Kong and a wholly owned subsidiary of Capital One Resource;
- “Golden Magnesium” refers to Shanxi Gu County Golden Magnesium Co., Ltd., a company organized under the laws of the PRC and a 100% owned subsidiary of CDI China;
- “Baotou Changxin Magnesium”, refers to Baotou Changxin Magnesium Co., Ltd., a company organized under the laws of the PRC, a 51% owned subsidiary of CDI China;
- “IMG” or “International Magnesium Group”, refers to International Magnesium Group, Inc., a Florida corporation and a 100% owned subsidiary of CD International Industries;
- “IMTC” or “International Magnesium Trading”, refers to International Magnesium Trading Corp., a company organized under the laws of Brunei and a 100% owned subsidiary of IMG;
- “Ruiming Magnesium”, refers to Taiyuan Ruiming Yiwei Magnesium Co., Ltd., a company organized under the laws of the PRC and an 80% majority owned subsidiary of CDI China;
- “Beauty East” refers to Beauty East International, Ltd., a Hong Kong company and a wholly owned subsidiary of CDI China.
- “Marvelous Honor” refers to Marvelous Honor Holdings Inc., a Brunei company and a wholly owned subsidiary of CDI China.
- “Golden Trust” refers to Golden Trust Magnesium Industry Co., Ltd. a company organized under the laws of the PRC and a wholly owned subsidiary of CDI China; and
- “Lingshi Magnesium” refers to Lingshi Xinghai Magnesium Industry Co., Ltd. a company organized under the laws of the PRC and a wholly owned subsidiary of Ruiming Magnesium.

### Basic Materials Segment

- “Lang Chemical”, refers to Shanghai Lang Chemical Co., Ltd. a company organized under the laws of the PRC and a 51% owned subsidiary of CDI China;
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“CDI Jingkun Zinc”, refers to CDI Jingkun Zinc Industry Co., Ltd., a company organized under the laws of the PRC and a 95% owned subsidiary of CDI Shanghai Management;

- “CDI Jixiang Metal”, refers to CDI Jixiang Metal Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of CDI China;
- “CDI Metal”, refers to Shanghai CDI Metal Material Co., Ltd. (a/k/a Shanghai CDI Metal Recycling Co., Ltd.), a company organized under the laws of the PRC and a wholly owned subsidiary of CDI Shanghai Management; and
- “CDI Beijing” refers to CDI (Beijing) International Trading Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI Shanghai Management.
- “CDII Trading” refers to CDII Trading, Inc., a Florida corporation and a 100% owned subsidiary of CD International Industries.

#### Consulting Segment

- “China Direct Investments”, refers to China Direct Investments, Inc., a Florida corporation, and a wholly owned subsidiary of CD International;
- “CDI Shanghai Management”, refers to CDI Shanghai Management Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of CDI China; and
- “Capital One Resource”, refers to Capital One Resource Co., Ltd., a Brunei company, and a wholly owned subsidiary of CDI Shanghai Management.



## PART 1 – FINANCIAL INFORMATION

## Item 1. Financial Statements.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

	For three months ended		For nine months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenues	\$ 37,138,265	\$ 55,154,956	\$ 115,421,066	\$ 141,588,028
Revenues-related parties	136,377	1,860,644	707,376	3,465,187
Total revenues	37,274,642	57,015,600	116,128,442	145,053,215
Cost of revenues	36,160,662	49,457,823	102,861,674	127,739,204
Gross profit	1,113,980	7,557,777	13,266,768	17,314,011
Operating (expenses) income:				
Selling, general, and administrative	(3,435,013)	(3,006,256)	(9,590,595)	(9,821,167)
Other operating (expense) income-related party	-	(248,407)	-	106,791
Other operating income	-	251,146	-	354,018
Total operating expenses	(3,435,013)	(3,003,517)	(9,590,595)	(9,360,358)
Operating (loss) income	(2,321,033)	4,554,260	3,676,173	7,953,653
Other (expenses) income:				
Other income (expense)	325,316	(178,469)	592,117	86,892
Interest expense	(437,152)	(119,025)	(357,140)	(186,069)
Realized loss on available-for-sale securities	(13,912)	-	(30,974)	(379,969)
Total other (expenses) income	(125,748)	(297,494)	204,003	(479,146)
(Loss) income before income taxes	(2,446,781)	4,256,766	3,880,176	7,474,507
Income tax (benefit) expense	(692,644)	53,078	930,665	120,719
Net (loss) income	(1,754,137)	4,203,688	2,949,511	7,353,788
Net loss to noncontrolling interests	392,205	102,870	828,851	424,981
Net (loss) income to CD International	\$ (1,361,932)	\$ 4,306,558	\$ 3,778,362	\$ 7,778,769
Deduct dividends on Series A Preferred Stock:				
Preferred stock dividend	(20,130)	(20,130)	(60,390)	(60,390)
Net (loss) income to common stockholders	\$ (1,382,062)	\$ 4,286,428	\$ 3,717,972	\$ 7,718,379
COMPREHENSIVE (LOSS) INCOME :				
Net (loss) income	\$ (1,754,137)	\$ 4,203,688	\$ 2,949,511	\$ 7,353,788

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Foreign currency translation adjustments	361,053	(100,000)	476,683	1,743,945
Unrealized (loss) gains on available-for-sale securities	(3,113,830)	6,444,495	(1,877,459 )	10,770,761
Comprehensive (Loss) income	\$ (4,506,914)	\$ 10,548,183	\$ 1,548,735	\$ 19,868,494
Net loss to noncontrolling interests	392,205	102,870	828,851	424,981
Foreign currency translation adjustments - noncontrolling interests	(105,199 )	(87,504)	(15,655 )	(394,943)
Comprehensive (loss) income to CD International	\$ (4,219,908)	\$ 10,563,549	\$ 2,361,931	\$ 19,898,532
Preferred stock dividend	(20,130)	(20,130)	(60,390)	(60,390)
Comprehensive (loss) income to common stockholders	\$ (4,240,038)	\$ 10,543,419	\$ 2,301,541	\$ 19,838,142
Basic and diluted (loss) income per common share:				
Basic	\$ (0.03)	\$ 0.11	\$ 0.09	\$ 0.22
Diluted	\$ (0.03)	\$ 0.11	\$ 0.08	\$ 0.22
Basic weighted average common shares outstanding	48,111,759	37,567,331	43,380,118	34,694,215
Diluted weighted average common shares outstanding	48,111,759	38,250,045	47,383,843	34,818,040

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

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

ASSETS	June 30, 2012 (Unaudited)	September 30, 2011
Current Assets:		
Cash and cash equivalents	\$ 4,137,934	\$ 12,563,126
Available-for-sale Marketable securities (Note 5)	13,103,813	8,292,837
Available- for- sale-Marketable securities-related parties (Note 5)	212,238	542,386
Accounts and notes receivables, net of allowance of \$267,910 and \$276,069, respectively (Note 6)	20,350,307	20,428,217
Accounts, loans and other receivables, and prepaid expenses - related parties (Note 11)	1,682,013	9,598,583
Inventories, net (Note 7)	19,382,493	9,625,774
Prepaid expenses and other current assets, net (Note 8)	21,233,429	14,389,065
Restricted cash, current	2,132,840	1,547,159
<b>Total current assets</b>	<b>82,235,067</b>	<b>76,987,147</b>
Property, plant and equipment, net (Note 9)	62,543,351	36,873,988
Intangible assets	138,134	163,447
Property use rights, net	4,219,871	2,252,445
Other long-term assets	427,593	58,192
<b>Total assets</b>	<b>\$ 149,564,016</b>	<b>\$ 116,335,219</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Loans payable-short term (Note 10)	\$ 3,523,172	\$ 2,657,091
Accounts payable and accrued expenses	12,906,885	15,468,902
Accounts and other payables-related parties (Note11)	19,085,323	4,590,045
Advances from customers and deferred revenue	2,999,786	3,821,208
Other liabilities (Note 12)	11,865,251	4,315,858
Taxes payable	1,305,006	1,349,611
<b>Total current liabilities</b>	<b>51,685,423</b>	<b>32,202,715</b>
Long-term liabilities	13,990	107,231
<b>Total Liabilities</b>	<b>51,699,413</b>	<b>32,309,946</b>
<b>TOTAL EQUITY</b>		
Series A Convertible Preferred Stock: \$.0001 par value, stated value \$1,000 per share; 10,000,000 authorized, 1,006 shares issued and outstanding at June 30, 2012 and September 30, 2011 (Note 13)	1,006,250	1,006,250
Common Stock: \$.0001 par value; 1,000,000,000 authorized; 48,218,090 and 40,353,828 issued and outstanding as of June 30, 2012 and September 30, 2011, respectively. (Note 13)	4,821	4,035
Additional paid-in capital	83,177,643	75,279,087
Accumulated other comprehensive income (Note 14)	(1,287,489)	128,943
Accumulated deficit	(4,391,590)	(8,111,323)
<b>Total CD International stockholders' equity</b>	<b>78,509,635</b>	<b>68,306,992</b>
Non-controlling interests (Note 15)	19,354,968	15,718,281

Total equity	97,864,603	84,025,273
Total liabilities and equity	\$ 149,564,016	\$ 116,335,219

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

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For nine months ended	
	June 30, 2012	June 30, 2011
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 2,949,511	\$ 7,353,788
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,197,073	2,934,788
Allowance for bad debt	8,159	25,868
Stock based compensation	813,930	410,267
Realized loss on investments in marketable securities	30,974	379,969
Gain on derivative liabilities revaluation	(93,241)	(159,467)
Fair value of marketable securities received for services	(10,737,043)	(18,157,734)
Fair value of marketable securities paid for services	338,976	6,370,148
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(4,850,908)	(3,978,520)
Accounts receivable and other assets-related parties	10,174,416	(1,369,314)
Inventories	(3,617,562)	(5,764,814)
Accounts receivable	2,170,191	897,777
Accounts payable and accrued expenses	(4,853,956)	3,216,591
Accounts and other payable - related parties	(3,422,962)	1,108,942
Advances from customers	(1,230,771)	(120,011)
Other payables	2,983,348	1,022,466
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(7,139,865)</b>	<b>(5,829,256)</b>
<b>INVESTING ACTIVITIES:</b>		
Cash acquired from acquisition	1,808,881	-
Cash paid for acquisition	(4,454,487)	-
Gross Proceeds from the sale of marketable securities available for sale	893,176	818,456
Purchases of property, plant and equipment	(1,506,124)	(2,501,259)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(3,258,554)</b>	<b>(1,682,803)</b>
<b>FINANCING ACTIVITIES:</b>		
(Increase) decrease in restricted cash	(585,681)	3,961,441
Loans payable	866,081	(2,931,883)
Gross proceeds from sale of stock and exercise of warrants/options	-	3,874,702
Cash dividend payment to preferred stockholders	(20,130)	-
Capital contribution from noncontrolling interest owners	214,348	1,710,909
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>474,618</b>	<b>6,615,169</b>
<b>EFFECT OF EXCHANGE RATE ON CASH</b>	<b>1,498,609</b>	<b>1,049,859</b>
Net (decrease) increase in cash	(8,425,192)	152,969

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Cash and cash equivalents, beginning of the period	12,563,126	10,110,818
Cash and cash equivalents, end of the period	\$ 4,137,934	\$ 10,263,787
Supplemental disclosures of cash flow information:		
Preferred dividend paid in our common stock	\$ 40,260	\$ 60,390

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

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CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

CD International Enterprises, Inc., a Florida corporation and its subsidiaries are referred to in this report as “we”, “us”, “our”, or “CD International.”

We are a U.S. based company that sources, produces and distributes industrial products in Asia, Europe, Australia, and the Americas. We also provide business and financial consulting services to public and private American and Chinese businesses. We operate in three identifiable segments, as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 280, “Segment Reporting:” Magnesium, Basic Materials and Consulting. Beginning in 2006 we established our Magnesium and Basic Materials segments which have grown through acquisitions of controlling interests in Chinese private companies. We consolidate these acquisitions as either wholly or majority owned subsidiaries. Through our U.S. based industrial commodities business, established in 2009, we source, finance, manage logistics, and sell industrial commodities from North and South America for ultimate distribution in China.

In our Magnesium segment, currently our largest segment by revenues and assets, we produce, sell and distribute pure magnesium ingots, magnesium powder and magnesium alloy. In our Basic Materials segment, we sell and distribute a variety of products, including industrial grade synthetic chemicals, steel products, non ferrous metals, recycled materials, and industrial commodities. This segment also includes our zinc ore mining property which has not commenced operations. In our Consulting segment, we provide business and financial consulting services to U.S. public companies that operate primarily in China. The consulting fees we charge vary based upon the scope of the services.

Name change

We changed our name from China Direct Industries, Inc. to CD International Enterprises, Inc. on February 29, 2012 to more accurately reflect our business and operations and our efforts to expand our sourcing, processing, and distribution business in Mexico and South America.

Basis of Presentation

Our interim consolidated financial statements are unaudited. We prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the U.S. Securities and Exchange Commission (“SEC”) rules for interim reporting. We included all adjustments that are necessary for the fair presentation of our financial position, results of operations, and cash flows for the interim periods presented. These adjustments are of a normal and recurring nature, with exceptions disclosed in this report. Results for the first nine months of the fiscal year 2012 may not necessarily be indicative of full year results. It is suggested that these consolidated financial statements be read in conjunction with the audited financial statements and the notes included in our 2011 Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Summary of Significant Accounting Policies

## Foreign Currency Translation

Our reporting currency is the U.S. dollar. The functional currency of the parent company is the U.S. dollar and the functional currency of our Chinese subsidiaries is the Renminbi (“RMB”), the official currency of the People’s Republic of China. Capital accounts of the consolidated financial statements are translated into United States dollars from RMB at their historical exchange rates when the capital transactions occurred. Assets and liabilities are translated at the exchange rates as of the balance sheet dates. Income and expenditures are translated at the average exchange rates for the nine months ended June 30, 2012 and 2011. A summary of the conversion rates for the periods presented is as follows:

	June 30, 2012	September 30, 2011	June 30, 2011
Period end RMB: U.S. dollar exchange rate	6.3089	6.3885	6.4630
Average fiscal-year-to-date RMB: U.S. dollar exchange rate	6.3197	6.5287	6.5710



CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through PRC authorized institutions. No representation is made that RMB amounts could have been, or could be, converted into United States dollars at the rates applied in the translation.

#### Fair Value of Financial Instruments

We adopted on a prospective basis certain required provisions of ASC Topic 820, "Fair Value Measurements." These provisions relate to our financial assets and liabilities carried at fair value and our fair value disclosures related to financial assets and liabilities. ASC Topic 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs. Observable market data should be used when available.

Most of our financial instruments are carried at fair value, including, all of our cash and cash equivalents, accounts and notes receivable, prepayments and other current assets, accounts payable, taxes payable, accrued expenses and other current liabilities, investments classified as available-for-sale securities and assets held for sale, with unrealized gains or losses recognized as Other Comprehensive Income (OCI), net of tax. Virtually all of our valuation measurements are Level 1 measurements.

#### Marketable Securities

Marketable securities that we receive from our clients as compensation are generally restricted for sale under Federal securities laws. Our policy is to liquidate securities received as compensation when market conditions are favorable for sale. Since these securities are often restricted, we are unable to liquidate them until the restriction is removed. We recognize revenue for the securities we receive as compensation based on the fair value at the time the securities are granted or at the time service has been rendered and for common stock purchase warrants based on the Black-Scholes valuation model. Pursuant to ASC Topic 320, "Investments –Debt and Equity Securities" our marketable securities have a readily determinable and active quoted price, such as from the Over the Counter Bulletin Board, and the OTC Markets Group (formerly known as the Pink Sheets) and any unrealized gain or loss is recognized as an element of comprehensive income based on changes in the fair value of the security as quoted on an exchange or an inter-dealer quotation system. Once liquidated, any realized gain or loss on the sale of marketable securities is reflected in our net income for the period in which the security was liquidated.

We perform an analysis of our marketable securities at least on an annual basis to determine if any of these securities have become other than temporarily impaired. If we determine that the decline in fair value is other than temporary we recognize the amount of the impairment as a realized loss into our current period net income (loss). This determination is based on a number of factors, including but not limited to (i) the percentage of the decline, (ii) the severity of the decline in relation to the enterprise/market conditions, and (iii) the duration of the decline.

#### Derivative Warrant Liabilities

ASC Subtopic 815-40, "Contracts in Entity's Own Equity," requires that entities recognize as derivative liabilities the derivative instruments, including certain derivative instruments embedded in other contracts that are not indexed to an entity's own stock. Pursuant to the provisions of ASC Section 815-40-15, an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. The adoption of ASC Subtopic 815-40 has affected the accounting for (i) certain freestanding warrants that contain exercise price adjustment features and (ii) convertible bonds issued by foreign subsidiaries with a strike price denominated in a foreign currency. In the case of any such warrants and convertible bonds, ASC Subtopic 815-40 provides that such warrants and bonds are to be treated as a liability at fair value with changes in fair value recognized in earnings.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
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#### Accrual of Environmental Obligations

ASC Section 410-30-25 "Recognition" of environmental obligations requires the accrual of a liability if both of the following conditions are met:

- a. Information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements.
- b. The amount of the loss can be reasonably estimated.

As of June 30, 2012, we do not have any environmental remediation obligations, nor do we have any asset retirement obligations under ASC 410. Furthermore, we do not have any environmental remediation loss contingencies requiring recognition or disclosure in our financial statements.

