CD INTERNATIONAL ENTERPRISES, INC.
Form 10-Q
September 03, 2013

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

o 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<br>(State or other jurisdiction of incorporation or organization) | 13-3876100<br>(I.R.S. Employer Identification No.) |
| 431 Fairway Drive, Suite 200, Deerfield Beach, Florida<br>(Address of principal executive offices) | 33441<br>(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 [ü]

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 | o | Accelerated filer | o |
| Non-accelerated filer | o | Smaller reporting company | x |

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date, there are 57,164,037 shares of common stock are issued and outstanding as of August 28, 2013.

CD INTERNATIONAL ENTERPRISES, INC.
FORM 10-Q
June 30, 2013

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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 report 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 Annual Report on Form 10-K for the year ended September 30, 2012, our subsequent filings with the Securities and Exchange Commission and in Item 1A. of this report:

- Our ability to continue as a going concern.
- 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 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 our subsidiary CDII Trading, Inc. (“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 and possible violations of the Sarbanes-Oxley Act of 2002.
- The scope of our related party transactions and potential conflicts of interest arising from these transactions.
- 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.
- 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 and the impact of penny stock rules on the liquidity of our common stock.

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 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 which we disposed of in the fourth quarter of fiscal 2012;
- "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, which we disposed of in the fourth quarter of fiscal 2012.
- "CDII Trading” refers to CDII Trading, Inc., a Florida corporation and a 100% owned subsidiary of CD International.
- "CDII Minerals" refers to CDII Minerals, Inc., a Florida corporation and a 100% owned subsidiary of CD International.
- “CDII Chile” refers to Inversiones CDII Chile, Ltda, a Chilean corporation and a 100% owned subsidiary of CDII Minerals.

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
CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2013 (Unaudited) | September 30, 2012 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,004,334 | $ 3,437,838 |
| Available-for-sale marketable securities | 700,612 | 344,252 |
| Accounts and notes receivable | 3,592,104 | 11,227,455 |
| Accounts, loans, other receivable and prepaid expenses - related parties | 7,729,090 | 3,093,231 |
| Inventories, net | 6,920,469 | 5,655,568 |
| Prepaid expenses and other current assets, net | 8,025,690 | 5,889,331 |
| Assets held for sale | 4,321,605 | 2,746,778 |
| Restricted cash, current | 20,823 | 21,954 |
| Total current assets | 32,314,727 | 32,416,407 |
| | | |
| Property, plant and equipment, net | 39,724,285 | 40,394,593 |
| Intangible assets | 93,824 | 122,212 |
| Property use rights, net | 3,705,291 | 3,714,231 |
| Other long-term assets | 1,010,773 | 1,172,901 |
| Total assets | $ 76,848,900 | $ 77,820,344 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Loans payable-short term | $ 1,627,169 | $ 1,494,952 |
| Accounts payable and accrued expenses | 7,936,574 | 5,243,279 |
| Accounts and other payables-related parties | 14,449,201 | 12,600,716 |
| Advances from customers | 1,234,480 | 1,414,608 |
| Deferred revenue | - | 300,708 |
| Other liabilities | 2,914,330 | 4,286,070 |
| Taxes payable | - | 665,438 |
| Liabilities related to assets held for sale | 6,423,577 | 6,777,451 |
| Total current liabilities | 34,585,331 | 32,783,222 |
| Total liabilities | 34,585,331 | 32,783,222 |
| | | |
| EQUITY: | | |
| Series A Convertible Preferred Stock: $.0001 par value, stated value $1,000 per share; 10,000,000 authorized, 1,006 shares outstanding at June 30, 2013 and September 30, 2012, resprctively | 1,006,250 | 1,006,250 |
| | 5,679 | 5,149 |

| | | | | |
|---|---|---|---|---|
| Common Stock: $.0001 par value; 1,000,000,000 authorized; 56,794,465 and 51,490,798 issued and outstanding at June 30, 2013 and September 30, 2012, resprctively | | | | |
| Additional paid-in capital | | 90,350,427 | | 89,792,413 |
| Accumulated other comprehensive income (loss) | | 618,777 | | (576,240 ) |
| Accumulated deficit | | (54,795,616 ) | | (49,878,821 ) |
| Total CD International stockholders' equity | | 37,185,517 | | 40,348,751 |
| Non-controlling interests | | 5,078,053 | | 4,688,371 |
| Total equity | | 42,263,569 | | 45,037,122 |
| Total liabilities and equity | $ | 76,848,900 | $ | 77,820,344 |

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

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

| | For the Three Months ended June 30, 2013 | 2012 | For the Nine Months ended June 30, 2013 | 2012 |
|---|---|---|---|---|
| Revenues: | | | | |
| Revenues | $ 18,581,898 | $ 26,489,338 | $ 52,335,266 | $ 80,547,925 |
| Revenue-related parties | - | 136,377 | - | 707,376 |
| Total revenues | 18,581,898 | 26,625,715 | 52,335,266 | 81,255,301 |
| Cost of revenues | 17,812,263 | 25,980,164 | 50,864,676 | 69,372,942 |
| Gross profit | 769,635 | 645,551 | 1,470,590 | 11,882,359 |
| Operating expenses: | | | | |
| Selling, general, and administrative | (2,526,581 ) | (2,950,356 ) | (7,344,189 ) | (7,931,099 ) |
| Total operating expenses | (2,526,581 ) | (2,950,356 ) | (7,344,189 ) | (7,931,099 ) |
| Operating (loss) income | (1,756,946 ) | (2,304,805 ) | (5,873,599 ) | 3,951,260 |
| Other income (expenses): | | | | |
| Other income (expense) | (233,067 ) | 390,430 | (147,759 ) | 878,103 |
| Interest income (expense) | (177,935 ) | (418,118 ) | (623,425 ) | (244,208 ) |
| Realized gain (loss) on available-for-sale marketable securities | 156,006 | (13,817 ) | 272,040 | 69,586 |
| Realized gain on distinguished notes | 290,688 | - | 358,920 | - |
| Total other income (expenses) | 35,692 | (41,505 ) | (140,224 ) | 703,481 |
| (Loss) income before income taxes | (1,721,254 ) | (2,346,310 ) | (6,013,823 ) | 4,654,740 |
| Income tax benefit (expense) | (137,213 ) | 712,853 | (44,909 ) | (918,945 ) |
| (Loss) income from continuing operations | (1,858,467 ) | (1,633,457 ) | (6,058,732 ) | 3,735,795 |
| Discontinued operations: | | | | |
| Loss from discontinued operations, net of tax | (62,895 ) | (120,681 ) | (231,179 ) | (786,285 ) |
| Gain from disposal, net of tax | 1,027,619 | - | 1,433,506 | - |
| Total gain (loss) from discontinued operations | 964,724 | (120,681 ) | 1,202,327 | (786,285 ) |
| Net (loss) income | (893,743 ) | (1,754,138 ) | (4,856,405 ) | 2,949,510 |
| Net loss attributable to non-controlling interests | 240,858 | 392,205 | 352,575 | 828,851 |
| Net (loss) income attributable to CD International | (652,885 ) | (1,361,933 ) | (4,503,830 ) | 3,778,361 |
| Deduct dividends on Series A Preferred Stock | (20,130 ) | (20,130 ) | (60,390 ) | (60,390 ) |
| Net (loss) income attributable to common stockholders | $ (673,015 ) | $ (1,382,063 ) | $ (4,564,220 ) | $ 3,717,971 |
| COMPREHENSIVE (LOSS) INCOME: | | | | |
| Net (loss) income | $ (893,743 ) | $ (1,754,138 ) | $ (4,856,405 ) | $ 2,949,510 |

