

CD INTERNATIONAL ENTERPRISES, INC.  
Form 10-K  
March 14, 2017

---

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K

(Mark One)

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

For the year ended September 30, 2016.

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.)

1333 S. University Drive, Suite 202, Plantation,  
Florida  
(Address of principal executive offices)

33342  
(Zip Code)

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

Securities registered under Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Securities registered under Section 12(g) of the Act:

Common stock, par value \$0.0001 per share  
(Title of class)

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

Edgar Filing: CD INTERNATIONAL ENTERPRISES, INC. - Form 10-K

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company:

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, \$2,020,441 on March 31, 2016.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date, there are 34,577,271 shares of common stock are issued and outstanding as of March 9, 2017.

#### DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980). None.

## TABLE OF CONTENTS

		Page No.
	Part I	
Item 1.	Business.	1
Item 1A.	Risk Factors.	7
Item 1B.	Unresolved Staff Comments.	13
Item 2.	Properties.	13
Item 3.	Legal Proceedings.	13
Item 4.	Mine Safety Disclosures.	13
	Part II	
Item 5.	Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	14
Item 6.	Selected Financial Data.	15
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	15
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.	23
Item 8.	Financial Statements and Supplementary Data.	23
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	23
Item 9A.	Controls and Procedures.	23
Item 9B.	Other Information.	24
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance.	24
Item 11.	Executive Compensation.	26
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	27
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	29
Item 14.	Principal Accounting Fees and Services.	30
	Part IV	
Item 15.	Exhibits, Financial Statement Schedules.	31

Our use in this report of "CD International", "we", "us" or "our" refers to CD International Enterprises, Inc., a Florida corporation, and our subsidiaries, "fiscal year 2016" refers to the year ended September 30, 2016, "fiscal year 2015" refers to the year ended September 30, 2015 and "fiscal year 2017" refers to the year ended September 30, 2017. The information which appears on our web site at [www.cdii.net](http://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 of 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 of 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 are not 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 of 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 on 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 our investment.
- The market price 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.

#### 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 of 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 of 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 of in April 2015;
- "CDII Trading" refers to CDII Trading, Inc., a Florida corporation and a 100% owned subsidiary of CD International;
- "CDII Minerals" refers to CDII Minerals, Inc., a Florida corporation and a 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., which we abandoned in April 2016.

## PART I

### ITEM 1. BUSINESS.

#### OVERVIEW

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 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 consolidated these acquisitions as either our wholly or majority owned subsidiaries. Through our U.S. based industrial commodities business, we source 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, trading segment and consulting segment. We used to name "Trading segment" as "Mineral Trading segment" and "Basic Materials segment". Basic Materials segment used to include our subsidiaries, Lang Chemical and CDI Beijing. Since we disposed both subsidiaries on September 30, 2012, we focused on trading business in South America, and we renamed our Basic Materials segment to Mineral Trading segment in fiscal year 2014 and to Trading Segment in fiscal year 2016. Our Trading segment sources Cannabidiol (CBD)-related products, 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 corporate headquarters are in Plantation, Florida, which houses the U.S. executive and administrative team that guides our overall operations. Our U.S. office employs English and Chinese speaking business and accounting staff. These professionals focus on due diligence, business development, marketing, accounting and compliance with the reporting requirements of the Securities and Exchange Commission ("SEC") and other applicable laws in the U.S. and the People's Republic of China ("PRC").

Historically, we had the third segment, Magnesium segment, which represented our largest segment by assets and revenues. On September 30, 2014, we signed a Share Exchange Agreement with Yuwei Huang, a related party, selling our Magnesium Segment to Mr. Huang and in return, Mr. Huang and other parties have returned and cancelled 8,075,949 shares of the Company's common stock held by such parties related to Mr. Huang. In addition, 41,524 shares of convertible Series D Preferred Stock were cancelled within 10 business days after the Share Exchange Agreement was signed.

On March 7, 2016, the Company entered into a Share Exchange Agreement (the "Acquisition Agreement") to acquire 100% ownership interest in China Manor Assets Investment Management Company, Ltd. ("CMAIM") in exchange for the 1,670,000 shares of the Company's Series G convertible preferred stock. The preferred stock can be converted to Company's common stock upon a listing of the Company's common stock on NYSE or NASDAQ. The convertibility ratio is one share of the preferred stock to one thousand shares of Company's common stock. Each share of the preferred stock has the voting rights of 1,000 shares of Company common stock; and, thus, Xiangjun Wang, the sole equity owner of CMAIM, will be able to vote approximately 70% of the Company's common stock and control the Company. CDII prepared for issuance to Mr. Xiangjun Wang, the sole equity owner of CMAIM, 1,670,000 shares of company's Series G convertible preferred stock on April 30, 2016. However, the Company did not receive the equity



interest of CMAIM and the preferred stock was not issued to Mr. Xiangjun Wang. On June 30, 2016, both parties agreed in formal writing to postpone the Acquisition Agreement due to the fact that certain capitalization conditions of CMAIM were not met. In September 2016, the Company cancelled the Series G convertible preferred stock that was prepared to be issued to Mr. Xiangjun Wang and the acquisition was terminated. As a result of certain closing conditions not being met, the transaction did not close.

In April 2015, we sold our 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, a related party individual, for zero consideration. We also sold our 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 2015, the Company also terminated operations in Chile. The Chilean government has granted us approval to officially close down the business on July 31, 2015.

In April 2016, the Company ceased the operations and abandoned Capital Resource Management Co., Ltd. ("Capital Resource Management"), an entity in the Consulting segment. The disposal of Capital Resource Management does not qualify as discontinued operations, nor is it a significant disposition because Capital Resource Management had limited net assets and engaged in minimal operations. The loss on disposal of Capital Resource Management was \$50,590, which was reported as "loss on disposal of subsidiary" for the fiscal year ended September 30, 2016.

## Corporate Initiatives

In our Trading segment, we commenced sales from our U.S.-based industrial commodities business. We established operations in Chile, Peru and Bolivia where we entered into contracts with local operators and producers to secure supplies of iron ore, copper concentrate and other minerals. Throughout the course of fiscal year 2012 to 2016 we have developed a relationship with a leading European logistics and trading solution company to sell our sourced iron ore and copper concentrate for delivery into China. We have also worked with our suppliers and local governmental authorities to obtain the necessary permits and approvals to process and export iron ore and copper concentrate on a continuous basis in these countries.

We operate our Trading segment under our wholly owned subsidiary of CDII Minerals, Inc., which was incorporated in June 2010 in Florida. Beginning operations under its predecessor CDII Trading in 2008, CDII Minerals is strategically positioned throughout several countries in South America and has developed the foundation and relationships to expand rapidly. In fiscal year 2014, we purchased iron ore in Ecuador, Bolivia and Chile and exported to China. In fiscal year 2016 and 2015, we did not generate any revenues from the 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 the U.S.

In our Consulting segment, we operate under our wholly owned subsidiaries named China Direct Investments, Inc. and CDI Shanghai Management which provide a suite of consulting services to American and Chinese companies that operate primarily in China and the American. We currently have service contracts with clients who conduct business in China or seek to conduct business within China. We generate revenues by providing consulting services in the areas of capital structures and arrangements, mergers, acquisitions and other business transactions, identifying potential areas of growth, translation services, managing and coordinating all necessary government approvals and licenses in the PRC, marketing services and coordination of the preparation of required SEC filings.

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. Our consulting fees vary based upon the scope of the services to be rendered. Historically, a significant portion of the fees we earned have been paid in the form of our clients' securities. We classify these securities as investments in marketable securities available-for-sale or investment in marketable securities available-for-sale-related party. 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. In addition to potential transaction fees, we also anticipate receiving additional client fees generated from our ongoing annual service contracts.

## TRADING SEGMENT

The scope of CDII trading services include purchasing, brokering, quality control, in addition to conducting comprehensive legal, financial, and technical due diligence on suppliers. In order to fulfill a niche market and facilitate smooth transactions, we have strategically placed ourselves between our suppliers in both North and South America and our buyers in China. We continue to strengthen our sources of supply and distribution networks by sourcing materials from independent producers in various regions of North and South America to help meet the growing demands of our customers in China.

Our Trading segment engages in the sourcing of the global purchase and sale of industrial commodities in the Americas, which include Cannabidiol (CBD)-related products, oil-related products, mineral ores and non-ferrous

metals. In fiscal year 2016 and 2015, we do not have revenues from the Trading segment as we adjust our business model. We have focused on the South American market and have established offices in Chile, Peru and Bolivia, but the operation costs were very high and, given the continuing drop of the iron ore market price and other mineral market price, we suspended operations in Chile and Peru on September 30, 2014. In fiscal year 2014, we delivered copper concentrate from Chile and Bolivia to China. In order to fulfill a niche market and facilitate smooth transactions, we have been strategically placing ourselves between our suppliers in South America and our buyers in China. 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 and Asia.

We disposed of some entities under this segment in fiscal year 2016 and 2015. See Item 1 for more discussion.

- 2 -

---

## CONSULTING SEGMENT

In our Consulting segment, we provide a suite of consulting services to American and Chinese companies that operate primarily in China and the Americas. We currently have service contracts with clients who conduct business in China or seek to conduct business within China. We generate revenues by providing consulting services in the areas of capital structures and arrangements, mergers, acquisitions and other business transactions, identifying potential areas of growth, translation services, managing and coordinating all necessary government approvals and licenses in the PRC, marketing services, investor relations services, and coordination of the preparation of required SEC filings. Our Consulting segment generated approximately \$83,000 in revenues during fiscal year 2016, and \$360,000 in fiscal year 2015.

The scope of our Consulting segment is to offer a comprehensive suite of services tailored to meet the needs of each individual client. A significant component of our competitive advantage lies in the quality of our personnel. Members of our team possess a working knowledge of the unique characteristics of business operations in the Americas and China. Our function is to provide the necessary resources for Chinese entities to invest in the Americas or oversea clients to invest in China.

Our culturally diverse team has the critical edge in generating global commerce opportunities to these small to medium sized emerging companies. We seek to help navigate through what are often confusing cultural and legal challenges. Our team members have strong working knowledge of the unique characteristics of business operations in the U.S., China, and South America. By employing a multicultural team, through our offices in the U.S., Shanghai, and various locations in South America, we possess numerous advantages critical to international business success. 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. Our consulting fees vary based upon the scope of the services to be rendered. Historically, a significant portion of the fees we earned have been paid in the form of our clients' securities. We classify these securities as investments in marketable securities available-for-sale or investment in marketable securities available-for-sale-related party. 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. In addition to potential transaction fees, we also anticipate receiving additional client fees generated from our ongoing annual service contracts.

Currently, we are providing advisory and management services to our current clients and meanwhile are looking into opportunities to work with local firms for appropriate funding programs.

## EMPLOYEES

As of September 30, 2016 we have 8 full-time employees, including 4 full-time employees in the United States and 4 full-time employees in the PRC. We believe we have good working relationships with our employees. We are currently not a party to any collective bargaining agreements.

For our employees in the PRC, we are required to contribute a portion of their total salaries to the Chinese government's social insurance funds, including medical insurance, unemployment insurance and job injuries insurance, as well as a housing assistance fund, in accordance with relevant regulations. We expect the amount of our contribution to the government's social insurance funds to increase in the future as we expand our workforce and operations.

## COMPETITION

Our subsidiaries and the business segments they operate in face unique challenges and extensive competition.

Trading Segment. While we believe our subsidiaries in this segment have viable business models, we also recognize that many rival entities possess greater financial and technical resources to compete in these businesses. We compete with a variety of companies, which include global and domestic distribution agents as well as manufacturers. These companies have more capital, longer operating histories, greater brand recognition, larger customer bases and significantly greater financial and marketing resources than us. These competitors may offer a more comprehensive array of products and services than we are able to provide. For these and other reasons, these competitors may achieve greater acceptance in the marketplace than our company, limiting our ability to gain market share and customer loyalty and increase our revenues. We believe that we compete primarily on the basis of price and availability of the products we sell. In fiscal year 2015, we disposed of some entities under this segment. See Item 1 for more discussion.

- 3 -

---

Consulting Segment. The services we offer in our Consulting segment compete with the services offered by many entities and individuals seeking to take advantage of the growing need of Chinese entities seeking management advice in order to obtain access to U.S. capital markets for their expansion. This competition ranges from large management consulting firms and investment banks that offer a broad range of consulting and financial services, to small companies and independent contractors that provide specialized services. Many of the firms prospecting these clients are well established and have extensive experience identifying and effecting business combinations directly or through affiliates. Furthermore, we acknowledge we are competing with firms that may possess greater financial, marketing, technical, human and other resources. We believe that we compete primarily on the basis of our ability to offer a wider range of value-added services than our competitors. In light of the current global economic environment and a continuation of the downturn in the global capital markets and concerns of China based companies, we believe it is difficult for smaller companies with operations based in China to attract interest in the financial community, make acquisitions and increase revenues and profitability. These factors impact our clients' ability to pay the management fees needed to meet the costs of providing the services needed to comply with U.S. securities laws, which our competitors may be able to provide at lower rates.

#### INTELLECTUAL PROPERTY

We have registered the trademarks "China Direct", "Your Direct Link to China" and "CDI" in the United States. We do not consider the protection of our trademarks and brand names to be important to our business.

#### GOVERNMENT REGULATION

Despite efforts to develop the legal system over the past several decades, including but not limited to legislation dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, the PRC continues to lack a comprehensive system of laws. Further, the laws that do exist in the PRC are often vague, ambiguous and difficult to enforce, which could negatively affect our ability to do business in the PRC and compete with other companies in our segments.

In September 2006, the Ministry of Commerce promulgated the Regulations on Foreign Investors' Mergers and Acquisitions of Domestic Enterprises ("M&A Regulations") in an effort to better regulate foreign investment in the PRC. The M&A Regulations were adopted in part as a needed codification of certain joint venture formation and operating practices, and also in response to the government's increasing concern about protecting domestic companies in perceived key industries and those associated with national security, as well as the outflow of well-known trademarks, including traditional Chinese brands.

As a U.S. based company doing business in the PRC, we seek to comply with all PRC laws, rules and regulations and pronouncements, and endeavor to obtain all necessary approvals from applicable PRC regulatory agencies such as the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange.

#### Economic Reform Issues

Since 1979, the Chinese government has reformed its economic systems. Many reforms are unprecedented or experimental; therefore they are expected to be refined and improved. Other political, economic and social factors, such as political changes, changes in the rates of economic growth, unemployment, inflation, or the disparities in per capita wealth among regions in the PRC, could lead to further readjustment of the reform measures. We cannot predict

if this refining and readjustment process may negatively affect our operations in future periods, particularly in relation to future policies including but not limited to foreign investment, taxation, inflation and trade.

#### Currency

The value of the Renminbi ("RMB"), the main currency used in the PRC, fluctuates and is affected by, among other things, changes in the PRC's political and economic conditions. The conversion of RMB into foreign currencies such as the U.S. dollar have been generally based on rates set by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. The currency exchange and fund transfers are regulated by China's State Administration of Foreign Exchange, which sets the relevant laws, regulations, and carries out the supervision of currency exchanges and cross border transfers of related funds, and imposes restrictions and regulatory controls over such exchanges and transfers.

- 4 -

---

## Environment

We are currently subject to numerous regulations relating to the protection of the environment which are highly relevant to our Trading segments in South America. These laws continue to evolve and are becoming increasingly stringent. The ultimate impact of complying with such laws and regulations is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision. In fiscal year 2016 and 2015 we did not spend any funds related to compliance with environmental regulations.

The Environmental Protection Law requires production facilities that may cause pollution or produce other toxic materials to take steps to protect the environment and establish an environmental protection and management system. Penalties for breaching the Environmental Protection Law include a warning, payment of a penalty calculated on the damage incurred, or payment of a fine. When an entity has failed to adopt preventive measures or control facilities that meet the requirements of environmental protection standards, it may be required to suspend its production or operations and pay a fine.

## OUR CORPORATE HISTORY

We were incorporated on June 7, 1999 in Delaware initially under the name Caprock Corporation to engage in any lawful corporate undertaking, including, but not limited to, selected mergers and acquisitions.

Between 1999 and 2005 we operated a number of small, start up or development stage businesses. In October 2005, we became a shell company and began a search for a business combination candidate.

On August 16, 2006 we acquired 100% of the issued and outstanding stock of China Direct Investments in exchange for 10,000,000 shares of our common stock, which at closing, represented approximately 95% of our issued and outstanding shares of common stock. China Direct Investments was incorporated under the laws of the State of Florida on January 18, 2005 and its operations constitute our Consulting segment. As a result of the reverse merger transaction, China Direct Investments became a wholly owned subsidiary and the transaction resulted in a change of control of our company. For financial accounting purposes, the transaction in which we acquired China Direct Investments was treated as a recapitalization of our company with our former stockholders retaining approximately 5.0% of our outstanding common stock.

In September 2006, we changed our name to China Direct, Inc. and in June 2007 we re-domiciled our company from Delaware to Florida. Subsequent to the transaction with China Direct Investments in August 2006, we have substantially grown our business by acquiring growth-oriented companies in the PRC.

In February 2007, we acquired a 51% interest in CDI Magnesium in exchange for 25,000 shares of our common stock valued at \$100,000. The fair value of our common stock was based on its value of \$4.00 per share on February 6, 2007. We dissolved CDI Magnesium as of September 30, 2011 and wrote off our investment of \$100,000 in the company in fiscal year 2011 upon completion of our sale of our 51% interest in Pan Asia Magnesium discussed below.

In September 2007, we acquired a 51% interest in Pan Asia Magnesium in exchange for an aggregate investment of \$7.4 million. We began presenting our interest in Pan Asia Magnesium as a discontinued operation beginning with our financial statements for the fiscal year ended September 30, 2009 as a result of a dispute with its former non-controlling shareholder and recorded a \$7.4 million impairment charge against our investment in Pan Asia Magnesium. On September 15, 2011 we completed the sale of our 51% ownership interest in Pan Asia Magnesium to



Bloomgain Investment Limited, a British Virgin Islands company, an unrelated party for \$3,047,582 in cash.

In February 2008, we acquired a 51% interest in Baotou Changxin Magnesium in exchange for \$7,084,000 and an additional 39% interest in Baotou Changxin Magnesium in exchange for \$5,417,000. Accordingly, we held a 70.9% interest in Baotou Changxin Magnesium. On February 29, 2012, we disposed Excel Rise, which is a shareholder of Baotou Changxin Magnesium. After the disposal, we held 51% interest in Baotou Changxin Magnesium. As described elsewhere herein, in September 2012 we discontinued the operations of Baotou Changxin Magnesium.