#### Business Combinations

Business combinations are accounted for under the purchase method of accounting. Under the purchase method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the income statement from the date of acquisition.

#### Goodwill and Intangibles

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Goodwill is reviewed for impairment at least annually or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the carrying amount. Goodwill is allocated into two reporting units. Fair value for each reporting unit is estimated using stock price multiples or revenue multiples. Intangible assets that have finite lives are amortized over their estimated useful lives and are subject to impairment testing. All of our other intangible assets have finite lives and are amortized on a straight-line basis over varying periods not exceeding eight years.

#### Recent Accounting Pronouncements

##### Comprehensive Income

Accounting Standards Update ("ASU") No. 2011-05 amends FASB Codification Topic 220 on comprehensive income (1) to eliminate the current option to present the components of other comprehensive income in the statement of changes in equity, and (2) to require presentation of net income and other comprehensive income (and their respective components) either in a single continuous statement or in two separate but consecutive statements. These amendments do not alter any current recognition or measurement requirements in respect of items of other comprehensive income.

The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. We adopted this guidance in our first quarter of

fiscal 2012.

#### Business Combinations

In January 2011, ASU No. 2010-29 clarified that pro forma revenue and earnings for a business combination occurring in the current year should be presented as though the business combination occurred as of the beginning of the year or, if comparative statements are presented, as though the business combination took place as of the beginning of the comparative year.

The new and amended disclosures should be applied prospectively to business combinations consummated on or after the start of the first annual reporting period beginning on or after December 15, 2010, with earlier application permitted. We have adopted this guidance.

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A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to our consolidated financial statements.

NOTE 2 - EARNINGS PER SHARE

Under the provisions of ASC 260, "Earnings Per Share," basic earnings per common share ("EPS") is computed by dividing earnings available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted earnings per common share is computed assuming that all potentially dilutive securities, including convertible preferred stock, unvested restricted stock and "in-the-money" stock options, were converted into common shares at the beginning of each period. A reconciliation of the amounts included in the computation of basic earnings per common share, and diluted earnings per common share is as follows (unaudited):

	For three months ended June 30,		For nine months ended June 30,	
	2012	2011	2012	2011
Net (Loss) income to common stockholders	\$ (1,382,062)	\$ 4,286,428	\$ 3,717,972	\$ 7,718,379
Plus: preferred stock dividends	-	20,130	60,390	60,390
Net (Loss) income to common stockholders plus assumed conversions	\$ (1,382,062)	\$ 4,306,558	\$ 3,778,362	\$ 7,778,769
Basic weighted average common shares outstanding	48,111,759	37,567,331	43,380,118	34,694,215
Plus: incremental shares from assumed conversions (1)				
Convertible preferred stock	-	558,889	558,889	-
Unvested stock-based compensation	-	123,825	25,477	123,825
Shares subscribed for acquisition	-	-	3,419,359	-
Dilutive potential common shares	-	682,714	4,003,725	123,825
Diluted weighted-average common shares outstanding	48,111,759	38,250,045	47,383,843	34,818,040
Net (Loss) income per common share – basic :	\$ (0.03)	\$ 0.11	\$ 0.09	\$ 0.22 (2)
Net (Loss) income per common share – diluted:	\$ (0.03)	\$ 0.11	\$ 0.08	\$ 0.22 (2)

(1 ) Securities are not included in the denominator in periods when anti-dilutive. We excluded 2,022,980 and 2,142,980 shares of our common stock issuable upon exercise of stock options and 4,179,130 and 6,264,942 shares of our common stock issuable upon exercise of warrants as of June 30, 2012 and 2011, respectively, as their effect was

anti-dilutive.

(2) The \$0.02 increase in the earnings per share for the nine months ended June 30, 2011 resulted from a correction of prior year accounting errors related to the conversion price change of the preferred stock and the exercise price change of the remaining warrants (See Note 14 – CAPITAL STOCK in Form 10-K for the fiscal year ended September 30, 2011).

#### NOTE 3 –CHANGE IN ACCOUNTING PRINCIPLE AND METHOD OF DEPRECIATION

In the second quarter of fiscal 2012, we changed our depreciation method applied to our Magnesium Segment production from the straight line method to the units of production method of depreciation.

The straight line method of depreciation for our magnesium segment did not reflect the economics of our magnesium production operations and the proper allocation of cost to the production cycle. The units of production method of depreciation is a preferable accounting method, in accordance with ASC 250-10-45, for fixed assets related to the magnesium production cycle, under which periodic depreciation expenses are calculated based on the actual production as a percentage of the total capacity.

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The unaudited comparative effect of the change in accounting method and its impact on key components of our statement of operations is described below for the three and nine months ended June 30, 2012 and 2011:

	For three months ended June 30, 2012		For nine months ended June 30, 2012	
	As reported	Straight- line	As reported	Straight- line
Revenues	\$ 37,274,642	\$ 37,274,642	\$ 116,128,442	\$ 116,128,442
Cost of revenues	\$ 36,160,662	\$ 36,502,957	\$ 102,861,674	\$ 103,955,820
Gross profit	\$ 1,113,980	\$ 771,685	\$ 13,266,768	\$ 12,172,622
Operating (Loss) income	\$ (2,321,033)	\$ (2,663,329)	\$ 3,676,173	\$ 2,582,027
Net (Loss) income	\$ (1,754,137)	\$ (2,663,327)	\$ 2,949,511	\$ 1,855,366
Net (Loss) income to common stockholders	\$ (1,382,062)	\$ (1,724,356)	\$ 3,717,972	\$ 2,623,827
Basic and diluted				
(loss) income per common share:				
Basic	\$ (0.03)	\$ (0.04)	\$ 0.09	\$ 0.06
Diluted	\$ (0.03)	\$ (0.04)	\$ 0.08	\$ 0.06
Basic weighted average common shares outstanding	48,111,759	48,111,759	43,380,118	43,380,118
Diluted weighted average common shares outstanding	48,111,759	48,111,759	47,383,843	47,383,843
	For three months ended June 30, 2011		For nine months ended June 30, 2011	
	Units of production	As reported (straight-line)	Units of production	As reported (straight-line)
Revenues	\$ 57,015,600	\$ 57,015,600	\$ 145,053,215	\$ 145,053,215
Cost of revenues	\$ 49,008,965	\$ 49,457,823	\$ 126,434,415	\$ 127,739,204
Gross profit	\$ 8,006,635	\$ 7,557,777	\$ 18,618,800	\$ 17,314,011
Operating income	\$ 5,003,118	\$ 4,554,260	\$ 9,258,442	\$ 7,953,653
Net income	\$ 4,652,546	\$ 4,203,558	\$ 8,658,577	\$ 7,353,788
Net income to common stockholders	\$ 4,735,286	\$ 4,286,428	\$ 9,023,168	\$ 7,718,379
Basic and diluted income per common share:				
Basic	\$ 0.13	\$ 0.11	\$ 0.26	\$ 0.22
Diluted	\$ 0.12	\$ 0.11	\$ 0.26	\$ 0.22
Basic weighted average common shares outstanding	37,567,331	37,567,331	34,694,215	34,694,215
Diluted weighted average common shares outstanding	38,250,045	38,250,045	34,818,040	34,818,040

NOTE 4 – ACQUISITION OF LINGSHI MAGNESIUM AND GOLDEN TRUST

Following our February 29, 2012 special meeting of shareholders, we completed the acquisition of all of the issued and outstanding capital stock of Golden Trust Magnesium Industry Co., Ltd., a Chinese company (“Golden Trust”) and an 80% ownership interest in Lingshi Xinghai Magnesium Industry Co., Ltd., a Chinese company (“Lingshi Magnesium”) for an aggregate purchase price of \$26,705,070 payable as follows:

- \$6,493,047 in proceeds from repayment of our intercompany loans,
- \$15,515,938 in shares of our common stock, with approximately \$6,652,823 paid within 15 business days following the closing of the acquisitions and the balance \$8,863,115 payable within 15 business days following satisfaction of certain post closing conditions which include the delivery of technical information, financial statements and other information. The value of these shares which are payable following the satisfaction of the post-closing conditions, which had not been met at June 30, 2012, are included in other payables – related parties (See Note 11) in the amount of \$8,266,058 and \$597,057 included in Other Liabilities (See Note 12); and
- \$4,696,085 by way of assignment of our interest in our subsidiary Excel Rise.



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Golden Trust owns and operates a pure magnesium ingot production facility located on approximately 502,000 square feet of land in Xiaoyi City, Shanxi Province, China capable of producing up to 20,000 metric tons of pure magnesium per year. Lingshi Magnesium owns and operates a pure magnesium ingot production facility located on approximately 902,000 square feet of land in Jin Zhong City, Shanxi Province, China, capable of producing up to 12,000 metric tons of pure magnesium per year.

As of June 30, 2012, the consolidated balance sheet includes the net assets at fair value of Lingshi Magnesium and Golden Trust which were acquired by us as of the closing date on February 29, 2012.

The following table summarizes the assets acquired and liabilities assumed by CD International at the acquisition date (unaudited).

	Lingshi Xinghai	Golden Trust
Current assets	\$ 4,779,690	\$ 6,358,048
Property, plant and equipment and other long term assets	16,755,467	11,833,150
Total identifiable assets	21,535,157	18,191,198
Current liabilities	3,554,969	5,511,768
Total identifiable liabilities	3,554,969	5,511,768
Total identifiable net assets	\$ 17,980,188	\$ 12,679,430
Net assets acquired (A)	\$ 14,384,150	\$ 12,679,430

(A) The fair value of non-controlling interest of Lingshi Xinghai, which represents 20% of total equity, was \$3,596,038 at the acquisition date, based on the fair value appraisal provided by independent third party, which conducted the appraisal based on market prices.

The tables below provide the pro forma condensed financial statements of operations (unaudited) to give effect to the acquisition of Lingshi Magnesium and Golden Trust for the three and nine months ended June 30, 2012.

For three months ended June 30, 2012:

	Acquisition of				
	CD International (excluding acquisitions) (unaudited)	Lingshi Xinghai (unaudited)	Golden Trust (unaudited)	Pro Forma Adjustments (unaudited)	Pro Forma (Consolidated) (unaudited)
Total revenues	\$ 28,491,925	\$ 3,015,289	\$ 6,738,804	\$ (971,376)	A\$ 37,274,642
Cost of revenues	27,893,800	2,960,229	6,278,009	(971,376)	36,160,662
Gross profit	\$ 598,125	\$ 55,060	\$ 460,795	\$ -	\$ 1,113,980
Operating (loss) income	\$ (2,455,629)	\$ (86,613)	\$ 221,209	\$ -	\$ (2,321,033)
Net (loss) income	\$ (1,839,115)	\$ (90,382)	\$ 175,361	\$ -	\$ (1,754,137)

Net (loss) income to common stockholders	\$	(1,475,826)	\$	(72,306)	\$	166,069	\$	-	\$	(1,382,062)
Basic and diluted loss per common share:										
Basic	\$	(0.03)					\$	(0.02)		
Diluted	\$	(0.03)					\$	(0.02)		
Basic weighted average common shares outstanding										
		48,111,759				9,369,043		57,480,802		
Diluted weighted average common shares outstanding										
		48,111,759				9,369,043		57,480,802		

(A) Represents elimination of inter-company sales from Lingshi and Golden Trust to CDII subsidiaries.

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For nine months ended June 30, 2012:

	Acquisition of				
	CD International (excluding acquisitions) (unaudited)	Lingshi Xinghai (unaudited)	Golden Trust (unaudited)	Pro Forma Adjustments (unaudited)	Pro Forma (Consolidated) (unaudited)
Total revenues	\$ 103,067,795	\$ 8,349,627	\$ 17,523,829	\$ (3,465,432) (A)	\$ 125,475,819
Cost of revenues	90,418,336	8,123,742	16,785,356	(3,465,432) (A)	111,862,002
Gross profit	\$ 12,649,459	\$ 225,885	\$ 738,473	\$ -	\$ 13,613,817
Operating income (loss)	\$ 3,548,023	\$ (46,954)	\$ 138,470	\$ -	\$ 3,639,539
Net income	\$ 2,865,746	\$ (43,796)	\$ 179,456	\$ -	\$ 3,001,406
Net income (loss) to common stockholders	\$ 3,678,650	\$ (35,037)	\$ 170,164	\$ -	\$ 3,813,777
Basic and diluted income per common share:					
Basic	\$ 0.08				\$ 0.07
Diluted	\$ 0.08				\$ 0.07
Basic weighted average common shares outstanding	43,380,118			9,369,043	52,749,161
Diluted weighted average common shares outstanding	43,964,484			9,369,043	56,752,886

(A) Represents elimination of inter-company sales from Lingshi and Golden Trust to CDII subsidiaries.

For three months ended June 30, 2011:

	Acquisition of				
	CD International (excluding acquisitions) (unaudited)	Lingshi Xinghai (unaudited)	Golden Trust (unaudited)	Pro Forma Adjustments (unaudited)	Pro Forma Consolidated) (unaudited)
Total revenues	\$ 57,015,600	\$ 4,820,986	\$ 6,987,260	\$ (1,771,237) (A)	\$ 67,052,610
Net income	\$ 4,203,688	\$ 6,909	\$ 127,375		\$ 4,337,972

(A) Represents elimination of inter-company sales from Lingshi and Golden Trust to CDII subsidiaries.

For nine months ended June 30, 2011:

Acquisition of

	CD International (excluding acquisitions) (unaudited)	Lingshi Xinghai (unaudited)	Golden Trust (unaudited)	Pro Forma Adjustments (unaudited)	Pro Forma (Consolidated) (unaudited)
Total revenues	\$ 145,053,215	\$ 10,828,382	\$ 19,233,731	\$ (4,509,317) (A)	\$ 170,606,011
Net income	\$ 7,353,788	\$ 74,869	\$ 192,171		\$ 7,620,828

(A) Represents elimination of inter-company sales from Lingshi and Golden Trust to CDII subsidiaries.

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## NOTE 5 - AVAILABLE-FOR-SALE MARKETABLE SECURITIES

Available-for-sale marketable securities and available-for-sale marketable securities-related party as of June 30, 2012 and September 30, 2011 consisted of the following:

Company	June 30, 2012 (unaudited)	% of Total	September 30, 2011	% of Total
Ziyang Ceramics Corp. (1 )	\$ 3,768,591	28%	\$ 426,791	5%
China Logistics Group, Inc.	112,610	1%	196,208	2%
Dragon International Group Corp.	22,816	0%	22,816	0%
Decor Products International, Inc.	35,625	0%	-	0%
Sunwin Stevia International Inc. (2)	-	0%	361,000	4%
Dragon Capital Group Corp.	212,238	2%	542,386	6%
China Education International, Inc.	8,742,479	66%	7,286,022	83%
Linkwell Corporation	240,000	2%	-	0%
Others	181,692	1%	-	0%
Marketable securities available for sale	\$ 13,316,051	100%	\$ 8,835,223	100%

(1) China American Holdings, Inc. changed its name to Ziyang Ceramics Corp. on January 27, 2012.

(2) Sunwin International Neutraceuticals, Inc. changed its name to Sunwin Stevia International, Inc. on April 20, 2012.

Our available-for-sale marketable securities are carried at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs to fair value measurements - Level 1, quoted prices for identical instruments in active markets; Level 2, quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, unobservable inputs. All our available-for-sale marketable securities were measured using Level 1 inputs for the periods ended June 30, 2012. For the period ended September 30, 2011, all our available -for-sale marketable securities were measured using Level 1 inputs, except for the valuation of securities for China Education International where we used Level 2 inputs.

The investments in available-for-sale marketable securities-related party totaled \$212,238 and \$542,386 at June 30, 2012 and September 30, 2011, respectively and are comprised solely of the securities of Dragon Capital Group Corp. ("Dragon Capital"). Mr. Lisheng (Lawrence) Wang, the CEO and Chairman of the Board of Dragon Capital, is the brother of Dr. James Wang, our CEO and Chairman of the Board of Directors. These securities were issued by Dragon Capital as compensation for consulting services. Dragon Capital is a non-reporting company whose securities are quoted on the OTC Pink Tier of the OTC Markets Group. As such, under Federal securities laws, securities of Dragon Capital generally cannot be resold by us absent a registration of those securities under the Securities Act.

## NOTE 6 – ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable include a note receivable obtained in connection with the settlement of a lawsuit we filed seeking repayment of a loan from a former client. The total settlement amount was \$373,902 at December 31, 2011. In January, 2012, we received a payment of \$38,766. At June 30, 2012 the balance of the settlement was \$337,565, of which \$245,553 was classified as other long-term assets in our balance sheet for the period ended June 30, 2012. Accounts and notes receivable also include available-for-sale securities receivable. These receivables are carried at fair market value. Unrealized gains or loss on these receivables are recognized on a quarterly basis as an element of comprehensive income based on changes in the fair market value of the securities underlying the receivables. At June 30, 2012 and September 30, 2011, the fair value of available-for-sale securities receivable was \$5,763,351 and \$3,691,735, respectively. The table below presents the details on the accounts and notes receivable:

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Accounts and notes receivable	June 30, 2012 (Unaudited)	% of Total	September 30, 2011	% of Total
Available-for-sale securities receivable	\$ 5,763,351	28%	\$ 3,691,735	18%
Notes receivable	940,413	4%	364,718	2%
Other trade receivables	13,914,453	68%	16,647,833	80%
Total accounts and notes receivable	\$ 20,618,217	100%	\$ 20,704,286	100%
Allowance for uncollectible accounts	(267,910)		(276,069)	
Net accounts and notes receivable	\$ 20,350,307		\$ 20,428,217	

NOTE 7 – INVENTORIES

Inventories at June 30, 2012 and September 30, 2011 consisted of the following:

	June 30, 2012 (Unaudited)	September 30, 2011
Raw materials	\$ 4,827,669	\$ 3,061,481
Finished goods	14,554,824	6,564,293
Total Inventory	\$ 19,382,493	\$ 9,625,774

Due to the nature of our business and the short duration of the manufacturing process for our products, there is no material work in progress inventory at June 30, 2012 and September 30, 2011.