| | | | | |
|---|---|---|---|---|
| Foreign currency translation adjustments | 633,294 | 361,053 | 801,710 | 476,683 |
| Unrealized (loss) gain on available-for-sale securities | (1,322,596 ) | (3,113,830 ) | 383,306 | (1,877,459 ) |
| Comprehensive (loss) income | (1,583,045 ) | (4,506,915 ) | (3,671,388 ) | 1,548,734 |
| Net loss attributable to non-controlling interests | 240,858 | 392,205 | 352,575 | 828,851 |
| Foreign currency translation adjustments - non-controlling interests | (4,949 ) | (105,199 ) | (37,108 ) | (15,655 ) |
| Comprehensive (loss) income attributable to CD International | (1,347,135 ) | (4,219,909 ) | (3,355,920 ) | 2,361,930 |
| Preferred stock dividend | (20,130 ) | (20,130 ) | (60,390 ) | (60,390 ) |
| Comprehensive (loss) income attributable to common stockholders | $ (1,367,265 ) | $ (4,240,039 ) | $ (3,416,310 ) | $ 2,301,540 |
| Basic and diluted net (loss) income per common share - basic: | | | | |
| Net (loss) income from continuing operations | $ (0.03 ) | $ (0.03 ) | $ (0.11 ) | $ 0.10 |
| Net income (loss) from discontinued operations | 0.02 | - | 0.02 | (0.02 ) |
| Net income (loss) per common share | $ (0.01 ) | $ (0.03 ) | $ (0.09 ) | $ 0.08 |
| Basic and diluted net (loss) income per common share - diluted: | | | | |
| Net (loss) income from continuing operations | $ (0.07 ) | $ (0.03 ) | $ (0.11 ) | $ 0.10 |
| Net income (loss) from discontinued operations | 0.02 | (0.00 ) | 0.02 | (0.02 ) |
| Net income (loss) per common share | $ (0.05 ) | $ (0.03 ) | $ (0.08 ) | $ 0.08 |
| Basic weighted average common shares outstanding | 56,680,014 | 48,111,759 | 54,832,103 | 43,380,118 |
| Diluted weighted average common shares outstanding | 56,680,014 | 48,111,759 | 54,832,103 | 47,383,843 |

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

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

| | For the Nine Months ended June 30, 2013 | 2012 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | $ (4,856,405 ) | $ 2,949,510 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation and amortization | 1,387,649 | 2,777,543 |
| Allowance for bad debt | - | 8,159 |
| Stock based compensation and fees | 558,544 | 813,930 |
| Realized gain on available-for-sale securities | (272,040 ) | 30,974 |
| Gain (loss) on revaluation of derivative liability | 5,672 | (93,241 ) |
| Fair value of marketable securities received for services | - | (10,737,043 ) |
| Fair value of marketable securities paid for compansation and services | 1,059,695 | 338,976 |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other assets | (1,973,416 ) | (880,718 ) |
| Accounts receivable and other assets-related parties | (1,079,042 ) | 10,538,752 |
| Inventories | (1,116,370 ) | 2,912,581 |
| Accounts receivable | 5,070,877 | 13,228,845 |
| Assets of discontinued operations | (1,489,992 ) | (22,685,485 ) |
| Accounts payable and accrued expenses | 1,463,866 | (9,907,457 ) |
| Accounts and other payable-related parties | (1,644,884 ) | (3,823,666 ) |
| Advances from customers and deferred revenues | (504,157 ) | (3,213,762 ) |
| Liabilities of discontinued operations | (507,151 ) | 16,957,762 |
| Other payables | (1,097,670 ) | (3,208,587 ) |
| NET CASH USED IN OPERATING ACTIVITIES | (4,994,824 ) | (3,992,927 ) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash acquired from acquisition | - | 1,808,881 |
| Cash paid for acquisition | - | (4,454,487 ) |
| Net proceeds from sale of available-for-sale securities | 1,027,856 | 893,176 |
| Purchases of property, plant and equipment | (2,793 ) | (1,506,124 ) |
| Purchases of property, plant and equipment - discontinued operations | - | - |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 1,025,063 | (3,258,554 ) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |

| | | | | |
|---|---|---|---|---|
| (Increase) decrease in restricted cash | | 1,509 | | (585,681 ) |
| Loans payable | | 129,975 | | (2,462,550 ) |
| Gross proceeds from sale of stock and exercise of warrants/options | | 20,000 | | - |
| Cash dividend payment to preferred stockholders | | (913 ) | | (20,130 ) |
| Capital contribution from non-controlling interest owners | | - | | 214,348 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | | 150,571 | | (2,854,013 ) |
| | | | | |
| EFFECT OF EXCHANGE RATE ON CASH | | 1,385,686 | | 1,680,302 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (2,433,504 ) | | (8,425,192 ) |
| | | | | |
| CASH AND CASH EQUIVALENTS - beginning of period | | 3,437,838 | | 12,563,126 |
| CASH AND CASH EQUIVALENTS - end of period | $ | 1,004,334 | $ | 4,137,934 |
| | | | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | | | |
| Cash paid for interest | $ | 299,921 | $ | 41,315 |
| Cash paid for income taxes, net | $ | - | $ | 31,789 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | | |
| Preferred dividend paid in common stock | $ | 59,477 | $ | 40,260 |

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

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIRIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

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, 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 iron ore 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.

Basis of Presentation

The accompanying unaudited consolidated financial statements for CD International Enterprises, Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (the "U.S.") for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. We included all adjustments that are necessary for the fair presentation of our financial position, results of operations, and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole.

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

- "fiscal 2013" – October 1, 2012 through September 30, 2013
- "fiscal 2012" – October 1, 2011 through September 30, 2012
- "fiscal 2011" – October 1, 2010 through September 30, 2011

Going Concern

For the nine months ended June 30, 2013, the Company has incurred a net loss of approximately $4.86 million and used cash in operation of $4.99 million. The Company also has a working capital deficit of $2.27 million and its cash and cash equivalent and its revenues are not currently sufficient and cannot be projected to cover operating expenses in the coming year. These factors raise substantial doubt as to the ability of the Company to continue as a going concern. Management's plans include attempting to raise funds through debt and equity financings, restructure on-going operations to eliminate inefficiencies and continue to sell assets to raise cash and meet operating needs. Management intends to make every effort to identify and develop sources of funds. There is no assurance that management's plans will be successful.

Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of CD International Enterprises, as well as our wholly owned and controlled majority owned subsidiaries, including those operating outside the United States, and are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany balances and transactions are eliminated in consolidation. We account for investments in which we exercise significant influence under the equity method of accounting. Non-controlling interest in subsidiaries consists of the equity interest of non-controlling investors in consolidated subsidiaries of CDI China.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIRIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

Non-controlling Interests

Non-controlling interests in our subsidiaries are recorded in accordance with the provisions of ASC 810, "Consolidation" and are reported as a component of equity, separate from the parent company's equity. Purchase or sale of equity interests that do not result in a change of control are accounted for as equity transactions. Results of operations attributable to the non-controlling interests are included in our consolidated results of operations and, upon loss of control, the interest sold, as well as interest retained, if any, will be reported at fair value with any gain or loss recognized in earnings.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates in fiscal 2013 and 2012 include the valuation of investments available-for-sale and receivables of marketable equity securities, the allowance for doubtful on accounts receivable, the allowance for obsolete inventory, the fair value of stock-based compensation, the useful life of property, plant and equipment, and assumptions used in assessing impairment of long-term assets and assets held for sale.

