

CD INTERNATIONAL ENTERPRISES, INC.
Form 10-Q
February 22, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015

or

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

For the transition period from _____ to _____

Commission file number: 001-33694

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

Florida
(State or other jurisdiction of incorporation or organization)

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

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

33441
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (-232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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:

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Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date, there are 637,620,128 shares of common stock are issued and outstanding as of February 19, 2016.

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As used in this report "CD International", "we", "us", "our" or "Company" refers to CD International Enterprises, Inc., a Florida corporation, and our subsidiaries, "fiscal year 2015" refers to the year ended September 30, 2015, "fiscal year 2014" refers to the year ended September 30, 2014 and "fiscal year 2016" refers to the year ending September 30, 2016. The information which appears on our web site at www.cdii.net is not part of this report.

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

This report contains forward-looking statements. 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" and our subsequent filings with the Securities and Exchange Commission:

- 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.
- Our ability to implement our expansion plans for growing our business through acquisitions and development of our commodity trading business.
- 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.
- 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.
- 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", "our" or "Company" 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.

Mineral Trading Segment

- "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, which we disposed in April 2015;
- "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, which we disposed in April 2015;
- "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, which we disposed in April 2015;
- "CDII Trading" refers to CDII Trading, Inc., a Florida corporation and a 100% owned subsidiary of CD International Industries;
- "CDII Minerals" refers to CDII Minerals, Inc., a Florida corporation and a wholly owned subsidiary of CD International;
- "CDII Chile" refers to Inversiones CDII Chile, Ltda., a Chilean company and a wholly owned subsidiary of CDII Minerals, which we disposed of in July 2015;
- "CDII Peru" refers to CDII Minerals de Peru SAC, a Peruvian company and a 50% owned subsidiary of CDII Minerals;
- "CDII Bolivia" refers to Empresa Minera CDII de Bolivia S.A., a Bolivian company and a wholly owned subsidiary of CDII Minerals; and
- "IMG" or "International Magnesium Group", refers to International Magnesium Group, Inc., a Florida corporation and a 100% owned subsidiary of CD International.

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 Resource Management", refers to Capital Resource Management Co., Ltd., a Brunei company, and a wholly owned subsidiary of CDI Shanghai Management, formerly known as Capital One Resource Co., Ltd.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

As of December 31, 2015 and September 30, 2015

	December 31, 2015 (Unaudited)	September 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 150,163	\$ 22,634
Marketable securities available-for-sale	2,450	2,800
Marketable securities available-for-sale - related party	5,000	20,000
Accounts receivable	6,300	16,643
Accounts receivable - related party	1,374	-
Subscription receivable	-	50,100
Prepaid expenses and other current assets, net	18,910	16,813
Total current assets	184,197	128,990
Property, plant and equipment, net	56,159	63,088
Total assets	\$ 240,356	\$ 192,078
LIABILITIES AND EQUITY (DEFICIT)		
Current liabilities:		
Loans and convertible notes payable- short term, net	\$ 2,228,481	\$ 2,215,470
Accounts payable and accrued expenses	704,437	1,191,643
Loans and other payables - related parties	769,983	769,436
Advances from customers	422,898	422,898
Derivative liabilities	11,974,601	3,210,271
Other liabilities	1,336,325	1,199,856
Total current liabilities	17,436,725	9,009,574
Loans and convertible notes payable - long term, net	3,002	-
Total liabilities	17,439,727	9,009,574
Equity (deficit):		
Series A convertible preferred stock: \$.0001 par value, stated value \$1,000 per share; 10,000,000 authorized, 1,006 shares outstanding at December 31, 2015 and September 30, 2015, respectively	1,006,250	1,006,250
Common stock: \$.0001 par value; 1,000,000,000 authorized; 508,044,370 and 100,213,074 issued and outstanding at December 31, 2015 and	50,804	10,021

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September 30, 2015, respectively

Additional paid-in capital	83,323,535	79,278,110
Accumulated other comprehensive loss	(689,938)	(719,106)
Accumulated deficit	(100,890,022)	(88,392,771)
Total CD International Enterprises, Inc.'s stockholders' deficit	(17,199,371)	(8,817,496)
Non-controlling interests	-	-
Total deficit	(17,199,371)	(8,817,496)
Total liabilities and deficit	\$ 240,356	\$ 192,078

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

CD INTERNATIONAL ENTERPRISES, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the three months ended December 31, 2015 and 2014
(Unaudited)

	For the Three Months Ended December 31,	
	2015	2014
Revenues	\$ 34,215	\$ 114,941
Including: revenues from related party	23,874	3,750
Cost of revenues	8,628	35
Gross profit	25,587	114,906
Operating expenses:		
Selling, general, and administrative	397,130	638,057
Total operating expenses	397,130	638,057
Operating loss	(371,543)	(523,151)
Other income (expenses):		
Other income	101,911	98,276
Interest expenses	(925,529)	(410,285)
Interest expenses - related parties	(8,100)	(45,409)
Realized loss on marketable securities available-for-sale	(52,679)	-
Gain (loss) on revaluation for receivable and payable of marketable securities available-for-sale	19,100	(40,566)
Change in fair value of derivative liability	(11,240,281)	475,344
Total other income (expenses)	(12,105,578)	77,360
Loss from continuing operations before income taxes	(12,477,121)	(445,791)
Income tax expense	-	-
Net loss from continuing operations	(12,477,121)	(445,791)
Discontinued operations:		
Loss from discontinued operations, net of taxes	-	(19,033)
Total loss from discontinued operations, net taxes	-	(19,033)
Net loss	(12,477,121)	(464,824)
Net loss attributable to CD International Enterprises, Inc.	(12,477,121)	(464,824)
Dividends on series A preferred stock	(20,130)	(20,130)
Net loss allocable to common stockholders	\$ (12,497,251)	\$ (484,954)
COMPREHENSIVE INCOME (LOSS):		
Net loss	\$ (12,477,121)	\$ (464,824)
Foreign currency translation adjustments	(482)	128,929
Unrealized gain (loss) on marketable securities available-for-sale	29,650	(27,800)
Comprehensive loss	(12,447,953)	(363,695)
Foreign currency translation adjustments - non-controlling interest	-	(62)
Comprehensive loss attributable to CD International Enterprises, Inc.	(12,447,953)	(363,633)
Preferred stock dividend	(20,130)	(20,130)
	\$ (12,468,083)	\$ (383,763)

Comprehensive loss attributable to common stockholders			
Basic and diluted net loss per common share - basic:			
Net loss from continuing operations	\$	(0.05)	\$ (0.01)
Net loss from discontinued operations		-	(0.00)
Net loss per common share	\$	(0.05)	\$ (0.01)
Basic and diluted net loss per common share - diluted:			
Net loss from continuing operations	\$	(0.05)	\$ (0.01)
Net loss from discontinued operations		-	(0.00)
Net loss per common share	\$	(0.05)	\$ (0.01)
Basic weighted average common shares outstanding		229,781,930	62,309,431
Diluted weighted average common shares outstanding		229,781,930	62,309,431

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

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended December 31, 2015 and 2014
(Unaudited)

	For the Three Months Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (12,477,121)	\$ (464,824)
Loss from discontinued operations	-	19,033
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,755	5,009
Allowance for doubtful accounts	-	29,463
Share issued to third parties for services provided	50,100	265,000
Stock option expenses	10,043	24,267
Realized loss on marketable securities available-for-sale	52,679	-
Amortization of debt discount	824,076	361,452
Change in fair value of derivative liabilities	11,240,281	(475,344)
Other (income) loss due to revaluation of accounts receivable and accounts payable	(19,100)	40,566
Changes in operating assets and liabilities:		
Accounts receivable and accounts receivable - related party	8,024	-
Prepaid expenses and other current assets, net	(2,175)	(17,093)
Accounts payable and accrued expenses	(53,483)	67,872
Other payables - related parties	25,001	557,636
Other liabilities	97,586	(402,378)
Net cash provided by (used in) operating activities - continuing operations	(238,334)	10,659
Net cash used in operating activities - discontinued operations	-	(28,695)
NET CASH USED IN OPERATING ACTIVITIES	(238,334)	(18,036)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of marketable securities available-for-sale	32,322	-
Net cash provided by investing activities - continuing operations	32,322	-
Net cash provided by investing activities - discontinued operations	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	32,322	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans	255,000	-
Borrowings from related parties	18,797	-
Proceeds from exercise of options and warrants	166,100	-
Repayments to related parties	(50,000)	-

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Repayments of loan payable	(54,572)	-
Net cash provided by financing activities - continuing operations	335,325	-
Net cash provided by financing activities - discontinued operations	-	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	335,325	-
EFFECT OF EXCHANGE RATE ON CASH	(1,784)	52,524
NET CHANGE IN CASH	127,529	34,488
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	22,634	82,675
CASH AND CASH EQUIVALENTS AT END OF PERIOD	150,163	117,163
Less: Cash and Cash Equivalents of Discontinued Operations at End of Period	-	2,816
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 150,163	\$ 114,347
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 21,405	\$ -
Income taxes paid	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Deferred revenues received in the form of marketable securities	\$ 40,000	\$ -
Unrealized gain (loss) on marketable securities available-for-sale	\$ 29,650	\$ (27,800)
Common stock issued for loan conversions and accrued interest	\$ 449,336	\$ -
Debt discount recorded on convertible debt due to conversion feature	\$ 984,778	\$ 361,452
Derivative liabilities related to warrant conversion feature	\$ -	\$ 46,667
Accrued interest, default charges and legal expenses added to loan payable due to litigation settlement	\$ 393,032	\$ -
Derivative liabilities written off into additional paid-in capital due to debt conversions	\$ 3,460,729	\$ -

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

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

Business and Organization

CD International Enterprises, Inc. ("CDII"), a Florida corporation and its subsidiaries are referred to in this report as "we", "us", "our", "Company" or "CD International".

We are a U.S. based company that sources and distributes industrial products in China and the Americas. We also provide business and management consulting services to public and private American and Chinese businesses. We operate in two identifiable segments, as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280, "Segment Reporting": Mineral Trading and Consulting. Beginning in 2006, we established our Consulting and Mineral Trading segments which grew through acquisitions of controlling interests in Chinese private companies. We consolidate these acquisitions as either wholly or majority owned subsidiaries.

In our Mineral Trading segment, we source and distribute industrial commodities from North and South America for ultimate distribution in China. In our Consulting segment, we provide business and management 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.

In April 2015, the Company sold its entire 95% equity interest in CDI Jingkun Zinc Industry Co., Ltd. ("CDI Jingkun Zinc") and 100% equity interest in Shanghai CDI Metal Material Co., Ltd. ("CDI Metal") to Xiaowen Zhuang, the management member of CDI Shanghai Management Co., Ltd. ("CDI Shanghai Management") and the brother of James (Yuejian) Wang, the CEO of the Company, for zero consideration. The Company also sold its 100% equity interest in CDI Jixiang Metal Co., Ltd. ("CDI Jixiang Metal") to Dragon Capital Group Corp ("Dragon Capital"), a related party company for zero consideration. During the fourth quarter of fiscal year 2015, the Company also ceased the operation of CDII Chile, Ltda. ("CDII Chile") in Chile. As a result, results of operations of CDI Jingkun Zinc, CDI Metal, CDI Jixiang Metal and CDII Chile were separately reported as discontinued operations for all periods presented. CDI Jingkun Zinc, CDI Metal, CDI Jixiang Metal and CDII Chile were entities in the Mineral Trading segment. For additional information, see Note 10 - Discontinued Operations.