NOTE 8 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

At June 30, 2012 and September 30, 2011, prepaid expenses and other current assets, consisted of the following:

Description	June 30, 2012 (Unaudited)	September 30, 2011
Prepayments to vendors for merchandise that had not yet been shipped or services that had not been performed	\$ 10,200,682	\$ 6,519,123
Prepaid expenses	3,927,729	2,448,248
Other receivables	6,511,269	3,865,525
Loans receivable	575,000	1,537,420
Security deposits	18,749	18,749
Total	\$ 21,233,429	\$ 14,389,065

Prepaid expenses include prepaid cost for Baotou Changxin Magnesium's land use rights. Baotou Changxin Magnesium owns and operates a magnesium facility capable of producing 20,000 metric tons of pure magnesium per year on approximately 406,000 square feet of land located in the Shiguai district of Baotou city, Inner Mongolia. The land use rights are valued at \$1,140,011 as of June 30, 2012. Baotou Changxin Magnesium occupies this land

pursuant to an asset acquisition agreement entered into with Baotou Sanhe Magnesium Co., Ltd. to acquire the land use rights for this property, among other assets. Since the land use right is yet to be transferred from Baotou Sanhe Magnesium Co. to Baotou Changxin Magnesium, the cost of \$1,140,011 is accounted for as prepaid expenses. The company has not started amortizing the land use right prepaid as of June 30, 2012. The land use right expires in May 2045.

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## NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

At June 30, 2012 and September 30, 2011, property, plant and equipment consisted of the following:

Property, Plant and Equipment Description	Useful Life	June 30, 2012 (unaudited)	September 30, 2011
	10-40 years	\$ 23,932,087	\$ 14,260,280
Building			
Manufacturing equipment	5-10 year	38,526,750	21,535,796
Office equipment and furniture	3-5 year	714,343	646,244
Autos and trucks	5 year	1,291,612	1,187,281
Construction in progress	N/A	9,199,403	8,295,743
Total		73,664,195	45,925,344
Less: accumulated depreciation		(11,120,844)	(9,051,356)
Property, Plant and Equipment, Net		\$ 62,543,351	\$ 36,873,988

For the nine months ended June 30, 2012 and 2011, depreciation expense amounted to \$2,063,370 and \$2,850,257, respectively.

## NOTE 10 - LOANS PAYABLE

Loans payable at June 30, 2012 and September 30, 2011 consisted of the following:

Description	June 30, 2012 (unaudited)	September 30, 2011
CDI China loan from Sunwin Tech Group, Inc. Due on December 31, 2012. 3% annual interest rate. Secured by pledge of CDI China assets.	\$ 194,541	\$ 450,000
Lang Chemical loan from China Mingsheng Bank. Due on May 16, 2012. 6.941% annual interest rate. Guaranteed by Zhu Qian and Chen Jingdong.	-	720,044
Lang Chemical loan from Bank of Shanghai. Due on March 22, 2012. 6.666% annual interest rate. Guaranteed by China Investment Guarantor Co. Ltd. and Zhu Qian.	-	547,859
CDI Beijing loan from Bank of Hangzhou. Due on October 21, 2011. 6.672% annual interest rate. Guaranteed by Chi Chen	-	939,188
Lang Chemical loan from China Merchants Bank. Due on October 20, 2012. 8.590% annual interest rate. Guaranteed by Zhu Qian.	1,268,050	-

Lang Chemical loan from China Merchants Bank. Due on May 10, 2013. 8.659% annual interest rate. Guaranteed by Zhu Qian.	317,012	-
Lang Chemical loan from Mingsheng Bank. Due on May 07, 2013. 8.528% annual interest rate. Guaranteed by Zhu Qian.	1,268,050	-
Lang Chemical loan from Shanghai Bank. Due on May 20, 2013. 6.56% annual interest rate. Guaranteed by Zhu Qian.	475,519	-
Total	\$ 3,523,172	\$ 2,657,091
Less: Current Portion	(3,523,172)	(2,657,091)
Loans payable, long-term	\$ -	\$ -

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NOTE 11 - RELATED PARTY TRANSACTIONS

List of Related Parties

We have specified the following persons and entities as related parties with ending balances as of June 30, 2012 and September, 2011:

Yuwei Huang, our executive vice president of our Magnesium segment, and a member of our board of directors, is chairman of YiWei Magnesium, and chief executive officer and vice chairman of Golden Magnesium;  
Taiyuan Yiwei Magnesium Industry Co., Ltd., a company organized under the laws of the PRC (“Yiwei Magnesium”), is a minority interest owner in Chang Magnesium;  
Lifei Huang, is the daughter of Yuwei Huang;  
Lifei Huang, is a registered representative of Pine Capital Enterprises Inc., a company organized under the laws of the Cayman Islands (“Pine Capital”);  
Lifei Huang, is a registered representative of Wheaton Group Corp., a company organized under the laws of Brunei Darussalam (“Wheaton”);  
Shuihuan Huang, is the sister of Yuwei Huang;  
Kong Tung, a member of the board of directors, and chairman of Golden Magnesium, Beauty East, and Golden Trust;  
LingShi County Yihong Magnesium Co., Ltd., a company organized under the laws of the PRC (“Yihong Magnesium”), is legally represented by an officer of Chang Magnesium;  
Excel RiseTechnology Co., Ltd., a company organized under the laws of Brunei Darussalam (“Excel Rise”), is owned by Yiwei Magnesium Industry Co., Ltd. (Yiwei Magnesium”), an entity owned or controlled by Mr. Huang;  
Lucheng Haixu Magnesium Co., Ltd., a company organized under the laws of the PRC (“Haixu Magnesium”), is legally represented by an officer of Chang Magnesium;  
NanTong Langyuan Chemical Co., Ltd., a company organized under the laws of the PRC (“NanTong Chemical”), is owned by Jingdong Chen and Qian Zhu, the minority interest owners of Lang Chemical;  
Jingdong Chen, is vice president of our Basic Materials segment and chief executive officer of Lang Chemical;  
Chi Chen is vice president of our Basic Materials Segment and minority interest owner of CDI Beijing;  
Zhongmen International Investments Co., Ltd., a company organized under the laws of the PRC (“Zhongmen International”), is legally represented by an officer of CDI Beijing;

As of June 30, 2012, accounts, loans, and other receivables and prepaid expenses- related parties were \$1,682,013, consisting of accounts receivable – related party of \$4,921, prepaid to suppliers – related parties of \$191,558, and other receivables-related parties of \$1,485,534 as set forth below:

Accounts Receivable – related parties

At June 30, 2012 and September 30, 2011, accounts receivable – related parties for inventory provided were \$4,921 and \$1,211,079, respectively, as follows:

CD International Subsidiary	Related Party	June 30, 2012 (unaudited)	September 30, 2011
Baotou Changxin Magnesium	Yiwei Magnesium	\$ -	\$ 364,705
Chang Trading	Wheaton	4,921	4,860
Chang Magnesium	Yiwei Magnesium	-	296,156

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Ruiming Magnesium	Yihong Magnesium	-	545,358
Total Accounts			
Receivable-related parties		\$ 4,921	\$ 1,211,079

Prepaid Expenses – related parties

At June 30, 2012 and September 30, 2011, prepaid expenses – related parties for future delivery of inventory were \$191,558 and \$2,687,928, respectively, as follows:

CD International Subsidiary	Related Party	June 30, 2012 (unaudited)	September 30, 2011
Ruiming Magnesium	Yiwei Magnesium	\$ 34,716	\$ 33,544
Chang Trading	Xinghai Magnesium	156,842	2,654,384
Total Prepaid Expenses-related parties		\$ 191,558	\$ 2,687,928

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

Loans Receivable – related parties

At June 30, 2012 and September 30, 2011, loan receivables – related parties for working capital purposes were zero and \$1,320,324, respectively, as follows:

CD International Subsidiary	Related Party	June 30, 2012 (unaudited)	September 30, 2011
Lang Chemical	Nantong Chemical	\$ -	\$ 1,320,324
<b>Total Loans</b>			
Receivable-related parties		\$ -	\$ 1,320,324

Other Receivables- related parties

At June 30, 2012 and September 30, 2011, other receivables-related parties for working capital purposes were \$1,485,534 and \$4,379,252, respectively, as follows:

CD International Subsidiary	Related Party	June 30, 2012 (unaudited)	September 30, 2011
Baotou Changxin Magnesium	Yihong Magnesium	\$ -	\$ 118,954
Baotou Changxin Magnesium	Yiwei Magnesium	-	78,266
Chang Magnesium	Yiwei Magnesium	252,369	3,850,151
Chang Magnesium	Shuihuan Huang	-	3,130
IMTC	Yuwei Huang	-	12,000
Ruiming Magnesium	Yiwei Magnesium	44,382	42,263
Ruiming Magnesium	Yihong Magnesium	62,508	200,924
CDI Shanghai	Yiwei Magnesium	-	10,951
CDI Beijing	Zhongmen International	67,207	62,613
Xinghai Magnesium	Yiwei Magnesium	761,939	-
Xinghai Magnesium	Yihong Magnesium	-	-
Lang Chemical	Nantong Chemical	297,129	-
<b>Total Other</b>			
Receivable-related parties		\$ 1,485,534	\$ 4,379,252

As of June 30, 2012, accounts and other payables – related parties were \$19,085,323, consisting of accounts payable – related parties of \$1,726,588, advance from customer – related parties of \$49,390 and other payables- related parties of \$17,309,345 as set forth below:

Accounts Payable – related parties

At June 30, 2012 and September 30, 2011, accounts payable – related party for purchases of goods were \$1,726,588 and \$896,878, respectively, as follows:

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CD International Subsidiary	Related Party	June 30, 2012 (unaudited)	September 30, 2011
IMTC	Pine Capital	\$ -	\$ 754,399
Baotou Magnesium	Yiwei Magnesium	36,702	-
Baotou Magnesium	Haixu Magnesium	16,069	-
Golden Magnesium	Yiwei Magnesium	141,175	142,479
IMTC	Wheaton	1,458,433	-
Lingshi Xinghai Magnesium	Yihong Magnesium	36,157	-
Baotou Magnesium	Yihong Magnesium	38,052	-
Total Accounts Payable-related parties		\$ 1,726,588	\$ 896,878

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CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

Advance from Customers – related parties

At June 30, 2012 and September 30, 2011, advance from customers – related party for the working capital purposes were \$49,390 and \$0, respectively, as follows:

CD International Subsidiary	Related Party	June 30, 2012 (unaudited)	September 30, 2011
Chang Trading	Pine Capital	\$ 49,390	\$ -
Total Advance from Customers-related parties		\$ 49,390	\$ -

Other Payables- related parties

At June 30, 2012 and September 30, 2011, other payables- related party for working capital purposes were \$17,309,345 and \$3,683,482, respectively, as follows:

CD International Subsidiary	Related Party	June 30, 2012 (unaudited)	September 30, 2011
Beauty East	Kung Tong	\$ -	\$ 97,089
CDI Beijing	Chi Chen	400,704	399,781
Chang Magnesium	Yuwei Huang	-	9,953
CDII	Yiwei Magnesium	8,266,058	3,176,659
Baotou Magnesium	Excel Rise	4,661,041	-
Chang Trading	Yiwei Magnesium	60,232	-
Chang Magnesium	Excel Rise	961,122	-
IMTC	Pine Capital	1,713,162	-
IMTC	Yiwei Magnesium	1,003,170	-
Beauty East	Kong Tung	97,089	-
Beauty East	Pine Capital	146,767	-
Total Other Payables-related parties		\$ 17,309,345	\$ 3,683,482

NOTE 12 – OTHER LIABILITIES

Other liabilities included the following as of June 30, 2012 and September 30, 2011:

Account	June 30, 2012 (unaudited)	September 30, 2011
Other short-term loans	\$ 8,525,261	\$ 4,208,627
Payables for acquisitions	2,287,572	-

Accrued salary payable	1,018,298	-
Derivative liabilities	13,990	107,231
Accrued dividend payable	20,130	-
Total other liabilities	\$ 11,865,251	\$ 4,315,858

## NOTE 13 – CAPITAL STOCK

## Preferred Stock and Related Dividends

During the nine months ended June 30, 2012, we paid \$20,130 of ordinary dividends in cash and \$40,260 in the form of 87,641 shares of our common stock on our Series A convertible preferred stock. During the nine months ended June 30, 2011, we paid \$60,390 of ordinary dividends in the form of 43,533 shares of our common stock on our Series A convertible preferred stock.



CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

### Derivative liabilities

As of June 30, 2012, the carrying amounts of the derivative liabilities for preferred stock conversion option and warrants were \$11,711 and \$2,279, respectively. As of September 30, 2011, the carrying amounts of the derivative liabilities for conversion option and warrants were \$69,295 and \$37,936, respectively. The fair value of derivative liabilities is included in other liabilities, and the net change in fair value during the period is included in operating expenses. Inputs used in making the determination are as follows:

	June 30, 2012	September 30, 2011
<b>Inputs for conversion option valuation – covered call</b>		
Asset price on valuation date	\$ 0.32	\$ 1.01
Exercise price	\$ 9.80	\$ 9.80
Estimated years to exercise	5.67	6.5
Expected volatility factor	99%	93%
Risk free rate	0.92%	1.31%
<b>Inputs for conversion option valuation – short call</b>		
Asset price on valuation date	\$ 0.32	\$ 1.01
Exercise price	\$ 1.80	\$ 1.80
Estimated years to exercise	5.67	6.5
Expected volatility factor	99%	93%
Risk free rate	0.92%	1.31%
<b>Inputs for warrant valuation</b>		
Asset price on valuation date	\$ 0.32	\$ 1.01
Exercise price	\$ 1.80	\$ 1.80
Estimated years to exercise	0.62	1.5
Expected volatility factor	135%	93%
Risk free rate	0.16%	0.19%

### Common Stock

During the nine months ended June 30, 2012, we issued a total of 7,864,262 shares of our common stock comprised of: 7,032,583 shares paid as part of the consideration of Golden Trust and Lingshi Magnesium acquisition, 68,200 shares to members of our board of directors as compensation, 431,706 shares to consultants for services, 306,078 shares to employees as compensation, and 25,695 share to pay dividends on 1,006 shares of our series A preferred stock.

During the nine months ended June 30, 2011, we issued a total of 6,151,699 shares of our common stock comprised of: 2,222,224 shares to accredited investors, 1,219,820 shares to Mr. Kong Tung and 1,219,820 shares to Mr. Hui Dong as part of the purchase price for our acquisition of Beauty East, 769,231 shares to Pine Capital as part of the purchase price for our acquisition price for our acquisition of an 80% interest in Ruiming Magnesium, 43,533 shares to pay dividends on 1,006 shares of our Series A convertible preferred stock, 80,000 shares in connection with the

exercise of stock options; 87,850 shares to members of our board of directors as compensation, 6,000 shares issued for consulting services, and 503,321 were issued to employees as compensation.

Stock Incentive Plans

The following table sets forth our stock option activities as of June 30, 2012 and changes during the period were as follows:

Description	Shares underlying options	Weighted average exercise price
Outstanding and exercisable at September 30, 2011	2,142,980	\$ 15.90
Expired	(120,000)	2.00
Outstanding and Exercisable at June 30, 2012	2,022,980	\$ 16.73

As of June 30, 2012, we had 2,022,980 shares underlying options outstanding and exercisable.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

The remaining contractual life and exercise price of options outstanding and exercisable at June 30, 2012 are as follows:

Number of Options outstanding and exercisable	Exercise Price	Remaining contractual life (Years)
400	\$ 2.25	2.31
637,000	\$ 7.50	0.50
625,000	\$ 10.00	1.51
500	\$ 15.00	0.94
760,000	\$ 30.00	0.58
80	\$ 56.25	2.42
2,022,980	\$ 16.73	0.84

#### Common Stock Purchase Warrants

A summary of the status of our outstanding common stock purchase warrants granted as of June 30, 2012 and changes during the period were as follows:

	Shares underlying warrants	Exercise price
Outstanding and exercisable at September 30, 2011	4,229,130	
Expired	(50,000)	\$ 2.50
Outstanding and exercisable at June 30, 2012	4,179,130	\$ 4.83

The following information applies to all warrants outstanding and exercisable at June 30, 2012:

Number of Warrants outstanding and exercisable	Exercise Price	Remaining contractual life (Years)
143,750	\$ 1.80	0.62
777,778	\$ 2.00	4.01
1,351,352	\$ 2.31	2.46
1,906,250	\$ 8.00	0.62
4,179,130	\$ 4.83	1.85

#### NOTE 14 – ACCUMULATED OTHER COMPREHENSIVE INCOME

Our other comprehensive income consists of currency translation adjustments and unrealized gain on available-for-sale marketable securities. The following table shows the accumulated other comprehensive income balance as of June 30, 2012.

Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available for Sale	Accumulated Other Comprehensive
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			Securities		Income
Balance at September 30, 2011	\$	5,238,089	\$	(5,109,146)	\$ 128,943
Current-period change (Unaudited)		461,028		(1,877,460)	(1,416,432 )
Balance at June 30, 2012	\$	5,699,117	\$	(6,986,606)	\$ (1,287,489)

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CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

## NOTE 15 – NONCONTROLLING INTERESTS

As of June 30, 2012 and September 30, 2011, our consolidated balance sheets reflected total non-controlling interest of \$19,263,701 and \$15,718,281, respectively, which represent the equity portion of our subsidiaries held by noncontrolling interests shareholders in two of our segments, as follows:

Segment	June 30, 2012 (unaudited)	September 30, 2011
Magnesium Segment	\$ 15,496,794	\$ 12,002,000
Basic Materials Segment	3,858,174	3,716,281
<b>Total</b>	<b>\$ 19,354,968</b>	<b>\$ 15,718,281</b>

## NOTE 16 - SEGMENT INFORMATION

Revenues by segment for the three and nine months ended June 30, 2012 and 2011 were as follows (unaudited):

	For three months ended June 30,		For nine months ended June 30,	
	2012	2011	2012	2011
Magnesium (1)	\$ 26,539,758	\$ 25,022,544	\$ 70,388,045	\$ 70,574,101
Basic Materials	10,649,100	20,187,730	34,873,984	55,780,579
Consulting	85,784	11,805,326	10,866,413	18,698,535
<b>Total revenue</b>	<b>\$ 37,274,642</b>	<b>\$ 57,015,600</b>	<b>\$ 116,128,442</b>	<b>\$ 145,053,215</b>

(1) We had revenue from related parties of \$136,377 and \$1,860,644 during three months ended June 30, 2012 and 2011, respectively. We had revenue from related parties of \$707,376 and \$3,465,187 during the nine months ended June 30, 2012 and 2011, respectively.

Net income (loss) to CD International by segment for the three and nine months ended June 30, 2012 and 2011 follows (unaudited):

	For three months ended June 30,		For nine months ended June 30,	
	2012	2011	2012	2011
Magnesium	\$ (754,045)	\$ (70,823)	\$ (1,754,099)	\$ (812,725)
Basic Materials	(394,467)	(16,249)	(889,159)	211,603
Consulting	(213,420)	4,393,630	6,421,620	8,379,891
Net (loss) income attributable to				
CD International	\$ (1,361,932)	\$ 4,306,558	\$ 3,778,362	\$ 7,778,769

Total assets by segment as of June 30, 2012 and September 30, 2011 follows:

June 30, 2012 (unaudited)	September 30, 2011
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Magnesium	\$	96,792,470	\$	65,321,257
Basic Materials		27,071,591		31,286,610
Consulting		25,699,955		19,727,352
Total assets	\$	149,564,016	\$	116,335,219

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CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

### Geographic Information

Revenues for the three and nine months ended June 30, 2012 and 2011, classified by the major geographic areas in which our customers are located follows (unaudited):

	For three months ended June 30,		For nine months ended June 30,	
	2012	2011	2012	2011
People's Republic of China	\$ 24,363,498	\$ 26,691,315	\$ 62,972,247	\$ 77,282,386
Other Asian countries	11,350,366	9,947,431	18,894,716	13,281,852
Australia	-	-	4,457,149	7,696,883
Europe	-	-	4,827,085	3,572,610
North America	1,560,778	19,691,922	19,678,128	40,459,678
South America	-	684,932	5,299,117	2,759,806
Total Revenues	\$ 37,274,642	\$ 57,015,600	\$ 116,128,442	\$ 145,053,215

Total of long-term assets as of June 30, 2012 and September 30, 2011, classified by the major geographic areas, follows:

	June 30, 2012 (unaudited)	September 30, 2011
People's Republic of China	\$ 67,169,143	\$ 39,219,251
South America	23,375	34,166
United States of America	136,431	94,654
Total	\$ 67,328,949	\$ 39,348,071

### NOTE 17 – INCOME TAXES

Our income (loss) in the U.S. is subject to applicable Federal, State, and Local tax statutes. Our income (loss) in China is subject to taxation in the PRC concerning Foreign Investment Enterprises and local income tax laws (the "PRC Income Tax Laws). Pursuant to the PRC Income Tax Laws, unless special tax incentives are granted, all enterprises in China are subject to taxation at a statutory rate of 25%. Our income (loss) in Brunei is exempt from Brunei Darussalam income tax.

The components of income (loss) for the nine months ended June 30, 2012 and 2011 before income tax consisted of the following:

Description	June 30, 2012	June 30, 2011
U.S. Operations	\$ 4,968,826	\$ 2,997,604
China Operations	(2,651,655)	(1,749,557)
Brunei Operations	1,562,955	6,226,460
Total income before income taxes	\$ 3,880,176	\$ 7,474,507

The income tax expense for the nine months ended June 30, 2012 and 2011 follows:

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Description	June 30, 2012	June 30, 2011
Current:		
Federal	\$ 828,000	48,978
State	80,000	-
Chinese Operations	22,665	71,741
Total income tax expense	930,665	120,719
Deferred:		
Federal	-	-
State	-	-
Provision for income tax expense	\$ 930,665	\$ 120,719

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CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

The table below summarizes the reconciliation of our income tax expense computed at the federal statutory rate and the actual tax provision (effective income tax rate) for the nine months ended June 30, 2012 and 2011, as follows:

Description	2012	2011
Income tax expense (benefit) provision at Federal statutory rate	35.0 %	35.0 %
State income tax expense (benefit), net of Federal income tax expense (benefit)	3.6 %	3.6 %
Effect of reduced foreign income tax rates	10.8 %	(23.1) %
Reduction of net operating loss carry forward	(25.4) %	(13.9) %
Effective income tax rate	24.0 %	1.6 %

We have recorded a current Federal and State tax provision for an expected tax liability for the nine months ended June 30, 2012. We have recorded a current Chinese tax benefit for Chinese income tax accrued for the nine months ended June 30, 2012.

The significant components of our net deferred tax assets and liabilities consisted of federal net operating loss carryforwards. U.S. GAAP requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that a full valuation allowance of approximately \$0 and \$1,270,000 against its net deferred taxes is necessary as of June 30, 2012 and 2011, respectively. Therefore, our net deferred tax asset is zero at June 30, 2012 and 2011, respectively.

At June 30, 2012 and 2011, we had approximately \$0 and \$3,629,000 of U.S. net operating loss carryforwards remaining, which will expire beginning in 2029. The Internal Revenue Service (IRS) is currently auditing our consolidated income tax return for 2008. We expect the audit to be completed in 2012. Based on our discussions with the U.S. IRS, we anticipate a reduction of our net operating loss carryforward of approximately \$3.7 million and we have reflected this reduction in our 2011 carryforward amount.

For the three months ended June 30, 2012, we reported a net loss before income taxes of \$2,446,781 which resulted in an income tax benefit of approximately \$692,644.

#### NOTE 18 - COMMITMENTS AND CONTINGENCIES

Our wholly owned subsidiary CDII Trading and our company are involved in the following litigation with Sunskar, Ltd. and its agents (“Sunskar”):

Sunskar filed a petition, as amended, to compel our company and CDII Trading to arbitration in accordance with the Federal Arbitration Act, 9 U.S.C. §1, et seq. and New York Convention, 9 U.S.C. §201, et. seq. in the U.S. District Court for the Southern District of New York (Case No. 11CV2499) (the “New York District Court Litigation”). The petition alleges that CD Industries and CDII Trading breached an agreement for the charter of a vessel owned by Sunskar and seeks damages in excess of \$1,000,000 as a result of our alleged breach of the agreement. On November 3, 2011, the Court issued an order granting Sunskar’s petition to compel arbitration against CDII Trading, denied the petition to compel arbitration against CD Industries and stayed the federal court action pending completion of the

arbitration.

A maritime arbitration proceeding was brought by Sunskar against CDII Trading in New York, New York under the Maritime Arbitration Rules seeking an award of Sunskar's attorney's fees and costs incurred in the District Court action of \$67,845 and damages and attorney's fees and arbitration costs of \$1,077,308 (the "Arbitration Claim"). On February 8, 2012, the panel in the arbitration proceeding found that Sunskar had presented a prima facie case of repudiation of contract and its entitlement to damages against CDII Trading. The panel noted Sunskar's claim for damages, interest, fees and costs exceeds \$1 million and directed CDII Trading to post security in the amount of \$850,000 in a form reasonably acceptable to Sunskar no later than March 9, 2012 as a source of funds in the event Sunskar is successful on the merits.

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CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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CDII Trading and Alex Friedberg filed an action against David Christian Wold, Sunskar and Skaarup Shipping Corporation in the U.S. District Court for the Southern District of Florida (Case No.12-60547-CIV-DIMITROULEAS/SNOW) alleging that they made fraudulent and negligent misrepresentations to CDII Trading and Friedberg in regards to the charter of a vessel owned by Sunskar. On May 23, 2012 the District Court entered an order approving CDII Trading's notice of voluntary dismissal without prejudice in this case and on August 9, 2012 the District Court granted the defendants motion to dismiss or to compel arbitration and stay the action or, alternatively, for transfer of venue to the New York District Court Litigation and dismissed the case without prejudice if Mr. Friedberg seeks to file an amended complaint on or before August 17, 2012. In the event Mr. Friedberg does not file an amended complaint, the Court will dismiss the action with prejudice and close the case. The Court will retain jurisdiction to entertain a motion for sanctions.

On March 9, 2012, CDII Trading filed a voluntary petition in the United States Bankruptcy Court in the Southern District of Florida for relief under Chapter 11 of title 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the case In re CDII Trading, Inc., Case No. 12-15810 JKO (the "Bankruptcy Case"). CDII Trading's filing of its voluntary petition operated as a stay of the continuation of the New York District Court Litigation and the Arbitration Claim. On April 11, 2012 the Chapter 11 bankruptcy case was converted to a case under Chapter 7 of the Bankruptcy Code. On July 3, 2012 the Trustee in the Bankrupt Case filed a motion to approve a June 10, 2012 conditional settlement agreement (the "Settlement Agreement") entered into between the Trustee on behalf of CDII Trading on the one hand and CDI China, Inc., International Magnesium Group, Inc., China Direct Investments, Inc. and CD International Enterprises, Inc., on the other hand (the "CD Affiliates"). Under the terms of the Settlement Agreement, the CD Affiliates, jointly and severally, agreed to pay the Trustee \$700,000.00, of which, \$100,000 was paid upon execution of the Settlement Agreement, \$400,000 is payable within 3 business days of the date the Settlement Agreement is approved by the Bankruptcy Court (the "Approval Date") and \$200,000 is payable in six consecutive monthly installments of \$33,333.33 beginning on the last day of the month following the Approval Date. Under the terms of the Settlement Agreement, the CD Affiliates will be released of all claims of the Trustee regarding the Bankruptcy Case and will acquire all of CDII Trading's assets. In the event the CD Affiliates fail to make any payment due under the Settlement Agreement, the Trustee shall be entitled to a judgment of \$3,243,000 against the CD Affiliates, jointly and severally. The effectiveness of the Settlement Agreement is conditioned upon its approval by the Bankruptcy Court and the issuance of a bar order against Sunskar, Ltd. and Skaarup Shipping Corporation and their employees, attorney, agents or assigns in any action by them against the CD Affiliates. The Settlement Agreement also requires the CD Affiliates to provide the Trustee with access to all of the books and records of the CD Affiliates, the Trustee to use commercially reasonable best efforts to obtain Bankruptcy Court approval of the Settlement Agreement and the CD Affiliates to use commercially reasonable best efforts to cooperate with the Trustee. The Bankruptcy Court has set a hearing date of August 20, 2012 to consider the Trustee's motion to accept the Settlement Agreement. Except as provided for in the Settlement Agreement, neither our company nor any of our other subsidiaries (collectively, the "Non-Filing Entities") were part of the Bankruptcy Case.

Other than as described above, we believe there are currently no litigation or legal or administrative proceedings pending against us that are likely to have, individually or in the aggregate, a material adverse effect on our business or our results of operations and, to our knowledge, none of our officers, directors or principal shareholders are party to any legal proceeding in which they have an interest adverse to us.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the information contained in our unaudited consolidated financial statements and footnotes in this report and also in conjunction with our fiscal 2011 Annual Report on Form 10-K, for the year ended September 30, 2011 and our subsequent filings with the Securities and Exchange Commission.

## OVERVIEW OF OUR OPERATIONS

### Our Business

We are a U.S. company that manages a portfolio of entities in China and the Americas. We also provide business and financial consulting services to public and private American and Chinese businesses. We operate in three identifiable segments: Magnesium, Basic Materials, and Consulting.

Historically, our Magnesium segment has represented our largest segment by assets and revenues. We manufacture and sell pure magnesium and related by-products sourced and produced in China. We also purchase and resell magnesium products sourced and produced in China by third parties. Magnesium is the lightest and strongest of the structural metals; it is one fourth the weight of steel, two fifths the weight of titanium and two thirds the weight of aluminum. Magnesium is used in a variety of markets and applications due to the physical and mechanical properties of the element and its alloys. Magnesium ingots are the feedstock for the manufacturing process of titanium and aluminum alloying. Magnesium powder and granules are used as a desulphurizer that removes sulfur in the production process of steel. Additionally, various types of magnesium alloys which are produced from the pure magnesium ingots are used in aircraft, automobile parts, and in electronic equipment such as computers, cameras and cellular phones.

Our Basic Materials segment engages in the sale and distribution of basic resources within China and the global purchase and sale of industrial commodities which includes mineral ores and non-ferrous metals. In this segment we also sell and distribute a variety of products in China including industrial grade synthetic chemicals, steel products and nonferrous metals. Additionally, within this segment we hold the rights to mining properties and are considering the partial or full sale of our interest in this business.

Our Consulting segment provides services to public and private American and Chinese entities seeking access to the U.S. and Chinese capital markets. These services include general business consulting, Chinese regulatory advice, translation services, formation of entities in the PRC, coordination of professional resources, mergers and acquisitions, strategic alliances and partnerships, advice on effective means of accessing U.S. capital markets, coordination of Sarbanes-Oxley compliance, and corporate asset evaluations.

### Recent Acquisitions and Corporate Name Change

On February 29, 2012 a special meeting of shareholders approved the issuance of our common stock, CD International completed the acquisition of 100% of Golden Trust and 80% of Lingshi Magnesium for an aggregate purchase price of \$26.7 million paid by a combination of \$6.5 million in cash or assignment of intercompany loans, \$15.5 million in shares of our common stock, and \$4.7 million by way of transferring our interest in our Excel Rise subsidiary.

Golden Trust and Lingshi Magnesium are both engaged in the production of pure magnesium ingots. We have added approximately 20,000 metric tons of annual production capacity from Golden Trust and approximately 12,000 metric tons of annual production capacity from Lingshi Magnesium, bringing our total magnesium production capacity to approximately 90,000 metric tons. We believe we are now one of the largest magnesium producers in the world. In conjunction with the acquisition of Golden Trust and Lingshi Magnesium, we also entered into a Management Agreement with Yuwei Huang and Kong Tung, members of our Board of Directors, to consolidate and manage the

business operations for all of our magnesium production facilities.

In addition, our shareholders approved an amendment to our articles of incorporation to change our corporate name from China Direct Industries, Inc. to CD International Enterprises, Inc.

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## Our Outlook

A significant portion of our business and operations are in China and, accordingly, its national economy plays a significant role in our results of operations. China's gross domestic product growth (GDP) rate slowed to approximately 7.6% in the second calendar quarter of 2012, down from 8.1% in the first quarter, as compared to the same period in calendar 2011, which is the lowest rate since the second calendar quarter of 2009 as the European debt crisis and weaker demand has put the global economic recovery in jeopardy and pushed China's export-driven manufacturing activities to its lowest levels in the past three years. The share of GDP growth from investment for the second quarter of calendar 2012, which includes spending on big ticket infrastructure and property projects, came in at 49.4%, down from 53.2% in the same period in 2011. Furthermore, China's housing market and particularly its real estate construction market experienced a significant correction due to a tighter regulatory environment, bank lending curbs, and slower demand during fiscal 2012. In response to this slowdown, China's Central Bank cut the nation's commercial banks' reserve requirement ratio by 0.5 percentage point, the first such cut since December 2008, and in June 2012 cut the interest rate twice, in order to provide additional liquidity for commercial lending. This represents a significant shift in China's economic policy signaling that China has put economic growth at the top of its agenda, rather than concerns about inflation.

During the third quarter of fiscal 2012, the overall economic environment, particularly in China, showed no improvement, and our Basic Materials segment continued to struggle with slower customer demand due to tightened credit conditions in China impacting customer financing needs to purchase our products. We still face a number of challenges in continuing the growth of our business, which is primarily tied to the overall health of the global economy. During the last quarter of fiscal 2012 and into fiscal 2013, we also intend to realign our investments, and streamline and restructure our operations in China, in our Basic Materials segment, as we shift our business and strategic focus in the Basic Materials segment to the expansion of our industrial commodities sourcing and distribution business in the Americas.