We rely on assumptions such as volatility, forfeiture rate, and expected dividend yield when deriving the grant date fair value of share-based compensation. If an equity award is modified, and we expect the service conditions of the original award will be met, we will adjust our assumptions and estimates as of the modification date and compare the old equity award valued at the modification date with the new equity award valued at the modification date to calculate any incremental cost. We then continue to recognize the original grant date fair value plus any incremental cost over the modified service period.

Our estimate for allowance for uncollectible accounts is based on an evaluation of our outstanding accounts receivable, other receivables, and loans receivable including the aging of amounts due, the financial condition of our specific customers and clients, knowledge of our industry segment in Asia, and historical bad debt experience. This evaluation methodology has proven to provide a reasonable estimate of bad debt expense in the past and we intend to continue to employ this approach in our analysis of collectability. However, we are aware that given the current global economic situation, including that of China, meaningful time horizons may change. We intend to enhance our focus on the evaluation of our customers' sustainability and adjust our estimates as may be required.

We group property plant and equipment into similar groups of assets and estimate the useful life of each group of assets; see Note 9 – Property, Plant and Equipment for further information on asset groups and estimated useful lives.

Assumptions and estimates employed in these areas are material to our reported financial condition and results of operations. Actual results could differ from these estimates.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, we consider all highly liquid investments with original maturities of three months or less to be cash equivalents. The carrying values of these investments approximate their fair value.

Restricted cash, current

Restricted cash is cash not available for immediate use. Depending on when cash is expected to be used, we classify restricted cash as a current (short-term) or non-current (long-term) asset. In cases when restricted cash is expected to be used within one year after the balance sheet date, it is classified as a current asset. However, if restricted cash is not expected to be used within one year after the balance sheet date, it is classified as a non-current asset. As of June 30, 2013 and September 30, 2012 our current restricted cash was $20,823 and $21,954, respectively. Substantially all of our restricted cash is pledged as collateral for loans.

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Concentration of Credit Risks

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash, trade accounts receivable and notes receivables. We deposit our cash with high credit quality financial institutions in the United States and PRC. As of June 30, 2013, we had no bank deposits in the United States that exceeded federally insured limits. At June 30, 2013, we had deposits of $894,176 in banks in the PRC. In the PRC, there is no equivalent federal deposit insurance as in the United States, so the amounts held in banks in the PRC are not insured. We have not experienced any losses in such bank accounts through June 30, 2013.

At June 30, 2013 and September 30, 2012, bank deposits by geographic area were as follows:

| Country | June 30, 2013 | | | September 30, 2012 | | |
|---|---|---|---|---|---|---|
| United States | $ | 107,968 | 11% | $ | 468,450 | 14% |
| South America | | 2,190 | <1% | | - | - |
| PRC | | 894,176 | 89% | | 2,969,388 | 86% |
| Total cash and cash equivalents | $ | 1,004,334 | 100% | $ | 3,437,838 | 100% |

In an effort to mitigate any potential risk, we periodically evaluate the credit quality of the financial institutions at which we hold deposits, both in the United States and China.

Fair Value of Financial Instruments

We adopted the 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 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. We use Level 1 inputs for our fair value measurements whenever there is an active market, with actual quotes, market prices, and observable inputs.

The financial assets and liabilities carried at fair value on a recurring basis at June 30, 2013 are as follows:

| Financial assets and liabilities | Fair Value | | Level 1 | | Level 2 | | Level 3 |
|---|---|---|---|---|---|---|---|
| Marketable equity securities | $ | 700,612 | $ | 700,612 | - | $ | - |
| Amounts payable using marketable securities receivable | | (42,992) | | (42,992) | - | | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Derivative warrant liabilities | | (1,599) | | - | - | (1,599) |
| | $ | 656,021 | $ | 657,620 | - $ | (1,599) |

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The financial assets and liabilities carried at fair value on a recurring basis at September 30, 2012 are as follows:

| Financial assets and liabilities | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Marketable equity securities | $ 344,252 | $ 344,252 | $ - | $ - |
| Receivable of marketable equity securities | 2,189,720 | 2,189,720 | - | - |
| Amounts payable using marketable securities receivable | (821,399) | (821,399) | - | - |
| Derivative warrant liabilities | (8,499) | - | - | (8,499) |
| | $ 1,704,074 | $ 1,712,573 | $ - | $ (8,499) |

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 marketable securities received as compensation when market conditions are favorable for sale. Since these marketable securities are often restricted, we are unable to liquidate them until the restriction is removed. We recognize revenue for the common stock we receive as compensation based on the fair value at the time the common stock is 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 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 (loss) 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 consolidated statement of operations in the period in which the securities are 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.

Accounts and Notes Receivable

Accounts and notes receivable are reported at net realizable value. We have established an allowance for uncollectible accounts based upon factors pertaining to the credit risks of specific customers and clients, historical trends, aging of the receivable and other information. Delinquent accounts are written off when it is determined that the amounts are uncollectible. There was no allowance for uncollectible accounts at June 30, 2013 and September 30, 2012.

Inventories

Inventories, consisting of raw materials and finished goods, are stated at the lower of cost or market utilizing the weighted average method. Inventories as of June 30, 2013 and September 30, 2012 were $6,920,469 and $5,655,568, respectively. Due to the nature of our business and the short duration of the manufacturing process of our products, there was no material work-in-process inventory at June 30, 2013 and September 30, 2012.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of (i) prepayments to vendors for merchandise that had not yet been shipped, (ii) other prepaid expenses, (iii) loans receivable and (iv) other receivables. At June 30, 2013 and September 30, 2012, prepaid expenses and other current assets were $8,025,690 and $5,889,331, respectively.

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Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated on a straight line basis over their estimated useful lives of three to forty years and in the second quarter of fiscal 2012, our Magnesium Segment changed from the straight line method to the units of production method of depreciation. Maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are capitalized.

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. When we have acquired net assets that do not constitute a business under U.S. GAAP, no goodwill has been recognized.

Advances from Customers and Deferred Revenues

Advances from customers represent (i) prepayments to us for merchandise that had not yet been shipped to customers, and (ii) the fair value of securities received as compensation which will be amortized over the term of the respective consulting agreement. We will recognize these advances as revenues as customers take delivery of the goods or when the services have been rendered, in compliance with our revenue recognition policy. Advances from customers totaled $1,234,480 and $1,414,608 at June 30, 2013 and September 30, 2012, respectively while deferred revenue totaled $0 and $300,708, respectively.

Comprehensive income (loss)

We follow ASC 220, "Comprehensive Income" to recognize the elements of comprehensive income (loss). Comprehensive income (loss) is comprised of net income (loss) 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. Our comprehensive income (loss) for the nine months ended June 30, 2013 and 2012 included net income (loss), foreign currency translation adjustments, unrealized gains or losses on marketable securities available-for-sale (non-related and related party), net of income taxes, and unrealized gains or losses on amounts receivable and payable in marketable securities available-for-sale.