For the three months ended December 31, 2015 and 2014, subsidiaries included in continuing operations consisted of the following:

- CDI China, Inc. ("CDI China"), a wholly owned subsidiary of CDII;
- International Magnesium Group, Inc. ("IMG"), a wholly owned subsidiary of CDII;
- CDII Minerals, Inc. ("CDII Minerals"), a wholly owned subsidiary of CDII;
- CDII Minerals de Peru SAC ("CDII Peru"), a Peruvian company and a 50% owned subsidiary of CDII Minerals;
- Empresa Minera CDII de Bolivia S.A. ("CDII Bolivia"), a wholly owned subsidiary of CDII Minerals;
- China Direct Investments, Inc. ("China Direct Investments"), a wholly owned subsidiary of CDII;
- CDI Shanghai Management Co., Ltd. ("CDI Shanghai Management"), a wholly owned subsidiary of CDI China;
- and
- Capital Resource Management Co., Ltd. ("Capital Resource Management"), a wholly owned subsidiary of CDI Shanghai Management, formerly known as Capital One Resource Co., Ltd.

Basis of Presentation

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

- "fiscal year 2016" - October 1, 2015 through September 30, 2016
- "fiscal year 2015" - October 1, 2014 through September 30, 2015
- "fiscal year 2014" - October 1, 2013 through September 30, 2014

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CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All intercompany balances and transactions have been eliminated in the consolidation. Certain information and footnote disclosures normally included in financial statements prepared in conjunction with generally accepted accounting principles have been condensed or omitted as permitted by the rules and regulations of the United States Securities and Exchange Commission ("SEC"), although the Company believes that the disclosures contained in this report are adequate to make the information presented not misleading. The consolidated balance sheet information as of September 30, 2015 was derived from the consolidated audited financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2015. These consolidated financial statements should be read in conjunction with the annual consolidated audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2015, and other reports filed with the SEC.

The accompanying unaudited interim consolidated financial statements reflect all adjustments of a normal and recurring nature which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or for the fiscal year taken as a whole.

Going Concern

For the three months ended December 31, 2015, the Company incurred a net loss from continuing operations of approximately \$12.5 million and the Company also has a working capital deficit of \$17.3 million. In addition, the Company has a significant amount of short term loans and convertible notes payable, totaling \$2.2 million from unrelated parties, which requires the Company to secure additional funds given the Company's current cash position. The Company's cash and cash equivalent and 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 and restructuring on-going operations to eliminate inefficiencies to meet operating needs. There is no assurance that management's plans will be successful. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Summary of Significant Accounting Policies

Use of 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 consolidated revenue and expenses during the reporting period. Significant estimates include the valuation of investments available-for-sale, the allowance for doubtful accounts, the fair value of stock based compensation, the useful life and impairment of property, plant and equipment, and the valuation of derivative liability.

We rely on assumptions such as volatility, forfeiture rate, and expected dividend yield when deriving the grant date fair value of share based compensation as well as the valuation of derivative liability. 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.

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.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Concentration of Credit Risks

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and trade accounts receivable. We deposit our cash with high credit quality financial institutions in the United States and China. As of December 31, 2015, we had no bank deposits in the United States that exceeded federally insured limits. At December 31, 2015, we had deposits of \$103,947 in banks in China. In China, there is no equivalent federal deposit insurance as in the United States, so the amounts held in banks in China are not insured. We have not experienced any losses in such bank accounts through December 31, 2015.

At December 31, 2015 and September 30, 2015, bank deposits by geographic area were as follows:

Country	December 31, 2015		September 30, 2015	
United States	\$ 46,216	31%	\$ 12,463	55%
China	103,947	69%	10,171	45%
Total cash and cash equivalents	\$ 150,163	100%	\$ 22,634	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 consolidated 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 below:

- 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;
- Level 3, meaning the use of unobservable inputs. Observable market data should be used when available.

The carrying amounts of the Company's financial instruments, such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses, advances from customers, and other current liabilities approximate their fair value due to the short term maturities of these instruments.

The Company's loans payable approximate the fair value of such instruments based upon management's best estimate of interest rates that would be available to the Company for similar financial arrangements at December 31, 2015 and September 30, 2015.

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail

in arm's-length transactions unless such representations can be substantiated. It is not, however, practical to determine the fair value of amounts due from/to related parties due to their related party nature.

Recurring Fair Value Measurements

The Company uses Level 1 of the fair value hierarchy to measure the fair value of marketable securities and marks the marketable securities available-for-sale at fair value in the statement of financial position at each balance sheet date and reports the unrealized holding gains and losses for marketable securities available-for-sale in other comprehensive income (loss) until realized provided the unrealized holding gains and losses is temporary. If the fair value of investment in marketable securities available-for-sale is less than its cost basis at the balance sheet date of the reporting period for which impairment is assessed, and it is determined that the impairment is other than temporary, then an impairment loss is recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date of the reporting period.

The Company uses Level 3 of the fair value hierarchy to measure the fair value of its derivative liabilities and revalues the derivative liabilities at every reporting period and recognizes gains or losses in the consolidated statements of operations and comprehensive loss that are attributable to the change in the fair value of derivative liabilities.

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The financial assets and liabilities carried at fair value on a recurring basis at December 31, 2015 are as follows:

Financial assets and liabilities	Fair Value	Level 1	Level 2	Level 3
Marketable equity securities	\$ 7,450	\$ 7,450	\$ -	\$ -
Receivable of marketable equity securities	7,674	7,674	-	-
Derivative liabilities	(11,974,601)	-	-	(11,974,601)
	\$ (11,959,477)	\$ 15,124	\$ -	\$ (11,974,601)

The financial assets and liabilities carried at fair value on a recurring basis at September 30, 2015 are as follows:

Financial assets and liabilities	Fair Value	Level 1	Level 2	Level 3
Marketable equity securities	\$ 22,800	\$ 22,800	\$ -	\$ -
Receivable of marketable equity securities	7,200	7,200	-	-
Derivative liabilities	(3,210,271)	-	-	(3,210,271)
	\$ (3,180,271)	\$ 30,000	\$ -	\$ (3,210,271)

Marketable Securities

Marketable securities that we receive from our clients as compensation are generally restricted for sale under Federal securities laws. Our policy is to liquidate securities received as compensation when market conditions are favorable for sale. Since these securities are often restricted, we are unable to liquidate them until the restriction is removed. Pursuant to ASC Topic 320, "Investments -Debt and Equity Securities" our marketable securities have a readily determinable quoted price, such as from NASDAQ, NYSE Euronext, 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 or loss based on changes in the fair value of the security as quoted on an exchange or an inter-dealer quotation. Once liquidated, any realized gain or loss on the sale of marketable securities is reflected in our statement of operations for 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.

Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollars ("U.S. dollar"). The functional currency of our Chinese subsidiaries is the Renminbi ("RMB"), the official currency of the People's Republic of China ("PRC"). Capital accounts of the consolidated financial statements are translated into U.S. 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 three month periods ended December 31, 2015 and 2014, respectively. A summary of the conversion rates for the periods presented is as follows:

	December 31, 2015	September 30, 2015	December 31, 2014
Period end RMB: U.S. dollar exchange rate	6.4907	6.3538	6.1385
Average fiscal-year-to-date RMB: U.S. dollar exchange rate	6.3841	6.1543	6.1356

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.

Derivative Liabilities

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations, in accordance with ASC 815-15, "Derivative and Hedging". The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

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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, (formerly FASB Emerging Issues Task Force ("EITF") Issue No. 07-5: Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF 07-5")), 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on net earnings and financial position.

Recent Accounting Pronouncements

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". The amendments in ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments in this ASU are effective for public business entities for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things, requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables); Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. . The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. In addition, the new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

NOTE 2 - LOSS PER SHARE

Under the provisions of ASC 260, "Earnings Per Share - basic loss per common share is computed by dividing net loss attributable 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.

The following table presents the computation of basic and diluted loss per share for the three months ended December 31, 2015 and 2014:

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	For the Three Months Ended December 31, 2015	For the Three Months Ended December 31, 2014
Net loss allocable to common stockholders:		
Net loss from continuing operations	\$ (12,477,121)	\$ (445,791)
Net loss from discontinued operations	-	(19,033)
Net loss allocable to common stockholders	(12,477,121)	(464,824)
Less: preferred stock dividends	20,130	20,130
Net loss allocable to common stockholders less preferred stock dividends	\$ (12,497,251)	\$ (484,954)
Basic weighted average common shares outstanding	229,781,930	62,309,431
Dilutive weighted-average common shares outstanding	229,781,930	62,309,431
Net loss per common share - basic:		
Net loss from continuing operations	\$ (0.05)	\$ (0.01)
Net loss from discontinued operations	-	(0.00)
Net loss per common share - basic	\$ (0.05)	\$ (0.01)
Net loss per common share - diluted:		
Net loss from continuing operations	\$ (0.05)	\$ (0.01)
Net loss from discontinued operations	-	(0.00)
Net loss per common share - diluted	\$ (0.05)	\$ (0.01)

Common stock equivalents are not included in the denominator in periods when anti-dilutive. We excluded 9,000,000 shares of our common stock issuable upon exercise of options, 777,778 shares of our common stock issuable upon exercise of warrants, 2,486,060,274 shares issuable upon conversion of series A preferred stock and accrued but unpaid dividend, and 302,965,082 shares of common stock issuable upon conversion of convertible debt for the three months ended December 31, 2015 as their effect was anti-dilutive. The Company currently does not have sufficient number of common stock authorized to satisfy the full conversions of existing stock options, warrants, series A preferred stock and convertible debt. We excluded 9,000,400 shares of our common stock issuable upon exercise of options, 777,778 shares of our common stock issuable upon exercise of warrants and 44,580,565 shares issuable upon conversion of series A preferred stock and 24,588,614 shares of common stock issuable upon conversion of convertible debt for the three months ended December 31, 2014 as their effect was anti-dilutive.

NOTE 3 - MARKETABLE SECURITIES AVAILABLE-FOR-SALE

Marketable securities available-for-sale and marketable securities available-for-sale-related party as of December 31, 2015 and September 30, 2015 consisted of the following financial instruments:

Company	December 31, 2015	% of Total	September 30, 2015	% of Total
China Logistics Group, Inc.	\$ 2,450	33%	\$ 2,800	12%
Dragon Capital Group, Corp.	5,000	67%	20,000	88%
	\$ 7,450	100%	\$ 47,352	100%

Marketable securities
available-for-sale

All the securities were received from our clients as consulting fees. During the three months ended December 31, 2015 and 2014, we collected marketable securities originated from deferred revenues in the amount of \$40,000 and \$0, respectively. We categorize the securities as investments in marketable securities available-for-sale or investments in marketable securities available-for-sale-related party. These securities are quoted either on an exchange or on the over the counter market system. Some 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.

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The marketable securities available-for-sale-related party totaled \$5,000 and \$20,000 at December 31, 2015 and September 30, 2015, respectively, and are comprised solely of the securities of Dragon Capital Group, Corp. ("Dragon Capital"). Mr. Lisheng (Lawrence) Wang, the CEO and Chairman of the Board of Dragon Capital, is the brother of James (Yuejian) Wang, the CEO of the Company. These securities were issued by Dragon Capital as compensation for consulting services. Dragon Capital is a non-reporting company whose securities are quoted on the OTC Pink Tier of the OTC Markets Group. As such, under Federal securities laws, securities of Dragon Capital generally cannot be resold by us in absence of a registration of those securities under the Securities Act or unless there exists an available exemption from such registration.