Two additional events during the balance of fiscal 2012 have the ability to adversely impact our overall business and operations. The NASDAQ Stock Market notified us of the delisting of our common stock. Our common stock was delisted on July 11, 2012 and is now quoted in the over-the-counter market on the OTCQB Tier of the OTC Markets. This occurrence will make our ability to raise capital in future periods much more difficult and will adversely impact our shareholders' liquidity in our common stock. The second event is the bankruptcy of our CDII Trading subsidiary which is described in greater detail in our Note 18 and in our Liquidity and Capital Resources section later in this section.

Information on trends impacting our reporting segments follows:

### Magnesium segment.

According to statistics by the General Administration of Customs in China, as published by China Minor Metals, China's export of magnesium and product, fell by approximately 31,000 metric tons in May of 2012, down 9.6% on a year to year basis. The May figure was 10.6% lower than the volume in April of 2012 and is the third consecutive month to see a decline. During the period January 2012 to May 2012, exports totaled approximately 165,000 metric tons, down 5.5% as compared to the same period in 2011. The May 2012 exports were valued at \$96.1 million, down 8.1% from May 2011 and down 8.0% from April 2012. For the first five months of calendar 2012, the value of exports stood at \$501.6 million, down 3.41% from the same period in calendar 2011.

Our average magnesium sales price over the third quarter of fiscal 2012 was approximately \$2,793 per metric ton compared to an average magnesium sales price of approximately \$2,765 per metric ton for the third quarter of fiscal 2011. Magnesium prices incrementally improved over the course of fiscal 2011 reflecting an improved worldwide

demand pattern, characterized by a gradual increase in prices driven by an increased demand from the global aerospace, automotive and consumer electronics sectors. This was followed by a softening in overall demand beginning in October 2011, which has continued through the third quarter of fiscal 2012, mostly due to renewed concerns over the European debt crisis, tightening credit availability in China forcing domestic competitors to liquidate inventory to raise cash balances and a general slowdown in China manufacturing activities. As a result, we built additional inventory in the quarter in anticipation of an improvement in demand in the second half of calendar 2012.

Based on the current trends and quoting activities, and indications from the economic activities worldwide, we believe that magnesium demand and prices will begin to increase progressively in the second half of calendar 2012 and into 2013. Further, we believe that the long term industry trends for magnesium are favorable and will allow us to rapidly ramp up our production to capitalize on expected growth during fiscal 2013. We intend to continue with our strategic plan to further streamline and consolidate our own production capacity.

### Basic Materials Segment.

During both the third quarter and first nine months of fiscal 2012, we experienced much lower demand than over the same periods in fiscal 2011 primarily due to tightened credit conditions in China impacting our customers' ability to obtain financing to purchase our products. Furthermore, the overall domestic market for our products in the Basic Material segment continued its downtrend in the third quarter of fiscal 2012, resulting in a weaker business environment in both our specialty chemicals and construction steel related sales. For the third quarter of fiscal 2012, revenues from our specialty chemical sales and gross margins were much lower as compared to the same period in fiscal 2011. As a result of the substantial economic slowdown and lack of new sales in the domestic market in China for our specialty chemicals and steel related products, we are currently evaluating the realignment of our capital in these businesses toward our iron ore sourcing and distributions business in the Americas in order to maximize our revenues and cash flow in this segment in fiscal 2013 and in future years.

In the first quarter of fiscal 2012, we experienced delays in completing a shipment out of Mexico due to a longer than expected timeframe to receive environmental permits needed to process the iron ore to meet our customer's specifications and necessary export approvals. During the second quarter of fiscal 2012, we applied for and received the required environmental permits to process iron ore, however, we are still waiting for the approval to export. We are also exploring opportunities for domestic sales. Our operations in Chile experienced shipping delays due to a longer than expected timeframe to receive port authority approval to export the iron ore. During the third quarter of fiscal 2012 we also worked to establish new relationships with suppliers/exporters. One of our suppliers/exporters received port authority approval for shipment during the quarter and we expect to begin revenue generation during fiscal 2013. In Bolivia, we established new relationships with a supplier and are working with an engineering specialist to further strengthen our sourcing capabilities and a logistics provider to meet our inland transportation needs.

### Consulting Segment.

We believe demand for our consulting services will remain strong in fiscal 2013. In September of 2011, we launched a marketing initiative for our new One-Stop China Value™ program in an effort to capitalize on the current environment. This program is designed to implement a broad range of strategies to enhance and maximize shareholder value for China-based U.S. public companies. Other marketing plans include sponsoring trade symposiums, investment forums, and forming strategic alliances with industry and trade associations.

In addition to potential transaction fees, we also anticipate receiving additional client fees generated from our ongoing annual service contracts and the addition of prospective clients during fiscal 2013. We expect that revenues from transactional and activity-based fees from our existing clients and our current pipeline of prospects will be sufficient to support our advisory operations in the U.S. We foresee our Consulting segment will remain an important revenue and earnings driver for our future growth in the years to come.

## RESULTS of OPERATIONS

### Summary of Selected Consolidated Financial Information

The following tables provide certain data on our consolidated results of operations for the three and nine months ended June 30, 2012 and 2011:

(Dollars in thousands)	Three Months Ended June 30,			
	2012	% of	2011	% of
	Amount		Amount	



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	Revenues		Revenues		% Increase (Decrease)
Magnesium segment	\$ 26,540	71%	\$ 25,023	44%	6%
Basic Materials segment	10,649	29%	20,188	35%	(47%)
Consulting segment	86	0%	11,805	21%	(99%)
Consolidated Revenues	\$ 37,275	100%	\$ 57,016	100%	(35%)
Cost of revenues	36,161	97%	49,458	87%	(27%)
Gross profit	1,114	3%	7,558	13%	(85%)
Total operating expenses	3,435	9%	3,004	5%	14%
Total operating (loss) income	\$ (2,321)	(6%)	\$ 4,554	8%	(151%)

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(Dollars in thousands)	Nine Months Ended June 30, 2012		2011		% Increase (Decrease)
	Amount	% of Revenues	Amount	% of Revenues	
Magnesium segment	\$ 70,388	61%	\$ 70,574	49%	0%
Basic Materials segment	34,874	30%	55,781	38%	(37%)
Consulting segment	10,866	9%	18,698	13%	(42%)
Consolidated Revenues	\$ 116,128	100%	\$ 145,053	100%	(20%)
Cost of revenues	102,862	89%	127,739	88%	(19%)
Gross profit	13,266	11%	17,314	12%	(23%)
Other operating income	-	-	-	-	
Total operating expenses	9,591	8%	9,360	7%	2%
Total operating income	\$ 3,675	3%	\$ 7,954	5%	(54%)

### Analysis of Operating Results by Segment

A summary of our comparative operating results by segment for three months and nine months ended June 30, 2012 and 2011, follows:

Magnesium Segment (Dollars in thousands)	Three months ended June 30,		Increase (Decrease)
	2012	2011	
Total revenues	\$ 26,540	\$ 25,023	\$ 1,517
Cost of revenues	25,705	24,395	1,310
Gross profit	835	628	207
Total operating expenses	1,524	752	772
Operating (loss)	\$ (689)	\$ (124)	\$ (565)

Magnesium Segment (Dollars in thousands)	Nine months ended June 30,		Increase (Decrease)
	2012	2011	
Total revenues	\$ 70,388	\$ 70,574	\$ (186)
Cost of revenues	68,732	68,914	(182)
Gross profit	1,656	1,660	(4)
Total operating expenses	3,363	2,803	560
Operating (loss)	\$ (1,707)	\$ (1,143)	\$ (564)

Basic Materials Segment (Dollars in thousands)	Three months ended June 30,		Increase (Decrease)
	2012	2011	
Total revenues	\$ 10,649	\$ 20,188	\$ (9,539)
Cost of revenues	10,181	18,972	(8,791)
Gross profit	468	1,216	(748)
Total operating expenses	489	1,001	(512)
Operating (loss) income	\$ (21)	\$ 215	\$ (236)



Basic Materials Segment (Dollars in thousands)	Nine months ended June 30,		Increase (Decrease)
	2012	2011	
Total revenues	\$ 34,874	\$ 55,781	\$ (20,907)
Cost of revenues	33,490	52,344	(18,854)
Gross profit	1,384	3,437	(2,053)
Total operating expenses	1,646	2,681	(1,035)
Operating (loss) income	\$ (262)	\$ 756	\$ (1,018)

Consulting Segment (Dollars in thousands)	Three months ended June 30,		Increase (Decrease)
	2012	2011	
Total revenues	\$ 86	\$ 11,805	\$ (11,719)
Cost of revenues	275	6,091	(5,816)
Gross profit	(189)	5,714	(5,903)
Total operating expenses	1,423	1,251	172
Operating (loss) income	\$ (1,612)	\$ 4,463	\$ (6,075)

Consulting Segment (Dollars in thousands)	Nine Months ended June 30,		Increase (Decrease)
	2012	2011	
Total revenues	\$ 10,866	\$ 18,698	\$ (7,832)
Cost of revenues	640	6,481	(5,841)
Gross profit	10,226	12,217	(1,991)
Total operating expenses	4,582	3,876	706
Operating income	\$ 5,644	\$ 8,341	\$ (2,697)

### Consolidated Revenues

Revenues in the third quarter of fiscal 2012 decreased by 34.6%, as compared to the same period in fiscal 2011, primarily due to a 47.3% decrease in revenues from the Basic Materials segment resulting from economic slowdown in China and a substantial drop in sales coupled with no revenues from the Consulting segment due to the cyclical nature of the consulting business during the quarter, offset by a 6% increase in revenues from our Magnesium segment. For the first nine months of fiscal 2012, our revenues decreased by 19.9%, as compared to the same period in fiscal 2011 as a result of a decrease in revenues of 37.5% within our Basic Materials segment and a decrease in revenues of 41.9% within our Consulting segment, where our revenues from the addition of two new clients in the first two quarters of fiscal 2012 were approximately half of the revenues earned during the comparable period in fiscal 2011 based on the scope of consulting services rendered, and essentially flat revenues in our Magnesium segment.

### Revenues by Segment

Our Magnesium segment sold and distributed approximately 8,894 metric tons of magnesium, including 128 metric tons of magnesium powder, generating revenues of \$26.5 million for the third quarter of fiscal 2012, as compared to 9,049 metric tons, including 1,051 metric tons of magnesium powder, for revenues of \$25.0 million in the same period of fiscal 2011. The average selling price of our magnesium for ingot and powder sales, excluding processing fees, in

the third quarter of fiscal 2012 increased by 1.0% while volume decreased by 1.7%, resulting in slightly higher revenues for the quarter. Included in the \$26.5 million for the third quarter of fiscal 2012 was approximately \$1.7 million in processing fees which is a new source of revenue in this quarter for the Magnesium segment. If we consider the processing fees into the average selling price for our magnesium, our average sales price for the third quarter of fiscal 2012 would have increased by approximately 8.0%. During the quarter we continued to build inventory and reduced trading activity in anticipation of a strengthening in demand and prices for magnesium in second half of calendar 2012. For the first nine months of fiscal 2012, our Magnesium segment sold and distributed approximately 24,568 metric tons of magnesium, generating revenues of \$70.4 million, as compared to 27,580 metric tons on revenues of \$70.6 million in the same period of fiscal 2011. The average selling price, excluding processing fees, for our Magnesium segment for the first nine months of fiscal 2012 increased by 8.9% while volume decreased by 10.9%, resulting in a decrease of less than 0.3% in sales revenues.

Our Basic Materials segment generated revenues of \$10.6 million in the third quarter of fiscal 2012 and \$34.9 million for the first nine months of fiscal 2012, as compared to \$20.2 million and \$55.8 million, respectively, for the same periods in fiscal 2011. The decrease in revenues of \$9.5 million and \$20.9 million for the third quarter and first nine months of fiscal 2012, respectively, were primarily due to lower sales volumes from our construction steel related products due to reduced demand caused by slower construction expansion and tightened credit conditions in China impacting our customers' ability to obtain financing to purchase our products.

Our Consulting segment revenues primarily consist of consulting and advisory service fees we received from certain publicly traded U.S. companies with their primary business operations located in the PRC, and we receive a fixed number of shares of their marketable securities or fees from those client companies, including both recurring and one-time transaction fees for services we provide to clients. Consulting segment revenues vary from period to period depending upon the timing, nature and scope of services we provide to a particular client. Our Consulting segment generated less than \$0.1 million in revenues during the third quarter of fiscal 2012, as compared to \$11.8 million in the same period of fiscal 2011, because there were no new client additions during the quarter as opposed to new clients added during the same period in fiscal 2011. Both of our two new clients in fiscal 2012 were added during the first and second quarter of fiscal 2012. For the first nine months of fiscal 2012, our consulting revenues decreased by 41.9%, to \$10.9 million, as compared to the same period in fiscal 2011, primarily due to the scope of consulting and transactional services provided to the two new clients when compared with the additional consulting services rendered to new clients during the same period in fiscal 2011.

#### Consolidated Gross Profit

Our gross profit in the third quarter of fiscal 2012 decreased 85.3% as compared to the same period in fiscal 2011. For the first nine months of fiscal 2012 our gross profit decreased 23.4% as compared to same period in fiscal 2011. Our gross profit margin decreased to 3.0% in the third quarter of fiscal 2012 and to 11.4% for the first nine months of fiscal 2012, as compared to 13.3% and 11.9%, respectively, for the same periods in fiscal 2011. The decrease in gross profit was primarily due to decreases in our sales revenues from our Basic Materials segment.

#### Gross Profit by Segment

Gross profit in the third quarter of fiscal 2012 for our Magnesium segment increased 33.1% from the comparable period in fiscal 2011, with a gross profit margin of 3.1% as compared to 2.5% for same period in fiscal 2011. The increase in gross profit for the third quarter of fiscal 2012 was primarily due to a 6.1% increase in sales revenue offset by a cost of revenue increase of 5.4%, including lower depreciation expense from a change to units of production method to reflect allocation of costs in the production cycle, as compared to the same period in fiscal 2011. As described in Note 3 to the consolidated financial statements appearing elsewhere in this report, during the second quarter of 2012, we changed our depreciation method in the Magnesium segment from straight-line to units of production to better reflect the allocation of costs to the production cycle given the production capacity available and capital investment committed to this segment. We believe that the resulting change in our gross profit margins in the Magnesium segment will better reflect the economics of our production cycle, and our depreciation expense will be allocated to actual units produced and production costs generated by this segment. Gross profit for the first nine months of fiscal 2012 decreased by 0.2% from the comparable period in fiscal 2011, while gross profit margin remained the same at 2.4%, for both periods in fiscal 2012 and 2011, primarily due to slightly lower sales revenues, as previously discussed.

The gross profit and margins for our Basic Materials segment was negatively impacted during both the third quarter and first nine months of fiscal 2012 by lower sales revenues from our CDI Beijing subsidiary that sells and distributes steel related products, including reinforcing steel bars and other industrial related commodities, primarily due to

tightened credit conditions in China impacting our customers' ability to obtain financing to purchase our products.

Gross profit in our Consulting segment for the third quarter of fiscal 2012 was not comparable to the same period in fiscal 2011, primarily due to timing and scope of consulting services derived from additions of new clients and the impact of fees derived from marketable securities received for such services, as discussed above. Gross profit in our Consulting segment for the first nine months of fiscal 2012 decreased 16.3% while the gross margin improved to 94.1%, for an increase of 29.0 percentage points over the same period in fiscal 2011 primarily due to lower cost of revenues for this segment during the first nine months of fiscal 2012.

#### Total Operating Expenses

Total operating expenses, net of other operating income, increased by \$0.4 million, or 14.4%, in the third quarter of fiscal 2012, as compared to the same period in fiscal 2011. For the first nine months of fiscal 2012, our operating expenses, net, increased by 2.5% to \$9.6 million, as compared to the same period in fiscal 2011. The increases in both of these periods were primarily due to higher general and administrative expenses in the Consulting and Magnesium segments. During the first nine months of fiscal 2011, we collected approximately \$0.4 million from a customer for manufacture processing fees we previously discharged as a bad debt within our Magnesium segment and recognized it as other operating income with no comparable other operating income for the third quarter and first nine months of fiscal 2012.

### Operating Expenses by Segment

Operating expenses in our Magnesium segment during the third quarter of fiscal 2012 increased by \$0.8 million as compared to the same period in fiscal 2011 primarily due to higher selling, general and administrative expenses resulting from the additions of the costs associated with Golden Trust and Lingshi Magnesium and higher employee benefit expenses. For the first nine months of fiscal 2012, operating expenses in this segment increased by 20.0%, as compared to the same period in fiscal 2011 primarily due to higher selling, general and administrative expenses as a result of these acquisitions.

Operating expenses in our Basic Materials segment for the third quarter of fiscal 2012 decreased 51.2% and 38.6%, respectively, as compared to the same periods in fiscal 2011, primarily due to lower selling, general and administrative expenses resulting from much lower sales demand for products.

Operating expenses in our Consulting segment for the third quarter of fiscal 2012 increased 13.7% as compared to the same period in fiscal 2011, primarily due to travel related and general and administrative expenses incurred in serving our client base for both our U.S. headquarters and China-based operations, and executive management. For the first nine months of fiscal 2012 our operating expenses increased 18.2% as compared to the same period in fiscal 2011 primarily due to higher general and administrative expenses incurred in serving our current client base and prospecting for new clients. Operating expenses in our Consulting segment also include our general corporate operating expenses.