Impairment of Long-Lived Assets

In accordance with ASC 360 "Property, Plant, and Equipment", we periodically review our long-lived assets, including goodwill and other intangible 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 difference between the estimated fair value and the book value of the underlying asset. We recorded impairment charges on property, plant and equipment on two magnesium facilities, and one zinc facility during fiscal 2012. We did not record impairment charges during the first nine months of fiscal 2013.

Assets Held for Sale

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 associated costs to sell. At June 30, 2013 and September 30, 2012, we had three subsidiaries held for sale (See Note 15).

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Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of our U.S. operations is the U.S. dollar and the functional currency of our Chinese subsidiaries is the Renminbi ("RMB"), the official currency of the PRC. Equity accounts in 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 date. Income and expenditures are translated at the average exchange rates for the nine month periods ended June 30, 2013 and 2012, and the year ended September 30, 2012, respectively. A summary of the conversion rates for the periods presented is as follows:

| | June 30, 2013 | September 30, 2012 | June 30, 2012 |
|---|---|---|---|
| Period end RMB: U.S. dollar exchange rate | 6.1732 | 6.3190 | 6.3089 |
| Average fiscal-year-to-date RMB: U.S. dollar exchange rate | 6.2559 | 6.3198 | 6.3197 |

The 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 the RMB amounts could have been, or could be, converted into United States dollars at the rates applied in the translation.

Income Taxes

We account for income taxes in accordance with ASC 740, "Income Taxes." ASC 740 requires the recognition of deferred tax assets and liabilities to reflect the future tax consequences of events that have been recognized in our financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between the financial reporting and tax basis of our assets and liabilities result in a deferred tax asset, ASC 740 requires an evaluation of the probability that we will generate sufficient taxable income to be able to realize the future benefits indicated by the deferred tax assets. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some or the entire deferred tax asset will not be realized.

We applied the provisions of ASC 740-10-50, "Accounting for Uncertainty in Income Taxes," which provides clarification related to the process associated with accounting for uncertain tax positions recognized in our consolidated financial statements. Audit periods remain open for review until the statute of limitations has passed. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. The Internal Revenue Service (IRS) is currently auditing our consolidated income tax return for 2008, 2010 and 2011 (See Note 16).

Basic and Diluted Income (Loss) per Share

Under the provisions of ASC 260, "Earnings Per Share," basic income (loss) per common share is computed by dividing income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the company, subject to anti-dilution limitations. In order to comply with U.S. GAAP, we use the treasury stock method when computing the diluted income (loss) per share.  The number of incremental shares included in diluted income (loss) per share is computed using the average market price of our common stock during the reporting period.

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Revenue Recognition

We follow the guidance of ASC 605, "Revenue Recognition," 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. When our clients' securities are received for our services, we follow the guidance of ASC 505, "Equity-Based Payments to Non-Employees" to measure and recognize our revenue. ASC Topic 505-30-18 instructs that an entity (grantee or provider) may enter into transactions to provide goods or services in exchange for equity instruments. The grantee shall measure the fair value of the equity instruments in these transactions using the stock price and other measurement assumptions as of the earlier of either of the following dates, referred to as the measurement date.

a. The date the parties come to a mutual understanding of the terms of the equity-based compensation arrangement and a commitment for performance by the grantee to earn the equity instruments (a performance commitment) is reached; and
b. The date at which the grantee's performance necessary to earn the equity instruments is complete (that is, the vesting date).

We recognize the revenue from the equity securities received from our clients upon completion of the services performed or as otherwise provided for in our agreements with our clients. We use the grant date as the measurement date in accordance with ASC 605.

Stock-based Compensation

We account for the grant of stock options, warrants and restricted stock awards in accordance with ASC 718, "Compensation-Stock Compensation." ASC 718 requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity based compensation. Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the "measurement date." The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company records compensation expense based on the fair value of the award at the reporting date. The awards to consultants and other third-parties are then revalued, or the total compensation is recalculated, based on the then current fair value, at each subsequent reporting date.

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.

Reclassifications

Certain reclassifications have been made to the Company's consolidated balance as of September 30, 2012 to conform to the current presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

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Recent Accounting Pronouncements

In July 2012, FASB issued Accounting Standards Update ("ASU") No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. ASU No. 2012-02 simplifies the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. ASU No. 2012-02 allows an entity the option of first performing a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of ASU No. 2012-02 did not have a material impact on our consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05 “Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.” ASU 2013-05 addresses the accounting for the cumulative translation adjustment when a parent either sells part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. For public entities, the ASU is effective prospectively for fiscal years, and interim periods, within those years, beginning after December 15, 2013. Early adoption is permitted. The adoption of ASU 2013-05 is not expected to have a material impact on the Company’s consolidated financial statements.

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 income (loss) per common share is computed by dividing income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the company, subject to anti-dilution limitations.

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The following table presents the computation of basic and diluted loss per share for the three months and nine months ended June 30, 2013 and 2012:

| | For the Three Months ended June 30, 2013 | For the Three Months ended June 30, 2012 | For the Nine Months ended June 30, 2013 | For the Nine Months ended June 30, 2012 |
|---|---|---|---|---|
| Net (loss) income allocable to common shareholders: | | | | |
| Continuing operations | $ (1,858,467) | $ (1,633,457) | $ (6,058,732) | $ 3,735,795 |
| Discontinued operations | 964,724 | (120,681) | 1,202,327 | (786,285) |
| Net (loss) income to common shareholders | $ (673,015) | $ (1,382,063) | $ (4,564,220) | $ 3,717,971 |
| Plus: preferred stock dividends | (20,130) | (20,130) | (60,390) | (60,390) |
| | | | | |
| Net (loss) income allocable to common stockholders plus assumed conversions | $ (3,395,012) | $ (4,240,039) | $ (5,444,057) | $ 2,301,540 |
| | | | | |
| Basic weighted average common shares outstanding | 56,680,014 | 48,111,759 | 54,832,103 | 43,380,118 |
| Plus: incremental shares from assumed conversions (1) | | | | |
| Convertible preferred stock | - | - | - | 558,889 |
| Unvested stock-based compensation | - | - | - | 25,447 |
| Shares subscribed for acquisition | - | - | - | 3,419,359 |
| Dilutive potential common shares | | | | 4,003,725 |
| Dilutive weighted-average shares outstanding | 56,680,014 | 48,111,759 | 54,832,103 | 47,383,843 |
| | | | | |
| Net (loss) income per common share - basic: | | | | |
| Net income (loss) from continuing operations | $ (0.03) | $ (0.03) | $ (0.11) | $ 0.09 |
| Net income (loss) from discontinued operations | $ 0.02 | $ (0.00) | $ 0.02 | $ (0.02) |
| Net (loss) income per common share - basic | $ (0.01) | $ (0.03) | $ (0.09) | $ 0.07 |
| Net (loss) income per common share - diluted: | | | | |
| Net income (loss) from continuing operations | $ (0.03) | $ (0.03) | $ (0.11) | $ 0.08 |
| | $ 0.02 | $ (0.00) | $ 0.02 | $ (0.02) |

| | | | | |
|---|---|---|---|---|
| Net income (loss) from discontinued operations | | | | |
| Net (loss) income per common share - diluted | $ (0.01) | $ (0.03) | $ (0.09) | $ 0.06 |

(1) Securities are not included in the denominator in periods when anti-dilutive. We excluded 625,980 shares of our common stock issuable upon exercise of options and 2,129,130 shares of our common stock issuable upon exercise of warrants as of June 30, 2013 as their effect was anti-dilutive. We did not add any dilutive shares to the denominator for the nine months ended June 30, 2013 as we had a loss.