Our marketable securities available-for-sale are carried at fair value. 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 December 31, 2015 and September 30, 2015, the guidance in ASC 320, "the Investment-Debt and Equity Securities", is carefully followed. In accordance with ASC 320-10-35-33, 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.

For the three months ended December 31, 2015 and 2014, we had no loss related to other than temporary impairment.

Marketable securities available-for-sale and marketable securities available-for-sale-related party are either valued at the date received or at the date when services are rendered. The table below provides a summary of the changes in the fair of marketable securities for three months ended December 31, 2015 and 2014:

	For the Three Months Ended December 31, 2015				
	September 30, 2015	Fair value received/sold	Cost basis adjustment for other than temporary impairment	Unrealized gain (loss)	December 31, 2015
Investment in marketable securities available-for-sale	\$ 2,800	\$ -	\$ -	\$ (350)	\$ 2,450
Investment in marketable securities available-for-sale-related party	20,000	(45,000)	-	30,000	5,000
	\$ 22,800	\$ (45,000)	\$ -	\$ 29,650	\$ 7,450

Total investment in
securities available-for-sale

	For the Three Months Ended December 31, 2014					
	September 30, 2014	Fair value received/sold	Cost basis adjustment for other than temporary impairment	Unrealized loss	December 31, 2014	
Investment in marketable securities available-for-sale	\$ 7,352	\$ -	\$ -	\$ 2,800	\$ 4,552	
Investment in marketable securities available-for-sale-related party	40,000	-	-	25,000	15,000	
Total investment in securities available-for-sale	\$ 47,352	\$ -	\$ -	\$ 27,800	\$ 19,552	

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NOTE 4 - ACCOUNTS RECEIVABLE AND ACCOUNTS RECEIVABLE - RELATED PARTY

Accounts receivables generally include trade receivables and receivables of marketable securities available-for-sale. These receivables are carried at fair market value. The changes in the fair market value of the marketable securities underlying the receivables are reflected in earnings for each period. We have receivable of 9,000,000 shares of common stock due from China Logistic, Inc (OTC: CHLO) on December 31, 2015 and September 30, 2015, respectively, the fair value of available-for-sale securities receivable was \$6,300 and \$7,200. We have \$1,374 related party receivable of 13,744,625 shares of common stock due from Dragon Capital (Pink Sheet: DRGV) as of December 31, 2015. We have no related party receivable as of September 30, 2015. On December 31, 2015 and September 30, 2015, we also had \$0 and \$9,443 of trade receivables related to the consulting service provided which were not in the form of marketable securities available-for-sale.

NOTE 5 - LOANS AND CONVERTIBLE NOTES PAYABLE, NET

Loans and convertible notes payable, net at December 31, 2015 and September 30, 2015 consisted of the following:

Description	December 31, 2015	September 30, 2015
Current portion		
China Direct Investments loan from Draco Resources, Inc. Due on March 18, 2015 with 2% annual interest rate. The loan is unsecured and currently in default.	\$ 200,000	\$ 200,000
CDII loan from TCA Global Credit Master Fund, LP. Due on October 15, 2016 with 18% annual effective interest rate including 10% annual interest rate per the loan agreement and 8% other fees and charges. The loan is secured by pledge of assets of CDII. (1)	910,787	643,000
China Direct Investments loan from Kong Tung, a Chinese citizen. Originally due on January 7, 2015 and extended to December 31, 2015. 2% interest rate per month. Currently in default. Secured by pledge of assets of CDII. (2) Also see Note 6 for derivative liabilities.	308,500	600,000
China Direct Investments loan from Yewen Xi, a Chinese citizen. \$500,000 was due on December 31, 2015 and extended to September 30, 2016, and \$200,000 is due on May 31, 2016. 12% annual interest rate. For the \$500,000 and \$200,000, Yewen Xi has the right to convert the outstanding principal amount and interest into common stock of CDII on and after January 1, 2016 and June 1, 2016, respectively. Conversion Price is equal to 75% of the average closing price of CDII common stock for five consecutive days prior to the conversion. Secured by pledge of assets of CDII. See Note 12 for more discussion of conversion.	700,000	700,000
CDII loan from Money Works Direct in the principal amounts of \$100,000 and \$50,000, monthly interest rates at 3.99% and 4.44%, due on April 30, 2016 and June 30, 2016, respectively. Secured by pledge of assets of CDII. China Direct Investments make cash repayment of \$740 and \$259, respectively, for the two loans per business day.	67,898	72,470
	23,389	-

CDII loan from an institutional investor with a term of one year, due on October 22, 2016, convertible after 180 days and issued with \$2,000 original issue discount ("OID"). Net of debt discount of \$1,611 as of December 31, 2015. 8% annual interest rate and Conversion Price is equal to 60% of lowest trading price of CDII common stock in the 20 consecutive days prior to the conversion. Secured by pledge of assets of CDII. (3)

CDII loan from multiple institutional investors with a term of one year, convertible immediately and issued with OID of \$28,000. Net of debt discount of \$167,093 as of December 31, 2015, including debt discount related OID of \$27,582 and debt discount due to conversion feature of \$139,511. 8% - 12% annual interest rate and Conversion Price is equal to 55% - 60% of lowest trading price of CDII common stock for certain consecutive days prior to the conversion. Secured by pledge of assets of CDII. (3) Also see Note 6 for derivative liabilities.

	17,907	-
Loans and convertible notes payable, short-term, net	2,228,481	2,215,470

Non-current portion

CDII loan from an institutional investor with a term of two years, due on October 12, 2017, net of debt discount of \$24,776, convertible immediately. 12% annual interest rate and Conversion Price is equal to 60% of lowest trading price of CDII common stock in the 25 consecutive days prior to the conversion. Secured by pledge of assets of CDII. (3) Also see Note 6 for derivative liabilities.

		3,002	-
Loans and convertible notes payable, long-term, net	\$	3,002	\$ -

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(1) On July 30, 2014, the Company closed a senior secured revolving credit facility agreement (the "Credit Agreement") with TCA Global Credit Master Fund, LP ("TCA"), a Cayman Islands limited partnership. Pursuant to the Credit Agreement, TCA agreed to loan the Company up to a maximum of \$5 million for working capital purposes. The initial credit line is \$2,000,000 subject to funding in the discretion of TCA. In connection with the closing, an initial take down of \$650,000 was funded by TCA. Any increase in the amount of the credit line from the initial amount up to the maximum amount is at the discretion of TCA. On July 31, 2014, the Company issued 3,154,115 restricted shares of our common stock valued at about \$0.06 per share to TCA for a total of \$175,000 for advisory services provided. Based on the Credit Agreement, upon an event of default, the lender may convert all or any portion of the outstanding principal and accrued interest payables into shares of the Company's common stock equal to the 85% of the average of the lowest daily volume weighted average price ("VWAP") of the five business days prior to the conversion day. On December 12, 2014, TCA claimed this loan was in default due to the Company's failure to provide timely monthly reporting. The Company recorded derivative liabilities and debt discount of \$361,452 on December 12, 2014. Since the loan was in default, the full amount of \$361,452 debt discount was charged to interest expense on the same day. On April 28, 2015, TCA filed a complaint/petition against the Company and James (Yuejian) Wang for the breach of the Credit Agreement. On October 15, 2015, the Company and TCA entered into a settlement agreement pursuant to which both parties agreed that the outstanding obligations the Company owed to TCA should be \$1,036,032 as of October 8, 2015, including \$643,000 for the principal, \$122,133 for accrued and unpaid interest and other fees and charges and \$270,899 for the advisory fees. The total obligation of \$1,036,032 was split into two separate and distinct replacement notes for the balance of \$50,000 and \$986,032. According to the terms agreed upon in the settlement agreement, the Company should make monthly payments to TCA in the amount of \$40,000 commencing on November 30, 2015 by means of ACH transfer or by payment made to TCA through a third party until the complete repayment of all payables due to TCA. The Company is making the timely payments through the assignments of notes to other two institutional investors in the totaling of \$150,000 as of December 31, 2015, which included the following two notes:

(A) On October 26, 2015, the Company entered into a master exchange agreement with an institutional investor. Pursuant to the exchange agreement, the institutional investor shall exchange, at its option, \$50,000 principal amount of convertible notes of the Company plus any accrued interest for shares of the Company's common stock at \$0.0001 par value per share at an exchange price of 57% of the lowest trading price of the Company's common stock during the five consecutive trading day period preceding the exchange date. From November 4, 2015 to December 4, 2015, the institutional investor converted \$51,846, including \$50,000 of principal and \$1,846 of interest, into a total of 55,989,891 shares of the Company's common stock at the average conversion price of \$0.0009.

(B) On December 9, 2015, the Company entered into a note purchase agreement with an institutional investor to sell \$100,000 of TCA's note. The note is convertible at a price of 55% of the lowest trading price of the Company's common stock during ten consecutive business days prior to the conversion date. From December 10, 2015 to December 22, 2015, the institutional investor converted \$99,990 of the note into a total of 82,688,447 shares of the Company's common stock at the average conversion price of \$0.0012.

The balance of total obligation to TCA was \$910,787, including the principal of \$886,032 and accrued interest added to principal of \$24,755, as of December 31, 2015. The Company has accrued principal, unpaid interest and other fees and charges of \$763,257, advisory fees of \$270,900, and other legal expenses of \$40,342 as of September 30, 2015. TCA, upon execution of the settlement agreement, agreed to have its counsel to file a Conditional Joint Stipulation of Dismissal Without Prejudice with respect to the Pending Litigation the parties involved. Consequently, the case was settled and dismissed pursuant to the Stipulation of Settlement entered into between the parties. The Court reserved

jurisdiction for enforcement of the settlement terms. Also see Note 6 for derivative liabilities and Note 12 for discussion related to subsequent TCA replacement note issuance and assignment.

(2) On April 7, 2014, China Direct Investments borrowed \$600,000 from Kong Tung, who was the former Director of the Company and resigned his position as a Director of the Company on March 26, 2015. On January 7, 2015, the Company and Kong Tung entered into an amendment to promissory note, where the maturity date of the note is extended to December 31, 2015 and a conversion option is added. Pursuant to the amendment to promissory note, after the maturity date of the note, the note holder shall have the right, at any time and from time to time, to convert the outstanding principal amount and accrued interest into CDII's common stocks. The conversion price shall be equal to 85% of the closing price CDII common stock on the date of conversion. On October 14, 2015, the Company entered into a note purchase agreement with an institutional investor to sell \$600,000 of Kong Tung's note together with accrued interest of \$214,000 depending on the funding of the investor. Pursuant to the purchase agreement, the Company shall repay the institutional investor the principal of \$600,000 with interest at the rate of 8% per year starting from October 14, 2015, and the institutional investor has the option to convert all or portion of the unpaid principal balance, together with any accrued interest and any fees or charges, into the Company's common stocks at a 40% discount to the lowest closing price of the common stock during the 10 trading day period preceding the conversion date. From October 20, 2015 to December 11, 2015, the institutional investor purchased \$241,500 of the note and converted a total of 220,000,000 shares of the Company's common stock at the average conversion price of \$0.0011. On October 15, 2015, Kong Tung and an institutional investor entered into a note purchase agreement. Pursuant to the agreement, \$50,000 out of the \$600,000 Kong Tung's convertible note was sold to the institutional investor. The note bears an interest rate of 12% with a maturity date of October 15, 2016. The conversion price of the note is 55% of the lowest trading price of the Company's common stock during the 10 consecutive trading days prior to the conversion date. The institutional investor converted all the principal of \$50,000 and accrued interest of \$6,000 of the note into a total of 40,652,958 shares of the Company's common stock at the average conversion price of \$0.0014. Also see Note 12 for more discussion.