In February 2008, we invested \$347,222 to acquire an 83% interest in Shanghai CDI Metal. In July 2011, we acquired the remaining 17% non-controlling interest in CDI Metal from its former non-controlling shareholder in exchange for the forgiveness of a loan from CDI Metal to such shareholder in the principal amount of RMB 100,000 (approximately \$76,585).

In June 2008, we entered into an agreement to form CDI Beijing. Under the terms of the Agreement, we acquired a 51% interest in CDI Beijing for approximately \$1.5 million. On December 30, 2009, the shareholders of CDI Beijing agreed to limit their capital contributions to the \$2.9 million they had already contributed and waived their requirement to contribute additional capital including our obligation to contribute \$2,200,000 by September 30, 2009.

On March 29, 2009 we changed our name to China Direct Industries, Inc. to more accurately reflect our principal business of producing magnesium and distributing basic materials in the PRC.

On July 13, 2010, we entered into an equity transfer agreement with Pine Capital Enterprises, Inc. ("Pine Capital") and Taiyuan Yiwei Magnesium Industry Co., Ltd. ("Yiwei Magnesium") to acquire an 80% interest in Ruiming Magnesium effective as of July 1, 2010, for RMB 44,880,000 (approximately \$6,451,677) comprised of \$2,428,864 in cash, 769,231 shares of our common stock valued at \$846,154, and an assignment of a portion of our interest in Excel Rise in the amount of \$2,367,038. The remaining 20% interest in Ruiming Magnesium is owned by Pine Capital. Yuwei Huang, our executive vice president - magnesium and member of our board of directors, owns or controls Pine Capital and Yiwei Magnesium.

On May 6, 2011 we entered into a stock transfer contract with Mr. Kong Tung, a member of our board of directors, and Mr. Hui Dong, his son, both of whom were the shareholders of our subsidiary Beauty East prior to our acquisition of that company. We acquired 100% of Beauty East in exchange for 4,879,280 shares of our common stock valued at \$6,147,893 or \$1.26 per share.

On August 29, 2011, we signed the acquisition agreements for 100% of Golden Trust Magnesium and 80% of Lingshi Magnesium. We subsequently entered into several supplemental agreements and pursuant to the last supplemental agreement, the aggregate purchase price was \$26.4 million, to be paid by a combination of \$15.0 million in cash or assignment of intercompany loans, \$6.7 million in shares of our common stock, and \$4.7 million by way of transferring our interest in our Excel Rise subsidiary. The Company completed the acquisition of Lingshi Magnesium on August 12, 2013 and the acquisition of Golden Trust Magnesium on March 7, 2014.

On February 29, 2012, our shareholders approved an amendment to our articles of incorporation in order to change our corporate name from China Direct Industries, Inc. to CD International Enterprises, Inc.

On September 28, 2012, we sold our 51% interest in Lang Chemical for an aggregate purchase price of approximately \$1.2 million, with \$600,000 tendered at closing and the balance payable over a year with annual interest of 6% per year payable in quarterly installments. We acquired our stake in Lang Chemical in 2006 for approximately \$700,000. This disposition is consistent with our strategy to streamline our investment and assets in China committed to this segment due to poor performance over the past year and realign our investments to our industrial commodities business in the Americas to maximize our profits and cash flow over the next fiscal year and beyond.

On October 8, 2012, we sold our 51% interest in CDI Beijing for \$1.6 million pursuant to the terms of an equity transfer agreement by and among CDI Shanghai Management, CDI Beijing and Chi Chen and Huijuan Chen. Mr. Chi Chen served as vice president of our Mineral Trading segment and was a minority owner of CDI Beijing. .

On September 30, 2014, CDI China, Inc. signed the Share Exchange Agreement with Yuwei Huang selling our Magnesium segment including Lingshi Magnesium, Baotou Changxin Magnesium, Ruiming Magnesium, Chang Magnesium, Golden Trust Magnesium, and IMTC to Mr. Huang and in return, Mr. Huang cancelled 8,075,949 shares of CDII common stock held by different individuals related to Mr. Huang and cancelled the right to receive 41,524 convertible Series D Preferred Stock within 10 business days.

On September 30, 2014, CD International Enterprises, Inc. signed the Share Exchange Agreement with EM Resource Enterprises, Inc. ("EM"), to acquire 100% of equity ownership of EM from Manuel Mustafa, the sole shareholder, in exchange for a \$2 million note payable within two years and 209,375 shares of CDII Series E Convertible Preferred Stock with a total market value of \$13.4 million. The preferred stock can be converted to CDII common stock as of October 1, 2017 at a ratio of each share of the preferred stock to 1,000 shares of CDII common stock. The conversion price shall be \$0.064 per share, the average closing price of CDII common stock 10 trading days (September 16 to September 29, 2014) prior to September 30, 2014. The preferred stock has no voting rights. The payment of the Note will rely on cash flow of EM operations and/or future financing of CDII.

On January 8, 2015, CD International Enterprises, Inc., EM Resources Enterprises, Inc., and Manuel Mustafa, the President and sole owner of EM, elected not to proceed with the merger between the Company and EM. This agreement was terminated without penalty to the Company or EM pursuant to the Acquisition Termination Agreement between the parties dated January 8, 2015 as all parties desired to terminate the Merger Agreements for mutual benefit. The Company returned the 100% equity ownership of EM to Mr. Mustafa for cancelation of the Note and the CDII Shares issued. Mr. Mustafa will remain a consultant to the Company for ongoing and future projects.

On April 28, 2015, we entered into an agreement with Xiaowen Zhuang, a Chinese individual, a management member of CDI Shanghai Management and the brother of James (Yuejian) Wang, the CEO of the Company, to transfer our entire 95% equity interest and all liabilities in CDI Jingkun Zinc and 100% equity interest and all liabilities in CDI Metal to Xiaowen Zhuang, for a consideration of \$0.

On April 30, 2015, we entered into an agreement with Dragon Capital Group Corp, to transfer our 100% equity interest and all liabilities in CDI Jixiang Metal for a consideration of \$0.

In April 2016, the Company ceased the operation and disposed of Capital Resource Management Co., Ltd. ("Capital Resource Management"), an entity in the Consulting segment. The disposal of Capital Resource Management does not qualify as discontinued operations, nor is it a significant disposition because Capital Resource Management had limited net assets and engaged in minimal operations. The loss on disposal of Capital Resource Management was \$50,590, which was reported as "loss on disposal of subsidiary" for the fiscal year ended September 30, 2016.

#### 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.

##### Risks Related To Our Business

Our auditors have raised substantial doubts as to our ability to continue as a going concern.

Our financial statements have been prepared assuming we will continue as a going concern. For fiscal year 2016 and 2015, we reported a loss from continuing operations of \$20.4 million and \$4.7 million, respectively, which was primarily attributable to the impact of low gross profit. In addition, the Company has a significant amount of short term loan payable, totaling \$1.7 million from unrelated parties, which requires the Company to secure additional funds given the Company's current cash position. These, among other operational and working capital deficit issues, raises 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 this uncertainty. There are no assurances that we will be able to return to profitable operations in the future or that we will not recognize additional write-offs in future periods which will adversely impact our financial results.

Our revenues declined in fiscal year 2016 and there are no assurances they will return to historic levels.

Our revenues from continuing operations declined by 77% in fiscal year 2016 from fiscal year 2015 which was primarily attributable to declines in revenues from both our Consulting and our Trading segment. Our ability to increase our revenues across all segments in fiscal year 2017 and beyond is dependent upon general economic growth

in our markets, our ability to effectively compete and access to sufficient capital. There are no assurances we will be successful in increasing our revenues in future periods.

We reported losses for fiscal year 2016 and our gross profit margins are not sufficient to enable us to report profitable operations.

Our comprehensive loss attributable to common stockholders for fiscal year 2016 was \$20.3 million. We reported a net loss from continuing operations of \$20.4 million in fiscal year 2016, which was primarily attributable to \$1.3 million selling, general and administrative expenses. While we expect that these events will improve our financial results in future periods, until such time as we are able to significantly increase our gross profit, our ability to report profitable operations could be adversely impacted.

- 7 -

---

The metals industry is highly cyclical. Fluctuations in the pricing and availability of minerals and in levels of customer demand have historically been severe, and future changes and/or fluctuations could cause us to experience lower sales volumes and revenues, which would negatively impact our profit margins.

The metals industry is highly cyclical. The length and magnitude of industry cycles have varied over time and by product, but generally reflect changes in macroeconomic conditions, levels of industry capacity and availability of usable raw materials. The overall levels of demand for our minerals and minerals-based products reflect fluctuations in levels of end-user demand, which depend in large part on general macroeconomic conditions worldwide which then impact the level of production. The market for these products are heavily dependent on general economic conditions, including the availability of affordable energy sources, employment levels, interest rates, consumer confidence and construction demand. These cyclical shifts in our customers' industries tend to result in significant fluctuations in demand and pricing for our products. As a result, in periods of recession or low economic growth, metals companies, including ours, have generally tended to under-perform compared to other industries. We generally have high fixed costs, so changes in industry demand that impact our production volume also can significantly impact our profit margins and our overall financial condition. Economic downturns in the worldwide economy or a prolonged decline in demand in our Trading segment has had a negative impact on our operations and a continuation or further deterioration of current economic conditions could have a negative impact on our future financial condition or results of operations.

The value of the equity securities we accept as compensation is subject to adjustment which could result in losses to us in future periods.

In our Consulting segment, historically we have accepted equity securities of our clients as compensation for services. These securities are reflected on our balance sheet as "marketable securities available-for-sale". At the end of each period, we evaluate the carrying value of the marketable securities for a decrease in value. We evaluate the company underlying these marketable securities to determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline in fair value is judged to be "other- than- temporary", the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down is charged to earnings. As a result of these policies, we recorded a one-time loss of \$8.1 million as a result of significant declines in the market value of other receivable marketable securities during the fourth quarter of fiscal year 2013. Any future additional impairment would adversely affect our operating results for the corresponding periods in that we would be required to reduce the carrying value of these investments. In addition, if we are unable to liquidate these securities, we will be required to write off the investments which would adversely affect our financial position.

We need additional financing to fund acquisitions and our operations which we may not be able to obtain on acceptable terms. Additional capital raising efforts in future periods may be dilutive to our then current shareholders or result in increased interest expense in future periods.

We may need to raise additional working capital to fund expected growth in our industrial commodities business. Our future capital requirements depend on a number of factors, including our operations, the financial condition of an acquisition target and its need for capital, our ability to finance our purchases of commodities with financial instruments provided by buyers, our ability to generate revenues from other sources, and our ability to manage the growth of our business and our ability to control our expenses. Also, if we raise additional capital through the issuance of debt, this will result in increased interest expense. If we raise additional capital through the issuance of equity or convertible debt securities, the percentage ownership of our company held by existing shareholders will be reduced and those shareholders may experience significant dilution. As we will generally not be required to obtain the consent of our shareholders before entering into acquisition transactions, shareholders are dependent upon the judgment of our

management in determining the number and characteristics of stock issued as consideration in an acquisition. In addition, new securities may contain certain rights, preferences or privileges that are senior to those of our common stock. We cannot assure you that we will be able to raise the working capital as needed in the future on terms acceptable to us, if at all, as the current capital markets have been adversely affected by the severe liquidity crisis. If we do not raise capital as needed, we will be unable to operate our business or fully implement our acquisition expansion strategy.

We are dependent on certain key personnel and the loss of these key personnel could have a material adverse effect on our business, financial condition and results of operations.

The loss of one or more of these key employees or our chief executive officer, Dr. Wang, could have a material adverse effect upon our business, financial condition and results of operations.

- 8 -

---

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

As described later in this report, our management has determined that as of September 30, 2016, we did not maintain effective internal controls over financial reporting based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework as a result of identified significant deficiencies and material weakness in our internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than material weakness, yet important enough to merit attention by those responsible for oversight of a registrant's financial reporting. A material weakness is a deficiency, or a 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 will not be prevented or detected on a timely basis. If the result of our remediation of the identified significant deficiencies and material weakness is not successful, or if additional significant deficiencies are identified in our internal control over financial reporting, our management will be unable to report favorably as to the effectiveness of our internal control over financial reporting and/or our disclosure controls and procedures, and we could be required to further implement expensive and time-consuming remedial measures and potentially lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price and potentially subject us to litigation.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

The Investment Company Act of 1940 will limit the value of securities we can accept as payment for our business consulting services, which may limit our future revenues.

We have historically accepted securities as payment for our services and will likely continue to do so in the future, but only to the extent that it does not cause us to become classified as an investment company under the Investment Company Act of 1940. To the extent that we are required to reduce the amount of securities we accept as payment for our consulting services to avoid becoming an investment company, our future revenues from our business consulting services may substantially decline if our clients cannot pay our fees in stock or securities. A reduction in the amount of our consulting fees will materially adversely affect our financial condition and results of operations in future periods. Any future change in our fee structure for our consulting services could also severely limit our ability to attract business consulting clients in the future.

The acquisition of new businesses is costly and such acquisitions may not enhance our financial condition.

A significant element of our growth strategy is to acquire controlling interests in companies that operate in the PRC and that offer services, products, technologies, industry specializations or geographic coverage that extend or



complement our existing business. The process to undertake a potential acquisition is time-consuming and costly. We expect to expend significant resources to undertake business, financial and legal due diligence on our potential acquisition targets and there is no guarantee that we will acquire the company after completing due diligence. The process of identifying and consummating an acquisition could result in the use of substantial amounts of cash and exposure to undisclosed or potential liabilities of acquired companies. In addition, even if we are successful in acquiring additional companies, there are no assurances that the operations of these businesses will enhance our future financial condition. To the extent that a business we acquire does not meet the performance criteria used to establish a purchase price, some or all of the goodwill related to that acquisition or a write down of assets acquired could be charged against our future earnings, if any.

### Risk Related to Doing Business in South America

Substantially all of our mineral businesses are operated in South America and are subject to changes resulting from the political and economic policies of the governments of South American countries.

South America is commonly perceived as a volatile business environment. It's futile to attempt to challenge this perception, especially since both the historical facts and anecdotal evidence from throughout the nineteenth, twentieth, and beginning of the twenty-first centuries feed this perception. Ranked as the third-most unstable region in the world in the post-war era, political instability has been a pervasive problem in South America.

Our financial performance may be negatively affected by regulatory, political, economic and social conditions in South American countries in which we have significant operations or projects. In many of these jurisdictions, we are exposed to various risks such as potential renegotiation, nullification or forced modification of existing contracts, expropriation or nationalization of property, foreign exchange controls, changes in local laws, regulations and policies, political instability, bribery, extortion, corruption, civil strife, acts of war, guerilla activities and terrorism. We also face the risk of having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce a judgment against a sovereign nation within its own territory. Actual or potential political or social changes and changes in economic policy may undermine investor confidence, which may hamper investment and thereby reduce economic growth, and otherwise may adversely affect the economic and other conditions under which we operate in ways that could have a materially negative effect on our business.

We could be adversely affected by changes in government policies or trends such as resource nationalism, including the imposition of new taxes or royalties on mining activities.

In the South American countries where we are present, governments may impose new taxes, raise existing taxes and royalty rates, reduce tax exemptions and benefits, request or force renegotiation of tax stabilization agreements or change the basis on which taxes are calculated in a manner that is unfavorable to us. Governments that have committed to provide a stable taxation or regulatory environment may alter those commitments or shorten their duration.

We are also required to meet domestic beneficiation requirements in certain South American countries in which we operate, such as local processing rules, export taxes or restrictions, or charges on unprocessed ores. The imposition of or increase in such taxes or charges can significantly increase the risk profile and costs of operations in those jurisdictions. We and the mining industry are subject to rising trends of resource nationalism in certain countries in which we operate that can result in constraints on our operations, increased taxation or even expropriations and nationalizations.

Disagreements with local communities of South American countries in which we operate could adversely impact our business and reputation.

Disputes with communities where we operate in South America may arise from time to time. Although we contribute to local communities with taxes, royalties, employment and business opportunities and social programs, expectations are complex and involve multiple stakeholders with different and constantly evolving interests. Some of our current and potential operations are located in or near communities that may regard the operation as being detrimental to their circumstances. Community expectations are typically complex with the potential for multiple inconsistent stakeholder views that may be difficult to resolve. Stakeholder opinion and community acceptance can be subject to many influences, for example, related industries, operations of other groups, local, regional or national events in other places

where we operate. In the extreme, our operations may be a focus for civil unrest or criminal activity.

Disagreements or disputes with local groups, including indigenous or aboriginal groups, could cause delays or interruptions to our operations, adversely affect our reputation or otherwise hamper our ability to develop our reserves and conduct our operations. Protesters have taken actions to disrupt our operations and projects, and they may continue to do so in the future. Although we engage in active dialogue with all stakeholders and vigorously defend ourselves against illegal acts, future attempts by protesters to harm our operations could adversely affect our business.

Our projects are subject to risks that may result in increased costs or delay in their implementation.

We are investing to maintain and further increase our production capacity and logistics capabilities and to expand the scope of the minerals we produce. We regularly review the economic viability of our projects. As a result of this review, we may decide to postpone, suspend or interrupt the implementation of certain projects. Our projects are also subject to a number of risks that may adversely affect our growth prospects and profitability, including the following:

- 10 -

---

1. Our efforts to develop projects on schedule may be hampered by a lack of infrastructure, including reliable telecommunications services and power supply.
2. Suppliers and contractors may fail to meet their contractual obligations to us.
3. We may face unexpected weather conditions or other force majeure events.
4. We may fail to obtain the required permits and licenses to build a project, or we may experience delays or higher than expected costs in obtaining them.
5. Joint ventures, strategic partnerships or non-managed operations may not be successful and may not comply with our standards.
6. Changes in market conditions or regulations may make a project less profitable than expected at the time we initiated work on it.
7. There may be accidents or incidents during project implementation.
8. We may face shortages of skilled personnel.
9. We may encounter delays or higher than expected costs in obtaining the necessary equipment or services and in implementing new technologies to build and operate a project.

Operational problems could materially and adversely affect our business and financial performance.