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NOTE -3 – 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 and an 80% ownership interest in 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, 2013, 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 former subsidiary Excel Rise Technology Co. Ltd.

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, 2013 and September 30, 2012, the consolidated balance sheets include 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 table below provides the pro forma condensed financial statements of operations (unaudited) to give effect to the acquisition of Lingshi Magnesium and Golden Trust for nine months ended June 30, 2012.

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 | $ 58,847,277 | $ 8,349,627 | $ 17,523,829 | $ (3,465,432) (A) | $ 81,255,301 |
| Cost of revenues | 47,929,276 | 8,123,742 | 16,785,356 | (3,465,432) (A) | 69,372,942 |
| Gross profit | 10,918,001 | 225,885 | 738,473 | - | 11,882,359 |
| Operating income (loss) | 3,859,744 | (46,954) | 138,470 | - | 3,951,260 |
| Net income | 2,813,850 | (43,796) | 179,456 | - | 2,949,510 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net income (loss) to common stockholders | $ | 3,582,844 | $ | (35,037) | $ | 170,164 | $ | - | $ | 3,717,971 |
| | | | | | | | | | | |
| 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.

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NOTE 4 – MARKETABLE SECURITIES AVAILABLE-FOR-SALE

Marketable securities available-for-sale and marketable securities available-for-sale-related party as of June 30, 2013 and September 30, 2012 consisted of the following financial instruments:

| Company | Security type | | June 30, 2013 | % of Total | | September 30, 2012 | % of Total |
|---|---|---|---|---|---|---|---|
| Decor Products International, Inc. | Common stock | $ | 12,113 | 2% | $ | 23,752 | 7% |
| Sunwin Stevia International Inc. | Common stock | | - | -% | | 270,000 | 78% |
| Linkwell Corporation | Common stock | | 505,578 | 72% | | 50,500 | 15% |
| Big Tree Group, Inc. | Common stock | | 182,921 | 26% | | - | 0% |
| Marketable securities available for sale | | $ | 700,612 | 100% | $ | 344,252 | 100% |

On February 14, 2013, we issued a secured promissory note of $300,000 to Yuejian (James) Wang, the CEO of the Company, with 730,000 shares of China Education International, Inc. common stock pledged as collateral. Additionally, on August 21, 2012, we issued secured promissory notes to four Chinese citizens in an aggregate amount of $1,000,000 for value received. These promissory notes were due on February 29, 2013 and are currently in default and bear an interest rate of 12% per annum. The promissory notes also are secured by 5,099,115 shares of China Education International, Inc. common stock, pledged as collateral for the $1 million. See Note 9-Loans Payable. In fiscal 2012, we recorded an other than temporary impairment of the fair value of our China Education International, Inc. marketable securities available for sale and the fair value at June 30, 2013 and September 30, 2012 is zero.

All marketable securities were received from our clients as consulting fees. We categorize the securities as investments in marketable securities available for sale or investments in marketable securities available-for-sale-related parties. These securities (exclusive of preferred stock and common stock purchase warrants) are quoted in the over the counter market. Most of the securities are restricted and cannot be readily sold by us absent a registration of those securities under the Securities Act of 1933 (the "Securities Act") or the availability of an exemption from the registration requirements under the Securities Act. Our policy is to liquidate the securities on a regular basis. As these securities are often restricted, we are unable to liquidate them until the restriction is removed. Unrealized gains or losses on marketable securities available-for-sale and on marketable securities available-for-sale-related party are recognized on a periodic basis as an element of comprehensive income based on changes in the fair value of the security. Once liquidated, realized gains or losses on the sale of marketable securities available-for-sale and marketable securities available-for-sale-related party are reflected in our net income for the period in which the security was liquidated. Our marketable securities available-for-sale 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.

Under the guidance of ASC320, “Investments”, we periodically evaluate our marketable securities to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term “other-than-temporary” is not intended to indicate that the decline is permanent. It indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding impairment charge to earnings is recognized. In this assessment for various securities at June 30, 2013 and September 30, 2012, the guidance in ASC 320, “the Investment-Debt and Equity Securities,” is carefully followed. In accordance with Section 325-35-33, when an entity has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security shall be deemed other-than-temporarily impaired in the period in which the decision to sell is made. However, an entity shall recognize an impairment loss when the impairment is deemed other than temporary impairment even if a decision to sell has not been made.

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In January 2013, we distributed 1.7 million shares of Big Tree Group, Inc. to employees and consultants for compensation and services rendered of which 300,000 shares were distributed Yuejian (James) Wang in lieu of cash compensation pursuant to the terms of the June 2012 letter agreement. These marketable securities shares were value at fair market value on the grant date of $0.50 per common shares. Accordingly, during the nine months ended June 30, 2013, we recorded compensation expense and consulting of approximately $325,000 and $525,000 respectively.

NOTE 5 – 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. 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, 2013 and September 30, 2012, the fair value of receivable of marketable securities available-for-sale was $0 and $2,189,720, respectively. The table below presents the details on the accounts and notes receivable:

| | June 30, 2013 | % of Total | September 30, 2012 | % of Total |
|---|---|---|---|---|
| Receivable of marketable securities available for sale | $ - | -% | $ 2,189,720 | 20% |
| Notes receivable | 265,745 | 9% | 1,761,355 | 15% |
| Other trade receivables (1) | 3,326,359 | 91% | 7,276,380 | 65% |
| Total accounts and notes receivable | 3,592,104 | 100% | 11,227,455 | 100% |
| Allowance for uncollectible accounts | - | | - | |
| Net accounts and notes receivable | $ 3,592,104 | | $ 11,227,455 | 100% |

(1) In October 2012, we obtained a receivable financing credit facility from a finance organization which provides up to $2.0 million financing by selling and assigning to the finance organization accounts receivables from IMG, a magnesium subsidiary we own. We received advances on the receivables equal to approximately 85% of the amount due assuming a discount of approximately 15% which may fluctuate depending on the receivables assigned as determined by the finance organization and we receive the remaining balance after the finance organization has received the full payments from our clients. The commission fees on the accounts receivable financing may fluctuate between 1.25% for 30 days to 3.21% for 90 days of the gross amount financed. At June 30, 2013, the balance of this receivable financing is zero.