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(3) On October 13, 2015, the Company issued a convertible promissory note to an institutional investor and the principal is up to \$150,000 with a 10% original discount. The consideration to be received is up to \$135,000 with \$25,000 payable at closing of the note and up to \$110,000 upon mutual agreement. The conversion price is 60% of the lowest trade price in the 25 trading days previous to the conversion date. The Company has the option to pre-pay the loan within 90 days with no interest. After 90 days, the note will bear a 12% one-time interest charge. This note becomes due and payable on October 12, 2017. On October 13, 2015, the Company received a part of this loan of \$25,000 in cash after deducting \$2,778 of original discount.

On October 15, 2015, the Company issued a convertible promissory note for the amount of \$25,000 to an institutional investor, at a 10% annual interest rate. This note provides conversion features equal to 55% of the lowest trading price of the Company's common stock during the 10 consecutive trading days prior to the date of conversion. This note becomes due and payable on October 15, 2016. The sum of \$20,000 shall be remitted and delivered to the Company and the remaining \$5,000 shall be retained by the purchaser through an original issue discount for due diligence and legal bills related to the transaction. Additional interest will accrue from the date of event of default at the rate equal to the lower of 18% per annum or the highest rate permitted by law.

On October 20, 2015, the Company issued a convertible promissory note for the amount of \$40,000 to an institutional investor, at a 10% annual interest rate. This note provides conversion features, and the conversion price is the lower of (1) the closing sale price of the common stock on the principal market on the trading day immediately preceding the closing date, and (2) 60% of the lowest trading price of the Company's common stock during the 20 consecutive trading days prior to the date of conversion. This note becomes due and payable on October 20, 2016 and is guaranteed by all the subsidiaries of the Company.

On October 22, 2015, the Company issued a convertible note to an institutional investor for the principal amount of \$25,000 with interest rate of 8% and maturity date of October 22, 2016. The holder of the note is entitled to convert the note into the Company's common stock, after 180 days and cash payment at a price equals to 60% of the lowest trading price for the last 20 trading days prior to conversion. On October 22, 2015, the Company received \$23,000 in cash and \$2,000 was retained by the institutional investor through an original issue discount for due diligence and legal bills related to this transaction.

On December 9, 2015, the Company issued a convertible promissory note for the amount of \$120,000 to an institutional investor, at a 12% annual interest rate. 20% of any consideration was retained by the debt holder as an original issue discount. This note provides conversion features equal to 55% of the lowest trading price of the Company's common stock during the 10 consecutive trading days prior to the date of conversion. 15% additional cumulative discount of the conversion price can be charged under certain circumstances. This note becomes due and payable on December 9, 2016. In any event of default, additional interest will accrue at the rate equal to the lower of 22% per annum or the highest rate permitted by the law.

The interest expense and interest expense - related parties for the loans amounted to \$933,629 and \$455,694, including amortization of debt discount in the amount of \$824,076 and \$361,452, for the three months ended December 31, 2015 and September 30, 2014, respectively.

NOTE 6 - DERIVATIVE LIABILITIES

Convertible Notes

As described in Note 5, the Company defaulted on its loan with TCA which triggered the variable conversion option on the loan. In addition, during the three months ended December 31, 2015, the Company issued several convertible notes with variable conversion price. The conversion options embedded in the convertible notes contain no explicit limit to the number of shares to be issued upon agreements and as the result are classified as a liability under ASC 815. The Company accounted for the embedded conversion option in accordance with ASC 815-40, which requires the Company to bifurcate the embedded conversion options as liability at the date the notes become convertible and to record changes in fair value relating to the conversion option liabilities in the statement of operations and comprehensive income as of each subsequent balance sheet date. The debt discounts related to the convertible notes are amortized over the life of the note using the effective interest method. The Company's conversion option liabilities are valued using Black Scholes pricing models. Where possible, the Company verifies the values produced by its pricing models to market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measures of volatility and correlations of such inputs. These consolidated financial liabilities do not trade in liquid markets, and as such, model inputs cannot generally be verified and do involve significant management judgment. Such instruments are typically classified within Level 3 of the fair value hierarchy.

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On October 15, 2015, the Company and TCA entered into a settlement agreement pursuant to which the note was no longer in default. Therefore the note became not convertible as the note is convertible upon default pursuant to the settlement agreement. The fair value of derivative liabilities due to the embedded conversion option was re-measured to be \$710,425 on October 15, 2015 and was written off to gain on settlement of convertible note which was included in change in fair value of derivative liabilities. The carrying amounts of the derivative liabilities for the embedded conversion option on the TCA note were \$0 and \$489,031, respectively, as of December 31, 2015 and September 30, 2015. On October 15, 2015, the total obligation of \$1,036,032 was split into two separate and distinct replacement notes for the balance of \$50,000 and \$986,032. On October 26, 2015, the Company entered into a master exchange agreement with an institutional investor. Pursuant to the exchange agreement, the institutional investor shall exchange, at its option, \$50,000 principal amount of convertible notes of the Company plus any accrued interest for shares of the Company's common stock at \$0.0001 par value per share at an exchange price of 57% of the lowest trading price of the Company's common stock during the five consecutive trading day period preceding the exchange date. On December 9, 2015, the Company entered into a note purchase agreement with an institutional investor to sell \$100,000 of this TCA loan. The note is convertible at a price of 55% of the lowest trading price of the Company's common stock during 10 consecutive business days prior to the conversion date. During three months ended on December 31, 2015, a total of \$149,990 of loan from TCA, subsequently assigned to two institutional investors, together with accrued interest and other fees of \$1,846, was converted into 138,678,338 shares of the Company's common stock. Derivative liability of \$854,916 was initially created due to the loans assigned to two institutional investors containing variable conversion option and the amount of \$1,369,488 was re-measured on the date of conversions and written off to additional paid-in capital as a result of the conversion. The remaining principal of TCA note assigned to institutional investors which is convertible amounted to \$10 and the fair value of the derivative liabilities related to the embedded conversion option was \$24 as of December 31, 2015.

As described in Note 5, during three months ended on December 31, 2015, a total of \$291,500 of \$600,000 loan from Kong Tung, subsequently assigned to institutional investors, together with accrued interest and other fees of \$6,000 was converted into 260,652,958 shares of the Company's common stock. Derivative liability of \$867,191 was initially created due to the loans assigned to institutional investors containing variable conversion option and the amount of \$2,091,241 was re-measured on the date of the conversions and written off to additional paid-in capital as a result of the conversion. The remaining principal of Kong Tung note amounted to \$308,500 and the fair value of the derivative liabilities related to the embedded conversion option was \$618,358 as of December 31, 2015.

As described in Note 5, during three months ended on December 31, 2015, the Company issued multiple convertible promissory notes to the multiple institutional investors and the aggregate principal is \$212,778. The fair value of derivative liabilities related to the embedded conversion option was initially determined to be \$1,809,720 on the date of issuance and subsequently determined to be \$662,816 as of December 31, 2015.

The fair value of the instruments was determined by using Black-Scholes option-pricing model based on the following assumptions: dividend yield of 0%, volatility of 166%-1,499%, risk free rate of 0.00%-0.96%, and an expected term of 0.05-2.00 year.

The fair value of the embedded conversion options determined using Black-Scholes option -pricing model as of the dates the notes became convertible was \$3,531,827 and \$984,778 was recorded as debt discount. The day one loss on derivative liabilities of \$2,547,049 was recorded in change in fair value of derivative liabilities. \$820,491 of debt discount due to embedded conversion option was amortized into interest expense for the three months ended December 31, 2015.

The total change in fair value of derivative liabilities related to convertible notes described above amounted to expense of \$3,268,118 and income of \$30,547 for the three months ended December 31, 2015 and 2014, respectively.

Warrants and Convertible Preferred Stock

On September 4, 2015, as compensation for services, the Company granted the consultant, Shaoying Wang, the warrant ("warrant A") to purchase 5,000,000 shares of the Company's common stock. The warrant became exercisable immediately and the exercise price is fixed at \$0.023. The warrant was excised and the Company received proceeds of \$116,000 on December 10, 2015. The Company considered derivative accounting under ASC 815-15 "Derivatives and Hedging" and determined that the warrant should be classified as liability as the warrant was tainted due to the indeterminate number of shares to be delivered upon settlement of the above convertible notes. The Company's derivative liabilities related to warrant A are valued using Black Scholes pricing models on the following assumptions: dividend yield of 0%, volatility of 167%-234%, risk free rate of 0.49%-0.88%, and an expected term of 2.06-2.33 year.

As of December 31, 2015 and September 30, 2015, the carrying amounts of the derivative liabilities for warrant A were \$0 and \$98,870, respectively. The net changes in fair value of derivative liabilities of warrant A were income of \$98,870 and \$0 during the three months ended December 31, 2015 and 2014, respectively.

The Company also issued warrants with exercise price subject to adjustment("warrant B") if the Company, at any time while the warrant is outstanding, shall issue rights, options or warrants to all holders of common stock (and not to the holders) entitling them to subscribe for or purchase shares of common stock at a price per share less than the VWAP on the record date, then, the exercise price shall be multiplied by a fraction, of which the denominator shall be the number of shares of the common stock outstanding on the date of issuance of such rights, options or warrants plus the number of additional shares of common stock offered for subscription or purchase,

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and of which the numerator shall be the number of shares of the common stock outstanding on the date of issuance of such rights, options or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such VWAP. The price reset provision makes the warrant not indexed to the Company's own stock, and therefore requires the warrant to be treated as derivative liabilities as provided un EITF 07-05.

In addition, the Company issued convertible preferred stock and the conversion price of the preferred stock is subject to adjustment if the Company issues or sells shares of common stock for a consideration per share less than the conversion or exercise price then in effect, or issue options, warrants or other securities convertible or exchangeable for shares of common stock at a conversion or exercise price less than the conversion price of the preferred stock then in effect. If either of these events should occur, the conversion price is reduced to the lowest price at which these securities were issued or are exercisable. These clauses were referred to as the "Anti-Dilution Rights". The Anti-Dilution Rights of the beneficial conversion feature make the conversion option not indexed to the company's own stock, and therefore requires the conversion feature to be treated as derivative liabilities as provided under EITF 07-05.

The Company used maximum value method to determine the fair value of derivative liabilities related to warrants B and preferred stock conversion option.

As of December 31, 2015 and September 30, 2015, the carrying amounts of the derivative liabilities for warrant B were \$3,344 and \$18,744, respectively. As of December 31, 2015 and September 30, 2015, the carrying amounts of the derivative liabilities for preferred stock conversion option were \$10,690,059 and \$2,603,626, respectively. The net changes in fair value of derivative liabilities of warrant B and preferred stock during the periods were expense of \$8,071,033 during the three months ended December 31, 2015 and income of \$444,797 during the three months ended December 31, 2014.