### Income Taxes

Federal income taxes for the three and nine months ended June 30, 2012 amounted to a \$0.7 million tax benefit and an income tax expense of \$0.9 million, respectively. For the first nine months of fiscal 2012 our effective tax rate was approximately 24.0%, as compared to 1.6%, for the same period in fiscal 2011.

### Net (loss) income

Net loss in the third quarter of fiscal 2012 amounted to \$1.8 million as compared to net income of \$4.2 million for the same period in fiscal 2011, primarily due to a decrease of \$6.9 million in consolidated operating income partially offset by an income tax benefit of \$0.7 million. Net income for the first nine months of fiscal 2012 amounted to \$3.0 million, as compared to \$7.4 million for the same period in fiscal 2011, primarily due to a decrease of \$4.3 million in consolidated operating income and income tax expense of \$0.9 million.

### Comparative EBITDA by Segment

We consider earnings before income taxes, depreciation and amortization, commonly referred to as EBITDA, an important measure to estimate our enterprise and shareholder values as a whole and of our core segments, and for allocating capital resources within segments in order to maximize our operating profits and cash flow. In addition, analysts, investors and creditors may use EBITDA when analyzing our financial condition and cash generating ability.

EBITDA from operations is defined as net income (loss) from operations plus interest expense, income tax expense, depreciation, and amortization of intangibles, net, less interest income and income tax benefit. EBITDA from operations is a non-GAAP measure used by management to measure operating performance, and we believe it is a useful indicator in assessing investment requirements and financing business expansion in our core segments. Because EBITDA from continuing operations is not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies.





RECONCILIATION OF NET INCOME FROM OPERATIONS TO EBITDA  
(Unaudited)

(Dollars in thousands)	Three Months Ended June 30,		Increase	% change
	2012	2011	(Decrease)	
Net (loss) income from operations	\$ (1,754)	\$ 4,204	\$ (5,958)	(142%)
Interest expense, net	437	119	318	267%
Income tax (benefit) expense	(693)	53	(746)	n/m
Depreciation	677	990	(313)	(32%)
Amortization	-	86	(86)	(100%)
<b>EBITDA from operations</b>	<b>\$ (1,333)</b>	<b>\$ 5,452</b>	<b>\$ (6,785)</b>	
<b>By Segment:</b>				
Magnesium	\$ (384)	\$ 204	\$ (588)	(289%)
Basic Materials	(300)	839	(1,139)	(177%)
Consulting	(649)	4,409	(5,058)	(115%)
<b>EBITDA from operations</b>	<b>\$ (1,333)</b>	<b>\$ 5,452</b>	<b>\$ (6,785)</b>	

n/m= not meaningful

(Dollars in thousands)	Nine Months Ended June 30,		Increase	% change
	2012	2011	(Decrease)	
Net income from operations	\$ 2,949	\$ 7,354	\$ (4,405)	(60%)
Interest expense, net	357	186	171	92%
Income tax expense	931	121	810	n/m
Depreciation	2,063	2,850	(787)	(28%)
Amortization	157	132	25	19%
<b>EBITDA from operations</b>	<b>\$ 6,457</b>	<b>\$ 10,643</b>	<b>\$ (4,186)</b>	
<b>By Segment:</b>				
Magnesium	\$ (302)	\$ 1,500	\$ (1,802)	(120%)
Basic Materials	(749)	676	(1,425)	(211%)
Consulting	7,508	8,467	(959)	(11%)
<b>EBITDA from operations</b>	<b>\$ 6,457</b>	<b>\$ 10,643</b>	<b>\$ (4,186)</b>	



## LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. As of June 30, 2012 our working capital amounted to \$30.6 million, for a decrease of \$14.2 million, as compared to \$44.8 million as of September 30, 2011. We rely upon cash generated from our operations, advances from related parties and capital raised through equity sales to fund our operations. Other than the amounts required to fund the settlement agreement we entered into in the bankruptcy case involving CDII Trading discussed below, we do not anticipate any major capital expenditures and expect that our working capital and cash flow from operations will be sufficient to sustain our operations over the next twelve months.

Our cash balance as of June 30, 2012 amounted to \$4.1 million, a decrease of \$8.4 million, as compared to September 30, 2011. During the first nine months of fiscal 2012, we had cash outflow of \$7.1 million used in operating activities, and \$6.0 million for new acquisitions and capital expenditures in investing activities offset by cash inflows of \$1.8 million from cash acquired in acquisitions, and \$0.9 million from net cash proceeds on sale of marketable securities available-for-sale coupled with net cash provided by financing activities of \$0.5 million, before considering a \$1.5 million non-cash favorable effect of exchange rate on cash.

Certain events may have a negative impact on our liquidity position during coming quarters:

On March 9, 2012, our commodity trading subsidiary, CDII Trading, filed for voluntary bankruptcy protection under Chapter 11 in the United States Bankruptcy Court for the Southern District of Florida. On April 11, 2012, the bankruptcy judge issued an order converting the case under Chapter 11 to a case under Chapter 7 which would require liquidation of this subsidiary. For the third quarter of fiscal 2012 and nine months ended June 30, 2012, CDII Trading had a net operating loss of \$0.1 million and \$0.3 million, respectively, which was included in our consolidated statement of operations. We do not expect this bankruptcy filing to have a material impact on our consolidated financial position and operations since this subsidiary has assets of approximately \$1.1 million, and liabilities of \$2.3 million with accumulated deficit of \$1.2 million as of June 30, 2012. CDII Trading's assets are comprised primarily of prepayments to suppliers of iron ore minerals, and it uses loans from other affiliates to fund these prepayments and its operations for the iron ore minerals. A settlement agreement was reached on June 10, 2012 subject to Bankruptcy Court approval which is expected on August 20, 2012. However, prior to approval the Bankruptcy Court will conduct hearings with all parties, which may prolong the approval date based on the claims filed, including those related to the Sunskar litigation discussed in Note 18 to our consolidated financial statements appearing elsewhere herein. Except as provided for in the settlement agreement discussed in Note 18, neither our company nor any of our other subsidiaries were part of the Bankruptcy Case. Assuming approval of the settlement agreement by the Bankruptcy Court, we estimate the liquidity impact of the bankruptcy agreement at this time to be approximately \$700,000, excluding legal expenses, which we have established a reserve in our consolidated financial statements. The ultimate outcome of the bankruptcy and litigation claims proceedings related to Sunskar cannot be predicted at this time, and thus the ultimate liquidity impact resulting from closure of the legal claims cannot be estimated.

In addition, as disclosed later in this report, delisting of our common stock from The NASDAQ Stock Market was a trigger event under the designations, rights and preferences of our Series A convertible preferred stock which entitles the holders to require us to redeem the shares for cash upon notice to us. The redemption price is the greater of two formulas at the option of the holder(s). Any amounts we are required to pay will have the effect of reducing our working capital in future periods.

We may need to raise additional working capital to fund expected growth in our Magnesium segment and our industrial commodities business. Following the delisting of our common stock NASDAQ in July 2012 our common stock is now quoted in the over-the-counter markets on the OTCQB Tier of the OTC Markets. The OTC Markets is an inter-dealer, over-the-counter market that provides generally significantly less liquidity than The NASDAQ Stock

Market or any other national or regional exchange. Securities traded on the OTC Markets typically have fewer market makers and are not followed by analysts. The SEC's order handling rules, which apply to NASDAQ-listed securities, do not apply to securities quoted on the OTC Markets. The quotation of our shares on the OTC Markets may result in a less liquid market available for existing and potential shareholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future. In that event, our ability to grow may be severely limited until the capital markets are more readily accessible.

We maintain cash and cash equivalents in the United States and China. At June 30, 2012 and September 30, 2011, bank deposits by geographic area, were as follows (dollars in thousands):

Country	June 30, 2012		September 30, 2011	
United States	\$ 0.551	13.3%	\$ 3,909	31.1%
China	3.587	86.7%	8,654	68.9%
Total cash and cash equivalents	\$ 4.138	100.0%	\$ 12,563	100.0%

As of June 30, 2012, a substantial portion of our cash balance, 86.7%, was in the form of RMB held in bank accounts at financial institutions located in the PRC. Cash held in banks in the PRC is not insured. The value of cash on deposit in China of \$3.6 million at June 30, 2012 has been converted based on the exchange rate as of June 30, 2012.

In 1996, the Chinese government introduced regulations, which relaxed restrictions on the conversion of the RMB; however, restrictions still remain, including but not limited to restrictions on foreign invested entities. Foreign invested entities may only buy, sell or remit foreign currencies after providing valid commercial documents at only those banks authorized to conduct foreign exchanges. Furthermore, the conversion of RMB for capital account items, including direct investments and loans, is subject to PRC government approval. Chinese entities are required to establish and maintain separate foreign exchange accounts for capital account items. We cannot be certain Chinese regulatory authorities will not impose more stringent restrictions on the convertibility and outflow of RMB, especially with respect to foreign exchange transactions. Accordingly, cash on deposit in banks in the PRC is not readily deployable by us for purposes outside of China.

#### Analysis of Cash Flows

In the first nine months of fiscal 2012, our net decrease in cash amounted to \$8.4 million, which was comprised of \$7.1 million used in operating activities, \$3.3 million used in investing activities, offset by \$0.5 million provided by financing activities and \$1.5 million from non-cash favorable effect of prevailing exchange rate on our cash position.

#### Cash Used in Operating Activities

Net cash used in operating activities for the first nine months of fiscal 2012 amounted to \$7.1 million. The decrease was primarily due to an increase of \$3.6 million in raw materials inventory for our Magnesium segment due to lower shipment and sales of magnesium ingots and powder, excluding inventory acquired in acquisitions, an increase of \$4.8 million in accounts payable due to purchases on account, an increase of \$4.8 million in prepaid expenses and other assets primarily in our Magnesium segment and also for iron ore in South America for our Basic Materials segments, and a reconciliation of non-cash revenues of \$10.7 million in fair value of equity securities received for consulting services we provided to our clients which was partially offset by \$2.1 million in accounts receivable primarily related to our Consulting segment, and \$10.2 due to collections on accounts receivable, including related parties, in the Magnesium segment.

Net cash used in operating activities for the nine month period ended June 30, 2011 amounted to \$5.8 million, primarily comprised of \$18.2 million as a non-cash adjustment to net income for marketable securities available for sale we received for our consulting services, a decrease of \$5.8 million used for inventories, and \$4.0 million used for prepaid expenses and other assets. The cash outflows were partially offset by an increase of \$7.4 million in net income, \$9.2 million as a non-cash adjustment to net income including \$6.4 million of marketable securities we paid for services, and \$2.9 million in depreciation cost, an increase of \$3.2 million in our accounts payable and accrued expenses, \$1.1 million in accounts and other payable – related party, and \$1.0 million in other payable.

#### Cash Used in Investing Activities

Net cash used in investing activities for the first nine months of fiscal 2012 amounted to \$3.3 million, which was primarily due to \$4.5 million paid for Magnesium segment acquisitions and \$1.5 million for purchases of property and equipment in the Magnesium segment, partially offset by \$1.8 million in cash acquired from acquisitions of Golden Trust and Lingshi Magnesium, and \$0.9 million from sales of marketable securities available-for-sale within our Consulting segment.

Net cash used in investing activities for the nine month period ended June 30, 2011 amounted to \$1.7 million, primarily as a result of \$2.5 million used for purchases of plant, property, and equipment, partially offset by \$0.8 million provided by net proceeds from the sales of marketable securities available-for-sale.

#### Cash Provided by Financing Activities

Net cash provided by financing activities for the first nine months of fiscal 2012 amounted to approximately \$0.5 million primarily due to \$0.9 million in loans proceeds and an increase of \$0.2 million in capital contribution from non-controlling interest owners, partially offset by an increase in restricted cash of \$0.6 million.

Net cash provided by financing activities for the nine month period ended June 30, 2011 amounted to \$6.6 million, primarily due to an increase of \$4.0 million provided by a release from our restricted cash account, \$3.9 million provided by net proceeds from the sales of our common stock, and \$1.7 million provided by capital contributions from our non-controlling interest owners, partially offset by a decrease of \$2.9 million used to pay down our loans payable.

### Series A Preferred Stock and Related Dividends

As of June 30, 2012, 1,006 shares of Series A Preferred remained outstanding. During the first nine months of fiscal 2012 we paid dividends of \$20,130 in cash and \$40,260 in the form of 87,641 shares of our common stock. In addition, the July 11, 2012 delisting of our common stock from the NASDAQ Stock Market constituted a “trigger event” in the designations, rights and preferences of this series of stock which entitled the holders to redeem the preferred stock at a premium or, in lieu thereof, require us to reduce the conversion price-See Part II, Item 3.

### Off Balance Sheet Items

Under SEC regulations, we are required to disclose our off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, such as changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. An off-balance sheet arrangement means a transaction, agreement or contractual arrangement to which any entity that is not consolidated with us is a party, under which we have:

- Any obligation under certain guarantee contracts,
- Any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets,
- Any obligation under a contract that would be accounted for as a derivative instrument, except that it is both indexed to our stock and classified in stockholder’s equity in our statement of financial position, and
- Any obligation arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

We do not have any off-balance sheet arrangements that we are required to disclose pursuant to these regulations. In the ordinary course of business, we enter into operating lease commitments, purchase commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with generally accepted accounting principles in the United States.

### Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of significant accounting policies are discussed in further detail in the notes to the unaudited consolidated financial statements appearing in this quarterly report on Form 10-Q. We believe that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition.



## Revenue Recognition

We follow the guidance of ASC 605, "Revenue Recognition," and the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 104 and SAB Topic 13 for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

## Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results when ultimately realized could differ from those estimates. Significant estimates in the third quarter of fiscal 2012 and the same period in 2011 include the allowance for doubtful accounts of accounts receivable, stock-based compensation, and the useful life of property, plant and equipment.

### Fair Value of Financial Instruments

We follow ASC 820, "Fair Value Measurements and Disclosures," as amended by Financial Accounting Standards Board (FASB) Financial Staff Position (FSP) No. 157 and related guidance. Those provisions relate to our financial assets and liabilities carried at fair value and our fair value disclosures related to financial assets and liabilities. ASC 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, assuming the transaction occurs in the principal or most advantageous market for that asset or liability.

There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs. We use Level 1 inputs for our fair value measurements whenever there is an active market, with actual quotes, market prices, and observable inputs on the measurement date. We use Level 2 inputs for our fair value measurements whenever there are quoted prices for similar securities in an active market or quoted prices for identical securities in an inactive market. We use observable market data whenever available.

### Marketable Securities

Our marketable securities available-for-sale are carried at fair value. We make fair value measurements for the carrying amount of the marketable securities available-for-sale quarterly pursuant to ASC 820, "Fair Value Measurements and Disclosures," as amended by Financial Accounting Standards Board (FASB) Financial Staff Position (FSP) No. 157 and related guidance. We record an unrealized gain/(loss) on changes in fair value of such marketable securities in the equity section of our balance sheet as Other Comprehensive Income (OCI), pursuant to ASC 320, "Investments – Debt and Equity Securities". We make an analysis at the least on an annual basis to determine if and when such unrealized (loss) has become other than temporarily impaired, and reclassify it as a realized (loss) into our current period's net income/(loss). This determination is based on a number of factors, including but not limited to (i) the percentage of the decline, (ii) the severity of the decline in relation to the enterprise/market conditions, and (iii) the duration of the decline.

In January 2009, the FASB issued FSP EITF 99-20-1 (ASC 325-40) to amend the impairment guidance in EITF Issue No. 99-20 in order to achieve more consistent determination of whether other-than-temporary impairment has occurred. This FSP amended EITF 99-20 to more closely align the other-than-temporary impairment guidance therein to the guidance in ASC 320, 10-35-31. Retrospective application to a prior interim or annual period is prohibited.

All securities (exclusive of preferred stock and common stock purchase warrants) received from our clients as compensation are quoted either on the Over the Counter Bulletin Board or the OTC Markets (formerly known as the Pink Sheets). The securities are typically restricted as to resale. Our policy is to liquidate securities received as compensation when market conditions are favorable for sale. As these securities are often restricted, we are unable to liquidate these securities until the restriction is removed. We recognize revenue for common stock based on the fair value at the time common stock is granted and for common stock purchase warrants based on the Black-Scholes valuation model. Unrealized gains or losses on marketable securities available-for-sale and on marketable securities available-for-sale - related party are recognized as an element of comprehensive income based on changes in the fair value of the security as quoted on an exchange or an inter-dealer quotation system. Once liquidated, a realized gain or loss on the sales of marketable securities available-for-sale and marketable securities available-for-sale - related party

is reflected in our net income for the period in which the securities are liquidated.

#### Comprehensive income

We follow ASC 205, "Presentation of Financial Statements," and ASC 220, "Reporting Comprehensive Income," to recognize the elements of comprehensive income. Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders. Comprehensive income for the third quarter of fiscal 2012 and 2011 included net income, foreign currency translation adjustments, unrealized gains or losses on available-for-sale marketable securities, net of income taxes, and unrealized gains or losses on available-for-sale marketable securities -related party, net of income taxes.

#### Impairment of long-lived assets

In accordance with ASC 360-10, "Impairment or Disposal of Long-Lived Assets", we periodically review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. We recognize an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the differences between the discounted future cash flow or estimated fair value and the book value of the underlying asset.