Ineffective project management and operational breakdowns might require us to suspend or curtail operations, which could generally reduce our productivity. Operational breakdowns could entail failure of critical plant and machinery. There is no assurance that ineffective project management or other operational problems will not occur. Any damages to our projects or delays in our operations caused by ineffective project management or operational breakdowns could materially and adversely affect our business and results of operations. Our business is subject to a number of operational risks that may adversely affect our results of operations, such as:

- Adverse mining conditions delaying or hampering our ability to produce the expected quantity of minerals and to meet specifications required by customers, which can trigger price adjustments.
- Unexpected weather conditions or other force majeure events.
- Delays or interruptions in the transportation of our products, including with railroads, ports and ships.
- Labor disputes which commonly occur in South American countries may disrupt our operations from time to time.
- Tropical diseases, HIV/AIDS and other contagious diseases in regions where some of our development projects are located, which pose health and safety risks to our employees.
- Changes in market conditions or regulations may affect the economic prospects of an operation and make it inconsistent with our business strategy.
- Disruptions to or unavailability of critical information technology systems or services resulting from accidents or malicious acts.

Our business is exposed to currency risk caused by the fluctuation in exchange rates.

The great majority of our sales are denominated in US dollars, which is also the currency used for holding surplus cash, financing operations, and presenting external and internal results. Although many costs are incurred in US dollars, significant costs are influenced by the local currencies of the South American countries where we operate, principally the Venezuela Bolivar, Peruvian Sol and Chilean Peso. The normal policy is to avoid hedging of foreign exchange rates, so we are vulnerable to appreciation in the value of other currencies against the US dollar, or to prolonged periods of exchange rate volatility.

Our operations are vulnerable to a range of interruptions, not all of which are covered fully by insurance.

Our insurance does not cover every potential loss associated with our operations and adequate coverage at reasonable rates is not always obtainable. In addition, insurance provisions may not fully cover our liability or the consequences of any business interruption. Our business is subject to a number of potential losses that may not be fully covered by insurance, such as:

1. Natural disasters and events - Mining, smelting, refining and infrastructure installations are vulnerable to natural events including earthquakes, drought, flood, fire, storm and the possible effects of climate change.
2. Sustained operational difficulties - We have various operating difficulties, ranging from unexpected geological variations that could result in significant ground or containment failure to breakdown of key capital equipment. Reliable roads, rail networks, ports, power generation and transmission, and water supplies are required to access and conduct our operations. An extended failure of critical system components or malicious actions, including a cybersecurity attack, could result in significant environmental incident, commercial loss or interruption to operations.

- 11 -

---

3. Major operational failure - Our operations involve chemicals and other substances under high temperature and pressure, with the potential of fire, explosion or other loss of control of the process, leading to a release of hazardous materials. This could occur by accident or a breach of operating standards, and could result in a significant incident.

#### Risks Related to Our Common Stock

The market price for shares of our common stock has been and may continue to be highly volatile and subject to wide fluctuations.

The market price for shares of our common stock has experienced significant price and volume fluctuations in the last few years. Some specific factors that may have a significant effect on the future market price of our shares of common stock include:

- actual or expected fluctuations in our operating results;
- variance in our financial performance from the expectations of market analysts;
- changes in general economic conditions or general conditions in our industry;
- changes in conditions in the financial markets;
- announcements of significant acquisitions or contracts by us or our competitors;
- our inability to raise additional capital;
- changes in applicable laws or regulations, court rulings and enforcement and legal actions;
- additions or departures of key management personnel;
- actions by our shareholders;
- changes in market prices for our products or for our raw materials; and
- changes in stock market analyst research and recommendations regarding the shares of our common stock, other comparable companies or our industry generally.

In addition, the stock market in general, and the market for companies with PRC based operations in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the affected companies. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

As a result of these and other factors, you may be unable to resell your shares of our common stock at or above the price you paid for such shares.

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

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

- the greater of (a) 125% of the conversion amount and (b) the product of (i) the conversion rate in effect at the time as the holder delivers a notice of redemption to us and (ii) the greatest closing sale price of the common stock beginning on the date immediately preceding such event of default and ending on the date the holder delivers the

notice of redemption,

- the make-whole additional amount per preferred share being redeemed; and
- default interest at the rate of 1.5% per month.

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

- 12 -

---

Our common stock is quoted in the over the counter market on the OTC Markets.

Our common stock is quoted in the over-the-counter market on the OTC Markets. The OTC Markets offers a quotation service to companies that are unable to list their securities on an exchange or for companies, such as ours, whose securities are not listed on an exchange. The requirements for quotation on the OTC Markets are less regulated than those of an exchange. Because our common stock is quoted on the OTC Markets, it is possible that even fewer brokers or dealers would be interested in making a market in our common stock, which further adversely impacts its liquidity.

The tradability of our common stock could be limited under the penny stock regulations which may cause the holders of our common stock difficulty should they wish to sell the shares.

Because the quoted price of our common stock is less than \$5.00 per share, our common stock could be considered a "penny stock," and trading in our common stock could be subject to the requirements of Rule 15g-9 under the Securities Exchange Act of 1934. Under this rule, broker/dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements. The broker/dealer must make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction. SEC regulations also require additional disclosure in connection with any trades involving a "penny stock," including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and its associated risks. These requirements severely limit the liquidity of securities in the secondary market because few brokers or dealers are likely to undertake these compliance activities and this limited liquidity will make it more difficult for an investor to sell his shares of our common stock in the secondary market should the investor wish to liquidate the investment.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not applicable to a smaller reporting company.

**ITEM 2. PROPERTIES.**

Our principal executive offices are located in Plantation, Florida. We lease approximately 150 square feet of office space for an annual expense of approximately \$12,000 under a lease agreement, which has one month advance notice for termination.

Our subsidiary CDI Shanghai Management leases approximately 1,127 square feet of office space in Shanghai for an annual expense of approximately \$16,161 (RMB105,600) per year. The lease expires on September 30, 2018.

**ITEM 3. LEGAL PROCEEDINGS**

Our wholly owned subsidiary, China Direct Investments owes to Draco Resources, Inc. an amount of \$200,000, which is due on March 18, 2015 with 2% annual interest rate. The loan is unsecured and currently in default. On March 15, 2016, Draco Resources, Inc. filed Chapter 7 for bankruptcy in California (Case No. 14-31654DM). Andrea A Wirum, Chapter 7 trustee of Draco Resources, Inc., entered into default judgment from Draco Resources, Inc. to China Direct Investments in the total amount of \$210,679, consisting of principal sum of \$200,000, interest pursuant to contract in the amount of \$7,989 and attorneys' fees and costs pursuant to contract in the amount of \$2,690. As of September 30, 2016, China Direct Investments has paid attorneys' fees and costs of \$2,690. The Company has properly accrued all the liabilities related to the default judgment.



ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable to our operations.

- 13 -

---

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is currently quoted in the over-the-counter markets on the OTC Markets under the symbol CDII since January 2013. Our common stock has been quoted in the over-the-counter markets on the OTCQB Tier of the OTC Markets under the symbol CDII since July 2012 to January 2013, and prior to that our common stock was listed on NASDAQ Global Market from May 1, 2008 until July 2012. The following table sets forth the reported high and low closing prices for our common stock as reported on the OTCQB and the OTC Markets for the periods presented. These prices do not include retail mark-ups, markdowns or commissions, and may not necessarily represent actual transactions.

		High		Low
Fiscal year 2016				
First quarter	\$	1,400	\$	28
Second quarter	\$	154	\$	42
Third quarter	\$	56	\$	2
Fourth quarter	\$	4.89	\$	0.01
Fiscal year 2015	\$			
First quarter	\$	1,239	\$	620
Second quarter	\$	798	\$	440
Third quarter	\$	600	\$	100
Fourth quarter	\$	800	\$	292

As of February 8, 2017, there were approximately 31 shareholders of record of our common stock. The number of record holders does not include beneficial owners of common stock, whose shares are held in the names of banks, brokers, nominees or other fiduciaries.

## Transfer Agent

Our transfer agent is West Coast Stock Transfer, Inc., which is located at 721 N. Vulcan Ave. Suite 205, Encinitas, CA 92024. The phone number is (619) 664-4780 and its website is [www.westcoaststocktransfer.com](http://www.westcoaststocktransfer.com).

## Dividends

We have never paid cash dividends on our common stock. Payment of dividends will be within the sole discretion of our board of directors, subject to any preference rights of our Series A Convertible Preferred Stock, and will depend, among other factors, upon our earnings, capital requirements and our operating and financial condition. In addition, under Florida law, we may declare and pay dividends on our capital stock either out of our surplus, as defined in the relevant Florida statutes, or if there is no such surplus, out of our net profits for the year in which the dividend is declared and/or the preceding year. If, however, the capital of our company computed in accordance with the relevant Florida statutes, has been diminished by depreciation in the value of our property, or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, we are prohibited from declaring and paying out of such net profits and dividends upon any shares of our capital stock until the deficiency in the amount of capital represented by the

issued and outstanding stock of all classes having a preference upon the distribution of assets shall have been repaired.

#### Recent Sales of Unregistered Securities

On June 28, 2016, the Company entered into note purchase agreements with an institutional investor to sell \$40,000, of TCA's notes. This 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 August 9, 2016 to September 30, 2016, the institutional investor converted \$35,100 of the note and \$524 of interests into a total of 1,204,420 shares of the Company's common stock.

On July 11, 2016 and August 7, 2016, the Company issued a convertible promissory note for the amount of \$29,700 and \$27,000 to an institutional investor, at an 8% annual interest rate, respectively. These notes become due and payable on July 11, 2017 and August 7, 2017, respectively. These notes provide conversion features equal to 55% and 55% of the lowest trading price of the Company's common stock during the 15 consecutive trading days prior to the date of conversion, respectively. On July 13, 2016 and August 10, 2016, the Company received \$25,000 in cash each from two notes, and \$4,700 and \$2,000 were retained by the institutional investor through OID, respectively.

On July 11, 2016, the Company issued a convertible promissory note for the amount of \$20,000 to an institutional investor, at a 10% annual interest rate and the default interest rate at 22%. This note becomes due and payable on July 11, 2017. This note provides conversion features equal to 55% of the average of the lowest three trading price of the Company's common stock during the 10 consecutive trading days prior to the date of conversion. On July 15, 2016, the Company received \$17,000 in cash and \$3,000 was retained by the institutional investor through OID.

On July 11, 2016, Kong Tung and an institutional investor entered into note purchase agreements to sell \$50,000 out of the remaining Kong Tung's convertible note, bearing an interest rate of 8% with a maturity date of July 11, 2017. The conversion price of the note is 55% of the lowest trading price of the Company's common stock during the 20 consecutive trading days prior to the conversion date. The institutional investor converted \$43,133 of the \$50,000 note into a total of 942,686 shares of the Company's common stock by September 30, 2016.

#### ITEM 6. SELECTED FINANCIAL DATA.

Not applicable for a smaller reporting company.

#### ITEM 7. 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 fiscal years ended September 30, 2016 and 2015 should be read in conjunction with the consolidated financial statements and other information presented in this Annual Report on Form 10-K.

### OVERVIEW OF OUR OPERATIONS

#### Our Business

We are a U.S.-based 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 used to name "Mineral Trading segment" as "Basic Materials segment". Basic Materials segment used to cover our subsidiaries, Lang Chemical and CDI Beijing. Since we disposed both subsidiaries on September 30, 2012, we focused on mineral trading business in South America, and we renamed our Basic Materials segment to Mineral Trading segment in fiscal year 2014. We have focused at the South American market and have established offices in Chile, Peru and Bolivia, but the operation costs were very high and, given the continuing drop of the iron ore market price, we closed offices in Chile and Peru at September 30, 2014. We renamed "Mineral Trading segment" to "Trading segment" in fiscal year 2016. Our Trading segment engages in the source and distribution of the global purchase and sale of industrial commodities in the Americas, which include Cannabidiol (CBD)-related products,

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 years of 2016 and 2015.

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.

- 15 -

---

## 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. The Chinese economy advanced 6.8% year-on-year in the fourth quarter of 2016, compared to a 6.7% growth in the previous three periods and above market expectations of 6.7%. It was the strongest expansion since the fourth quarter 2015, supported by consumer spending, higher government expenditure and robust bank lending. Considering full 2016, the economy expanded 6.7%; lower than 6.9% in 2015. It is the weakest full-year growth since 1990 but within the government's target range of 6.5% to 7.0%, as consumption and investment growth softened. GDP Annual Growth Rate in China averaged 9.8% from 1989 until 2016, reaching an all time high of 15.4% in the first quarter of 1993 and a record low of 3.8% in the fourth quarter of 1990.

Exports from China declined by 6.1% from a year ago to \$209.42 billion in December of 2016, following a revised 1.6% drop in the prior month while markets expected a 3.5% drop. Considering the full year of 2016, sales fell 7.7%, the second straight year of decline and the worst since the depths of the global crisis in 2009. In yuan-denominated terms, exports rose 0.6% from a year earlier, following a 5.9% rise in a month earlier. From January to December of the year, sales dropped by 2.0%. Exports in China averaged \$582.74 billion from 1983 until 2016, reaching an all time high of \$2,273.72 billion in December of 2014 and a record low of \$13 billion in January of 1984.

Information On Trends Impacting Our Reporting Segments Follows:

### 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. As we look for a bounce of basic mineral prices in 2017, we believe our trading activities will pick up. As we have been working on several major contracts, we expect to see major transactions executed in 2017.

### Consulting Segment

We believe demand for our consulting services will slightly improve in fiscal year 2017. 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 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.

### Merger and Acquisition

Management pursues potential mergers and acquisitions to grow the Company's revenues and earnings. Management does not have any specific acquisition target as of now.

## GOING CONCERN

Our financial statements have been prepared assuming we will continue as a going concern. For fiscal year 2016 we reported a net loss of \$20.4 million from continuing operations and working capital deficit of \$21.3 million. In addition, the Company has a significant amount of short term loan payable, totaling \$1.7 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, among other operational 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 this uncertainty.

- 16 -

---

## RESULTS OF OPERATIONS

For the fiscal year 2016 and 2015, subsidiaries included in continuing operations consisted of the following:

- CDI China, Inc.;
- International Magnesium Group, Inc.;
- CDII Minerals, Inc.;
- Empresa Minera CDII de Bolivia S.A.;
- CDII Minerals de Peru SAC;
- China Direct Investments, Inc.;
- CDI Shanghai Management Co., Ltd.; and
- Capital Resource Management Co., Ltd. (abandoned in April 2016)

We have generated negative gross margins and operating losses. Results of operations, financial position and cash flows associated with Magnesium segment, CDI Jingkun Zinc, CDI Metal, CDI Jixiang Metal and CDI Chile are separately reported as discontinued operations for all periods presented.

## Summary of Selected Consolidated Financial Information

	For the Year Ended September 30,		2015		% Increase (Decrease)
	2016	% of Revenues	Amount	% of Revenues	
	Amount		Amount		
Trading segment	\$ -	-	\$ -	-	-
Consulting segment	82,614	100%	360,049	100%	(77%)
Consolidated					
Revenues	\$ 82,614	100%	\$ 360,049	100%	(77%)
Cost of revenues	25,266	31%	111,002	31%	(77%)
Gross profit	57,348	69%	249,047	69%	(77%)
Total operating expenses	1,392,161	1,685%	3,762,817	1,045%	(63%)
Loss from continuing operations before income taxes	\$ 20,415,753	24,712%	\$ 4,650,661	1,292%	339%

## Analysis of Operating Results by Segment

A summary of our comparative operating results by segment for the fiscal year ended September 30, 2016 and 2015 follows:

Trading segment	For the Year Ended September 30,		Increase (Decrease)
	2016	2015	
Total revenues	\$ -	\$ -	\$ -
Cost of revenues	-	-	-



Edgar Filing: CD INTERNATIONAL ENTERPRISES, INC. - Form 10-K

Gross profit	-	-	-
Total operating expenses	500	50,057	(49,557)
Operating Loss	\$ 500	\$ 50,057	\$ (49,557)

Consulting Segment	For the Year Ended September 30,		Increase (Decrease)
	2016	2015	
Total revenues	\$ 82,614	\$ 360,049	\$ (277,435)
Cost of revenues	25,266	111,002	(85,736)
Gross profit	57,348	249,047	(191,699)
Total operating expenses	1,391,661	3,712,760	(2,321,099)
Operating loss	\$ 1,334,313	\$ 3,463,713	\$ (2,129,400)

- 17 -

---

## Revenues

Revenues in fiscal year 2016 decreased by 77%, as compared to fiscal year 2015, primarily due to our Trading segment having no revenue in fiscal year 2016, and 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 \$83,000 in revenues during fiscal year 2016, as compared to \$360,000 in fiscal year 2015, primarily due to the declining value of our client companies' stock price, coupled with a reduction in scope of consulting and transactional services provided to the clients during fiscal year 2016.

## Gross Profit

Our consolidated gross profit in fiscal year 2016 decreased by 77%, as compared to fiscal year 2015. Our consolidated gross profit margin of fiscal year 2016 was the same as profit margin in fiscal year 2015. Gross profit in our Consulting segment for fiscal year 2016 was approximately \$83,000 with a margin of 69%, as compared to \$249,000 with a margin of 69% for fiscal year 2015.

## Total Operating Expenses

Total operating expenses, net of other operating income, decreased by \$2,370,656, or 63%, in fiscal year 2016, as compared to fiscal year 2015, due to the fluctuation of general and administrative expenses and loss on disposal of subsidiary of \$50,590 for the loss on disposal of Capital Resource Management during the fiscal year 2016.

General and administrative expenses in the Consulting segment approximately decreased by \$2,321,000, or 63% in fiscal year 2016, as compared to fiscal year 2015. This decrease was primarily due to a decrease of approximately \$1.3 million in bad debt expenses, a decrease of 323,000 on legal fees, a decrease of \$203,000 on accounting fees, a decrease of \$12,000 on insurance expenses, a decrease of \$38,000 on travel expenses and auto expenses, such as gas, parking and car rental expenses incurred in serving our client base for both our U.S. headquarters and China-based operations, a decrease of \$98,000 on consulting service fees, a decrease of \$4,000 on public relation fees, a decrease of \$8,000 on depreciation expenses, a decrease of \$8,000 in office expense with telephone fee, a decrease of \$419,000 on employee payroll and employee compensation due to expiration of employment contracts, and offset by an increase of \$11,000 on office rents and an increase of \$19,000 on stock transfer fee.

General and administrative expenses in our Trading segment decreased by \$50,000, or 99%, in fiscal year 2016, as compared to fiscal year 2015. This decrease primarily due to a decrease was primarily due to few operation activities in Trading segment.