Below is the reconciliation of the fair value of the Company's derivative liabilities during the three months ended December 31, 2015:

Beginning balance as of September 30, 2015	\$ 3,210,271
Additions due to debt discount on convertible notes	984,778
Write-off of derivative liabilities due to conversion of convertible notes	(3,460,729)
Change in the fair value of derivative liabilities	
(Gain) or loss related to derivative liabilities being marked to market	9,403,657
Write-off of derivative liabilities due to settlement of TCA note	(710,425)
Day one loss related to embedded conversion option	2,547,049
Ending balance as of December 31, 2015	\$ 11,974,601

NOTE 7 - RELATED PARTY TRANSACTIONS

List of Related Parties

We have specified the following persons and entities as related parties with ending balances as of December 31, 2015 and September 30, 2015:

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- Xiaowen Zhuang, a management member of CDI Shanghai Management and brother of James (Yuejian) Wang;
- James (Yuejian) Wang, the CEO, CFO and sole member of the Board of Directors of the Company;
- Lawrence Wang, the brother of James (Yuejian) Wang; and
- Dragon Capital Group, Corp. ("Dragon Capital"), a company organized under the laws of Nevada, USA, the principal owner of Dragon Capital is Lawrence Wang;

As of December 31, 2015, accounts receivables - related party was \$1,374, as set forth below:

Accounts Receivables - Related Parties

As of December 31, 2015 and September 30, 2015, accounts receivables - related party were \$1,374 and \$0, respectively, as follows:

CD International Subsidiary	Related Party	December 31, 2015	September 30, 2015
China Direct Investments	Dragon Capital	\$ 1,374	\$ -
Total Accounts Receivables - Related Parties		\$ 1,374	\$ -

As of December 31, 2015, loan payables and other payables - related parties were \$769,983 consisting of loan payables - related parties of \$396,182 and other payables - related parties of \$373,801 as set forth below:

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Loan Payables - Related Parties

At December 31, 2015 and September 30, 2015, loan payables - related party was for working capital purposes, which were \$396,182 and \$388,082, respectively, as follows:

CD International Subsidiary	Related Party	December 31, 2015	September 30, 2015
China Direct Investments	James (Yuejian) Wang	\$ 396,182	\$ 388,082
Total Loan Payables-Related Parties		\$ 396,182	\$ 388,082

From time to time, China Direct Investments borrowed funds from James (Yuejian) Wang. At December 31, 2015 and September 30, 2015, CDII owed James Wang a total of \$396,182 and \$388,082, including aggregate principal loan amount of \$300,000 and accrued interest of \$96,182 and \$88,082, respectively. The loans bear interest at 12% per annum with principal of \$300,000 originally due on September 30, 2014. On September 12, 2014, James (Yuejian) Wang entered into Addendum I to the note agreement and agreed that the Company shall have the option to pay back to the lender the principal amount and all accrued interest upon maturity date in form of the Company's common stock valued at \$0.05 per share. The Company did not elect to pay off the loan in common stock. On December 22, 2015, both parties entered into Addendum II to the note agreement and the maturity date was extended to September 30, 2016 with the same terms and conditions of the original note.

Other Payables - Related Parties

At December 31, 2015 and September 30, 2015, other payables - related party for working capital purposes were \$373,801 and \$381,354, respectively, as follows:

CD International Subsidiary	Related Party	December 31, 2015	September 30, 2015
China Direct Investments	James (Yuejian) Wang	\$ 306,936	\$ 331,935
CDI Shanghai Management	Xiaowen Zhuang	60,702	43,124
CDI Shanghai Management	Dragon Capital	6,163	6,295
Total Other Payable-Related Parties		\$ 373,801	\$ 381,354

Revenue - Related Party

The Company provided consulting service to one of its related companies, Dragon Capital. The consulting revenues of \$23,874 and \$3,750 were recognized for the three month ended December 31, 2015 and 2014, respectively.

NOTE 8 - CAPITAL STOCK

Preferred Stock and Related Dividends

We have 10,000,000 shares of preferred stock, par value \$.0001, authorized. As of December 31, 2015 and September 30, 2015, there were 1,006 shares of series A convertible preferred stock outstanding. The series A preferred stock has a stated value per share of \$1,000, carries an 8% per annum dividend rate payable quarterly in arrears on January 1, April 1, July 1 and October 1 (each a "dividend date"). The dividends can be paid in cash or shares of our common

stock, at our option, subject to certain provisions, on each dividend date. The holders are entitled to convert any whole number of preferred shares, plus the amount of any accrued but unpaid dividends per preferred share then remaining into the Company's common stock at the conversion rate which equals to the quotient of (i) the sum of the stated value and additional amount divided by (ii) the conversion price which was initially \$7.00. The additional amount is calculated using a formula to represent the accrued but unpaid dividend. The terms of the Series A preferred stock provide that if we sell common stock at a price per share less than the then conversion price of the preferred stock, then we are required to reduce the conversion price of the series A convertible preferred stock to the lower price of the subsequent sale. Since we have issued securities at prices lower than the exercise price of the \$7.00 per share conversion price of the series A preferred stock, we reduced the exercise price of those outstanding securities. At December 31, 2015, the conversion price of the series A preferred is adjusted to \$0.00066. The conversion price of the preferred stock is subject to adjustment, and therefore requires the conversion feature to be treated as derivative liabilities as provided under EITF 07-05. See Note 6 for discussion on derivative liabilities.

The dividends calculated at \$20,130 per quarter 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 December 31, 2015 and 2014, we did not pay off dividends in cash or our common stock on our series A convertible preferred stock. As of December 31, 2015 and September 30, 2015, accrued dividend payable is \$168,879 and \$148,749, respectively.

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Common Stock

We have 1,000,000,000 shares of common stock, par value \$.0001, authorized. At December 31, 2015, there were 508,044,370 shares of common stock issued and outstanding and there were 100,213,074 shares of common stock issued and outstanding at September 30, 2015.

During the three months ended December 31, 2015, the Company issued a total of 407,831,296 share of our common stock comprised of: 3,500,000 shares of our common stock to consultants for services, valued at \$50,100; 399,332,296 shares of common stocks for the convertible notes on Note 5, valued at \$449,336 and derivative liabilities written off into additional paid-in capital due to debt conversions of \$3,460,729. The Company also issued 5,000,000 shares in connection with the exercise of 5,000,000 stock options for consideration in the total of \$116,000 of common stock, and the Company received the proceeds of the exercise of options in the amount of \$116,000 on December 11, 2015.

During the three months ended December 31, 2014, we issued a total of 6,500,000 shares of our common stock to consultants for services, valued at \$265,000.

Option and Warrants

On August 28, 2015, China Direct Investments entered into a consulting agreement with Mr. Xiaowen Zhuang, the management member of CDI Shanghai Management and brother of James (Yuejian) Wang, pursuant to which he received the options to purchase 3,000,000 shares of the Company's common stock at an exercise price of \$0.0167 for providing services including but not limited to sales, translation and marketing for a period ended on December 31, 2016. Both parties also entered into option agreement on the same day and the options to purchase common stock were granted under the Company's S-8 registration. The options vested immediately and will expire on December 31, 2017.

The Company issued 3,000,000 share of common stock, value at \$50,100, to Xiaowen Zhuang on September 3, 2015 pursuant to the exercise of the options. The Company received the proceeds of the exercise of options in the amount of \$50,100 on December 11, 2015. As a result, the Company recorded \$0 and \$50,100 subscription receivable as an asset on the consolidated balance sheets as of December 31, 2015 and September 30, 2015, respectively.

On September 4, 2015, as compensation for services, the Company granted the consultant, Shaoying Wang, the warrant ("warrant A") to purchase 5,000,000 shares of the Company's common stock. The warrant became exercisable immediately and the exercise price is fixed at \$0.023. The warrant was excised and the Company received proceeds of \$116,000 on December 10, 2015. Also see Note 6.

The Company recognized a total of \$10,043 and \$24,267 stock option expenses for three month ended December 31, 2015 and 2014, respectively. The value of option was calculated using Black Scholes Option Pricing Model based upon the following assumptions: dividend yield of 0%, volatility of 120% - 176%, risk free rate of 0.36% - 1.20%, and an expected term of 1.17 to 4.5 years.

The following table sets forth our stock option activities during the three months ended December 31, 2015:

Description	Shares underlying options	Weighted average exercise price
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Balance at September 30, 2015	9,000,000	\$	0.05
Outstanding and exercisable at September 30, 2015	6,000,000	\$	0.05
Balance at December 31, 2015	9,000,000	\$	0.05
Outstanding and Exercisable at December 31, 2015	6,000,000	\$	0.05

As of December 31, 2015 and September 30, 2015, we had 9,000,000 and 9,000,000 shares underlying options outstanding and exercisable, respectively.

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The remaining contractual life and exercise price of options outstanding and exercisable at December 31, 2015 are as follows:

Number of options outstanding and exercisable	Exercise price	Remaining contractual life (Years)
3,000,000	\$ 0.050	1.75
3,000,000	0.050	2.75
6,000,000	\$ 0.050	2.25

Common Stock Purchase Warrants

On September 4, 2015, 5,000,000 warrants with an exercise price of \$0.023, expiring on December 31, 2017, were issued to a consultant for services provided. The Company received the proceeds in the amount of \$116,000 on December 11, 2015. Also see Note 6.

A summary of the status of our outstanding common stock purchase warrants granted as of December 31, 2015 and changes during the period is as follows:

	Shares underlying warrants	Weighted average exercise price
Outstanding and exercisable at September 30, 2015	5,777,778	\$ 0.29
Excised	(5,000,000)	0.023
Outstanding and exercisable at December 31, 2015	777,778	\$ 2.00

The following information applies to all warrants outstanding and exercisable at December 31, 2015.

Number of Warrants outstanding and exercisable	Exercise Price	Remaining contractual life (Years)
777,778	\$ 2.00	1.58
777,778	\$ 2.00	1.58

NOTE 9 - SEGMENT INFORMATION

For the three months ended December 31, 2015 and 2014, the Company operated in two reportable business segments - (1) Mineral Trading segment, where we sell and distribute of a variety of products, including iron ore products, non-ferrous metals, recycled materials, and industrial commodities, and (2) 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 months ended December 31, 2015 and 2014 are as follows:

	For the Three Months Ended December 31, 2015	For the Three Months Ended December 31, 2014
Revenues:		

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Mineral Trading	\$	-	\$	-
Consulting		34,215		114,941
Total revenue:	\$	34,215	\$	114,941

Depreciation:

Mineral Trading	\$	-	\$	-
Consulting		5,755		5,009
Total depreciation:	\$	5,755	\$	5,009

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Interest expenses and interest expenses - relate parties:

Mineral Trading	\$	-	\$	-
Consulting		933,629		455,694
Total interest expenses and interest expenses - relate parties:	\$	933,629	\$	455,694

Net loss from continuing operations:

	2015	2014
Mineral Trading	\$ -	\$ 13,268
Consulting	12,477,121	432,523
Total net loss from continuing operations:	\$ 12,477,121	\$ 445,791

Total tangible assets by segment as of December 31, 2015 and September 30, 2015 are as follows:

	December 31, 2015	September 30, 2015
Mineral Trading	\$ -	\$ -
Consulting	56,159	63,088
Total tangible assets	\$ 56,159	\$ 63,088

NOTE 10 - DISCONTINUED OPERATIONS

Subsidiaries Disposed

In April 2015, the Company sold its entire 95% equity interest in CDI Jingkun Zinc and 100% equity interest in CDI Metal to Xiaowen Zhuang, a management member and the brother of James (Yuejian) Wang, the CEO of the Company. The Company also sold its 100% equity interest in CDI Jixiang Metal to Dragon Capital, a related party company. As a result, results of operations, financial position and cash flows associated with CDI Jingkun Zinc, CDI Metal and CDI Jixiang Metal are reported as discontinued operations for all periods presented. During the fourth quarter of fiscal year 2015, the Company also disposed CDII Chile and the Chilean government has granted us approval to officially close down the business on July 31, 2015. As a result, results of operations, financial position and cash flows associated with CDI Chile are reported as discontinued operations for all periods presented.