NOTE 6 - INVENTORIES

Inventories at June 30, 2013 and September 30, 2012 consisted of the following:

| | June 30, 2013 | September 30, 2012 |
|---|---|---|

| | | | | |
|---|---|---|---|---|
| Raw materials | $ | 3,165,687 | $ | 3,255,043 |
| Finished goods | | 3,754,782 | | 2,400,525 |
| Total Inventory | $ | 6,920,469 | $ | 5,655,568 |

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 and no impairment reserve at June 30, 2013 and September 30, 2012

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NOTE 7 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

At June 30, 2013 and September 30, 2012, prepaid expenses and other current assets, consisted of the following:

| Description | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|
| Prepayments to vendors for merchandise that had not yet been shipped or services that had not been performed | $ | 5,365,149 | $ | 2,010,003 |
| Prepaid expenses | | 791,047 | | 1,529,827 |
| Receivable from sale of discontinued subsidiaries, net of long-term portion | | 1,869,494 | | 2,303,475 |
| Loans receivable | | - | | 46,026 |
| Total | $ | 8,025,690 | $ | 5,889,331 |

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

At June 30, 2013 and September 30, 2012, property, plant and equipment, consisted of the following:

| Description | Useful Life | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|---|
| Building | 10-40 years | $ | 20,279,138 | $ | 19,817,723 |
| Manufacturing equipment | 5-10 year | | 25,836,437 | | 25,533,550 |
| Office equipment and furniture | 3-5 year | | 634,332 | | 637,693 |
| Autos and trucks | 5 year | | 491,186 | | 576,489 |
| Construction in progress | N/A | | 429,722 | | 505,966 |
| Total | | | 47,670,815 | | 47,071,421 |
| Less: accumulated depreciation | | | (7,946,530) | | (6,676,828) |
| Property, Plant and Equipment, Net | | $ | 39,724,285 | $ | 40,394,593 |

For the nine months ended June 30, 2013 and 2012, depreciation expense totaled $1,109,931 and $2,063,370, respectively.

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NOTE 9 - LOANS PAYABLE

Loans payable at June 30, 2013 and September 30, 2012 consisted of the following:

| Description | June 30, 2013 | September 30, 2012 |
|---|---|---|
| China Direct Investments loan from China Discovery Investors, Ltd. Due on December 31, 2012. 1% monthly interest rate. Secured by 1,529,734 shares of the common stock of China Education International, Inc. See Note 5. (1) | $ - | $ 400,000 |
| China Direct Investments loan from Marc Siegel, $92,125 and Richard Galterio $17,850. Due on March 31, 2013 and currently in default. Lenders agree to waive interest. Secured by pledge of certain assets of CD International Enterprises assets. | 109,975 | - |
| China Direct Investments loan from four Chinese citizens. Due on default. 12% annual interest rate. Secured by 5,099,115 shares of the common stock of China Education International, Inc. See Note 5. | 1,000,000 | 1,000,000 |
| China Direct Investments loan from Bin Zuo. Due on September 30, 2013. 18% semi-annual interest rate. Secured by pledge of CD International Enterprises all tangible assets. | 420,000 | - |
| Taiyuan Ruiming loan from Yuenuan Zhang. Due on June 24, 2013, currently in default. 12% annual interest rate. Unsecured. | 97,194 | 94,952 |
| Total | 1,627,169 | 1,494,952 |
| Less: Current Portion | (1,627,169) | (1,494,952) |
| Loans payable, long-term | $ - | $ - |

(1) See Note 10 - Related Party Transactions under Loan Payables – related parties

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NOTE 10 - 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, 2013 and September 30, 2012:

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 Rise Technology 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;
Taiyuan Jinwei Magnesium Co., Ltd., a company organized under the laws of the PRC ("Taiyuan Jinwei Magnesium"), is legally represented by an officer of Chang Magnesium;
Lawrence Wang, is the brother of Yuejian (James) Wang, the Company's Chairman and Chief Executive Officer;
Lawrence Wang, is the CEO and Chairman of Board of Dragon Capital Group, Corp., a company organized under the laws of the State of Nevada ("Dragon Capital Group").
Yuejian (James) Wang is the CEO of the Company and a principal of China Discovery Investors, Ltd. ("James Wang")
Robert Zhuang, is the CEO of CDI Shanghai Management Co., Ltd and the brother of Yuejian (James) Wang.

Accounts, loans, other receivable and prepaid expenses - related parties

As of June 30, 2013 and September 30, 2012, accounts, loans, and other receivables and prepaid expenses- related parties were $7,729,090 and $3,093,231, respectively, and consisted of accounts receivable – related party, prepaid to suppliers – related parties, and other receivables-related parties as set forth below:

Accounts Receivable – related parties

At June 30, 2013 and September 30, 2012, accounts receivable – related parties for inventory provided were $0 and $29,372, respectively, as follows:

| CD International Subsidiary | Related Party | June 30, 2013 | September 30, 2012 |
|---|---|---|---|
| Ruiming Magnesium | Yihong Magnesium | $ - | $ 13,309 |
| Ruiming Magnesium | Yiwei Magnesium | - | 16,063 |
| Total Accounts Receivable-related parties | | $ - | $ 29,372 |

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Prepaid Expenses – related parties

At June 30, 2013 and September 30, 2012, prepaid expenses – related parties for future delivery of inventory were $2,195,283 and $698,500, respectively, as follows:

| CD International Subsidiary | Related Party | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|---|
| Ruiming Magnesium | Yiwei Magnesium | $ | 3,210 | $ | 29,943 |
| IMTC | Pine Capital | | 2,192,073 | | 668,557 |
| Total Prepaid Expenses-related parties | | $ | 2,195,283 | $ | 698,500 |

Other Receivables- related parties

At June 30, 2013 and September 30, 2012, other receivables-related parties for working capital purposes were $5,533,807 and $2,365,359, respectively, as follows:

| CD International Subsidiary | Related Party | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|---|
| Chang Magnesium | Yiwei Magnesium | $ | 1,002,446 | $ | 2,318,674 |
| Ruiming Magnesium | Yiwei Magnesium | | 975,183 | | 7,913 |
| Ruiming Magnesium | CDI Shanghai | | 12,959 | | - |
| Golden Magnesium | Yiwei Magnesium | | 2,260,254 | | - |
| Xinghai Magnesium | Yiwei Magnesium | | 965,464 | | - |
| CDI Shanghai | Dragon Capital Group Corp. | | 16,199 | | 38,772 |
| Golden Trust | Yiwei Magnesium | | 301,302 | | - |
| Total Other Receivable-related parties | | $ | 5,533,807 | $ | 2,365,359 |

Accounts and other payables-related parties

As of June 30, 2013 and September 30, 2012, accounts and other payables – related parties were $14,449,201 and $12,600,716, respectively, and consisted of accounts payable – related parties, other payables- related parties, and loan payable – related parties as set forth below:

Accounts Payable – related parties

At June 30, 2013 and September 30, 2012, accounts payable – related party for purchases of goods were $2,860 and $162,074, respectively, as follows:

| CD International Subsidiary | Related Party | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|---|
| Golden Trust Magnesium | Yihong Magnesium | $ | 2,860 | $ | - |
| IMTC | Wheaton | | - | | 162,074 |

| | | | | |
|---|---|---|---|---|
| Total Accounts Payable-related parties | $ | 2,860 | $ | 162,074 |

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Other Payables- related parties

At June 30, 2013 and September 30, 2012, other payables- related parties were $9,448,050 and $10,438,642, respectively, as follows:

| CD International Subsidiary | Related Party | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|---|
| Beauty East | Kung Tong | $ | 91,318 | $ | 92,665 |
| CDI Metal | Robert Zhuang | | 29,158 | | - |
| Chang Magnesium | Excel Rise | | 1,034,844 | | 1,957,987 |
| Golden Trust Magnesium | Yiwei Magnesium | | 5,585 | | - |
| Ruiming Magnesium | Yiwei Magnesium | | 21,088 | | 121,934 |
| CDII (1) | Yiwei Magnesium | | 8,266,057 | | 8,266,056 |
| Total Other Payables-related parties | | $ | 9,448,050 | $ | 10,438,642 |