## Other Expenses

In fiscal year 2016, other expense was approximately \$19,081,000 as compared to other expense of \$1,137,000 for fiscal year 2015, a change of approximately \$17,944,000. As compared to fiscal year 2015, we have an increase of approximately \$9,767,000 in change in fair value of derivative liability related to our preferred stock, convertible note and warrants which is non-cash gain, an increase of approximately \$1,578,000 in interest expenses primarily related to amortization of debt discount, an increase of approximately \$91,000 for realized gain on marketable securities

available-for-sale, an increase of approximately \$6,591,000 other expense primarily due to \$6,012,000 of income tax expense by the IRS assessments of our corporate income taxes for fiscal 2008, 2010, and 2011, offset by a decrease of \$579,000 other income primarily from converting the four promissory notes originally signed on August 21, 2012 in an aggregate amount of \$1.0 million into 20 million shares of CDII common stock at \$0.05 per share, an increase of approximately \$25,000 for gain on fair market value on available-for-sale marketable securities, and a decrease of \$74,000 in interest expenses from related party.

#### Income Taxes

In both fiscal year 2016 and 2015, we did not record income taxes, since we had significant losses in both years.

#### Net Loss from Continuing Operations

Net loss from continuing operations for fiscal year 2016 amounted to \$20.4 million as compared to net loss of \$4.7 million for fiscal year 2015. The loss for fiscal year 2016 primarily consisted of \$1.4 million in operating loss and \$19.1 million in other expenses.

### Discontinued Operations

We do not have any loss from discontinued operations for the fiscal year 2016. As described elsewhere in this report, 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 of 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 to Dragon Capital, a related party company. We also disposed of operation in CDI Chile. As a result, results of operations, financial position and cash flows associated with CDI Jingkun Zinc, CDI Metal, CDI Jixiang Metal and CDI Chile are also reported as discontinued operations for all periods presented. The Company recorded a gain on disposal of subsidiaries of \$1.6 million in fiscal year 2015.

### Net Loss

Net loss for fiscal year 2016 amounted to \$20.4 million, as compared to net loss of \$3.1 million for fiscal year 2015, primarily due to a decrease of \$15.8 million in net loss from continuing operations and we also had a decrease of \$1.6 million in gain on disposal of subsidiaries.

## 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 September 30, 2016 we had a working capital deficit of \$21.3 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 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 September 30, 2016 amounted to approximately \$10,000, a decrease of \$12,000, as compared to September 30, 2015. During fiscal year 2016, we had cash outflow of approximately \$867,000 used in operating activities. We had cash inflow of \$43,000 provided by investing activities, and we also had inflows of \$710,000 net cash provided by financing activities from continuing operations.

Our marketable securities available-for-sale as of September 30, 2016 totaled \$0, a decrease of \$23,000 as compared to September 30, 2015, primarily due to change in fair market value of certain marketable securities and we evaluate our marketable securities to determine whether a decline in their value is other than temporary. We wrote off all marketable securities during fiscal 2016.

Our accounts receivable, including account receivable - related party as of September 30, 2016 amounted to \$0, a decrease of \$17,000 as compared to September 30, 2015, primarily due to write off \$17,000 uncollectible of accounts

receivable from the marketable securities.

Prepaid expenses and other current assets consist of prepayments to vendors for services and other receivables, security deposits. Prepaid expenses and other current assets as of September 30, 2016 amounted to \$20,000, an increase of \$ 3,000 as compared to September 30, 2015, primarily due to the advanced payment on behalf to our consultant.

- 19 -

---

Short-term loans at September 30, 2016 included \$758,000 of loan from TCA Global Credit Master Fund, LP, bearing annual interest at 18%, and were due on October 15, 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; \$153,000 loan from Kong Tung, bearing monthly interest at 2%, which was originally due on January 7, 2015 and extended to December 31, 2015; \$53,000 of loan from Yewen Xi, bearing annual interest at 12%, of which is due on September 30, 2016, and \$200,000 is due on August 31, 2016; \$35,000 of total balance of two loans from Money Works Direct, the principal amounts of \$50,000 and \$120,000, monthly interest rates at 4.44% and 4.61%, respectively, due on October 15, 2016. Secured by pledge of assets of CDII. China Direct Investments made cash repayment of \$1,150 for the two loans per business day; and a total of \$427,000 convertible loans from multiple institutional investors with a term of four months to one year. These convertible notes bear 8% - 12% annual interest rate and conversion price is equal to 50% - 60% of lowest trading price of CDII common stock for certain consecutive days prior to the conversion. Net of total of debt discount of \$145,000, net short-term loan amounted to be \$1,701,000 as of September 30, 2016.

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 September 30, 2016 amounted to \$899,000, a decrease of \$292,000 as compared to September 30, 2015, primarily due to interest payable of approximately \$476,000 to short-term loans.

Advances from customers and deferred revenues represent prepayments for products or services, which have not yet been shipped or provided. Advances from customers as of September 30, 2016 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 2017:

Our short term loans of \$1.7 million matured by September 30, 2016, and currently are 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 an 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. On September 30, 2016 and 2015, bank deposits by geographic area, were as follows (dollars in thousands):

Country	September 30, 2016		September 30, 2015	
United States	\$ 9,221	89%	\$ 12,463	55%
China	1,088	11%	10,171	45%
Total cash and cash equivalents	\$ 10,309	100%	\$ 22,634	100%

#### Analysis of Cash Flows

In fiscal year 2016, our net decrease in cash amounted to approximately \$12,000, which was comprised of \$867,000 used in operating activities, offset by \$42,000 used in investing activities and \$710,000 of cash provided by financing activities and \$102,000 from non-cash favorable effect of prevailing exchange rate on our cash position.

Cash Used in Operating Activities

Net cash used in operating activities of continuing operations for fiscal year ended September 30, 2016 amounted to approximately \$867,000, which was primarily due to a net loss of \$20.4 million adjusted by non-cash items such as loss on change in fair value of derivative liabilities of \$10.7 million, loss of income taxes expense assessments by IRS of \$6.0 million, depreciation of \$10,000, amortization of debt discount of \$1.9 million, \$286,000 for the stock based on compensation to employees, \$95,000 for the stock based on compensation to our consultants, \$32,000 of warrant expense in connection with derivative liability recognized, \$91,000 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 \$330,000 in accounts payable and accrued expenses, an increase of \$92,000 in other payable to related parties, and an increase of \$111,000 in other liabilities, offset by an increase of \$3,000 in prepaid expenses and other current assets, \$26,000 of other income due to revaluation of accounts receivable, \$80,000 gain from stock option expenses, and \$49,000 loss on abandoned subsidiary.

Net cash used in operating activities of continuing operations for fiscal year 2015 amounted to approximately \$0.91 million, which was primarily due to a net loss of \$3.1 million adjusted by gain from discontinued operations of \$1.6 million and non-cash items such as stock-based compensation and fees to the employees and the consultants of \$443,000, stock options and warrants issuance to employees and the consultants of \$131,000, allowance for doubtful accounts of \$1.3 million, amortization of debt discount of \$361,000, change in fair value of derivative liabilities of \$885,000, an increase of \$458,000 in accounts payable and accrued expenses due to purchases on account, an increase of \$215,000 in due to related parties and an increase of \$466,000 in other liabilities, offset by gain on debt converted into common stock of \$488,000.

#### Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities of continuing operations for fiscal year ended September 30, 2016 amounted to approximately \$42,000, as a result of \$43,000 proceeds from sales marketable securities available-for-sale, offset by approximately \$1,000 in cash paid in disposal of subsidiary.

Net cash used in investing activities of continuing operations for fiscal year 2015 amounted to \$3,000, which was cash paid on disposal of subsidiaries,

#### Cash Provided by Financing Activities

Net cash provided by financing activities of continuing operations for fiscal year ended September 30, 2016 amounted to approximately \$710,000, primarily due to \$198,000 proceeds from exercise of warrants, \$55,000 advanced from employees, \$23,000 from borrowing from related parties, \$684,000 borrowings from loans and \$247,000 repayment of loan payables.

Net cash provided by financing activities of continuing operations for fiscal year 2015 amounted to approximately \$833,000 primarily due to an increase in proceeds from loans of \$830,000 and a \$112,000 borrowing from related parties, offset by a \$97,000 payment on loan payables and a \$13,000 repayments to related parties.

#### Series A Convertible Preferred Stock and Related Dividends

As of September 30, 2016, 1,006 shares of Series A convertible preferred stock remained outstanding. During fiscal year 2016 and 2015, we did not pay cash dividends, dividends were paid in form of our common stock of 125,000 shares, valued at \$32,000 on our series A convertible preferred stock on April 18, 2016.

#### 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 audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these audited 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.

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 year 2016 and fiscal year 2015 include valuation of marketable securities available-for-sale, allowance for doubtful accounts, fair value of share-based compensation, the useful lives and impairment of property, plant and equipment, impairment of goodwill, intangible assets and other assets, 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 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 year 2016 and fiscal year 2015 included net income, foreign currency translation adjustments, unrealized gains or losses on marketable securities available-for-sale, net of income taxes, and unrealized gains or losses on marketable securities available-for-sale-related party, net of income taxes.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to a smaller reporting company.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our financial statements are contained in pages F-1 through F-37, which appear at the end of this report.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

### ITEM 9A. 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 evaluations of the effectiveness of our disclosure controls and procedures as of September 30, 2016 and 2015. Based on those evaluations, which identified material weakness in

our internal control over financial reporting, our management, including our CEO, concluded that our disclosure controls and procedures were not effective as of September 30, 2016 and 2015.

The material weakness identified by our management was as follows:

- A lack of sufficient number of personnel to provide segregation within the functions to be consistent with the objectives of internal control;
- A lack of a fully integrated corporate-wide financial accounting system, including a lack of internal control over securities portfolio management and evaluation and a lack of business reporting procedures;
- A lack of qualified accounting personnel who have sufficient knowledge in dealing with the complex U.S. GAAP accounting and financial issues; and
- A lack of control procedures designed to ensure the accounting records and related information are complete and accurate.

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 material weaknesses will be remediated by the end of fiscal year 2016. Until such time, however, as these material weakness 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 evaluations 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 those evaluations, our management concluded that, due to the significant deficiencies and material weakness described above, our internal control over financial reporting was not effective as of September 30, 2016 and 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 year 2016. Specifically, we plan to initiate 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 year 2017 to achieve our overall remediation target and objectives. Management believes that the actions described above will remediate the remaining significant deficiencies and material weakness we have identified in fiscal year 2016. As we work towards improvement of our internal control over financial reporting and implementation of 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 fourth quarter of fiscal year 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### ITEM 9B. OTHER INFORMATION.

None.

### PART III

#### ITEM 10. DIRECTOR, EXECUTIVE OFFICER AND CORPORATE GOVERNANCE.

Executive Officer and Director

The following table provides information on our executive officer and director for fiscal year 2015 and 2016:

Name	Age	Position with the Company
Yuejian (James) Wang, Ph.D.	55	Chief Executive Officer, Chief Financial Officer and Chairman of Board

- 24 -

---

Yuejian (James) Wang, Ph.D. Dr. Wang has served as our CEO and Chairman of the Board since August 2006. Dr. Wang, a co-founder of China Direct Investments, has served as its CEO and Chairman of its Board since its inception in January 2005. He has served as our Chief Financial Officer since September 2012. Dr. Wang has also been a member of the Board of CIIC Investment Banking Services (Shanghai) Company, Limited from June 2004 to 2007. From 2001 to 2004, he was President and Chairman of the Board of Genesis Pharmaceuticals, Inc. (formerly Genesis Technology Group, Inc.). From 2000 to 2001, Dr. Wang was President, Chief Operating Officer and director of China Net & Technologies, Inc., a technology firm. From 2000 to 2001, Dr. Wang was Vice President, Chief Operating Officer and director of Ten Sleep Corporation, a California-based integrated Internet company that acquired and licensed technology, identified, acquired and developed development-stage technology and service entities and focused on the internet infrastructure market-PC, application-ready devices. From January 2000 to November 2000, Dr. Wang was President of Master Financial Group, Inc., a St. Paul, Minnesota-based company which was a wholly-owned subsidiary of Ten Sleep Corporation that provided consulting services for small private and public entities in the area of corporate finance, investor relations and business management. Between 1997 and 2000, Dr. Wang was a research scientist, Assistant Professor and Lab Director at the University of Minnesota, School of Medicine. Dr. Wang received a Bachelor of Science degree from the University of Science and Technology of China in He Fei, China in 1985, a Master of Science Degree from the Shanghai Second Medical University, Shanghai, China in 1988, and his Ph.D. degree from the University of Arizona in 1994.

As the founder and Chief Executive Officer of our company, Dr. Wang brings our board his considerable experience in corporate finance in the U.S. capital markets and identifying and acquiring China based companies poised for growth. He also brings the experience of managing a company with operations in the U.S. and China.

Our directors are elected to serve until the next annual meeting of shareholders and until their respective successors have been duly elected and qualified. Our executive officers are appointed by our board and serve until their successors have been duly appointed and qualified.

#### Key Employees

We employ certain individuals who, while are not executive officers, make significant contributions to our business and operations and hold various positions within our subsidiaries.

Shirley Xu, Controller. Ms. Xu has served as our Controller since January 2013. Ms. Xu is responsible for all internal control, overseeing general ledger accounting, monthly-end closing, taxation, banking, consolidation and financial reporting over all our subsidiaries. Ms. Xu is also responsible for SEC financial reporting for our clients of our Consulting segment. From February 2011 to December 2012, Ms. Xu served as the Company's Associate Controller. From October 2007 to January 2011, Ms. Xu served as senior accountant in our US headquarters. Prior to joining the Company, Ms. Xu was an accountant with Dayton Granger Inc. in Fort Lauderdale, FL and also served as a financial consultant with ING Group in Hong Kong. Ms. Xu received a BA degree in Accounting from Ramapo College in New Jersey in 1999 and she also has a BS degree in Engineering from Tongji University in China in 1991.

Katie Zhao, Vice President of Business Development. Ms. Zhao has served as Vice President, Business Development of our company since January 2012. Her responsibilities include corporate development, leading due diligence for mergers and acquisitions as well as in charge of internal operations at our US headquarters in Florida. Ms. Zhao has strong leadership skills and analytical skills and has over 8 years of experience in marketing, business development and project management. Ms. Zhao served as Senior Account Executive from January 2010 to December 2011 and established US distribution channels for our clients in China. From May 2007 to December 2009, Ms Zhao served as our Project Manager and implemented networks between our offices in China and the US. Ms. Zhao has a Master's degree in Business Administration from Florida Atlantic University.



### Board Leadership Structure and Board's Role in Risk Oversight

Our Chief Executive Officer also serves as the Chairman and, currently, as sole member of our board of directors and we have not designated any of our independent directors as a "lead director." Our board of directors believes that by combining the role of Chairman with the Chief Executive Officer, the Board may gain valuable perspective that combines the operational experience of a member of management with the oversight focus of a member of the Board.

Risk is inherent within every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. Management is responsible for the day-to-day management of the risks we face, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. Taking its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, our directors meet regularly with management to discuss strategy and risks we face.

## Compliance with Section 16 (a) of the Exchange Act

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(d) of the Exchange Act during fiscal years 2016 and 2015 and Forms 5 and amendments thereto furnished to us with respect to fiscal year 2016 and 2015, as well as any written representation from a reporting person that no Form 5 is required, we are not aware that any officer, director or 10% or greater shareholder failed to file on a timely basis, as disclosed in the aforementioned forms, reports required by Section 16(a) of the Exchange Act during fiscal years 2016, and 2015.

## ITEM 11. EXECUTIVE COMPENSATION.

## Summary Compensation Table

The following table summarizes all compensation recorded by us in fiscal year 2016 and fiscal year 2015:

For definitional purposes these individuals are sometimes referred to as the "named executive officers" as that term is defined under Rule 3b-7 of the Securities Exchange Act of 1934. The value attributable to any stock or option awards is computed in accordance with ASC Topic 718. None of our named executive officers received compensation in the form of Non-Equity Incentive Plan Compensation, Nonqualified Deferred Compensation Earnings, or any other forms of compensation in excess of the \$10,000 in aggregate in fiscal year 2016 and fiscal year 2015. The amounts reflected in columns (d) and (e) represent the dollar amount recognized for financial statement reporting purposes with respect to fiscal year 2016 and fiscal year 2015 for the fair value of securities granted in each respective year in accordance with ASC Topic 718. Pursuant to Securities and Exchange Commission rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Our methodology, including its underlying estimates and assumptions used in calculating these values, is set forth in Note 11 to our consolidated financial statements appearing elsewhere in this report. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that may be realized upon exercise.

## SUMMARY COMPENSATION TABLE

Name and principal position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards (\$) (e)	Option Awards (\$) (f)	Non-Equity Non-Qualified Incentive Deferred Compensation Earnings		All Other Compensation (\$) (i)	Total (\$) (j)
						Plan Compensation (\$) (g)	Plan Compensation (\$) (h)		
Yuejian (James) Wang, Ph.D.	2016	-	-	280,000	-	-	-	-	280,000
	2015	-	-	-	97,069	-	-	-	97,069

## Executive Employment Agreements and Narrative Regarding Executive Compensation

## Yuejian (James) Wang

On August 6, 2008, our board approved, based on the recommendation of the compensation committee, an employment agreement with Dr. Wang effective as of August 1, 2008. Dr. Wang's August 1, 2008 employment

agreement expired on December 31, 2013. On July 2, 2013, Dr. Wang and the Company entered into a new employment agreement for the term of three years. The Agreement provided, among other things, payment of a base salary which increases annually at fixed amounts, eligibility to receive an annual incentive bonus, a discretionary bonus if approved by our board based on a recommendation of the compensation committee, participation in certain health and welfare benefit plans, an automobile allowance and an allowance for use of an email enabled mobile phone.

Dr. Wang's August 1, 2008 employment agreement provides that he will serve as our chief executive officer and a member of our board through December 31, 2013 at a base salary of \$166,667 from August 1, 2008 through December 31, 2009 and an annual base salary of \$450,000 in 2009, \$500,000 in 2010, \$550,000 in 2011, \$600,000 in 2012, \$650,000 in 2013, \$360,000 in 2014, and \$360,000 in 2015.