Summarized Financial Information for Discontinued Operations

The following table presents the results of discontinued operations for the three months ended December 31, 2015 and 2014:

	For the Three Months Ended December 31,	
	2015	2014
Revenues	\$ -	\$ -
Cost of revenues	-	-
Loss before income taxes	-	(19,033)
Income tax expense	-	-
Loss from discontinued operations, net of taxes	-	(19,033)

Gain from disposal, net of taxes		-		-
Total Loss from discontinued operations, net of taxes	\$	-	\$	(19,033)

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NOTE 11 - COMMITMENTS AND CONTINGENCIES

Income Tax Matters

The IRS is currently auditing our consolidated income tax return for 2008. The IRS has proposed an adjustment to our 2008 taxable income and penalties of approximately \$4.6 million (approximately \$3.1 million in income tax and \$1.5 million in penalties) primarily related to transfer pricing issues pursuant to IRC section 482. In May 2013, the case was sent to the Appeals division of the Internal Revenue Service. At present we are in the process of waiting for the Service to assign an examiner to determine the validity of our position as it relates to the transfer pricing issue and revenue reorganization of restricted stock. We retained an independent accounting firm that has conducted an independent transfer pricing study, an evaluation of the tax basis value of marketable securities received for services, and an analysis of the allocation of the related costs and expenses associated with such revenues. As a result of such study and as a result of net operating tax loss carry forwards, we believe that no income tax or penalties will be assessed against us by the IRS and we intend to vigorously defend our position including an appeal in the U.S. Tax Court. If we are unable to defend our position, any such adjustment could have a material effect on the Company's results of operations and financial position and liquidity.

Legal Contingencies

Our wholly owned subsidiaries, China Direct Investments and Capital Resource Management, and our Company are involved in the following litigation with a shareholder of Linkwell Corporation, Ltd. ("Plaintiff"):

On January 9, 2013, Plaintiff filed a petition in the United States District Court for the Southern District of Florida (Case No. 12-cv-62539-WJZ) to complain that Linkwell's directors (Director Defendants) breached their fiduciary duties to Linkwell and its shareholders by entering into a transaction intended to obscure their "secret transfer" of Linkwell's valuable subsidiaries to themselves or entities they control or Ecolab, Inc. without fair compensation being paid to Linkwell and by causing Linkwell to file and disseminate materially misleading information.

In addition, Plaintiff contended that the "Non-Director Defendants" - including the Company and its subsidiaries, China Direct Investments and Capital Resource Management - aided and abetted those breaches and conspired with the Director Defendants to commit those breaches. The Plaintiff also contended that all defendants were unjustly enriched and were liable for attorney's fees. China Direct Investments and Capital Resource Management are alleged to have acted as consultants who were the "principal moving force" behind the challenged transaction, for which consulting services each is alleged to have received shares of Linkwell common stock.

Subsequent to the filing of the initial complaint, Linkwell's Board of Directors unwound the challenged transaction and the shares received by China Direct Investments and Capital Resource Management were returned to Linkwell. The Company, as well as China Direct Investments and Capital Resource Management, has denied all liabilities and intends to contest the matter vigorously.

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NOTE 12 - SUBSEQUENT EVENTS

On January 15, 2016, the Company issued 10,000,000 shares of common stock under the Company's S-8 registration to a consultant for the exercise of the warrants with an exercise price of \$0.0032 granted to him pursuant to the January 14, 2016 amendment to the consulting agreement dated September 4, 2015. The Company received \$32,000 from the consultant for exercising the options.

On January 22, 2016, the Company entered into a note purchase agreement with an institutional investor to sell \$100,000 of TCA's note. This note provides conversion features equal to 55% of the lowest trading price of the Company's common stock during the 10 consecutive trading days prior to the date of conversion. On January 25, 2016, the institutional investor converted \$30,000 into 21,818,182 shares of the Company's common stock at the conversion price of \$0.001375 per share. On January 28, 2016, the institutional investor converted \$44,000 into 32,000,000 shares of the Company's common stock at the conversion price of \$0.001375 per share. On February 10, 2016, the institutional investor converted \$26,000 into 15,757,576 shares of the Company's common stock at the conversion price of \$0.00165 per share.

On January 22, 2016, the Company borrowed a loan from Money Works Direct in the amount of \$120,000, bearing interest at the rate of approximately 4.7% per month, and repaid off the total balance of previous loan of \$100,000 and its accrued interests due to Money Works Direct. Pursuant to the loan agreement, the Company is required to pay off a total of \$168,000 with a daily amount of \$891, due on October 13, 2016. The loan is secured by all the assets of CDII.

On January 25, 2016, the Company issued a convertible promissory note for the amount of \$35,000 to an institutional investor, at a 12% annual interest rate. This note becomes due and payable on January 25, 2017. This note provides conversion features equal to 55% of the lowest trading price of the Company's common stock during the 10 consecutive trading days prior to the date of conversion. On January 29, 2016, the Company received \$27,000 in cash and \$8,000 was retained by the institutional investor through OID.

On January 29, 2016, a note holder converted \$169,500 from the portion of the \$500,000 note into 50,000,000 shares of the Company's common stock, at the conversion price of \$0.00339 per share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

The following discussion and analysis of our consolidated financial condition and results of operations for the three months ended December 31, 2015 and 2014 should be read in conjunction with the consolidated financial statements and other information presented in our Annual Report on Form 10-K for the year ended September 30, 2015 as filed with the Securities and Exchange Commission on January 22, 2016 and with the consolidated financial statements and other information presented in this Quarterly Report on Form 10-Q.

OVERVIEW OF OUR OPERATIONS

Our Business

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

We currently operate our business in two segments, Mineral Trading segment and Consulting segment. Our Mineral Trading segment sources and distributes industrial commodities, and our Consulting segment provides business and management consulting services to American and Chinese companies that operate primarily in China and the Americas.

Our Mineral Trading segment engages in the source and distribution of the global purchase and sale of industrial commodities in the Americas, which include mineral ores and non-ferrous metals. We have realigned our investments to our industrial commodities business in the Americas to maximize our profits and cash flow over the past fiscal year of 2013. In fiscal year 2014, we purchased iron ore in Ecuador, Bolivia and Chile and exported to China. In fiscal year 2015, we did not generate any revenues from the Mineral Trading segment. Currently, we are working on expanding our trading business in South America and also looking into various business opportunities with local companies that have good business in South America.

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

OUR OUTLOOK

A significant portion of our business and operations are in China and, accordingly, its national economy plays a significant role in our results of operations. China's economy grew by 6.9% in 2015 while China's economy expanded by 7.4% in 2014. Furthermore, China's central bank has cut interest rates five times since November 2014, and has taken other steps to free banks to lend more. The Chinese government has pledged to spend hundreds of billions of dollars in 2015 and 2016 on new infrastructure projects, including rail lines and water treatment plants to help lift growth.

According to Ministry of Commerce of China, in 2015, China's import and export totaled \$3,957 billion with a year-on-year decrease of 8.0%. China's export was \$2,275 billion, and its import was \$1,862 billion, down by 2.9% and 14.2% respectively, with trade surplus of \$593.00 billion. In December 2015, China's import and export totaled \$387.98 billion with a year-on-year decrease of 4.2%. China's export was \$223.68 billion, down by 1.6%, and its import was \$164.29 billion, down by 7.4%, with trade surplus of \$59.39 billion. In 2014, China's import and export totaled \$4,328 billion, with a year-on-year growth of 2.3%. China's export was \$2,359 billion, up by 4.9% and its import was \$2,974 billion, decreased by 0.9%, with trade surplus of \$385 billion. In December 2014, China's import and export totaled US\$ 405.41 billion, up by 4% year on year. Export was US\$ 227.51 billion, up by 9.7%, and import was US\$ 177.9 billion, down by 2.4%, with trade surplus of US\$ 49.61 billion, up by 96.7% year-on-year.

The overall economic environment, particularly in China, showed no improvement, and our Mineral Trading segment continued to struggle with lower customer demand due to tightened credit conditions in China impacting customer financing needs to purchase our products in 2015 and 2016. We still face a number of challenges in continuing the growth of our business, which is primarily tied to the overall health of the global economy.

Information On Trends Impacting Our Reporting Segments Follows:

Mineral Trading Segment.

As the Chinese economy continues to grow in the next decades, we believe demand for minerals will continue to be strong. In the past fiscal year, the declined price of iron ore, zinc, copper and lead has materially impacted our trading business. According to Chinese customs data, monthly imports of iron ore reached 96.27 million tons in December 2015, blowing away the previous monthly record high of 86.83 million tons set in January 2014. The enormous increase coincided with signs of continued inventory restocking at Chinese ports. As a result of the strong lift in December, total iron ore imports in 2015 soared to 953.36 million tons, also a record high.

As we look for a bounce of basic mineral prices in 2016, we believe our trading activities will pick up. We have been working on several major contracts. Upon a successful execution of purchase contracts, we believe we will be able to transform our company into a new level. Under our new mineral trading model, we believe we can create a profit center while we limit exposure of our capital to market risk. We actively pursue new suppliers for our clients in China in both South and North America. As we move forward, we believe we are well positioned to take advantage of increasingly demand of iron ore and minerals by China in years to come.

Due to surplus of Iron Ore in Chinese ports, the shutdown of many steel mills in China for environmental reasons, and with an overall lower performing GDP and performance of the Chinese economy, the iron ore price has dropped substantially in the past quarter. Likewise, the major global Iron Ore producers have opened up new mining sites and expect to increase deliveries throughout 2015, creating more supply in a market that requires less demand. We expect the copper market to be steady in 2015, due to production is generally seen as keeping pace with exceeding demand and inventories of a number of commodities are not low enough to bolster prices. Manganese Ore prices have been stable over the last quarter, creating a solid market for exporters, and we expect market will be stable in 2015. Worldwide demand for copper metal (produced from refined copper and recycled scrap) is projected to advance 4.7 percent per year to 37.2 million metric tons in 2019. Robust gains in building construction expenditures are expected to boost the use of copper wire, tube, and other mill products in applications such as building wire, plumbing, and architecture. Increased infrastructure investment, particularly in developing countries, will further benefit copper suppliers, as updates to national power grids drive the production of wire and cable. In addition, advances in global manufacturing output are expected to bolster the use of copper metal in industrial machinery, domestic appliances, and other durable goods. Nevertheless, competition from competitive materials, such as plastic pipe in plumbing applications, will restrain faster overall growth. Global production of refined copper is forecast to expand 4.6 percent per year to 29.1 million metric tons in 2019. The Asia/Pacific region is expected to see the fastest annual gains, led by increased output in China and India. North America is also projected to see copper mine output grow at a strong pace, supported by major expansions in Mexico and Canada. Advances in construction spending are also forecast to fuel copper demand in North America, particularly in the US, where building construction activity will significantly accelerate. More moderate increases in copper demand are forecast for Western Europe, where construction and manufacturing output will climb at a below average pace.

Consulting Segment.