(1) In connection with the acquisition of all of the issued and outstanding capital stock of Golden Trust and an 80% ownership interest in Lingshi Magnesium, at June 30, 2013 and September 30, 2012, the Company owes $8,266,057 and $82,66,056 to Yiwei Magnesium payable in 8,737,903 shares of our common stock within 15 business days following satisfaction of certain post-closing conditions which include the delivery of technical information, financial statements and other information

On April 24, 2013, the Company re-negotiated with the shareholders of Golden Trust and Lingshi Xinghai for the second payment of magnesium acquisitions, agreeing upon the following terms:

• The recalculation of shares due as Second Payment will be based on $.105 per share (the 6-month average closing price of CDII's common stock from October 23, 2012 to April 22, 2013) instead of $.946 per share.
• The Company shall issue 41,524 shares of convertible series D preferred stock and RMB 28,766,866 (via Magnesium company cash flow) to the shareholders of Golden Trust and Lingshi Xinghai. 41,524 shares of convertible series D preferred stock can be converted to our common stock at 1:100, and each share of the preferred shares is valued at $10.50 per share.
• Second Payment shares are to be issued within 15 days after the completion of the conditions set forth on Section 5.

As of the date of this report, the terms of any agreement have not been finalized.

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Loans Payable – related parties

At June 30, 2013 and September 30, 2012, loans payable – related parties were $4,998,291 and $2,000,000 respectively, as follows:

| CD International Subsidiary | Related Party | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|---|
| CDII (2) | James Wang | $ | 287,358 | $ | - |
| IMTC (3) | Yuwei Huang | | 4,710,933 | | 2,000,000 |
| Total Loans Payable - related parties | | $ | 4,998,291 | $ | 2,000,000 |

(2) (3) In May 2012 we borrowed $400,000 from China Discovery Investors, Ltd., a related party which is affiliated with Dr. Wang, our CEO. The note was initially due on March 31, 2013, bore 1% monthly interest rate and was secured by 730,000 shares of the common stock of China Education International, Inc. we owned. We used these proceeds for working capital. On January 1, 2013, our company, China Discovery Investors, Ltd. and the members of China Discovery Investors, Ltd. entered into an agreement whereby the principal balance and unpaid interest was assigned to the individual members and the due date was extended to December 31, 2013. On February 14, 2013, our subsidiary China Direct Investments issued a secured promissory note of $309,132 to Dr. Wang in connection with the assignment of note payable from China Discovery Investors, Ltd. whereby the principal balance and unpaid interest was assigned to Dr. Wang. The note, which is secured by a pledge of 730,000 shares of China Education International, Inc. common stock, is due on December 31, 2013 and bears at interest at 12% per annum. From April 2012 to November 2012, for working capital purpose, IMTC issued unsecured promissory notes totaled $4,600,000 plus unpaid interest of $110,933, to Yuwei Huang. The loans bear interest at 12% per annum and are due on demand.

NOTE 11 – OTHER LIABILITIES

Other liabilities included the following as June 30, 2013 and September 30, 2012:

| Account | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|
| Other payables | $ | 1,652,155 | $ | 947,735 |
| Payables for acquisitions | | 597,057 | | 2,283,916 |
| Accrued salary payable | | 643,389 | | 1,025,790 |
| Derivative liabilities | | 1,599 | | 8,499 |
| Accrued dividend payable | | 20,130 | | 20,130 |
| Total other liabilities | $ | 2,914,330 | $ | 4,286,070 |

NOTE 12 – CAPITAL STOCK

Preferred Stock and Related Dividends

As of June 30, 2013 and September 30, 2012 there were 1,006 shares of Series A Convertible Preferred Stock outstanding. The dividends are payable in cash or shares of our common stock at our option subject to certain provisions. If paid in shares of common stock, the stock shall be valued at the lower of the conversion price or the average of the weighted average price of the 10 consecutive trading days immediately preceding the dividend date. During the three months ended June 30, 2013, we paid $19,217 of ordinary dividends in the form of 247,516 shares of our common stock. During the nine months ended June 30, 2013, we paid $59,477 of ordinary dividends in the form of 513,301 shares of our common stock.

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Derivative liabilities

As of June 30, 2013, the carrying amounts of the derivative liabilities for preferred stock conversion option and warrants were $1,599 and $0, respectively. As of September 30, 2012, the carrying amounts of the derivative liabilities for preferred stock conversion option and warrants were $8,448 and $51, 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 were as follows:

| | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|
| Inputs for conversion option valuation – covered call | | | | |
| Asset price on valuation date | $ | 0.06 | $ | 0.24 |
| Exercise price | $ | 9.80 | $ | 9.80 |
| Estimated years to exercise | | 4.68 | | 5.42 |
| Expected volatility factor | | 113% | | 100% |
| Risk free rate | | 1.41% | | 0.62% |
| | | | | |
| Inputs for conversion option valuation – short call | | | | |
| Asset price on valuation date | $ | 0.06 | $ | 0.24 |
| Exercise price | $ | 1.80 | $ | 1.80 |
| Estimated years to exercise | | 4.68 | | 5.42 |
| Expected volatility factor | | 113% | | 100% |
| Risk free rate | | 1.41% | | 0.62% |

Common Stock

We have 1,000,000,000 shares of common stock, par value $.0001, authorized. At June 30, 2013 there were 56,794,465 shares of common stock issued and outstanding and there were 51,490,798 shares of common stock issued and outstanding at September 30, 2012.

In October 2012, the Company issued 200,000, shares on common stock in connection with the exercise of 200,000 stock options for proceeds of cash of $20,000.

During the nine months ended June 30, 2013, we paid $59,477 of ordinary dividends on our Series A Convertible Preferred Stock in the form of 513,301 shares of our common stock.

During the nine months ended June 30, 2013, we issued a total of 4,590,366 shares of our common stock comprised of: 264,208 shares, valued at $25,789 to members of our advisory board as compensation, 2,099,224 shares, valued at $233,379 to consultants for services, 2,226,934 shares, valued at $219,902 to employees as compensation.

Stock Incentive Plans

On August 16, 2006, our board of directors authorized the 2006 Equity Plan (the “2006 Equity Plan”) covering 10,000,000 shares of our common stock, which was approved by a majority of our shareholders on August 16, 2006.

At June 30, 2013 and September 30, 2012, there were options outstanding to purchase an aggregate of 12,000 shares of common stock outstanding under the 2006 Equity Plan at exercise prices of $7.50 per share.

On October 19, 2006, our board of directors authorized the 2006 Compensation Stock Plan (the “2006 Stock Plan”) covering 2,000,000 shares of our common stock. As the 2006 Stock Plan was not approved by our shareholders prior to October 19, 2007, we may no longer award incentive stock options under the 2006 Stock Plan and any incentive stock options previously awarded under the 2006 Stock Plan were converted into non-qualified options upon terms and conditions determined by the board of directors, as nearly as is reasonably practicable in their sole determination, to the terms and conditions of the incentive stock options being so converted. At June 30, 2013 and September 30, 2012, there were no options outstanding under the 2006 Stock Plan.