Under the August 1, 2008 employment agreement, if Dr. Wang's employment is terminated as a result of his death, disability, by us without cause or he resigns within 90 days following a change of control or for "good reason", Dr. Wang will be entitled to receive (in addition to salary and certain other benefits earned prior to termination) a single lump sum payment in an amount equal to two times the sum of his then-current annual base salary and the highest annual discretionary bonus and the highest incentive bonus that he was entitled to receive within the three (3) years preceding the date of termination. In addition, Dr. Wang will become fully vested in all outstanding stock incentive awards, will be entitled to certain health and welfare benefits for a period of two years following such termination and payment of additional amounts, in the event additional taxes are imposed on the under Section 280G of the Internal Revenue Code.

Under the August 1, 2008 employment agreement, "cause" means: (i) a final non-appealable adjudication of Dr. Wang of a felony, which would have a material or adverse effect on our business; or (ii) the determination of the Board (other than the affected employee) that Dr. Wang has engaged in intentional misconduct or the gross neglect of his duties, which has a continuing material adverse effect on our business.

On January 23, 2009, Dr. Wang entered into an amendment to his August 1, 2008 employment agreement waiving the annual base salary provided in the employment agreement from October 1, 2008 through December 31, 2008 and the incentive compensation including bonus, if any, due in 2008. All other terms and conditions of the employment agreement remain in full force and effect.

On February 17, 2010, based on the approval of our Compensation Committee, options to purchase 400,000 shares of our common stock at an exercise price of \$5.00 per share and 27,400 shares at an exercise price of \$2.50 per share owned by Dr. Wang were converted into a total of 213,700 shares of our restricted common stock which vested 53,245 shares on January 25, 2010, April 1, 2010, July 1, 2010 and October 1, 2010, respectively. On April 27, 2010, based on the approval of our Compensation Committee, Dr. Wang was awarded a bonus of 31,450 shares of our restricted common stock which vested on May 17, 2010. All shares of our restricted common stock awarded were subject to the terms and conditions of our restricted stock award agreement as approved by our compensation committee.

On December 31, 2010, based on the approval of our Compensation Committee, Dr. Wang was awarded 26,882 shares of our restricted common stock which vested on February 17, 2011.

Starting from Oct 1, 2013, Dr. Wang's cash salary was reduced from \$50,000 to \$30,000 per month. In return, the Company will award Dr. Wang an annual option to purchase three million shares of the Company's common stock at \$0.05 per share per year, vesting after September 30 of each year. Dr. Wang agrees that, for his unpaid cash salary accrued from January 2012 to September 2013, totaling \$405,000, the Company has the option to pay him in a combination of stock and cash. In the event the Company issues the Company's restricted stock, the common stock will be priced at \$0.05 per share as payment. In addition, the Company has an option to pay him with its client company's shares.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

As of February 8, 2017 we had 34,577,271 shares of common stock issued and outstanding. The following table sets forth information known to us as of February 8, 2017 relating to the beneficial ownership of shares of our common stock by:

- each person who is known by us to be the beneficial owner of more than 5% of our outstanding common stock;
- each director and nominee;
- each named executive officer; and
- all named executive officers and directors as a group.

Unless otherwise indicated, the business address of each person listed is in care of 1333 S. University Drive, Suite 202, Plantation, FL 33324. The information provided herein is based upon a list of our shareholders and our records with respect to the ownership of warrants and options to purchase securities in our company. The percentages in the table have been calculated on the basis of treating as outstanding for a particular person, all shares of our common stock outstanding on that date and all shares of our common stock issuable to that holder in the event of exercise of outstanding options, warrants, rights or conversion privileges owned by that person at that date which are exercisable within 60 days of that date. Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all shares of our common stock owned by them, except to the extent that power may be shared with a spouse.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
Yuejian (James) Wang, Ph.D.	9,150,200 *	26%
All director and executive officer as a group	9,150,200	26%

\*The Company issued to Dr. Wang 9,150,000 shares of the Company's restricted common stock, a total value at \$420,000, as partial payment of the outstanding compensation accrued since 2013.

#### Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth securities authorized for issuance under any equity compensation plans approved by our shareholders as well as any equity compensation plans not approved by our shareholders as of September 30, 2016.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Plans approved by our shareholders:			
2006 Equity Plan			10,000,000
2008 Executive Stock Incentive Plan			318,707
2008 Non-Executive Stock Incentive Plan			210,249
2013 Plan			10,400,000
Plans not approved by shareholders:			
2006 Stock Plan			-
2012 Equity Compensation Plan			103,280
2015 Employee and Consultant Stock Incentive and Compensation Plan			17,500,000
2016 Employee and Consultant Stock Incentive and Compensation Plan			100,000,000

#### Equity Compensation Plans

We presently have seven equity compensation plans including our 2006 Equity Compensation Plan ("2006 Equity Plan"), our 2006 Stock Compensation Plan ("2006 Stock Plan"), our 2008 Executive Stock Incentive Plan (the "2008 Executive Plan"), our 2008 Non-Executive Stock Incentive Plan (the "2008 Non-Executive Plan"), our 2012 Equity Compensation Plan (the "2012 Plan"), our 2013 Employee and Consultant Stock Incentive and Compensation Plan (the "2013 Plan"), 2015 Employee and Consultant Stock Incentive and Compensation Plan (the "2015 Plan"), and 2016 Employee and Consultant Stock Incentive and Compensation Plan (the "2016 Plan"). The purpose of the each of

the plans is to advance the interests of our company by providing an incentive to attract, retain and motivate highly qualified and competent persons who are important to us and upon whose efforts and judgment the success of our company is largely dependent, including our officers and directors, key employees, consultants and independent contractors. Other than the 2008 Executive Plan under which grants may only be made to our executive officers, our officers, directors, key employees and consultants are eligible to receive awards under each of the plans. Only our employees are eligible to receive incentive options.

Our plans are administered by our board of directors. The Board of Directors determines, from time to time, those of our officers, directors, employees and consultants to whom plan options will be granted, the terms and provisions of the plan options, the dates such plan options will become exercisable, the number of shares subject to each plan option, the purchase price of such shares and the form of payment of such purchase price. All other questions relating to the administration of our plans and the interpretation of the provisions thereof are to be resolved at the sole discretion of the Board of Directors.

The Board of Directors may amend, suspend or terminate any of these plans at any time, except that no amendment can be made which:

- increases the total number of shares subject to the plan or changes the minimum purchase price therefore (except in either case in the event of adjustments due to changes in our capitalization),
- affects outstanding options or any exercise right thereunder,
- extends the term of any option beyond 10 years, or
- extends the termination date of the plan.

Unless the plan is earlier suspended or terminated by the Board of Directors, each plan terminates 10 years from the date of the plan's adoption. Any termination of the plan does not affect the validity of any options previously granted thereunder. Generally, the term of each option and the manner in which it may be exercised are determined by the Board of Directors, provided that no option may be exercisable more than 10 years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of our common stock, no more than five years after the date of the grant.

Generally, plan options granted may either be options qualifying as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or options that do not so qualify. Our 2012, 2013, 2015 and 2016 Plans do not provide for the grant of incentive options. Any incentive option granted under the particular plan must provide an exercise price of not less than 100% of the fair market value of the underlying shares on the date of such grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of our common stock must be at least 110% of such fair market value as determined on the date of the grant. Dependent upon the particular plan, non-qualified options must provide for an exercise price of not less than par value of our common stock on the date of grant up to at least 85% of the fair market value of our common stock on the date of grant.

All plan options are non-assignable and non-transferable, except by will or by the laws of descent and distribution, and during the lifetime of the optionee, may be exercised only by such optionee, except as provided by the Board. If an optionee shall die while being our employee or within three months after termination of employment by us because of disability, or retirement or otherwise, such options may be exercised, to the extent that the optionee shall have been entitled to do so on the date of death or termination of employment, by the person or persons to whom the optionee's right under the option is passed by will or applicable law, or if no such person has such right, by his executors or administrators. Options are also subject to termination by the Board under certain conditions. In the event of termination of employment because of death while being an employee, or because of disability, the optionee's options may be exercised not later than the expiration date specified in the option or one year after the optionee's death, whichever date is earlier, or in the event of termination of employment because of retirement or otherwise, not later than the expiration date specified in the option or one year after the optionee's death, whichever date is earlier. If an optionee's employment by us terminates because of disability and such optionee has not died within the following three months, the options may be exercised, to the extent that the optionee shall have been entitled to do so at the date of the termination of employment, at any time, or from time to time, but not later than the expiration date specified in



the option or one year after termination of employment, whichever date is earlier. If an optionee's employment shall terminate for any reason other than death or disability, optionee may exercise the options to the same extent that the options were exercisable on the date of termination, for up to three months following such termination, or on or before the expiration date of the options, whichever occurs first. In the event that the optionee was not entitled to exercise the options at the date of termination or if the optionee does not exercise such options (which were then exercisable) within the time specified herein, the options shall terminate. If an optionee's employment shall terminate for any reason other than death, disability or retirement, all right to exercise the option shall terminate not later than 90 days following the date of such termination of employment, except as otherwise provided under the plan. Non-qualified options are not subject to the foregoing restrictions unless specified by the Board of Directors.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND  
DIRECTOR INDEPENDENCE.

From time to time we borrowed funds from related parties for working capital purposes, including from our Chief Executive Officer, and the brother of our Chief Executive Officer. At September 30, 2016 CD International owed to James (Yuejian) Wang, our Chief Executive Officer, a total of \$423,769, and CDI Shanghai Management owed to Xiaowen Zhang, the brother of our Chief Executive Officer, a total of \$49,313. At September 30, 2016 CDI Shanghai management also owed to Dragon Capital Group Corp., the Company managed by the brother of our Chief Executive Officer, a total of \$17,986.

From time to time we have entered into loan agreements with related parties for working capital purposes, including from our Chief Executive Officer, and our directors. These loans are generally unsecured and due on demand. At September 30, 2016 CD International owed James (Yuejian) Wang, our Chief Executive Officer and director, a total of \$420,482 including aggregate principal loan amount of \$300,000 and accrued interest of \$120,482.

#### Related Person Transaction Policy

In December 2009, our board of directors adopted a written Related Person Transaction Policy that requires the Board of Directors or audit committee to approve or ratify transactions between our company or one or more of our subsidiaries and any related person involving an amount in excess of \$120,000. Under the Related Person Transaction Policy, the Board of Directors or audit committee will review the relevant facts of the proposed transaction and the interest of the related person in the transaction, and either approve or reject the proposed transaction. If a related person transaction that has not been previously approved or previously ratified is discovered, that transaction will be presented to the Board of Directors or audit committee for ratification. No director can participate in the deliberation or approval of any related person transaction in which such director is the related person.

For purposes of the Related Person Transaction Policy, a "related person" means:

- any director or executive officer of ours,
- any nominee for director,
- any 5% beneficial owner of our common stock,
- any immediate family member of a director, nominee for director, executive officer or 5% beneficial owner of our common stock, and
- any firm, corporation, or other entity in which any of these persons is employed or is a partner or principal or in a similar position, or in which such person has a 10% or greater beneficial ownership interest.

The Related Person Transaction Policy will provide that the following types of transactions are deemed to be pre-approved under the policy:

- transactions that are available to related persons on the same terms as such transactions are available to all employees generally;
- compensation or indemnification arrangements of any executive officer, other than an individual who is an immediate family member of a related person, if such arrangements have been approved by the Board of Directors or the compensation committee;
- transactions in which the related person's interest derives solely from his or her ownership of less than 10% of the equity interest in another person (other than a general partnership interest) that is a party to the transaction;
- transactions in which the related person's interest derives solely from his or her ownership of a class of our equity securities and all holders of that class of equity securities received the same benefit on a pro rata basis,
- director compensation arrangements, if such arrangements have been approved by the Board of Directors or the nominating and corporate governance committee; and
- any other transaction which is not required to be disclosed as a "related person transaction" under applicable securities regulations.

The Related Person Transaction Policy defines the term "immediate family member" to mean any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of a director, nominee for director, executive officer, or 5% beneficial owner of our common stock, and any person (other than a tenant or employee) sharing the household of such director, nominee for director, executive

officer, or 5% beneficial owner.

#### Director Independence

None of the Company's directors is an "independent" director as that term is defined in the Nasdaq Marketplace Rules.

#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The following table shows the fees that were billed for the audit and other services provided by Malone-Bailey, LLP for fiscal year 2016 and 2015.

- 30 -

---

	2016	2015
Audit Fees	\$ 67,000	\$ 65,000
Audit-Related Fees	-	-
Other Fees	-	-
Total	\$ 67,000	\$ 65,000

**Audit Fees** - This category includes the audit of our annual financial statements, review of financial statements included in our quarterly reports and services that are normally provided by the independent registered public accounting firm in connection with engagements for those years and services that are normally provided by our independent registered public accounting firm in connection with statutory audits and Securities and Exchange Commission regulatory filings or engagements.

**Audit-Related Fees** - This category consists of assurance and related services by the independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under "Audit Fees".

**Other Fees** - This category consists of fees for the audits on the financial statements of our client companies and all other miscellaneous items.

#### Pre-Approval Policies and Procedure for Audit and Permitted Non-Audit Services

The audit committee has developed policies and procedures regarding the approval of all non-audit services that are to be rendered by our independent registered public accounting firm, as permitted under applicable laws, and the corresponding fees for such services. In situations where the full audit committee is unavailable to pre-approve any permitted non-audit services to be rendered by our independent registered public accounting firm:

- our chief financial officer will evaluate the proposed engagement to confirm that the engagement is not prohibited by any applicable rules of the Securities and Exchange Commission,
- following such confirmation by the chief financial officer , the chairperson of the audit committee will determine whether we should engage our independent registered public accounting firm for such permitted non-audit services and, if so, negotiate the terms of the engagement with our independent registered public accounting firm, and
- the chairperson of the audit committee will report to the full audit committee at its next regularly scheduled meeting about any engagements of our independent registered public accounting firm for permitted non-audit services that have been approved by the chairperson.

Alternatively, after confirmation by the chief financial officer, the full committee may pre-approve engagements of our independent registered public accounting firm at audit committee meetings.

Consistent with these policies and procedures, all audit services and non-audit services and all fees associated with such services performed by our independent registered public accounting firm in fiscal year 2015 and 2014 were pre-approved by audit committee.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

#### 1. Financial Statements

The consolidated financial statements and Report of Independent Registered Public Accounting Firm are listed in the "Index to Financial Statements and Schedules" on page F - 1 and included on pages F - 2 through F - 35.

2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission (the "Commission") are either not required under the related instructions, are not applicable (and therefore have been omitted), or the required disclosures are contained in the financial statements included herein.

3. Exhibits (including those incorporated by reference).

Exhibit No.	Description of Exhibit
3.1	Certificate of Incorporation Incorporated by reference to the Form 10-SB as filed on June 17, 1999 (incorporated herein by reference to Exhibit 3.1 as part of the Company's Form 10-SB as filed with the Commission on June 17, 1999).
3.2	Bylaws (incorporated herein by reference to Exhibit 3.2 filed as a part of the Company's Form 10-Q filed with the Commission on August 8, 2008).
3.3	Certificate of Amendment to the Certificate of Incorporation (incorporated herein by reference to Exhibit 3.3 as part of the Company's Current Report on Form 8-K filed with the Commission on August 17, 2006).
3.4	Certificate of Domestication of China Direct, Inc. (incorporated herein by reference to Exhibit 3.4 as part of the Company's Current Report on Form 8-K filed with the Commission on June 27, 2007).
3.5	Form of Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock (incorporated herein by reference to Exhibit 3.5 as part of the Company's Current Report on Form 8-K filed with the Commission on February 12, 2008).
3.6	Articles of Amendment to the Articles of Incorporation of China Direct Industries, Inc. (incorporated herein by reference to Appendix E filed as a part of the Company's Definitive Proxy Statement filed with the Commission on January 25, 2012).
4.1	Form of common stock purchase warrant (incorporated herein by reference to Exhibit 4.1 as part of the Company's Current Report on Form 8-K filed with the Commission on February 12, 2008).
4.2	Form of common stock purchase warrant (incorporated herein by reference to Exhibit 10.2 as part of the Company's Current Report on Form 8-K filed with the Commission on June 17, 2009).
4.3	Form of \$2.00 Common Stock Purchase Warrant (incorporated herein by reference to Exhibit 4.3 as part of the Company's Form 8-K as filed with the Commission on January 4, 2011).
10.1	Equity Transfer Agreement dated September 28, 2012 by and among CDI China, Inc., Black Stone Chemical Limited, Shanghai Lang Chemical Co., Ltd. and Qian Zhu and Jingdong Chen (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on October 5, 2012).
10.2+	2005 Equity Compensation Plan (incorporated herein by reference to Exhibit 99.1 as part of the Company's Registration Statement on Form S-8 filed with the Commission on June 16, 2005).
10.3+	2006 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.14 as part of the Company's Current Report on Form 8-K filed with the Commission on August 17, 2006).
10.4+	2006 Stock Compensation Plan (incorporated herein by reference to Exhibit 10.1 as part of the Company's Registration Statement on Form S-8 filed with the Commission on October 30, 2006).
10.5	Contract for Sino-Foreign Equity Joint Venture between Asia Magnesium Co., Ltd., Shanxi Senrun Coal Chemistry Co., Ltd. and Taiyuan YiWei Magnesium Industry Co., Ltd. dated December 12, 2006 (incorporated herein by reference to Exhibit 10.1 as part of the Company's Quarterly Report on Form 10-QSB for the period ended June 30, 2007 filed with the Commission on August 8, 2007 (Commission File No. 000-26415)).
10.6	Asia Magnesium Ownership Transfer Agreement dated July 1, 2007 between Jiang Dong and Capital Resource Management Co., Ltd. (incorporated herein by reference to Exhibit 10.2 as part of the Company's Quarterly Report on Form 10-QSB for the period ended June 30, 2007 filed with the Commission on August 8, 2007).
10.7	Shangxi Gu County Golden Magnesium Co., Ltd. Investment Agreement Supplement dated May 30, 2007 among Taiyuan YiWei Magnesium Co., Ltd., Asia Magnesium Co., Ltd. and Shanxi Senrun Coal Chemistry Co. Ltd. (incorporated herein by reference to Exhibit 10.3 as part of the Company's Quarterly Report on Form 10-QSB for the period ended June 30, 2007 filed with the Commission on August 8, 2007).