#### Long-Lived Assets Held for Sale

We follow ASC 360-10-45, “Long-Lived Assets Classified as Held for Sale,” and ASC 360-10-15, “Impairment or Disposal of Long-Lived Assets.” Long-lived assets are classified as held for sale when certain criteria are met. These criteria include management’s commitment to a plan to sell the assets; the availability of the assets for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets has been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets. We measure long-lived assets to be disposed of by sale at the lower of carrying amount or fair value, less cost to sell.

#### Acquisitions

We account for acquisitions using the purchase method of accounting in accordance with the provisions of ASC Topic 805, “Business Combinations.” The acquisition method of accounting for acquired businesses requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Also, transaction costs are expensed as incurred. Any excess of the purchase price over the assigned values of the net assets acquired is recorded as goodwill.

Item Quantitative and Qualitative Disclosures About Market Risk.

3.

Not applicable to a smaller reporting company.

Item Controls and Procedures.

4.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act of 1934 that are designed to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms and that such information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and our Chief Financial Officer, CFO, to allow timely decisions regarding required disclosure. Our management believes that our disclosure controls and procedures provide a reasonable level of assurance of achieving their objectives. Our management does not expect, however, that our disclosure controls and procedures will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Management, with the participation of our CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2012. Based on that evaluation solely as a result of continuing significant deficiencies in our internal control over financial reporting identified in our 2011 Annual Report on Form 10-K for the fiscal year ended September 30, 2011, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were not effective as of June 30, 2012.

The specific significant deficiencies in our internal control over financial reporting identified by our management at September 30, 2011 were as follows:

- A lack of a fully integrated corporate-wide financial accounting system,
- A lack of qualified accounting personnel who have sufficient knowledge in dealing with the complex U.S. GAAP accounting and financial issues in our cross border operations.

A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a registrant's financial reporting. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements would not be prevented or detected on a timely basis. Until such time, however, as these significant deficiencies in our internal control over financial reporting are remediated, we expect to have significant deficiencies in our disclosure controls and procedures.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in connection with the evaluation of our controls performed during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Our wholly owned subsidiary CDII Trading and our company are involved in the following litigation with Sunskar, Ltd. and its agents (“Sunskar”):

Sunskar filed a petition, as amended, to compel our company and CDII Trading to arbitration in accordance with the Federal Arbitration Act, 9 U.S.C. §1, et seq. and New York Convention, 9 U.S.C. §201, et. seq. in the U.S. District Court for the Southern District of New York (Case No. 11CV2499) (the “New York District Court Litigation”). The petition alleges that CD Industries and CDII Trading breached an agreement for the charter of a vessel owned by Sunskar and seeks damages in excess of \$1,000,000 as a result of our alleged breach of the agreement. On November 3, 2011, the Court issued an order granting Sunskar’s petition to compel arbitration against CDII Trading, denied the petition to compel arbitration against CD Industries and stayed the federal court action pending completion of the arbitration.

A maritime arbitration proceeding was brought by Sunskar against CDII Trading in New York, New York under the Maritime Arbitration Rules seeking an award of Sunskar’s attorney’s fees and costs incurred in the District Court action of \$67,845 and damages and attorney’s fees and arbitration costs of \$1,077,308 (the “Arbitration Claim”). On February 8, 2012, the panel in the arbitration proceeding found that Sunskar had presented a prima facie case of repudiation of contract and its entitlement to damages against CDII Trading. The panel noted Sunskar’s claim for damages, interest, fees and costs exceeds \$1 million and directed CDII Trading to post security in the amount of \$850,000 in a form reasonably acceptable to Sunskar no later than March 9, 2012 as a source of funds in the event Sunskar is successful on the merits.

CDII Trading and Alex Friedberg filed an action against David Christian Wold, Sunskar and Skaarup Shipping Corporation in the U.S. District Court for the Southern District of Florida (Case No.12-60547-CIV-DIMITROULEAS/SNOW) alleging that they made fraudulent and negligent misrepresentations to CDII Trading and Friedberg in regards to the charter of a vessel owned by Sunskar. On May 23, 2012 the District Court entered an order approving CDII Trading’s notice of voluntary dismissal without prejudice in this case and on August 9, 2012 the District Court granted the defendants motion to dismiss or to compel arbitration and stay the action or, alternatively, for transfer of venue to the New York District Court Litigation and dismissed the case without prejudice if Mr. Friedberg seeks to file an amended complaint on or before August 17, 2012. In the event Mr. Friedberg does not file an amended complaint, the Court will dismiss the action with prejudice and close the case. The Court will retain jurisdiction to entertain a motion for sanctions.

On March 9, 2012, CDII Trading filed a voluntary petition in the United States Bankruptcy Court in the Southern District of Florida for relief under Chapter 11 of title 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the case In re CDII Trading, Inc., Case No. 12-15810 JKO (the “Bankruptcy Case”). CDII Trading’s filing of its voluntary petition operated as a stay of the continuation of the New York District Court Litigation and the Arbitration Claim. On April 11, 2012 the Chapter 11 bankruptcy case was converted to a case under Chapter 7 of the Bankruptcy Code. On July 3, 2012 the Trustee in the Bankrupt Case filed a motion to approve a June 10, 2012 conditional settlement agreement (the “Settlement Agreement”) entered into between the Trustee on behalf of CDII Trading on the one hand and CDI China, Inc., International Magnesium Group, Inc., China Direct Investments, Inc. and CD International Enterprises, Inc., on the other hand (the “CD Affiliates”). Under the terms of the Settlement Agreement, the CD Affiliates, jointly and severally, agreed to pay the Trustee \$700,000.00, of which, \$100,000 was paid upon execution of the Settlement Agreement, \$400,000 is payable within 3 business days of the date the Settlement Agreement is approved by the Bankruptcy Court (the “Approval Date”) and \$200,000 is payable in six consecutive monthly installments of \$33,333.33 beginning on the last day of the month following the Approval Date. Under the

terms of the Settlement Agreement, the CD Affiliates will be released of all claims of the Trustee regarding the Bankruptcy Case and will acquire all of CDII Trading's assets. In the event the CD Affiliates fail to make any payment due under the Settlement Agreement, the Trustee shall be entitled to a judgment of \$3,243,000 against the CD Affiliates, jointly and severally. The effectiveness of the Settlement Agreement is conditioned upon its approval by the Bankruptcy Court and the issuance of a bar order against Sunskar, Ltd. and Skaarup Shipping Corporation and their employees, attorney, agents or assigns in any action by them against the CD Affiliates. The Settlement Agreement also requires the CD Affiliates to provide the Trustee with access to all of the books and records of the CD Affiliates, the Trustee to use commercially reasonable best efforts to obtain Bankruptcy Court approval of the Settlement Agreement and the CD Affiliates to use commercially reasonable best efforts to cooperate with the Trustee. The Bankruptcy Court has set a hearing date of August 20, 2012 to consider the Trustee's motion to accept the Settlement Agreement. Except as provided for in the Settlement Agreement, neither our company nor any of our other subsidiaries were part of the Bankruptcy Case.

Other than as described above, we believe there are currently no litigation or legal or administrative proceedings pending against us that are likely to have, individually or in the aggregate, a material adverse effect on our business or our results of operations and, to our knowledge, none of our officers, directors or principal shareholders are party to any legal proceeding in which they have an interest adverse to us.



Item 1A. Risk Factors

Risk factors describing the major risks to our business can be found under Item 1A, "Risk Factors", in our fiscal 2011 Annual Report on Form 10-K for the year ended September 30, 2011. Except as provided for below, there has been no material change in our risk factors from those previously discussed in the fiscal 2011 Annual Report on Form 10-K:

The delisting of our common stock from The NASDAQ Stock Market will likely have adverse consequence to the liquidity and trading price of our common stock in future periods.

On July 11, 2012, our common stock began trading on the OTCQB tier of the OTC Markets following the NASDAQ Listing Qualifications Panel's July 9, 2012 determination to delist our common stock from The NASDAQ Stock Market based upon public interest concerns. The OTC Markets is an inter-dealer, over-the-counter market that provides generally significantly less liquidity than The NASDAQ Stock Market or any other national or regional exchange. Securities traded on the OTC Markets typically have fewer market makers and are not followed by analysts. The SEC's order handling rules, which apply to NASDAQ-listed securities, do not apply to securities quoted on the OTC Markets. The quotation of our shares on the OTC Markets may result in a less liquid market available for existing and potential shareholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

In addition, since our common stock trades at less than \$5.00, it may be considered a "penny stock," and trading in our common stock is subject to the requirements of Rule 15c-9 under the Exchange Act. Under this rule, broker/dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements. The broker/dealer must make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction. SEC regulations also require additional disclosure in connection with any trades involving a "penny stock," including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and its associated risks. These requirements severely limit the liquidity of securities in the secondary market because few broker or dealers are likely to undertake these compliance activities.

If the Bankruptcy Court does not approve the settlement agreement in the CDII Trading bankruptcy, or if we fail to honor the terms of the settlement agreement, our financial condition in future periods could be material adversely impacted.

Under the terms of the settlement agreement we entered into July 2012 with the trustee in the CDII Trading bankruptcy, we agreed to pay the trustee \$700,000, of which, \$100,000 was paid upon execution of the settlement agreement, \$400,000 is payable within three business days of the date the settlement agreement is approved by the Bankruptcy Court and \$200,000 is payable in six consecutive equal monthly installments beginning on the last day of the month following the date the settlement agreement is approved. We have reserved \$700,000 in our financial statements at June 30, 2012 to provide for the balance of these possible payments. In the event the we fail to make any payments when due under the settlement agreement assuming it is approved, the trustee will be entitled to a judgment of \$3,243,000 against us. The effectiveness of the settlement agreement is conditioned upon its approval by the Bankruptcy Court and the issuance of a bar order against Sunskar, Ltd. and Skaarup Shipping Corporation and their employees, attorney, agents or assigns in any action by them against us. The Bankruptcy Court has set a hearing date of August 20, 2012 to consider the trustee's motion to accept the settlement agreement. If the Bankruptcy Court were to fail to approve the settlement agreement, and if the court were to award Sunskar, Ltd. the full amount of its claims, that amount, together with the bankruptcy administrative fees and costs, would have a material adverse effect on our financial condition in future periods. In addition, if the settlement agreement is approved, of which there are no

assurances, and we should fail to honor the terms of the agreement, we could be subject to a judgment and additional costs and fees associated with this matter which would also have a material adverse effect on our financial condition in future periods.

If we are required to redeem our outstanding shares of Series A convertible preferred stock, our liquidity will be adversely impacted in future periods.

Following the July 2012 delisting of our common stock from The NASDAQ Stock Market, the holders of the shares of our Series A convertible preferred stock with a stated value of \$1,006,250 were entitled to notice of such event, which is referred to as a “trigger event” in the designations, rights and preferences of this series of stock. This trigger event entitles the holders to request that we redeem the shares at a price per share equal to the sum of :

- the greater of (a) 125% of the conversion amount and (b) the product of (i) the conversion rate in effect at the time as the holder delivers a notice of redemption to us and (ii) the greatest closing sale price of the common stock beginning on the date immediately preceding such event of default and ending on the date the holder delivers the notice of redemption,
- the make-whole additional amount per preferred share being redeemed; and
- default interest at the rate of 1.5% per month.

We do not know if any holder will exercise its right to require us to redeem the shares of Series A convertible preferred stock, or, if a redemption is exercised and we do not redeem the shares, require us to adjust the conversion price of the Series A convertible preferred stock. At the holder's option, the holder may also choose to continue to hold the shares of Series A convertible preferred stock so as to take advantage of the 8% annual dividend or convert the shares into shares of our common stock. In the event we are required to redeem the shares of Series A convertible preferred stock our liquidity in future periods will be materially and adversely impacted. If the holders choose to convert the shares into shares of our common stock, the issuance of the shares will be dilutive to our existing common stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On June 6, 2012, we issued 180,494 shares of our common stock valued at \$0.35 per share for a total of \$63,173 to Zhidong Zhao for legal services provided. These shares of our common stock were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act. In addition, the recipient of our shares was a sophisticated investor and had access to information normally provided in a prospectus regarding us. In addition, the recipient of these shares had the necessary investment intent as required by Section 4(2) since he agreed to allow us to include a legend on the shares stating that such shares are restricted pursuant to Rule 144 of the Securities Act of 1933. These restrictions ensure that these shares would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for the above transaction.

Item 3. Defaults Upon Senior Securities.

Following the July 2012 delisting of our common stock from The NASDAQ Stock Market, the holders of the shares of our Series A convertible preferred stock with a stated value of \$1,006,250 were entitled to notice of such event, which is referred to as a "trigger event" in the designations, rights and preferences of this series of stock. This trigger event entitles the holders to request that we redeem the shares at a price per share equal to the sum of:

- the greater of (a) 125% of the conversion amount and (b) the product of (i) the conversion rate in effect at the time as the holder delivers a notice of redemption to us and (ii) the greatest closing sale price of the common stock beginning on the date immediately preceding such event of default and ending on the date the holder delivers the notice of redemption, and
- the make-whole additional amount per preferred share being redeemed; and
- default interest at the rate of 1.5% per month.

If we do not pay the redemption price within five business days of the receipt of notice from the holders of their election to redeem the shares, the holders may, in lieu of redemption, require us to adjust the conversion price of the Series A convertible preferred stock from the current price of \$1.80 per share to an amount equal to the lesser of (a) the conversion price in effect on the date the redemption notice is delivered to us and (b) the lowest weighted average price of our common stock during the period beginning on the date the redemption notice is delivered to us and ending on date the notice requiring us to adjust the conversion price of the shares is delivered to us.

We did not timely provide this notice, but such notice has subsequently been delivered to the holders. We do not know if any holder will exercise its right to require us to redeem the shares of Series A convertible preferred stock, or, if we do not redeem the shares, or require us to adjust the conversion price of the Series A convertible preferred stock. At the holder's option, the holder may also choose to continue to hold the shares of Series A convertible preferred stock so as to take advantage of the 8% annual dividend or convert the shares into shares of our common stock.

Item 4. Mine Safety Disclosures

Not applicable to our company.

Item 5. Other Information.

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Item 6. Exhibits.

Exhibit No	Description
3.2	Bylaws, as amended (incorporated herein by reference to Exhibit 3.2 filed as a part of the Company's Form 10-Q filed with the Commission on August 8, 2008 (Commission File No. 001-33694)).
3.3	Certificate of Amendment to the Certificate of Incorporation (incorporated herein by reference to Exhibit 3.3 as part of the Company's Current Report on Form 8-K filed with the Commission on August 17, 2006 (Commission File No. 000-26415)).
3.4	Certificate of Domestication of China Direct, Inc. (incorporated herein by reference to Exhibit 3.4 as part of the Company's Current Report on Form 8-K filed with the Commission on June 27, 2007 (Commission File No. 000-26415)).
3.5	Form of Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock (incorporated herein by reference to Exhibit 3.5 as part of the Company's Current Report on Form 8-K filed with the Commission on February 12, 2008 (Commission File No. 001-33694)).
4.1	Form of common stock purchase warrant (incorporated herein by reference to Exhibit 4.1 as part of the Company's Current Report on Form 8-K filed with the Commission on February 12, 2008 (Commission File No. 001-33694)).
4.2	Form of common stock purchase warrant (incorporated herein by reference to Exhibit 10.2 as part of the Company's Current Report on Form 8-K filed with the Commission on June 17, 2009 (Commission File No. 001-33694)).
4.3	Form of \$2.00 Common Stock Purchase Warrant (incorporated herein by reference to Exhibit 4.3 as part of the Company's Form 8-K as filed with the Commission on January 4, 2011 (Commission File No. 000-233694)).
10.1 +	Employment Agreement dated August 16, 2006 with Dr. Yuejian (James) Wang (incorporated herein by reference to Exhibit 10.9 as part of the Company's Current Report on Form 8-K filed with the Commission on August 17, 2006 (Commission File No. 000-26415)).
10.2 +	2005 Equity Compensation Plan (incorporated herein by reference to Exhibit 99.1 as part of the Company's Registration Statement on Form S-8 filed with the Commission on June 16, 2005 (Commission File No. 333-125871)).
10.3 +	2006 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.14 as part of the Company's Current Report on Form 8-K filed with the Commission on August 17, 2006 (Commission File No. 000-26415)).
10.4 +	2006 Stock Compensation Plan (incorporated herein by reference to Exhibit 10.1 as part of the Company's Registration Statement on Form S-8 filed with the Commission on October 30, 2006 (Commission File No. 333-138297)).
10.5	Contract for Sino-Foreign Equity Joint Venture between Asia Magnesium Co., Ltd., Shanxi Senrun Coal Chemistry Co., Ltd. and Taiyuan YiWei Magnesium Industry Co., Ltd. dated December 12, 2006 (incorporated herein by reference to Exhibit 10.1 as part of the Company's Quarterly Report on Form 10-QSB for the period ended June 30, 2007 filed with the Commission on August 8, 2007 (Commission File No. 000-26415)).
10.6	Asia Magnesium Ownership Transfer Agreement dated July 1, 2007 between Jiang Dong and Capital One Resource Co., Ltd. (incorporated herein by reference to Exhibit 10.2 as part of the Company's Quarterly Report on Form 10-QSB for the period ended June 30, 2007 filed with the Commission on August 8, 2007 (Commission File No. 000-26415)).
10.7	Shangxi Gu County Golden Magnesium Co., Ltd. Investment Agreement Supplement dated May 30, 2007 among Taiyuan YiWei Magnesium Co., Ltd., Asia Magnesium Co., Ltd. and Shanxi Senrun Coal Chemistry Co. Ltd. (incorporated herein by reference to

Exhibit 10.3 as part of the Company's Quarterly Report on Form 10-QSB for the period ended June 30, 2007 filed with the Commission on August 8, 2007 (Commission File No. 000-26415)).