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On April 25, 2008, our board of directors adopted the 2008 Executive Stock Incentive Plan covering 1,000,000 shares of our common stock, which was approved by a majority vote of our shareholders on May 30, 2008. As of June 30, 2013, we granted 747,496 shares had been issued under this plan. On August 29, 2011, our board of directors approved and on August 3, 2012 our shareholders approved an amendment to our 2008 Executive Stock Incentive Plan to increase the number of shares of our common stock which may be granted under the plan from 1,000,000 to 2,500,000.

On April 25, 2008, our board of directors adopted the 2008 Non-Executive Stock Incentive Plan covering 3,000,000 shares of our common stock, which was approved by a majority vote of our shareholders on May 30, 2008. As of June 30, 2013, we have issued 2,877,751 shares of restricted stock under this plan. On August 29, 2011, our board of directors approved and on August 3, 2012 our shareholders approved an amendment to our 2008 Non-Executive Stock Incentive Plan to increase the number of shares of our common stock which may be granted under the plan from 3,000,000 to 4,500,000.

On July 18, 2012, our board of directors authorized our 2012 Equity Compensation Plan (the “2012 Plan”) covering 5,000,000 shares of common stock. As of June 30, 2013 we have granted 4,896,720 shares of our common stock and restricted stock awards under this plan.

On December 19, 2012, our board of directors authorized our 2008 Executive Incentive Plan New (the “2008 EIP New”) covering 1,500,000 shares of common stock. As of June 30, 2013 we granted 1,114,917 shares of our common stock and restricted stock awards under this plan.

On December 19, 2012, our board of directors authorized our 2008 Non-Executive Incentive Plan New (the “2008 Plan New”) covering 1,500,000 shares of common stock. As of June 30, 2013 we have not granted any shares of our common stock and restricted stock awards under this plan.

On June 11, 2013, our board of directors authorized our 2013 Employee and Consultant Stock Incentive and Compensation Plan (the “2013 Plan”) covering 5,000,000 shares of common stock. As of June 30, 2013 we have not granted any shares of our common stock and restricted stock awards under this plan.

The following table sets forth our stock option activities at June 30, 2013 and for the nine months ended June 30, 2013:

| | Number of Option | | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance at September 30, 2012 | 2,142,980 | $ | 15.90 | - |
| Granted | 200,000 | | 0.10 | - |
| Exercised | (200,000) | | 0.10 | - |
| Forfeited or cancelled | (1,517,500) | | 18.34 | - |
| Balance at June 30, 2013 | 625,480 | $ | 10.01 | - |
| Options exercisable at June 30, 2013 | 625,480 | $ | 10.01 | - |

The remaining contractual life and exercise price of options outstanding and exercisable at June 30, 2013 are as follows:

| Number of options outstanding and exercisable | Exercise price | Remaining contractual life (Years) |
|---|---|---|
| 400 | $ 2.25 | 1.30 |
| 625,000 | $ 10.00 | 0.51 |
| 80 | $ 56.25 | 1.42 |
| 625,480 | $ 10.01 | |

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Common Stock Purchase Warrants

A summary of the status of our outstanding common stock purchase warrants granted as of June 30, 2013 and changes during the period is as follows:

| | Number of Warrants | | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance at September 30, 2012 | 4,179,130 | $ | 4.83 | |
| Granted | - | | - | |
| Exercised | - | | - | |
| Forfeited or cancelled | (2,050,000) | | 7.57 | |
| Balance at June 30, 2013 | 2,129,130 | $ | 2.20 | - |
| Warrants exercisable at June 30, 2013 | 2,129,130 | $ | 2.20 | - |

The following information applies to all warrants outstanding and exercisable at June 30, 2013.

| Number of Warrants outstanding and exercisable | | Exercise Price | Remaining contractual life (Years) |
|---|---|---|---|
| 777,778 | $ | 2.00 | 3.01 |
| 1,351,352 | $ | 2.31 | 1.46 |
| 2,129,130 | | | |

NOTE 13 – NON-CONTROLLING INTERESTS

As of June 30, 2013 and September 30, 2012, our consolidated balance sheets reflected total non-controlling interest of $5,078,053 and $4,688,371, respectively, which represent the equity portion of our subsidiaries held by non-controlling interests shareholders in two of our segments, as follows:

| Segment | | June 30, 2013 | | September 30, 2012 |
|---|---|---|---|---|
| Magnesium Segment | $ | 5,078,787 | $ | 4,688,109 |
| Basic Materials Segment | | (734) | | 262 |
| Total | $ | 5,078,053 | $ | 4,688,371 |

NOTE 14 - SEGMENT INFORMATION

For the three and nine months ended June 30, 2013 and 2012, the Company operated in three reportable business segments - (1) the Magnesium Segment where we produce, sell and distribute pure magnesium ingots, magnesium powder and magnesium alloy, (2) Basic Materials segment where we sell and distribute of a variety of products, including iron ore products, non-ferrous metals, recycled materials, and industrial commodities, and (3) the Consulting segment where we provide business and financial consulting services to U.S. public companies that operate primarily in China. The Company's reportable segments are strategic business units that offer different products. They are managed separately based on the fundamental differences in their operations.  Information with respect to these reportable business segments for the three and nine months ended June 30, 2013 and 2012 is as follows:

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIRIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|---|---|---|---|---|
| Revenues: | 2013 | 2012 | 2013 | 2012 |
| Magnesium (1) | $ 18,055,598 | $ 26,539,757 | $ 51,015,885 | $ 70,388,044 |
| Basic Materials | 457,995 | 174 | 898,181 | 844 |
| Consulting | 68,305 | 85,784 | 421,200 | 10,866,413 |
| Total Revenue: | $ 18,581,898 | $ 26,625,715 | $ 52,335,266 | $ 81,255,301 |

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|---|---|---|---|---|
| Depreciation: | 2013 | 2012 | 2013 | 2012 |
| Magnesium | $ 515,719 | $ 1,933,234 | $ 1,287,351 | $ 2,664,870 |
| Basic Materials | 3,257 | 6,273 | 15,989 | 18,902 |
| Consulting | 11,882 | 21,205 | 84,309 | 93,771 |
| Total Depreciation: | $ 530,858 | $ 1,960,712 | $ 1,387,649 | $ 2,777,543 |

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|---|---|---|---|---|
| Interest income (expense) | 2013 | 2012 | 2013 | 2012 |
| Magnesium | $ (137,088) | $ (141,242) | $ (486.050) | $ (152,125) |
| Basic Materials | 7,655 | 220 | 180 | 2,074 |
| Consulting | (48,502) | (277,096) | (137,555) | (94,157) |
| Total Interest income (expense) | $ (177,935) | $ (418,118) | $ (623,425) | $ (244,208) |

| | For the three months ended June 30, | | For the nine months ended June 30, | |
|---|---|---|---|---|
| Income (loss) from operation | 2013 | 2012 | 2013 | 2012 |
| Magnesium | $ (931,076) | $ (569,529) | $ (2,516,643) | $ (1,299,098) |
| Basic Materials | (234,681) | (123,612) | 34,435 | (393,828) |
| Consulting | (591,189) | (1,611,664) | (3,391,391) | 5,644,186 |
| Total income (loss) from operation | $ (1,756,946) | $ (2,304,805) | $ (5,873,599) | $ |