- 10.8 Stock Purchase Agreement dated August 24, 2007 between CDI China, Inc., China Direct, Inc. and Sense Holdings, Inc. (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on August 28, 2007).
- 10.9 Joint Venture Agreement dated September 28, 2007 among Shanxi Jinyang Coal And Coke Group Co., Ltd., Runlian Tian and CDI China, Inc. (incorporated herein by reference to Exhibit 10.1 as part of the Company's Quarterly Report on Form 10-QSB for the period ended September 30, 2007 filed with the Commission on November 14, 2007).
- 10.10 \*Secured Promissory Note in the principal amount of \$400,000 and Security Agreement each dated May 15, 2012 by and between China Direct Investments, Inc. and China Discovery Investors, Inc.
- 10.11 Registration Rights Agreement dated February 11, 2008 (incorporated herein by reference to Exhibit 10.20 as part of the Company's Current Report on Form 8-K filed with the Commission on February 12, 2008).
- 10.12+ Option Agreement dated August 16, 2006 between China Direct, Inc. and David Stein (incorporated herein by reference to Exhibit 10.3 filed as a part of the Company's Form S-8 filed with the Commission on November 11, 2007).
- 10.13+ Employment Agreement dated August 7, 2008 between China Direct, Inc. and Dr. Yuejian (James) Wang (incorporated herein by reference to Exhibit 10.22 filed as a part of the Company's Form 10-Q filed with the Commission on August 8, 2008).

- 10.14+ 2008 Executive Stock Incentive Plan, as amended (incorporated herein by reference to the definitive Proxy Statement on Schedule 14A as filed with the Commission on April 26, 2012).
- 10.15+ 2008 Non-Executive Stock Incentive Plan, as amended (incorporated herein by reference to the definitive Proxy Statement on Schedule 14A as filed with the Commission on April 26, 2012).
- 10.16+ 2012 Equity Compensation Plan (incorporated herein by reference to Exhibit 4.4 filed as a part of the Company's Current Report on Form 8-K filed with the Commission on July 20, 2012).
- 10.17 Joint Venture Agreement entered into between CDI Shanghai Management Co., Ltd. and Chi Chen dated September 20, 2008 (incorporated herein by reference to Exhibit 10.28 filed as a part of the Company's Form 10-Q filed with the Commission on August 8, 2008).
- 10.18+ Form of November 13, 2008 Amendment to Employment Agreements dated August 7, 2008 between China Direct, Inc. and Dr. Yuejian (James) Wang (incorporated herein by reference to Exhibit 10.29 filed as a part of the Company's Current Report on Form 10-Q for the period ended September 30, 2008).
- 10.19+ Option Agreement dated August 16, 2006 between China Direct, Inc. and Dr. Yuejian (James) Wang (incorporated herein by reference to Exhibit 10.1 filed as a part of the Company's Form S-8 filed with the Commission on November 11, 2007).
- 10.20 Baotou Changxin Magnesium Co., Ltd. Investment Agreement dated February 20, 2008 among CDI China, Inc., Excel Rise Technology Co., Ltd. and Three Harmony (Australia) Pty, Ltd. (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on February 26, 2008).
- 10.21 Baotou Changxin Magnesium Co., Ltd. Articles of Association dated January 31, 2008 (incorporated herein by reference to Exhibit 3.1 as part of the Company's Current Report on Form 8-K filed with the Commission on February 26, 2008).
- 10.22 Investment Framework Agreement dated as of April 26, 2008 by and between Baotou Xinjin Magnesium Co., Ltd. and CDI China, Inc. (incorporated herein by reference to Exhibit 10.18 as part of the Company's Current Report on Form 8-K filed with the Commission on May 1, 2008).
- 10.23 Lease Agreement dated August 21, 2007 between 431 Fairway Associates, LLC and China Direct, Inc. (incorporated herein by reference to Exhibit 10.37 filed as a part of the Company's Form 10-K filed with the Commission on March 31, 2009).
- 10.24+ Consulting Agreement dated January 23, 2009 between China Direct, Inc. and Marc Siegel (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on January 26, 2009).
- 10.25\* Secured Promissory Note in the principal amount of \$200,000 and Security Agreement each dated August 21, 2012 by and between China Direct Investments, Inc. and Xiangsheng Kong
- 10.26\* Secured Promissory Note in the principal amount of \$100,000 and Security Agreement each dated August 21, 2012 by and between China Direct Investments, Inc. and Xingyuan Li
- 10.27\* Secured Promissory Note in the principal amount of \$400,000 and Security Agreement each dated August 21, 2012 by and between China Direct Investments, Inc. and Junzhen Zhang
- 10.28+ Compensation Arrangements with Philip Y. Shen, Ph.D. effective January 26, 2009 (incorporated herein by reference to the Company's Current Report on Form 8-K filed with the Commission on January 26, 2009).
- 10.29+ Amendment dated January 23, 2009 to Yuejian (James) Wang, Ph.D.'s Employment Agreement (incorporated herein by reference to the Company's Current Report on Form 8-K filed with the Commission on January 26, 2009).
- 10.30\* Secured Promissory Note in the principal amount of \$300,000 and Security Agreement each dated August 21, 2012 by and between China Direct Investments, Inc. and Weidong Chai
- 10.31 Equity Transfer Agreement dated October 8, 2012 by and among CDI Shanghai Management Co., Ltd., CDI Beijing International Trading Co., Ltd. and Chi Chen and Huijuan Chen (incorporated herein by



reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on October 10, 2012).

- 10.32 Continuous Offering Program Agreement dated October 14, 2009 between China Direct Industries, Inc. and Rodman & Renshaw, LLC (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on October 15, 2009).
- 10.33\* Accounts Receivable Purchase Agreement, between IMG and DS-Concept Trade Invest, dated October 10, 2012.
- 10.34\* Master Purchase and Sale Agreement between CDII Minerals, and Claro Trade Finance, November 19, 2012.
- 10.35 Equity Transfer Agreement dated July 13, 2010 entered into among CDI China, Inc., Pine Capital Enterprises, Inc., Taiyuan Yiwei Magnesium Industry Co., Ltd. and Taiyuan Ruiming Yiwei Magnesium Industry Co., Ltd. (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on July 15, 2010).
- 10.36 Amendment dated October 28, 2010 to Equity Transfer Agreement dated July 13, 2010 entered into among CDI China, Inc., Pine Capital Enterprises, Inc., Taiyuan Yiwei Magnesium Industry Co., Ltd. and Taiyuan Ruiming Yiwei Magnesium Industry Co., Ltd. (incorporated herein by reference to Exhibit 10.53 as part of the Company's Form 10-K as filed with the Commission on December 23, 2010).

- 10.37 Engagement Letter dated December 30, 2010 between China Direct Industries, Inc. and Rodman & Renshaw, LLC (incorporated herein by reference to Exhibit 10.54 as part of the Company's Form 8-K as filed with the Commission on January 4, 2011).
- 10.38 Form of Securities Purchase Agreement dated December 30, 2010 (incorporated herein by reference to Exhibit 10.55 as part of the Company's Form 8-K as filed with the Commission on January 4, 2011 ).
- 10.39 "At-the-Market" Program Agreement between China Direct Industries, Inc. and Global Hunter Securities, LLC dated February 14, 2011 (incorporated herein by reference to Exhibit 10.56 as part of the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2010 as filed with the Commission on February 14, 2011).
- 10.40 Stock Transfer Agreement dated May 6, 2011 between CDI China, Inc. and Kong Tung and Hui Dong (Incorporated herein by reference to Exhibit 10.1 as part of the Company's Form 8-K as filed with the Commission on May 12, 2011).
- 10.41 Stock Transfer Agreement dated March 7, 2011 between CDI China, Inc. and Bloomgain Investment Limited (Incorporated herein by reference to Exhibit 10.1 as part of the Company's Form 8-K as filed with the Commission on August 11, 2011).
- 10.42 Amendment I dated March 7, 2011 to Stock Transfer Agreement between CDI China, Inc. and Bloomgain Investment Limited (Incorporated herein by reference to Exhibit 10.2 as part of the Company's Form 8-K as filed with the Commission on August 11, 2011).
- 10.43 Amendment II dated March 7, 2011 to Stock Transfer Agreement between CDI China, Inc. and Bloomgain Investment Limited (Incorporated herein by reference to Exhibit 10.3 as part of the Company's Form 8-K as filed with the Commission on August 11, 2011).
- 10.44 Amendment III dated June 23, 2011 to Stock Transfer Agreement between CDI China, Inc. and Bloomgain Investment Limited (Incorporated herein by reference to Exhibit 10.4 as part of the Company's Form 8-K as filed with the Commission on August 11, 2011).
- 10.45 Amendment IV dated August 8, 2011 to Stock Transfer Agreement between CDI China, Inc. and Bloomgain Investment Limited (Incorporated herein by reference to Exhibit 10.5 as part of the Company's Form 8-K as filed with the Commission on August 11, 2011).
- 10.46 Equity Transfer Contract dated August 30, 2011 among CDI China, Inc., Marvelous Honor Holding Inc., Lianling Dong, Ping Liu, Jianzhong Ju, Lifei Huang, Xumin Cui, Golden Trust Magnesium Industry Co. Ltd. and Kong Tung (Incorporated herein by reference to Exhibit 10.1 as part of the Company's Form 8-K as filed with the Commission on September 6, 2011).
- 10.47 Equity Transfer Contract dated August 30, 2011 among CDI China, Inc.; Mr. Yuwei Huang, Mr. Xumin Cui; and Golden Trust Magnesium Industry Co. Ltd. (Incorporated herein by reference to Exhibit 10.2 as part of the Company's Form 8-K as filed with the Commission on September 6, 2011).
- 10.48 Equity Transfer Contract dated August 30, 2011 among Taiyuan Ruiming Yiwei Magnesium Industry Co. Ltd., Taiyuan Yiwei Magnesium Industry Co., Ltd., Lingshi Xinghai Magnesium Industry Co. Ltd., China Direct Industries, Inc., Pine Capital Enterprises, Inc. and Yuwei Huang (Incorporated herein by reference to Exhibit 10.3 as part of the Company's Form 8-K as filed with the Commission on September 6, 2011).
- 10.49+ Management Agreement dated August 30, 2011 among China Direct Industries, Inc., CDI China Inc., Yuwei Huang and Kong Tung (Incorporated herein by reference to Exhibit 10.4 as part of the Company's Form 8-K as filed with the Commission on September 6, 2011).
- 10.50 Third Amendment to Lease between 431 Fairway Associates, LLC and China Direct Industries, Inc. dated November 29, 2011.(Incorporated herein by reference to Exhibit 10.50 as part of the Company's Annual Report on Form 10-K for the year ended September 30, 2011 as filed with the Commission on December 23, 2011).
- 10.51 Equity Transfer Contract Amendment dated January 12, 2012 among CDI China, Inc., Marvelous Honor Holding Inc., Lianling Dong, Ping Liu, Jianzhong Ju, Lifei Huang, Xumin Cui, Golden Trust

Magnesium Industry Co. Ltd. and Kong Tung (incorporated herein by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K filed with the Commission on January 13, 2011).

- 10.52 Equity Transfer Contract Amendment dated January 12, 2012 among CDI China, Inc.; Mr. Yuwei Huang, Mr. Xumin Cui; and Golden Trust Magnesium Industry Co. Ltd. (incorporated herein by reference to Exhibit 10.2 as part of the Company's Current Report on Form 8-K filed with the Commission on January 13, 2011).
- 10.53 Equity Transfer Contract Amendment dated January 12, 2012 among Taiyuan Ruiming Yiwei Magnesium Industry Co. Ltd., Taiyuan Yiwei Magnesium Industry Co., Ltd., Lingshi Xinghai Magnesium Industry Co. Ltd., China Direct Industries, Inc., Pine Capital Enterprises, Inc. and Yuwei Huang. (incorporated herein by reference to Exhibit 10.3 as part of the Company's Current Report on Form 8-K filed with the Commission on January 13, 2011).
- 10.54 Equity Transfer Contract Amendment No. 2 dated June 30, 2012 among CDI China, Inc., Marvelous Honor Holding Inc., Lianling Dong, Ping Liu, Jianzhong Ju, Lifei Huang, Xumin Cui, Golden Trust Magnesium Industry Co. Ltd. and Kong Tung (incorporated by reference to Exhibit 10.1 as part of the Company's Current Report on Form 8-K/A filed with the Commission on July 6, 2012).

- 10.55 Equity Transfer Contract Amendment No. 2 dated June 30, 2012 among CDI China, Inc.; Mr. Yuwei Huang, Mr. Xumin Cui; Golden Trust Magnesium Industry Co. Ltd. and Baotou Changxin Magnesium Co., Ltd. (incorporated by reference to Exhibit 10.2 as part of the Company's Current Report on Form 8-K/A filed with the Commission on July 6, 2012).
- 10.56 Equity Transfer Contract Amendment No. 2 dated June 30, 2012 among Taiyuan Ruiming Yiwei Magnesium Industry Co. Ltd., Taiyuan Yiwei Magnesium Industry Co., Ltd., Lingshi Xinghai Magnesium Industry Co. Ltd., CD International Enterprises, Inc., Pine Capital Enterprises, Inc. and Yuwei Huang (incorporated by reference to Exhibit 10.3 as part of the Company's Current Report on Form 8-K/A filed with the Commission on July 6, 2012).
- 14.1 Code of Business Conduct and Ethics (incorporated herein by reference to Exhibit 14.1 as part of the Company's Annual Report on Form 10-K for year ended December 31, 2007 filed with the Commission on March 31, 2008).
- 21.1\* Subsidiaries of the registrant.
- 31.1\* Section 302 Certificate of Chief Executive Officer.
- 31.2\* Section 302 Certificate of Chief Financial Officer.
- 32.1\* Section 906 Certificate of Chief Executive Officer and Chief Financial Officer.
- 101.INS \*\*XBRL INSTANCE DOCUMENT
- 101.SCH \*\*XBRL TAXONOMY EXTENSION SCHEMA
- 101.CAL \*\*XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
- 101.DEF \*\*XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
- 101.LAB \*\*XBRL TAXONOMY EXTENSION LABEL LINKBASE
- 101.PRE \*\*XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
- + Management contract or compensatory plan or arrangement.
- \* Filed herewith.
- \*\* In accordance with Regulation S-T, the XBRL-formatted interactive data files that comprise Exhibit 101 in this Annual Report on Form 10-K shall be deemed "furnished" and not "filed".



CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	F - 2
Consolidated Financial Statements:	
Consolidated Balance Sheets	F - 3
Consolidated Statements of Operations and Comprehensive Income (Loss)	F - 4
Consolidated Statements of Changes in Equity (Deficit)	F - 5
Consolidated Statements of Cash Flows	F - 6
Notes to Consolidated Financial Statements	F - 7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
CD International Enterprises, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of CD International Enterprises, Inc. and Subsidiaries (collectively, the "Company") as of September 30, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), changes in equity (deficit), and cash flows for the years ended September 30, 2016 and 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CD International Enterprises, Inc. and Subsidiaries as of September 30, 2016 and 2015 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the fact that the Company suffered significant losses from operations and had a working capital deficiency while a significant amount of short-term loans payable is required to be refinanced raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MaloneBailey, LLP  
www.MaloneBailey.com  
Houston, Texas  
March 13, 2017

## Financial statements

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
As of September 30, 2016 and 2015

	September 30, 2016	September 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,309	\$ 22,634
Marketable securities available-for-sale	-	2,800
Marketable securities available-for-sale - related party	-	20,000
Accounts receivable	-	16,643
Subscription receivable	-	50,100
Prepaid expenses and other current assets, net	19,909	16,813
Total current assets	30,218	128,990
Property, plant and equipment, net	1,265	63,088
Total assets	\$ 31,483	\$ 192,078
<b>LIABILITIES AND EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 899,476	1,191,643
Loans payable	1,700,703	\$ 2,215,470
Loans and other payables - related parties	966,550	769,436
Advances from customers	422,898	422,898
Derivative liabilities	9,958,576	3,210,271
Other liabilities	7,410,394	1,199,856
Total current liabilities	21,358,597	9,009,574
Total liabilities	21,358,597	9,009,574
Equity (deficit):		
Series A convertible preferred stock: \$.0001 par value, stated value \$1,000 per share; 20,000,000 authorized, 1,006 shares outstanding at September 30, 2016 and 2015, respectively	1,006,250	1,006,250
Common stock: \$.0001 par value; 9,500,000,000 authorized; 9,947,740 and 5,011 issued and outstanding at September 30, 2016 and 2015, respectively	995	1
Additional paid-in capital	87,117,078	79,288,130
Accumulated other comprehensive loss	(562,393)	(719,106)
Accumulated deficit	(108,889,044)	(88,392,771)
Total CD International Enterprises, Inc.'s stockholders' deficit	(21,327,114)	(8,817,496)
Non-controlling interests	-	-



Total deficit		(21,327,114)		(8,817,496)
Total liabilities and deficit	\$	31,483	\$	192,078

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

CD INTERNATIONAL ENTERPRISES, INC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
For the Year Ended September 30, 2016 and 2015

	For the Years Ended September 30,	
	2016	2015
Revenues	\$ 82,614	\$ 360,049
Including: revenues from related party	45,249	31,250
Cost of revenues	25,266	111,002
Gross profit	57,348	249,047
Operating expenses:		
Selling, general, and administrative	1,341,571	3,762,817
Loss on disposal of subsidiary	50,590	-
Total operating expenses	1,392,161	3,762,817
Operating loss	(1,334,813)	(3,513,770)
Other income (expenses):		
Other expenses	(6,008,962)	582,012
Interest expense	(2,306,182)	(728,030)
Interest expense - related parties	(32,400)	(106,609)
Realized loss on marketable securities available-for-sale	(90,789)	-
Loss from impairment on marketable securities available-for-sale	(16,355)	-
Gain on revaluation for receivable and payable of marketable securities available-for-sale	25,844	709
Change in fair value of derivative liabilities	(10,652,096)	(884,973)
Total other expenses	(19,080,940)	(1,136,891)
Loss from continuing operations before income taxes	(20,415,753)	(4,650,661)
Income tax expense	-	-
Net loss from continuing operations	(20,415,753)	(4,650,661)
Discontinued operations:		
Loss from discontinued operations, net of taxes	-	(19,033)
Gain on disposal of subsidiaries, net of taxes	-	1,573,177
Total income from discontinued operations, net of taxes	-	1,554,144
Net loss	(20,415,753)	(3,096,517)
Less: Net loss attributable to non-controlling interests	-	-
Net loss attributable to CD International Enterprises, Inc.	(20,415,753)	(3,096,517)
Dividends on series A preferred stock	(80,520)	(80,494)
Net loss allocable to common stockholders	\$ (20,496,273)	\$ (3,177,011)
<b>COMPREHENSIVE INCOME (LOSS):</b>		
Net loss	\$ (20,496,273)	\$ (3,096,517)
Foreign currency translation adjustments	103,610	139,409
Unrealized gain (loss) on marketable securities available-for-sale	53,103	(69,552)