We believe demand for our consulting services will slightly improve in fiscal year 2016. Our consulting business will focus on our current clients while we try to expand our services to new areas to facilitate business transactions among China, North and South Americas. On February 6, 2015, we have received authorization by Automation Division of Shanghai Electric Group Co., Ltd. ("Shanghai Electric Group") as a representative of business development in South America and Africa. Shanghai Electric Group is a multinational power generation and electrical equipment

manufacturing company headquartered in Shanghai, China. It has a long history, where one of its oldest subsidiaries was established before 1880. Shanghai Electric Group is engaged in the design, manufacture and sale of electrical industrial products including power generation equipment, power transmission and distribution equipment, transformers, switchgear, circuit breakers, transport equipment, machine tools, elevators, packaging and print machinery and environmental protection equipment. It is the world's largest manufacturer of steam turbines.

GOING CONCERN

Our financial statements have been prepared assuming we will continue as a going concern. The report of our independent registered accounting firm on our financial statements for the year ended September 30, 2015 contained a qualification as to our ability to continue as a going concern. For the three months ended December 31, 2015, we reported a net loss of approximately \$12.5 million and at December 31, 2015 we had a working capital deficit of \$17.3 million. For the three months ended December 31, 2015 our revenues declined by approximately 70% from the comparable period during the three months ended December 31, 2014. In addition, we have a significant amount of short term loans and convertible notes payable, totaling \$2.2 million from unrelated parties, which requires the Company to secure additional funds given the Company's current cash position. These, among other issues, raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of these uncertainties.

RESULTS OF OPERATIONS

For the three months ended December 31, 2015 and 2014, subsidiaries included in continuing operations consisted of the following:

- CDI China, Inc
- International Magnesium Group, Inc.
- CDII Minerals, Inc.
- CDII Minerals de Peru SAC
- Empresa Minera CDII de Bolivia S.A.
- China Direct Investments, Inc.
- CDI Shanghai Management Co., Ltd.
- Capital Resource Management Co., Ltd.

Summary of Selected Consolidated Financial Information

	For the Three Months Ended December 31,				% Increase (Decrease)
	2015		2014		
	Amount	% of Revenues	Amount	% of Revenues	
Mineral Trading	\$ -	-	\$ -	-	-
Consulting segment	34,215	100%	114,941	100%	(70%)
Consolidated					
Revenues	\$ 34,215	100%	\$ 114,941	100%	(70%)
Cost of revenues	8,628	25%	35	-	(24,551%)
Gross profit	25,587	75%	114,906	100%	(78%)
Total operating expenses	397,130	1,161%	638,057	555%	(38%)
Net loss from continuing operations	\$ 12,477,121	36,467%	\$ 445,791	388%	2,699%

Analysis of Operating Results by Segment

A summary of our comparative operating results by segment for the three months ended December 31, 2015 and 2014 is as follows:

Mineral Trading Segment	For the Three Months Ended		Increase (Decrease)
	2015	December 31, 2014	
Total revenues	\$ -	\$ -	\$ -
Cost of revenues	-	-	-
Gross profit	-	-	-
Total operating expenses	-	12,952	(12,952)
Operating loss	\$ -	\$ 12,952	(12,952)

Consulting Segment For the Three Months Ended Increase

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	December 31,		(Decrease)
	2015	2014	
Total revenues	\$ 34,215	\$ 114,941	\$ (80,726)
Cost of revenues	8,628	35	8,593
Gross profit	25,587	114,906	(89,319)
Total operating expenses	397,130	625,105	(227,975)
Operating loss	\$ 371,543	\$ 510,199	\$ (138,656)

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Revenues

Revenues in the three month ended December 31, 2015 decreased by 70%, as compared to the three month ended December 31, 2014, primarily due to the decreased revenue generated from our Consulting segment and we do not have revenue generated in our Mineral Trading segment.

Our Consulting segment revenues primarily consist of consulting and advisory service fees we received from certain publicly traded U.S. companies with their primary business operations located in the PRC. We receive a fixed number of shares of their marketable securities or fees from those client companies, including both recurring and one-time transaction fees for services provided to clients. Consulting segment revenues vary from period to period depending upon the timing, nature and scope of services we provide to a particular client and performance of our client companies' stock price. Our Consulting segment generated approximately \$34,000 in revenues during the three months ended December 31, 2015, as compared to \$115,000 during the three months ended December 31, 2014, primarily due to the declining value of our client companies' stock, coupled with a reduction in scope of consulting and transactional services provided to the new clients during the three months ended December 31, 2015.

Gross Profit

Our consolidated gross profit in the three months ended December 31, 2015 decreased by approximately \$89,000 as compared to the three months ended December 31, 2014. Our consolidated gross profit margin decreased to 75% in the three months ended December 31, 2015, as compared to gross profit of 100% during the three months ended December 31, 2014. The decrease in gross profit was primarily due to decrease in gross profit within our Consulting segment due to increased cost of revenue.

Gross profit in our Consulting segment for the three months ended December 31, 2015 was approximately \$26,000 with a margin of 75%, as compared to a gross profit of \$115,000 with a margin of 100% for the three months ended December 31, 2014. The decrease in gross profit was to the result of lower revenue and lower gross profit margin due to the costs of consulting service fees for our clients are increased.

Total Operating Expenses

Total operating expenses, net of other operating income, decreased by approximately \$241,000, or 38%, in the three months ended December 31, 2015, as compared to the three months ended December 31, 2014. The decrease was primarily due to a lower operational expense in both our Mineral Trading segment and Consulting segments in the three months ended December 31, 2015, as compared to the three months ended December 31, 2014.

General and administrative expenses in our Consulting segment for the three months ended December 31, 2015 decreased by approximately \$228,000, or 36% as compared to the three months ended December 31, 2014, primarily due to the expiration of our employment contract with several employees who served our client base for both our U.S. headquarters and China-based operations. As compared with the three months ended December 31, 2015 to the three months ended December 31, 2014, we had a decrease of approximately \$37,000 in employee payroll, a decrease of \$215,000 in consulting service fee, a decrease of \$8,000 in insurance expense, a decrease of \$25,000 in legal fee, a decrease of \$11,000 in office rent, and a decrease of \$16,000 in travel expenses, offset an increase of \$12,000 in public relation expenses and an increase of \$25,000 accounting fees.

General and administrative expenses in our Mineral Trading segment for the three months ended December 31, 2015 decreased by approximately \$13,000, or 100% as compared to the three months ended December 31, 2014. The decrease in general and administrative expenses was to the result of none activity incurred either in the suspended subsidiaries in South America or in US offices in the three months ended December 31, 2015.

Other Expenses

In the three months ended December 31, 2015, other expense was approximately \$12.1 million as compared to other income of \$77,000 in the three months ended December 31, 2014. As compared to the three months ended December 31, 2014, we have an increase of approximately \$748,000 in interest expenses and interest expenses - related parties related to the amortization of debt discount, an increase of approximately \$11.7 million in change in fair market value of derivative liability related to our preferred stock, convertible note and warrants, which is non cash loss, an increase of approximately \$53,000 for realized loss on marketable securities available-for-sale, and a increase of approximately \$60,000 for gain on revaluation of receivable and payable of marketable securities available-for-sale in the three months ended December 31, 2015.

Income Taxes

In both three months periods ended December 31, 2015 and 2014, we did not record income tax, since the loss was significant.

Net Loss from Continuing Operations

Net loss from continuing operations for the three months ended December 31, 2015 amounted to approximately \$12.5 million as compared to net loss of \$446,000 for the three months ended at December 31, 2014. The loss primarily consisted of \$372,000 in operating expense, and \$12.1 million in other expense.

Discontinued Operations

We do not have any loss from discontinued operations for the three months ended December 31, 2015 and loss from discontinued operations amount to approximately \$19,000 for the three months ended December 31, 2014.

Net loss

Net loss for the three months ended December 31, 2015 amounted to approximately \$12.5 million, as compared to net loss of approximately \$465,000 for the three months ended December 31, 2014, primarily due to an increase of \$12.2 million in other expense, including an increase of approximately \$11.7 million in change in fair market value of derivative liability related to our preferred stock, convertible note and warrants, which is non cash loss.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash. As of December 31, 2015 we had a working capital deficit of \$17.3 million, as compared to \$8.9 million as of September 30, 2015. We rely upon cash generated from our operations, the sale of our subsidiaries, access under factoring and other lending relationships and advances from related parties to fund our operations. We do not have any commitments for capital expenditures. Our Mineral Trading segment has operating losses, and revenues from our Consulting segment vary greatly from period to period. Our Consulting segment generally receives full payment in advance for consulting services to be provided over the term of the contract, primarily in the form of our client companies' common stock. For transactions in which we advise a new client company on entering into the U.S. public market for the first time, it may take some additional time for us to receive our transaction fees due to the necessary compliance and regulatory filing process, and it is possible that at such time, if ever, when we are able to sell the securities we receive as compensation, the funds we receive upon the sale will not be equal to the amount of revenue we initially recognized. In addition, revenues from this segment do not provide cash to pay costs or operating expenses until we are able to liquidate those securities, on which there are no assurances. As a result of the working capital deficit and the operating losses incurred, our cash flow from operations is not sufficient to sustain our operations and satisfy our obligations as they become due.

Our cash balance as of December 31, 2015 amounted to approximately \$150,000, an increase of \$128,000, as compared to September 30, 2015. During the three month ended December 31, 2015, we had cash outflow of approximately \$238,000 used in operating activities. We had cash inflow of \$32,000 from proceeds of selling marketable securities available-for-sale provided by investing activities. We also had inflows of \$255,000 from third party loans, \$166,000 of proceeds from exercise of option, \$19,000 of borrowing from related party, an outflow of \$50,000 for repayment to related parties, and an outflow of \$55,000 for repayment on loans payable. The net cash provided by financing activities was \$335,000 from continuing operations.

Our marketable securities available-for-sale and marketable securities available-for-sale - related party as of December 31, 2015 approximately totaled \$7,000, a decrease of \$15,000 as compared to September 30, 2015. We received \$40,000 of marketable securities for services provided to a related party client in our Consulting segment in

the three months ended December 31, 2015. Then we sold \$85,000 of marketable securities for services available-for-sale - related party in the three months ended December 31, 2015.

Our accounts receivable and accounts receivable - related party as of December 31, 2015 amounted to \$8,000, a decrease of \$9,000 as compared to September 30, 2015, primarily attributable to the effort on collection of receivables from third party client and also due to the decrease of the fair value of accounts receivable in the form of marketable securities available-for-sale.

Prepaid expenses and other current assets consist of prepayments to vendors for services, other receivables and security deposits. Prepaid expenses and other current assets as of December 31, 2015 amounted to \$19,000, an increase of \$2,000 as compared to September 30, 2015, primarily due to the advanced payment on behalf to our consultant in the three month ended December 31, 2015.

Short-term loans at December 31, 2015 included \$911,000 of loan from TCA Global Credit Master Fund, LP, bearing annual interest at 18%, and were due on October 16, 2016. We should make monthly payments to TCA in the amount of \$40,000 commencing on November 30, 2015 until the complete repayment of all payables due to TCA; \$200,000 of loan from Draco Resources, Inc., bearing annual interest at 2%, which is currently in default; \$309,000 loan from Kong Tung, bearing monthly interest at 2%, which was originally due on January 7, 2015 and extended to December 31, 2015; \$700,000 of loan from Yewen Xi, bearing annual interest at 12%, of which \$500,000 is due on September 30, 2016, and \$200,000 is due on May 31, 2016; and \$68,000 of total balance of two loans from Money Works Direct, the principal amounts of \$100,000 and \$50,000, monthly interest rates at 3.99% and 4.44%, respectively, due on April 30, 2016 and June 30, 2016. Secured by pledge of assets of CDII. China Direct Investments make cash repayment of \$740 and \$259, respectively, for the two loans per business day.