- 10.8 Stock Purchase Agreement dated August 24, 2007 between CDI China, Inc., China Direct, Inc. and Sense Holdings, Inc. (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on August 28, 2007 (Commission File No. 000-26415)).
- 10.9 Joint Venture Agreement dated September 28, 2007 among Shanxi Jinyang Coal And Coke Group Co., Ltd., Runlian Tian and CDI China, Inc. (incorporated herein by reference to Exhibit 10.1 as part of the Company's Quarterly Report on Form 10-QSB for the period ended September 30, 2007 filed with the Commission on November 14, 2007 (Commission File No. 000-26415)).
- 10.10 Securities Purchase Agreement dated February 11, 2008 (incorporated herein by reference to Exhibit 10.19 as part of the Company's Current Report on Form 8-K filed with the Commission on February 12, 2008 (Commission File No. 001-33694)).
- 10.11 Registration Rights Agreement dated February 11, 2008 (incorporated herein by reference to Exhibit 10.20 as part of the Company's Current Report on Form 8-K filed with the Commission on February 12, 2008 (Commission File No. 001-33694)).

- 10.12 +Option Agreement dated August 16, 2006 between China Direct, Inc. and David Stein (incorporated herein by reference to Exhibit 10.3 filed as a part of the Company's Form S-8 filed with the Commission on November 11, 2007 (Commission File No. 333-147603)).
- 10.13 +Employment Agreement dated August 7, 2008 between China Direct, Inc. and Dr. Yuejian (James) Wang (incorporated herein by reference to Exhibit 10.22 filed as a part of the Company's Form 10-Q filed with the Commission on August 8, 2008 (Commission File No. 001-33694)).
- 10.14 +Form of Restricted Stock Agreement for Executive Officer awards under the Company's 2008 Executive Stock Incentive Plan (incorporated herein by reference to Exhibit 10.25 filed as a part of the Company's Form 10-Q filed with the Commission on August 8, 2008 (Commission File No. 001-33694)).
- 10.15 +Form of Restricted Stock Agreement for Non-Executive Officer awards under the Company's 2008 Non-Executive Stock Incentive Plan (incorporated herein by reference to Exhibit 10.26 filed as a part of the Company's Form 10-Q filed with the Commission on August 8, 2008 (Commission File No. 001-33694)).
- 10.16 +Form of Restricted Stock Agreement for awards to Directors under the Company's 2008 Non-Executive Stock Incentive Plan (incorporated herein by reference to Exhibit 10.27 filed as a part of the Company's Form 10-Q filed with the Commission on August 8, 2008 (Commission File No. 001-33694)).
- 10.17 Joint Venture Agreement entered into between CDI Shanghai Management Co., Ltd. and Chi Chen dated September 20, 2008 (incorporated herein by reference to Exhibit 10.28 filed as a part of the Company's Form 10-Q filed with the Commission on August 8, 2008 (Commission File No. 001-33694)).
- 10.18 +Form of November 13, 2008 Amendment to Employment Agreements dated August 7, 2008 between China Direct, Inc. and Dr. Yuejian (James) Wang, Marc Siegel and David Stein (incorporated herein by reference to Exhibit 10.29 filed as a part of the Company's Current Report on Form 10-Q for the period ended September 30, 2008 filed with the Commission on November 13, 2008 (Commission File No. 001-33694)).
- 10.19 +Option Agreement dated August 16, 2006 between China Direct, Inc. and Dr. Yuejian (James) Wang (incorporated herein by reference to Exhibit 10.1 filed as a part of the Company's Form S-8 filed with the Commission on November 11, 2007 (Commission File No. 333-147603)).
- 10.20 Baotou Changxin Magnesium Co., Ltd. Investment Agreement dated February 20, 2008 among CDI China, Inc., Excel Rise Technology Co., Ltd. and Three Harmony (Australia) Pty, Ltd. (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on February 26, 2008 (Commission File No. 001-33694)).
- 10.21 Baotou Changxin Magnesium Co., Ltd. Articles of Association dated January 31, 2008 (incorporated herein by reference to Exhibit 3.1 as part of the Company's Current Report on Form 8-K filed with the Commission on February 26, 2008 (Commission File No. 001-33694)).
- 10.22 Investment Framework Agreement dated as of April 26, 2008 by and between Baotou Xinjin Magnesium Co., Ltd. and CDI China, Inc. (incorporated herein by reference to Exhibit 10.18 as part of the Company's Current Report on Form 8-K filed with the Commission on May 1, 2008 (Commission File No. 001-33694)).
- 10.23 Lease Agreement dated August 21, 2007 between 431 Fairway Associates, LLC and China Direct, Inc. (incorporated herein by reference to Exhibit 10.37 filed as a part of the

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- Company's Form 10-K filed with the Commission on March 31, 2009 (Commission File No. 001-33694)).
- 10.24 + Consulting Agreement dated January 23, 2009 between China Direct, Inc. and Marc Siegel (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on January 26, 2009 (Commission File No. 001-33694)).
- 10.25 + Separation and Severance Agreement dated January 23, 2009 between China Direct, Inc. and Marc Siegel (incorporated herein by reference to Exhibit 10.2 as part of the Company's Current Report on Form 8-K filed with the Commission on January 26, 2009 (Commission File No. 001-33694)).
- 10.26 Stock Purchase Agreement dated January 23, 2009 between China Direct, Inc. and Marc Siegel (incorporated herein by reference to Exhibit 10.3 as part of the Company's Current Report on Form 8-K filed with the Commission on January 26, 2009 (Commission File No. 001-33694)).
- 10.27 Lock-Up Agreement dated January 23, 2009 between China Direct, Inc. and Marc Siegel (incorporated herein by reference to Exhibit 10.4 as part of the Company's Current Report on Form 8-K filed with the Commission on January 26, 2009 (Commission File No. 001-33694)).
- 10.28 + Compensation Arrangements with Philip Y. Shen, Ph.D. effective January 26, 2009 (incorporated herein by reference to the Company's Current Report on Form 8-K filed with the Commission on January 26, 2009 (Commission File No. 001-33694)).
- 10.29 + Amendment dated January 23, 2009 to Yuejian (James) Wang, Ph.D.'s Employment Agreement (incorporated herein by reference to the Company's Current Report on Form 8-K filed with the Commission on January 26, 2009 (Commission File No. 001-33694)).



- 10.30 + Severance Agreement dated May 23, 2008 between China Direct, Inc. and Lazarus Rothstein (incorporated herein by reference to Exhibit 10.46 as part of the Company's Quarterly Report on Form 10-Q filed with the Commission on August 14, 2009 (Commission File No. 001-33694)).
- 10.31 Form of Securities Purchase Agreement dated as of March 23, 2009 between the Company and the Purchasers (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on June 17, 2009 (Commission File No. 001-33694)).
- 10.32 Continuous Offering Program Agreement dated October 14, 2009 between China Direct Industries, Inc. and Rodman & Renshaw, LLC (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on October 15, 2009 (Commission File No. 001-33694)).
- 10.33 + Letter Agreement between China Direct Industries, Inc. and Andrew Wang dated as of December 23, 2009 (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on December 23, 2009 (Commission File No. 001-33694)).
- 10.34 + Separation Agreement between China Direct Industries, Inc. and Andrew Wang dated as of December 23, 2009 (incorporated herein by reference to Exhibit 10.2 as part of the Company's Current Report on Form 8-K filed with the Commission on December 23, 2009 (Commission File No. 001-33694)).
- 10.35 Equity Transfer Agreement dated July 13, 2010 entered into among CDI China, Inc., Pine Capital Enterprises, Inc., Taiyuan Yiwei Magnesium Industry Co., Ltd. and Taiyuan Ruiming Yiwei Magnesium Industry Co., Ltd. (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on July 15, 2010 (Commission File No. 001-33694)).
- 10.36 Amendment dated July 20, 2010 to Equity Transfer Agreement dated July 13, 2010 entered into among CDI China, Inc., Pine Capital Enterprises, Inc., Taiyuan Yiwei Magnesium Industry Co., Ltd. and Taiyuan Ruiming Yiwei Magnesium Industry Co., Ltd.
- 10.37 Amendment dated October 28, 2010 to Equity Transfer Agreement dated July 13, 2010 entered into among CDI China, Inc., Pine Capital Enterprises, Inc., Taiyuan Yiwei Magnesium Industry Co., Ltd. and Taiyuan Ruiming Yiwei Magnesium Industry Co., Ltd. (incorporated herein by reference to Exhibit 10.53 as part of the Company's Form 10-K as filed with the Commission on December 23, 2010 (Commission File No. 001-33694)).
- 10.38 Engagement Letter dated December 30, 2010 between China Direct Industries, Inc. and Rodman & Renshaw, LLC (incorporated herein by reference to Exhibit 10.54 as part of the Company's Form 8-K as filed with the Commission on January 4, 2011 (Commission File No. 001-33694)).
- 10.39 Form of Securities Purchase Agreement dated December 30, 2010 (incorporated herein by reference to Exhibit 10.55 as part of the Company's Form 8-K as filed with the Commission on January 4, 2011 (Commission File No. 001-33694)).
- 10.40 "At-the-Market" Program Agreement between China Direct Industries, Inc. and Global Hunter Securities, LLC dated February 14, 2011.
- 10.41 Stock Transfer Agreement dated May 6, 2011 between CDI China, Inc. and Kong Tung and Hui Dong (incorporated herein by reference to Exhibit 10.1 as part of the Company's Form 8-K as filed with the Commission on May 12, 2011).
- 10.42 Stock Transfer Agreement dated March 7, 2011 between CDI China, Inc. and Bloomgain Investment Limited (incorporated herein by reference to Exhibit 10.1 as part of the

Company's Form 8-K as filed with the Commission on August 11, 2011 (Commission File No. 001-33694)).

- 10.43 Amendment I dated March 7, 2011 to Stock Transfer Agreement between CDI China, Inc. and Bloomgain Investment Limited (Incorporated herein by reference to Exhibit 10.2 as part of the Company's Form 8-K as filed with the Commission on August 11, 2011 (Commission File No. 001-33694)).
- 10.44 Amendment II dated March 7, 2011 to Stock Transfer Agreement between CDI China, Inc. and Bloomgain Investment Limited (Incorporated herein by reference to Exhibit 10.3 as part of the Company's Form 8-K as filed with the Commission on August 11, 2011 (Commission File No. 001-33694)).
- 10.45 Amendment III dated June 23, 2011 to Stock Transfer Agreement between CDI China, Inc. and Bloomgain Investment Limited (Incorporated herein by reference to Exhibit 10.4 as part of the Company's Form 8-K as filed with the Commission on August 11, 2011 (Commission File No. 001-33694)).
- 10.46 Amendment IV dated August 8, 2011 to Stock Transfer Agreement between CDI China, Inc. and Bloomgain Investment Limited (Incorporated herein by reference to Exhibit 10.5 as part of the Company's Form 8-K as filed with the Commission on August 11, 2011 (Commission File No. 001-33694)).
- 10.47 Equity Transfer Contract dated August 30, 2011 among CDI China, Inc., Marvelous Honor Holding Inc., Lianling Dong, Ping Liu, Jianzhong Ju, Lifei Huang, Xumin Cui, Golden Trust Magnesium Industry Co. Ltd. and Kong Tung (Incorporated herein by reference to Exhibit 10.1 as part of the Company's Form 8-K as filed with the Commission on September 6, 2011 (Commission File No. 001-33694)).

- 10.48 Equity Transfer Contract dated August 30, 2011 among CDI China, Inc.; Mr. Yuwei Huang, Mr. Xumin Cui; and Golden Trust Magnesium Industry Co. Ltd. (Incorporated herein by reference to Exhibit 10.2 as part of the Company's Form 8-K as filed with the Commission on September 6, 2011 (Commission File No. 001-33694)).
- 10.49 Equity Transfer Contract dated August 30, 2011 among Taiyuan Ruiming Yiwei Magnesium Industry Co. Ltd., Taiyuan Yiwei Magnesium Industry Co., Ltd., Lingshi Xinghai Magnesium Industry Co. Ltd., China Direct Industries, Inc., Pine Capital Enterprises, Inc. and Yuwei Huang (Incorporated herein by reference to Exhibit 10.3 as part of the Company's Form 8-K as filed with the Commission on September 6, 2011 (Commission File No. 001-33694)).
- 10.50 + Management Agreement dated August 30, 2011 among China Direct Industries, Inc., CDI China Inc., Yuwei Huang and Kong Tung (Incorporated herein by reference to Exhibit 10.4 as part of the Company's Form 8-K as filed with the Commission on September 6, 2011 (Commission File No. 001-33694)).
- 10.51 Third Amendment to Lease between 431 Fairway Associates, LLC and China Direct Industries, Inc. dated November 29, 2011 (incorporate herein by reference to Exhibit 10.50 as part of the Company's Annual Report on Form 10-K filed with the Commission on December 23, 2011).
- 10.52 Equity Transfer Contract Amendment dated January 12, 2012 among CDI China, Inc., Marvelous Honor Holding Inc., Lianling Dong, Ping Liu, Jianzhong Ju, Lifei Huang, Xumin Cui, Golden Trust Magnesium Industry Co. Ltd. and Kong Tung (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on January 13, 2012).
- 10.53 Equity Transfer Contract Amendment dated January 12, 2012 among CDI China, Inc.; Mr. Yuwei Huang, Mr. Xumin Cui; and Golden Trust Magnesium Industry Co. Ltd. (incorporated herein by reference to Exhibit 10.2 as part of the Company's Current Report on Form 8-K filed with the Commission on January 13, 2012).
- 10.54 Equity Transfer Contract Amendment dated January 12, 2012 among Taiyuan Ruiming Yiwei Magnesium Industry Co. Ltd., Taiyuan Yiwei Magnesium Industry Co., Ltd., Lingshi Xinghai Magnesium Industry Co. Ltd., China Direct Industries, Inc., Pine Capital Enterprises, Inc. and Yuwei Huang. (incorporated herein by reference to Exhibit 10.3 as part of the Company's Current Report on Form 8-K filed with the Commission on January 13, 2012).
- 10.55 Equity Transfer Contract Amendment No. 2 dated June 30, 2012 among CDI China, Inc., Marvelous Honor Holding Inc., Lianling Dong, Ping Liu, Jianzhong Ju, Lifei Huang, Xumin Cui, Golden Trust Magnesium Industry Co. Ltd. and Kong Tung (incorporated by reference to Exhibit 10.1 of the Company's Report of Form 8-K filed with the Commission on July 6, 2012).
- 10.56 Equity Transfer Contract Amendment No. 2 dated June 30, 2012 among CDI China, Inc.; Mr. Yuwei Huang, Mr. Xumin Cui; Golden Trust Magnesium Industry Co. Ltd. and Baotou Changxin Magnesium Co., Ltd. (incorporated by reference to Exhibit 10.2 of the Company's Report of Form 8-K filed with the Commission on July 6, 2012).
- 10.57 Equity Transfer Contract Amendment No. 2 dated June 30, 2012 among Taiyuan Ruiming Yiwei Magnesium Industry Co. Ltd.,

		Taiyuan Yiwei Magnesium Industry Co., Ltd., Lingshi Xinghai Magnesium Industry Co. Ltd., CD International Enterprises, Inc., Pine Capital Enterprises, Inc. and Yuwei Huang. (incorporated by reference to Exhibit 10.3 of the Company's Report of Form 8-K filed with the Commission on July 6, 2012).
10.58	+	CD International Enterprises, Inc. 2012 Compensation Plan (incorporated by reference to Exhibit 4.4 of the Company's Report of Form 8-K filed with the Commission on July 20, 2012).
10.59	+	CD International Enterprises, Inc. 2008 Executive Stock Incentive Plan, as Amended (incorporated by reference to Annex A of the Company's Proxy Statement filed with the Commission on April 18, 2012).
10.60	+	CD International Enterprises, Inc. 2008 Non-Executive Stock Incentive Plan, as Amended (incorporated by reference to Annex B of the Company's Proxy Statement filed with the Commission on April 18, 2012).
31.1	*	Section 302 Certificate of Chief Executive Officer.
31.2	*	Section 302 Certificate of Principal Financial and Accounting Officer.
32.1	*	Section 906 Certificate of Chief Executive Officer and Principal Financial and Accounting Officer.
101.INS	**	XBRL INSTANCE DOCUMENT
101.SCH	**	XBRL TAXONOMY EXTENSION SCHEMA
101.CAL	**	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF	**	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
101.LAB	**	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.PRE	**	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
	+	Management contract or compensatory plan or arrangement.
	*	Filed herewith.
	**	In accordance with Regulation S-T, the XBRL-formatted interactive data files that comprise Exhibit 101 in this Quarterly Report on Form 10-Q shall be deemed "furnished" and not "filed".

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CD INTERNATIONAL ENTERPRISES, INC.

Date: August 14, 2012

By: /s/ Yuejian (James) Wang  
Yuejian (James) Wang,  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: August 14, 2012

By: /s/ Hernan Grant Welch  
Hernan Grant Welch  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