Edgar Filing: CD INTERNATIONAL ENTERPRISES, INC. - Form 10-K

Comprehensive loss	(20,259,040)	(3,026,660)
Foreign currency translation adjustments - non-controlling interest	-	8
Comprehensive loss attributable to CD International Enterprises, Inc.	(20,259,040)	(3,026,668)
Preferred stock dividend	(80,520)	(80,494)
Comprehensive loss attributable to common stockholders	\$ (20,339,560)	\$ (3,107,162)
Net income (loss) per common share - basic and diluted:		
Net loss from continuing operations	\$ (36.59)	\$ (1,381.76)
Net income from discontinued operations	-	453.90
Net income (loss) per common share	\$ (36.59)	\$ (927.86)
Weighted average common shares outstanding, basic and diluted	560,160	3,424

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

CD INTERNATIONAL ENTERPRISES INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)  
For the Year Ended September 30, 2016

	Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total
	Number of shares	Amount	Number of shares	Amount						
Balance, September 30, 2014 (before reverse split)	1,006	\$ 1,006,250	60,847,474	\$ 6,084	\$ 78,346,305	\$(85,215,760 )	\$(788,955)	\$(504)	\$(6,646)	
Dividends declared to preferred stockholders	-	-	-	-	-	(80,494 )	-	-	(80,494)	
Restricted stock award - Employees	-	-	9,500,000	950	141,550	-	-	-	142,500	
Shares issued to third parties for services provided	-	-	8,600,000	860	299,650	-	-	-	300,510	
Common stock issued for debt conversions	-	-	20,000,000	2,000	510,000	-	-	-	512,000	
Stock option expenses	-	-	-	-	130,657	-	-	-	130,657	
Stock option exercised	-	-	3,000,000	300	49,800	-	-	-	50,100	
Addition of warrant derivative liabilities	-	-	-	-	(115,805 )	-	-	-	(115,805)	
Cancellation of stock	-	-	(1,984,400 )	(198 )	(99,022 )	-	-	-	(99,220)	
Reversal of the cancellation of stock in connection with the disposal of subsidiaries	-	-	250,000	25	14,975	-	-	-	15,000	
Disposal of subsidiaries	-	-	-	-	-	-	-	496	496	
Changes in cumulative foreign currency	-	-	-	-	-	-	139,401	8	139,409	

translation									
Unrealized loss on marketable securities available-for-sale	-	-	-	-	-	-	(69,552 )	-	(69,552 )
Net loss	-	-	-	-	-	(3,096,517 )	-	-	(3,096,517 )
Balance, September 30, 2015 (before reverse split)	1,006	\$1,006,250	100,213,074	\$10,021	\$79,278,110	\$(88,392,771 )	\$(719,106)	\$-	\$(8,817,000)
Balance, September 30, 2015 (adjusted)	1,006	\$1,006,250	5,011	\$1	\$79,288,130	\$(88,392,771 )	\$(719,106)		\$(8,817,000)
Dividends declared to preferred stockholders	-	-	-	-	-	(80,520 )	-	-	(80,520 )
Preferred stock dividend payable converted into common stock			1,250	-	32,000				32,000
Share based compensation - employees	-	-	2,151,000	215	285,785	-	-	-	286,000
Shares issued to third parties for services provided	-	-	25,897	3	95,020	-	-	-	95,020
Common stock issued for debt conversions	-	-	7,761,478	776	1,491,002	-	-	-	1,491,002
Write-off of derivative liabilities due to debt conversions	-	-	-	-	5,857,491	-	-	-	5,857,491
Stock option expenses	-	-	-	-	(80,350 )	-	-	-	(80,350 )
Fraction of shares due to reverse split			2,354	-	-				-
Warrant exercised			750	-	148,000	-	-	-	148,000
Changes in cumulative foreign currency translation	-	-	-	-	-	-	103,610	-	103,610
Unrealized gain on marketable securities available-for-sale	-	-	-	-	-	-	53,103	-	53,103
Net loss	-	-	-	-	-	(20,415,753 )	-	-	(20,415,753 )

Balance, September 30, 2016	1,006	\$1,006,250	9,947,740	995	87,117,078	(108,889,044)	(562,393)	-	(21,32
-----------------------------------	-------	-------------	-----------	-----	------------	---------------	-----------	---	--------

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

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Year Ended September 30, 2016 and 2015

	For the Years Ended September 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (20,415,753)	\$ (3,096,517)
Income from discontinued operations	-	(1,554,144)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	9,759	17,880
Loss on disposal of property and equipment	-	288
Allowance for doubtful accounts	1,800	1,297,355
Impairment loss on marketable securities available-for-sale	16,355	-
Shares issued to third parties for services provided	95,023	300,510
Share based compensation - employees	286,000	142,500
Stock option expenses	(80,350)	130,657
Warrant expense in connection with derivative liability recognized	32,000	-
Realized loss on marketable securities available-for-sale	90,789	-
Gain on settlement of debt with issuance of common stock	-	(488,000)
Reversal of the cancellation of stock in connection with the disposal of subsidiaries	-	15,000
Cancellation of stock	-	(99,220)
Amortization of debt discount	1,872,493	361,452
Change in fair value of derivative liabilities	10,652,096	884,973
Other income due to revaluation of accounts receivable and accounts payable	(25,844)	(709)
Loss on income tax expense assessments	6,011,529	-
Loss on abandoned subsidiary (net of cash forfeited \$1,165)	49,425	-
Changes in operating assets and liabilities:		
Accounts receivable (including accounts receivable from related parties)	7,809	(18,499)
Prepaid expenses and other current assets, net	(3,273)	58,572
Accounts payable and accrued expenses	329,883	457,830
Other payable - related parties	91,834	215,074
Other liabilities	111,472	465,778
Net cash used in operating activities - continuing operations	(866,953)	(909,220)
Net cash used in operating activities - discontinued operations	-	(28,695)
	( 866,953)	(937,915)

<b>NET CASH USED IN OPERATING ACTIVITIES</b>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sales of marketable securities available-for-sale	42,751		-
Cash paid on disposal of subsidiaries	-		(2,816)
Net cash provided by (used) in investing activities - continuing operations	42,751		(2,816)
Net cash provided by (used) in investing activities - discontinued operations	-		-
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>42,751</b>		<b>(2,816)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from loans	683,700		830,000
Proceeds from employee advance	55,000		-
Borrowings from related parties	22,957		112,479
Proceeds from exercise of options and warrants	198,100		-
Repayments to related parties	(2,296)		(12,804)
Repayments of loan payable	(247,133)		(96,655)
Net cash provided by financing activities - continuing operations	710,328		833,020
Net cash provided by financing activities - discontinued operations	-		-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>710,328</b>		<b>833,020</b>
<b>EFFECT OF EXCHANGE RATE ON CASH</b>	<b>101,549</b>		<b>47,670</b>
<b>NET CHANGE IN CASH</b>	<b>(12,325)</b>		<b>(60,041)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>22,634</b>		<b>82,675</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>10,309</b>		<b>22,634</b>
<b>LESS CASH AND CASH EQUIVALENTS OF DISCONTINUED OPERATIONS AT END OF THE YEAR</b>	<b>-</b>		<b>-</b>
<b>CASH AND CASH EQUIVALENTS OF CONTINUING OPERATIONS AT END OF THE YEAR</b>	<b>\$ 10,309</b>		<b>\$ 22,634</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Interest paid	\$ 118,336		\$ 24,449
Income taxes paid	\$ -		\$ -
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			



Edgar Filing: CD INTERNATIONAL ENTERPRISES, INC. - Form 10-K

Deferred revenue received in form of marketable securities	\$	61,374	\$	22,500
Unrealized loss on marketable securities available-for-sale	\$	53,103	\$	69,552
Collection of accounts receivable in the form of marketable securities	\$	1,374	\$	22,500
Common stock issued for loan conversions and accrued interest	\$	1,491,778	\$	512,000
Debt discount recorded on convertible debt due to conversion feature	\$	1,921,700	\$	361,452
Derivative liabilities related to warrant conversion feature	\$	-	\$	115,805
Stock option exercised with proceeds not received	\$	-	\$	50,100
Accrual for preferred stock dividend	\$	80,520	\$	80,494
Preferred stock dividend converted to common shares	\$	32,000	\$	-
Accrued interest, default charges and legal expenses added to loan payable due to litigation settlement	\$	596,741	\$	-
Derivative liabilities written off to additional paid-in capital due to debt conversions	\$	5,857,491	\$	-

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

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 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", "CD International," or "the Company".

We are a U.S.-based company that sources industrial products in Asia and the Americas. We also provide business and financial 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 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 Trading segment, we source industrial commodities from North and South America for ultimate distribution in China. In our Consulting segment, we provide business and 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.

On September 30, 2014, the Company signed a share exchange agreement with Yuwei Huang ("Mr. Huang"), a related party, selling our Magnesium segment to Mr. Huang and in return, Mr. Huang and other parties have returned and cancelled 8,075,949 shares of the Company's common stock held by such parties related to Mr. Huang. In addition, 41,524 shares of convertible series D preferred stock were cancelled within 10 business days after the share exchange agreement was signed. Historically, the Magnesium segment represented our largest segment by revenues and assets. We have generated negative gross margins and operating losses, and most of our magnesium facilities decreased the level of production or ceased production since 2010. Results of operations, financial position and cash flows associated with the Magnesium segment are separately reported as discontinued operations for all periods presented.

In the fourth quarter of fiscal year 2014, the Company suspended the operations in Peru and Bolivia, due to high operation and maintenance cost, and continuous market price drop of the minerals.

In addition, 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, and the assets and liabilities of CDII Chile as of September 30, 2014 were reclassified to assets and liabilities of discontinued operations. CDI Jingkun Zinc, CDI Metal, CDI Jixiang Metal and CDI Chile were entities in the Trading segment. For additional information, see Note 15 - Discontinued Operations.

On March 7, 2016, the Company entered into a Share Exchange Agreement (the "Acquisition Agreement") to acquire 100% ownership interest in China Manor Assets Investment Management Company, Ltd. ("CMAIM") in exchange for the 1,670,000 shares of the Company's Series G convertible preferred stock. The preferred stock can be converted to Company's common stock upon a listing of the Company's common stock on NYSE or NASDAQ. The convertibility

ratio is one share of the preferred stock to one thousand shares of Company's common stock. Each share of the preferred stock has the voting rights of 1,000 shares of Company common stock; and, thus, Xiangjun Wang, the sole equity owner of CMAIM, will be able to vote approximately 70% of the Company's common stock and control the Company. CDII prepared for issuance to Mr. Xiangjun Wang, the sole equity owner of CMAIM, 1,670,000 shares of company's Series G convertible preferred stock on April 30, 2016. However, the Company did not receive the equity interest of CMAIM and the preferred stock was not issued to Mr. Xiangjun Wang. On June 30, 2016, both parties agreed in formal writing to postpone the Acquisition Agreement due to the fact that certain capitalization conditions of CMAIM were not met. In September 2016, the Company cancelled the Series G convertible preferred stock that was prepared to be issued to Mr. Xiangjun Wang and the acquisition was terminated. As a result of certain closing conditions not being met, the transaction did not close.

In April 2016, the Company ceased the operation and disposed of Capital Resource Management Co., Ltd. ("Capital Resource Management"), an entity in the Consulting segment. The disposal of Capital Resource Management does not qualify as discontinued operations, nor is it a significant disposition because Capital Resource Management had limited net assets and engaged in minimal operations. The loss on the disposal of Capital Resource Management was \$50,590, which was reported as "loss on disposal of subsidiary" for the fiscal year ended September 30, 2016.

For the fiscal year 2016 and 2015, 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;

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

- 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;
- Capital Resource Management Co., Ltd. ("Capital Resource Management"), a wholly owned subsidiary of CDI Shanghai Management, formerly known as Capital One Resource Co., Ltd.; and
- CDII Minerals de Peru SAC, ("CDII Peru"), a Peruvian company and a 50% owned subsidiary of CDII Minerals.

#### Basis of Presentation

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

- "fiscal year 2017" - October 1, 2016 through September 30, 2017
- "fiscal year 2016" - October 1, 2015 through September 30, 2016
- "fiscal year 2015" - October 1, 2014 through September 30, 2015

We prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the U.S. Securities and Exchange Commission ("SEC") rules. We included all adjustments that are necessary for the fair presentation of our financial position, results of operations, and cash flows for the periods presented.

#### Going Concern

For the fiscal year 2016, the Company incurred a net loss from continuing operations of approximately \$20.4 million and used cash in operation of \$0.8 million. The Company also had a working capital deficit of \$21.3 million and an accumulated deficit of \$108.9 million as of September 30, 2016. In addition, the Company has a significant amount of short term loan payable, totaling \$1.7 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 restructure on-going operations to eliminate inefficiencies and develop new business 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

##### Consolidation

The consolidated financial statements include the accounts of CDII, as well as our wholly owned and majority owned subsidiaries, including those operating outside the United States, and are prepared in accordance with U.S. GAAP. All significant intercompany balances and transactions are eliminated in consolidation. We account for investments in which we exercise significant influence under the equity method of accounting. Non-controlling interests in subsidiaries consist of the equity portion of the Company's subsidiaries held by non-controlling investors in Trading segment.

### Non-controlling Interests

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

### 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 valuation of marketable securities available-for-sale, allowance for doubtful accounts, fair value of share-based compensation and derivative liabilities, the useful lives and impairment of property, plant and equipment, and impairment of goodwill, intangible assets and other assets.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2016 and 2015

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 liabilities. 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, and other receivables, including the aging of amounts due, the financial condition of our specific customers and clients, knowledge of our industry segment, 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.

#### Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, we consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

#### Concentration of Credit Risks

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash, trade accounts receivable and notes receivables. We deposit our cash with high credit quality financial institutions in the United States and China. As of September 30, 2016 and 2015, we had no bank deposits in the United States that exceeded federally insured limits. As of September 30, 2016 and 2015, we had deposits of \$1,088 and \$10,171 in banks in China, respectively. 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 September 30, 2016.

As of September 30, 2016 and 2015, bank deposits by geographic area were as follows:

Country	September 30, 2016		September 30, 2015		
United States	\$	9,221	89%	\$ 12,463	55%
China		1,088	11%	10,171	45%
Total cash and cash equivalents	\$	10,309	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.

#### Accounts Receivable

Accounts receivable are reported at net realizable value. We have established an allowance for uncollectible accounts based upon factors pertaining to the credit risks of specific customers and clients, historical trends, aging of the receivable and other information. Delinquent accounts are written off when it is determined that the amounts are uncollectible. As of September 30, 2016 and 2015, we had \$1,800 and \$0 allowances for uncollectible accounts.

#### 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.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

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 September 30, 2015 and 2014.

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 income (loss) that are attributable to the change in the fair value of derivative liabilities.

The financial assets and liabilities carried at fair value on a recurring basis at September 30, 2016 are as follows:

Financial assets and liabilities	Fair Value	Level 1	Level 2	Level 3
Derivative liabilities	\$ (9,958,576)	-	\$ -	(9,958,576)
	\$ (9,958,576)	\$ -	\$ -	\$ (9,958,576)

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 customers 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 securities 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 and comprehensive income (loss) 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.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2016 and 2015

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives of three to forty years. Maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are capitalized.

Acquisitions

We account for acquisitions using the purchase method of accounting in accordance with the provisions of ASC Topic 805, "Business Combinations." The acquisition method of accounting for acquired businesses requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Also, transaction costs are expensed as incurred. Any excess of the purchase price over the assigned values of the net assets acquired is recorded as goodwill. When we have acquired net assets that do not constitute a business under U.S. GAAP, no goodwill has been recognized.

Advances from Customers

Advances from customers represent (i) prepayments to us for merchandise that have not yet been shipped to customers, and (ii) the fair value of securities received as compensation which will be amortized over the term of the respective consulting agreement. We will recognize these advances as revenues as customers take delivery of the goods or when the services have been rendered, in compliance with our revenue recognition policy.

Comprehensive Income (Loss)

We follow ASC 220, "Comprehensive Income" to recognize the elements of comprehensive income (loss). Comprehensive income (loss) is comprised of net income (loss) and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders. Our comprehensive income (loss) for fiscal year 2015 and 2014 included net income (loss), foreign currency translation adjustments, and unrealized gain (loss) on marketable securities available-for-sale, net of income taxes.

Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of our Chinese subsidiaries is the Renminbi ("RMB"), the official currency of the People's Republic of China. Capital accounts of the consolidated financial statements are translated into United States dollars from RMB at their historical exchange rates when the capital transactions occurred. Assets and liabilities are translated at the exchange rates as of the balance sheet date. Income and expenditures are translated at the average exchange rates for the twelve month periods ended September 30, 2016 and September 30 2015, respectively. A summary of the conversion rates for the periods presented is as follows:

	September 30, 2016	September 30, 2015
Period end (RMB: U.S. dollar exchange rate)	6.6717	6.3538
	6.5343	6.1543

Average fiscal year (RMB: U.S. dollar exchange rate)

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

#### Income Taxes

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

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

### Basic and Diluted Earnings per Share

Under the provisions of ASC 260, "Earnings Per Share," basic income (loss) per common share is computed by dividing income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the company, subject to anti-dilution limitations.

For the periods presented, the computation of diluted earnings (loss) per share equaled basic earnings (loss) per share as the inclusion of any dilutive instruments would have had an anti-dilutive effect on the earnings per share calculation in the periods presented.

### Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the lease period.

### Revenue Recognition

We follow the guidance of ASC 605, "Revenue Recognition," for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. When our clients' securities are received for our services, we follow the guidance of ASC 505, "Equity-Based Payments to Non-Employees" to measure and recognize our revenue. ASC Topic 505-50-30-18 instructs that an entity (grantee or provider) may enter into transactions to provide goods or services in exchange for equity instruments. The grantee shall measure the fair value of the equity instruments in these transactions using the stock price and other measurement assumptions as of the earlier of either of the following dates, referred to as the measurement date.