Accounts payable and accrued expenses represent payables associated with the general operations within each segment, including accrued payrolls. Accounts payable and accrued expenses as of December 31, 2015 amounted to \$704,000, a decrease of \$487,000 as compared to September 30, 2015, primarily due to transfer of interest payable of approximately \$390,000 to loan from TCA.

Advances from customers and deferred revenues represent prepayments for products or services, which have not yet been shipped or provided. Advances from customers as December 31, 2015 amounted to \$423,000, the same as it was on September 30, 2015.

Certain events may have a negative impact on our liquidity position during fiscal year 2016:

Our short term loans of \$509,000 are currently in default. While we intend to extend the maturity date for these loans, we have not entered into any agreements with the lenders for such extension. In the event we are unable to extend the term of these loans, or we are unable to repay these obligations when due, we may have to seek additional financing, and no assurances can be given that such financing would be available on a timely basis, on terms that are acceptable or at all. Failure to meet the repayment or other obligations of our existing debt on or before its due date could materially adversely affect our business, results of operations and financial condition and threaten our financial viability.

We maintain cash and cash equivalents in the United States and China. At December 31, 2015 and September 30, 2015, bank deposits by geographic area, were as follows (dollars in thousands):

Country	December 31, 2015		September 30, 2015	
United States	\$ 46,216	31%	\$ 12,463	55%
China	103,947	69%	10,171	45%
Total cash and cash equivalents	\$ 150,163	100%	\$ 22,634	100%

Analysis of Cash Flows

In the three months ended December 31, 2015, our net increase in cash amounted to approximate \$128,000, which was comprised of \$238,000 used in operating activities, \$32,000 provided by investing activities, \$335,000 provided by financing activities and \$1,784 from non-cash unfavorable effect of prevailing exchange rate on our cash position.

Cash Used in Operating Activities

Net cash used in operating activities of continuing operations for the three month ended December 31, 2015 amounted to approximately \$238,000, which was primarily due to a net loss of \$12.5 million and non-cash items such as loss on change in fair value of derivative liabilities of \$11.2 million, depreciation of \$6,000, amortization of debt discount of \$824,000, \$50,000 for the stock based on compensation to our consultants, \$53,000 of realized loss on marketable securities available-for-sale, a decrease of \$8,000 in accounts receivable and accounts receivable from related parties, an increase of \$25,000 in other payable to related parties and an increase of \$98,000 in other liabilities, offset by a decrease of \$53,000 in accounts payable and accrued expenses, and \$19,000 of other income due to revaluation of accounts receivable.

Net cash provided by operating activities of continuing operations for the three month ended December 31, 2014 amounted to approximately \$11,000, which was primarily due to a net loss of approximately \$465,000 and non-cash

items such as loss on revaluation for accounts receivable and accounts payable of \$41,000, depreciation of \$5,000, amortization of debt discount of \$361,000, \$265,000 for the stock based on compensation to our consultants, an increase of \$68,000 in accounts payable and accrued expenses, an increase of \$558,000 in other payable to related parties, offset by a gain on change in fair value of derivative liability of \$475,000, a decrease of \$402,000 in other liabilities and an increase of \$17,000 in prepaid expense and other current assets.

Cash Provided by Investing Activities

Net cash provided by investing activities of continuing operations for the three month ended December 31, 2015 amounted to approximately \$32,000, as a result of proceeds from sales marketable securities available-for-sale.

Net cash provided by investing activities of continuing operations for the three month ended December 31, 2014 amounted to \$0.

Cash Provided by Financing Activities

Net cash provided by financing activities of continuing operations for the three month ended December 31, 2015 amounted to approximately \$335,000, primarily due to \$166,000 proceeds from exercise of warrants, \$19,000 from borrowing from related parties, and \$255,000 borrowings from loans, \$50,000 repayment to related parties and \$55,000 repayment of loan payables.

Net cash provided by financing activities of continuing operations for the three month ended December 31, 2014 amounted to \$0.

Series A Convertible Preferred Stock and Related Dividends

As of December 31, 2015, 1,006 shares of Series A convertible preferred stock remained outstanding. During the three month ended December 31, 2015 and 2014, we did not pay off accrued ordinary dividends in cash or our common stock on our Series A convertible preferred stock.

OFF BALANCE SHEET ITEMS

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

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

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

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the

results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Revenue Recognition

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results when ultimately realized could differ from those estimates. Significant estimates in fiscal 2014 and fiscal 2015 include valuation of marketable securities available-for-sale, allowance for doubtful accounts, the allowance for obsolete inventory, fair value of share-based compensation, the useful lives of property, plant and equipment, and fair value of derivative liability.

Fair Value of Financial Instruments

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

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

Marketable Securities

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

All securities (exclusive of preferred stock and common stock purchase warrants) received from our clients as compensation are quoted either on the Over the Counter Bulletin Board or the OTC Markets (formerly known as the Pink Sheets). The securities are typically restricted as to resale. Our policy is to liquidate securities received as compensation when market conditions are favorable for sale. As these securities are often restricted, we are unable to liquidate these securities until the restriction is removed. We recognize revenue for common stock based on the fair

value at the time common stock is granted and for common stock purchase warrants based on the Black-Scholes valuation model. Unrealized gains or losses on marketable securities available-for-sale and on marketable securities available-for-sale - related party are recognized as an element of comprehensive income based on changes in the fair value of the security as quoted on an exchange or an inter-dealer quotation system. Once liquidated, a realized gain or loss on the sales of marketable securities available-for-sale and marketable securities available-for-sale - related party is reflected in our net income for the period in which the securities are liquidated.

Comprehensive income

We follow ASC 205, "Presentation of Financial Statements," and ASC 220, "Reporting Comprehensive Income," to recognize the elements of comprehensive income. Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders. Comprehensive income for the fiscal 2015 and fiscal 2016 included net income, foreign currency translation adjustments, unrealized gains or losses on available-for-sale marketable securities, net of income taxes, and unrealized gains or losses on available-for-sale marketable securities -related party, net of income taxes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in the Exchange Act that are designed to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms and that such information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Management, with the participation of our CEO, performed an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2015 and 2014. Based on that evaluation solely as a result of the significant deficiencies in our internal control over financial reporting identified in our Annual Report on Form 10-Q for the three months ended December 31, 2015, our management, including our CEO, concluded that our disclosure controls and procedures were not effective as of December 31, 2015 and 2014.

The specific significant deficiencies identified by our management were as follows:

- A lack of a fully integrated corporate-wide financial accounting system, including lack of internal control over securities portfolio management and evaluation and lack of business reporting procedures,
- Failure to obtain approval of the board of directors prior to the issuance of shares of common stock, including failure to obtain board approval for grants under our various stock compensation plans.

The material weakness identified by our management was as follows:

- A lack of qualified accounting personnel who have sufficient knowledge in dealing with the complex U.S. GAAP accounting and financial issues in our cross border operations.

A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness; yet important enough to merit attention by those responsible for oversight of a registrant's financial reporting. And, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements would not be prevented or detected on a timely basis. We expect the significant deficiencies will be remediated by the end of fiscal 2016. Until such time, however, as these significant deficiencies in our internal control over financial reporting are remediated, we expect to have continuing weaknesses in our internal control over financial reporting, disclosure controls and related procedures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our

management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that, due to the significant deficiencies described above, our internal control over financial reporting was not effective as of December 31, 2015.

Remediation of Significant Deficiencies and Material Weakness in Internal Control over Financial Reporting

Through our increased awareness and remediation efforts, we believe that our actions will result in an improvement in our internal control over financial reporting in fiscal 2016. Specifically, we will plan initiating a corporate-wide ERP implementation, conduct ongoing US GAAP trainings, and through our internal reviews and improved control procedures, we will identify certain prior accounting errors and make appropriate error corrections and disclosures, to prevent potential future material misstatements. In addition, we plan to make improvement throughout fiscal 2016 to achieve our overall remediation target and objectives. Management believes that the actions described above will remediate the remaining significant deficiencies we have identified in fiscal 2015. As we work towards improvement of our internal control over financial reporting and implement the remediation measures, we may supplement or modify these remediation measures as appropriate.

Our management believes that our disclosure controls and procedures provide a reasonable level of assurance of achieving their objectives. Our management does not expect, however, that our disclosure controls and procedures or internal financial controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the first quarter of fiscal 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Our wholly owned subsidiaries, China Direct Investments and Capital Resource Management, and our Company are involved in the following litigation with a shareholder of Linkwell Corporation, Ltd. ("Plaintiff"):

On January 9, 2013, Plaintiff filed a petition in the United States District Court for the Southern District of Florida (Case No. 12-cv-62539-WJZ) to complain that Linkwell's directors (Director Defendants) breached their fiduciary duties to Linkwell and its shareholders by entering into a transaction intended to obscure their "secret transfer" of Linkwell's valuable subsidiaries to themselves or entities they control or Ecolab, Inc. without fair compensation being paid to Linkwell and by causing Linkwell to file and disseminate materially misleading information.

In addition, Plaintiff contended that the "Non-Director Defendants" - including the Company and its subsidiaries, China Direct Investments and Capital Resource Management - aided and abetted those breaches and conspired with the Director Defendants to commit those breaches. The Plaintiff also contended that all defendants were unjustly enriched and are liable for attorney's fees. China Direct Investments and Capital Resource Management are alleged to have acted as consultants who were the "principal moving force" behind the challenged transaction, for which consulting services each is alleged to have received shares of Linkwell common stock.

Subsequent to the filing of the initial complaint, Linkwell's Board of Directors unwound the challenged transaction and the shares received by China Direct Investments and Capital Resource Management were returned to Linkwell. The Company, as well as China Direct Investments and Capital Resource Management, has denied all liability and intends to contest the matter vigorously.

ITEM 1A. RISK FACTORS.

Before you invest in our securities, you should be aware that there are various risks. You should consider carefully these risk factors, together with all of the other information included in this annual report before you decide to purchase our securities. If any of the following risks and uncertainties develops into actual events, our business, financial condition or results of operations could be materially adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable to a smaller reporting company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable to a smaller reporting company.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable to our operations.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

Exhibit No.	Description of Exhibit
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31.1*	Section 302 Certificate of Chief Executive Officer.
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31.2*	Section 302 Certificate of Chief Financial Officer.
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32.1*	Section 906 Certificate of Chief Executive Officer and Chief Financial Officer.
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101.INS**	XBRL INSTANCE DOCUMENT
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101.SCH**	XBRL TAXONOMY EXTENSION SCHEMA
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101.CAL**	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
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101.DEF**	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
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101.LAB**	XBRL TAXONOMY EXTENSION LABEL LINKBASE
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101.PRE**	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
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+	Management contract or compensatory plan or arrangement.
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*	Filed herewith.
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**	In accordance with Regulation S-T, the XBRL-formatted interactive data files that comprise Exhibit 101 in this Annual Report on Form 10-K shall be deemed "furnished" and not "filed".
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CD INTERNATIONAL ENTERPRISES, INC.

Date: February 22,
2016

By:

/s/ Yuejian (James) Wang

Yuejian (James) Wang, Chairman and Chief
Executive Officer and Chief Financial Officer and
Sole Director

