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

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

Form 10-Q

[X] 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 [ ]

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 [ü] 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	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ü]

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

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

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.

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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
Total current assets	82,235,067	76,987,147
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
Total assets	$ 149,564,016	$ 116,335,219
LIABILITIES AND EQUITY		
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
Total current liabilities	51,685,423	32,202,715
Long-term liabilities	13,990	107,231
Total Liabilities	51,699,413	32,309,946
TOTAL EQUITY		
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)
Total CD International stockholders' equity	78,509,635	68,306,992
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
OPERATING ACTIVITIES:		
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
NET CASH USED IN OPERATING ACTIVITIES	(7,139,865)	(5,829,256)
INVESTING ACTIVITIES:		
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)
NET CASH USED IN INVESTING ACTIVITIES	(3,258,554)	(1,682,803)
FINANCING ACTIVITIES:		
(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
NET CASH PROVIDED BY FINANCING ACTIVITIES	474,618	6,615,169
EFFECT OF EXCHANGE RATE ON CASH	1,498,609	1,049,859
Net (decrease) increase in cash	(8,425,192)	152,969

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.

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

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, 2012	2011	For nine months ended June 30, 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:

	CD International (excluding acquisitions) (unaudited)	Acquisition of 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
Building	10-40 years	$ 23,932,087	$ 14,260,280
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

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

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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
Total Loans 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	-
Total Other 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:

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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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.

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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
Inputs for conversion option valuation – covered call				
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%
Inputs for conversion option valuation – short call				
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%
Inputs for warrant valuation				
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.

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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

				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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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
Total	$	19,354,968	$	15,718,281

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
Total revenue	$	37,274,642	$	57,015,600	$	116,128,442	$	145,053,215

(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

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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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:

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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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 %	