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

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

### Stock-based Compensation

We account for the grant of stock options, warrants and restricted stock awards in accordance with ASC 718, "Compensation-Stock Compensation". ASC 718 requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity based compensation. Pursuant to ASC Topic 505-50, for

share-based payments to consultants and other third-parties, compensation expense is determined at the "measurement date". The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company records compensation expense based on the fair value of the award at the reporting date. The awards to consultants and other third-parties are then revalued, or the total compensation is recalculated, based on the then current fair value, at each subsequent reporting date.

#### Derivative 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.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

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 March 2016, the FASB issued ASU 2016-06, "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments". The amendments clarify what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The amendments are effective for Public business entities for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. All entities have the option of adopting the new requirements early, including adoption in an interim period. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients". The amendments, among other things: (1) clarify the objective of the collectability criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. The effective date of these amendments is at the same date that Topic 606 is effective. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees.

This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the impact it may have on its consolidated financial statements.

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

#### NOTE 2 - EARNINGS (LOSS) PER SHARE

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

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

The following table presents the computation of basic and diluted earnings (loss) per share for fiscal year 2016 and 2015:

	2016	2015
Net loss allocable to common shareholders:		
Net loss from continuing operations	\$ (20,415,753)	\$ (4,650,661)
Net income from discontinued operations	-	1,554,144
Net loss allocable to common shareholders	(20,415,753)	(3,096,517)
Less: preferred stock dividends	(80,520)	(80,494)
Net loss allocable to common stockholders less preferred stock dividends	\$ (20,496,273)	\$ (3,177,011)
Weighted average common shares outstanding - basic and diluted	560,160	3,424
Net income (loss) per common share - basic and diluted:		
Net loss from continuing operations	\$ (36.59)	\$ (1,381.76)
Net income from discontinued operations	-	453.90
Net income (loss) per common share - basic and diluted	\$ (36.59)	\$ (927.86)

Common stock equivalents are not included in the denominator in periods when anti-dilutive. We excluded 425,303,726 shares issuable upon conversion of series A preferred stock and 76,383,287 shares of common stock issuable upon conversion of convertible debt for the year ended September 30, 2016 as their effect was anti-dilutive. We excluded 450 shares of our common stock issuable upon exercise of options, 288,889 shares of our common stock issuable upon exercise of warrants, 5,402 shares issuable upon conversion of series A preferred stock and 1,417 shares of common stock issuable upon conversion of convertible debt for the year ended September 30, 2015 as their effect was anti-dilutive and reverse-splits.

### NOTE 3 - MARKETABLE SECURITIES AVAILABLE-FOR-SALE

Marketable securities available-for-sale and marketable securities available-for-sale-related party as of September 30, 2016 and 2015 consisted of the following financial instruments:

Company	September 30, 2016	% of Total	September 30, 2015	% of Total
China Logistics Group, Inc.	\$ -	-	\$ 2,800	12%
Dragon Capital Group, Corp.	-	-	20,000	88%
Marketable securities available-for-sale	\$ -	-	\$ 22,800	100%

All the securities were received from our customers as consulting fees. During the year ended September 30, 2016 and 2015, we collected marketable securities originated from accounts receivable for the amount of \$1,374 and \$22,500, respectively, and we collected marketable securities as deferred revenue for the amount of \$61,374 and \$22,500, 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 or loss 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 are reflected in earnings for the period in which the securities were liquidated.

The marketable securities available-for-sale-related party totaled \$0 and \$20,000 at September 30, 2016 and September 30, 2015, respectively, and were composed 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.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

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 September 30, 2016 and 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 fiscal year 2016, we had a loss related to other than temporary impairment of \$16,355 while for fiscal year 2015 we had no loss related to other than temporary impairment. The realized loss on sale of marketable securities available-for-sale in fiscal year 2016 and fiscal year 2015 was \$90,789 and \$0, respectively.

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 the fiscal year ended September 30, 2016 and 2015:

	Fiscal year 2016				Amounts reclassified from accumulated other comprehensive loss upon sale of available for		September 30, 2016
	September 30, 2015	Cost received/(sold)	Cost basis adjustment for other than temporary impairment	Unrealized loss	sale securities	September 30, 2016	
Investment in marketable securities available-for-sale	\$ 2,800	\$ (25,902)	\$ -	\$ 1,305	\$ 24,407	\$ -	
Investment in marketable securities available-for-sale-related party	20,000	(33,646)	16,355	36,381	66,382	-	
Total investment in securities available-for-sale	\$ 22,800	\$ (59,548)	\$ 16,355	\$ 37,686	\$ 90,789	\$ -	

Fiscal year 2015

Edgar Filing: CD INTERNATIONAL ENTERPRISES, INC. - Form 10-K

	September 30, 2014	Cost received/sold	Cost basis adjustment for other than temporary impairment	Unrealized loss	Amounts reclassified from accumulated other comprehensive loss upon sale of available for sale securities	September 30, 2015
Investment in marketable securities available-for-sale	\$ 7,352	\$ -	\$ -	\$ 4,552	\$ -	\$ 2,800
Investment in marketable securities available-for-sale-related party	40,000	45,000	-	65,000	-	20,000
Total investment in securities available-for-sale	\$ 47,352	\$ 45,000	\$ -	\$ 69,552	\$ -	\$ 22,800

F - 15

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

## 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. At September 30, 2016 and 2015, the fair value of available-for-sale securities receivable including related party balance was \$0 and \$7,200, respectively. At September 30, 2016, we wrote-off \$7,200 receivable due from 9,000,000 share of common stock of China Logistic, Inc (OTC: CHLO). At September 30, 2016 and 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 - PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

As of September 30, 2016 and 2015, prepaid expenses and other current assets, consisted of the following:

Description	September 30, 2016	September 30, 2015
Prepaid expenses	-	5,082
Receivables from disposal of subsidiaries (1)	-	1,256,620
Other receivables	19,909	11,731
Total prepaid expenses and other current assets	19,909	1,273,433
Less allowance for doubtful accounts (1)	-	(1,256,620)
Net prepaid expenses and other current assets	\$ 19,909	\$ 16,813

(1) On September 30, 2012, CDI Shanghai Management entered into an equity transfer agreement with CDI (Beijing) International Trading Co., Ltd. ("CDI Beijing") and Chi Chen to transfer its 51% equity interest in CDI Beijing to Chi Chen, the minority owner of CDI Beijing and the aggregate sales price was \$1,657,620. The receivable balance bears an interest at the rate of 9% on the uncollected amount. As of September 30, 2014, the Company had a total receivable balance from Chi Chen of \$1,305,671. Among the \$1,305,671 principal receivable balance, \$346,851 of the receivable from Chi Chen was estimated to be received in a period longer than one year according to an amended repayment schedule, which was included in other long-term assets. As of September 30, 2015, the Company established an allowance to fully reserve the receivables from Chi Chen in the amount of \$1,256,620, based on aging of the receivable and the historical collection trends. The bad debt expenses amounted to \$1,800 and \$1,297,355 for the years ended September 30, 2016 and 2015, respectively.

## NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

As of September 30, 2016 and 2015, property, plant and equipment, consisted of the following:

## Property, Plant and Equipment

Description	Useful Life	September 30, 2016	September 30, 2015
Leasehold improvement	10-40 years	\$ 258,353	\$ 258,353
Office equipment and furniture	3-5 year	254,147	369,475

Edgar Filing: CD INTERNATIONAL ENTERPRISES, INC. - Form 10-K

Autos and trucks	5 year	-	-
Total		512,500	627,828
Less: accumulated depreciation		(511,235)	(564,740)
Property, Plant and Equipment, Net		\$ 1,265	\$ 63,088

For fiscal year 2016 and 2015, depreciation expense totaled \$9,759 and \$17,880, respectively. The Company abandoned office equipment and furniture of \$94,566 due to cease the operation and disposed of Capital Resource Management Co., Ltd. and the abandonment loss of \$50,590 was recognized in fiscal year 2016.

F - 16

---

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

## NOTE 7 - LOANS PAYABLE

Loans payable at September 30, 2016 and 2015 consisted of the following:

Description	September 30, 2016	September 30, 2015
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 January 31, 2015 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) See Note 8 for derivative liabilities.	753,100	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. Secured by pledge of assets of CDII. (2) See Note 8 for derivative liabilities and Note 17 for more discussion of conversion.	153,000	600,000
CDII loan from multiple institutional investors with a term from four months to one year, convertible immediately and issued with original issue discount ("OID") and deferred financing cost of \$90,828. Net of debt discount of \$144,735 as of September 30, 2016. 8% - 12% annual interest rate and Conversion Price is equal to 50% - 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 8 for derivative liabilities and Note 17 for more discussion of conversion.	306,725	-
China Direct Investments loan from Yewen Xi, a Chinese citizen. Principal of \$500,000 was due on December 31, 2015 and extended to September 30, 2016, and \$200,000 is due on August 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 September 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. (4) See Note 8 for derivative liabilities.	253,300	700,000
	34,578	72,470

CDII loan from Money Works Direct in the principal amounts of \$50,000 and \$120,000, monthly interest rates at 4.44% and 4.61%, respectively, due on October 15, 2016. Secured by pledge of assets of CDII. China Direct Investments make cash repayment of \$1,150 for the two loans per business day. See Note 17 for more discussion of conversion.

Total	1,700,703	2,215,470
Less: current portion	(1,700,703)	(2,215,470)
Loans payable, long-term	\$ -	\$ -

(1) 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. 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 three institutional investors in the totaling of \$415,000 as of September 30, 2016, which included the following 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 2,799 shares of the Company's common stock.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

- (B) On December 9, 2015, January 22, 2016 and February 24, 2016, the Company entered into note purchase agreements with an institutional investor to sell \$100,000, \$100,000 and \$125,000 of TCA's notes, respectively. These notes are 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 June 30, 2016, the institutional investor converted \$325,000 of the note into a total of 12,435 shares of the Company's common stock.
- (C) On June 28, 2016, the Company entered into note purchase agreements with an institutional investor to sell \$40,000, of TCA's notes. This 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 August 9, 2016 to September 30, 2016, the institutional investor converted \$35,100 of the note and \$524 of interests into a total of 1,204,420 shares of the Company's common stock. See Note 17 for more discussion of conversion.

The balance of total obligation to TCA was \$753,100, including the principal of \$627,451 and accrued interest added to principal of \$125,649, as of September 30, 2016. 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.

(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. The Company is making the repayments through the assignments of notes to other three institutional investors in the totaling of \$415,000 as of September 30, 2016, which included the following notes:

- (A) 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 \$247,000 of the note and converted a total of 11,000 shares of the Company's common stock, equivalent to a debt principal of \$241,500.
- (B) On October 15, 2015 and March 28, 2016, Kong Tung and an institutional investor entered into note purchase agreements to sell \$50,000 and \$100,000 out of the remaining Kong Tung's convertible note, bearing an interest rate of 12% with a maturity date of October 15, 2016 and March 24, 2017, respectively. 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 \$50,000 note into a total of 2,033 shares of the Company's common stock by December



31, 2015, and the institutional investor converted a total of \$98,844 of the \$100,000 note into 20,045 shares of the Company's common stock.

(C) On July 11, 2016, Kong Tung and an institutional investor entered into note purchase agreements to sell \$50,000 out of the remaining Kong Tung's convertible note, bearing an interest rate of 8% with a maturity date of July 11, 2017. The conversion price of the note is 55% of the lowest trading price of the Company's common stock during the 20 consecutive trading days prior to the conversion date. The institutional investor converted \$43,133 of the \$50,000 note into a total of 942,686 shares of the Company's common stock by September 30, 2016.

(3) 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. As of September 30, 2016, the institutional investor converted all the principal of \$50,000 and accrued interest of \$2,014 of this note into a total of 106,802 shares of the Company's common stock.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

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. This note is in default and default interest rate is 24%. As of September 30, 2016, the institutional investor converted all the principal of \$40,000 and accrued interest of \$749 for this note into 1,087,935 shares of the Company's common stock. See Note 17 for more discussion of conversion.

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. Before the Company issued the second note to this institutional investor for the principal of \$25,000 with the same terms as the first note of \$25,000 on June 14, 2016, the institutional investor converted all \$25,000 of the first note into 6,305 shares of the Company's common stock. On June 14, 2016, 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. As of September 30, 2016, the institutional investor converted all \$25,000 of the second note into 85,841 shares of the Company's common stock.

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. Original discount was set equal to 20% of any consideration paid. 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. As of September 30, 2016, the institutional investor converted a totaling of \$36,917 of this note into 2,242,549 shares of the Company's common stock. See Note 17 for more discussion of conversion.

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. The sum of \$27,000 shall be remitted and delivered to the Company and the remaining \$8,000 shall be retained by the purchaser through an original issue discount for due diligence and legal bills related to the transaction.

On February 24, 2016, the Company issued a convertible promissory note for the amount of \$55,000 to an institutional investor, at a 10% annual interest rate. This note becomes due and payable on February 24, 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. The sum of \$45,000 shall be remitted and delivered to the Company and the remaining \$10,000 shall be retained by the purchaser through an original issue discount for due diligence and legal bills related to the transaction.

On March 2, 2016, the Company issued a convertible promissory note for the amount of \$56,750 to an institutional investor, at a 10% annual interest rate and default interest rate at 24%. This note becomes due and payable on December 2, 2016. This note provides conversion features equal to 55% of the lowest trading price of the Company's common stock during the 25 consecutive trading days prior to the date of conversion. On March 11, 2016, the Company received \$45,000 in cash and \$11,750 was retained by the institutional investor through an original issue discount for due diligence and legal bills related to this transaction. As of September 30, 2016, the institutional investor converted the principal of \$2,017 and accrued interest of \$8,193 of this note into a total of 1,392,642 shares of the Company's common stock. See Note 17 for more discussion of conversion.

On April 5, 2016, the Company issued a convertible promissory note for the amount of \$60,000 to an institutional investor, at a 10% annual interest rate. This note becomes due and payable on April 5, 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 April 8, 2016, the Company received \$50,000 in cash and \$10,000 was retained by the institutional investor through OID.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

On April 19, 2016, the Company issued a convertible promissory note for the amount of \$15,000 to an institutional investor, at a 12% annual interest rate. This note becomes due and payable on January 19, 2017. This note provides conversion features equal to 55% of the lowest trading price of the Company's common stock during the 15 consecutive trading days prior to the date of conversion. On April 29, 2016, the Company received \$11,700 in cash and \$3,300 was retained by the institutional investor through OID. See Note 17 for more discussion of conversion.

On April 20, 2016 and May 18, 2016, the Company issued a convertible promissory note for the amount of \$24,000 and \$24,000 to an institutional investor, at a 8% annual interest rate, respectively. These notes become due and payable on April 20, 2017 and May 18, 2017, respectively. These notes provide conversion features equal to 55% and 50% of the lowest trading price of the Company's common stock during the 15 consecutive trading days prior to the date of conversion, respectively. On April 28, 2016 and June 1, 2016, the Company received \$20,000 in cash and \$4,000 was retained by the institutional investor through OID, respectively.

On July 11, 2016 and August 7, 2016, the Company issued a convertible promissory note for the amount of \$29,700 and \$27,000 to an institutional investor, at a 8% annual interest rate, respectively. These notes become due and payable on July 11, 2017 and August 7, 2017, respectively. These notes provide conversion features equal to 55% and 55% of the lowest trading price of the Company's common stock during the 15 consecutive trading days prior to the date of conversion, respectively. On July 13, 2016 and August 10, 2016, the Company received \$25,000 in cash each from two notes, and \$4,700 and \$2,000 were retained by the institutional investor through OID, respectively.

On July 11, 2016, the Company issued a convertible promissory note for the amount of \$20,000 to an institutional investor, at a 10% annual interest rate and the default interest rate at 22%. This note becomes due and payable on July 11, 2017. This note provides conversion features equal to 55% of the average of the lowest three trading price of the Company's common stock during the 10 consecutive trading days prior to the date of conversion. On July 15, 2016, the Company received \$17,000 in cash and \$3,000 was retained by the institutional investor through OID.

(4) On January 29, 2016 and February 22, 2016, the Company issued 2,500 and 2,000 shares of the Company's common stocks to Yewen Xi for the conversion of \$169,500 and \$112,200, respectively, as partial payment of the \$500,000 loan to China Direct Investments.

On April 15, 2016, the Company entered into a note purchase agreement with an institutional investor to sell \$25,000 of Yewen Xi's note, at a 12% annual interest rate. This note provides conversion features equal to 55% of the lowest bid price of the Company's common stock during the thirty trading days ending on the latest completed trading day prior to the date of conversion. As of May 16, 2016, the institutional investor converted all \$25,000 of this note into 5,593 shares of the Company's common stock.

On April 19, 2016 and April 29, 2016 the Company entered into two notes purchase agreement with an institutional investor to sell each of \$30,000 of Yewen Xi's note, at a 12% annual interest rate. These notes provide conversion features equal to 55% of the lowest trading price of the Company's common stock during the 15 consecutive trading days prior to the date of conversion. As of September 30, 2016, the institutional investor converted all principals of these two notes and \$344 accrued interests into 13,578 shares of the Company's common stock.

On April 19, 2016 and May 18, 2016, the Company entered into two notes purchase agreement with an institutional investors to sell each of \$40,000 of Yewen Xi's note, at an 8% annual interest rate. These notes provide conversion features equal to 55% and 50% of the lowest trading price of the Company's common stock complete trading days

prior to the date of conversion, respectively. As of September 30, 2016, the institutional investors converted all of \$40,000 note signed on April 19, 2016 and accrued interest of \$63 into 8,460 shares of the Company's common stock. As of September 30, 2016, the institutional investors partially converted \$33,730 of \$40,000 note signed on May 18, 2016 into 612,681 shares of the Company's common stock.

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 April 20, 2016, this institutional investor converted all \$27,778 loan with its accrued interest of \$3,334 into 1,525 shares of the Company's common stock. As of September 30, 2016, the balance of obligation to this institutional investor is zero.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

The interest expense and interest expense - related parties for the loans amounted to \$2,338,582 and \$473,187, including amortization of debt discount in the amount of \$1,872,493 and \$361,452, for the fiscal year ended September 30, 2016 and 2015, respectively.

NOTE 8 - DERIVATIVE LIABILITIES

As described in Note 7, the Company defaulted on its loan with TCA which triggered the variable conversion option on the loan. The conversion option embedded in the convertible note contains no explicit limit to the number of shares to be issued upon settlement and as a result is 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 note becomes convertible and to record changes in fair value relating to the conversion option liability in the statement of operations and comprehensive income as of each subsequent balance sheet date. The debt discount related to the convertible note is 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.

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 June 30, 2016 and September 30, 2015. 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, January 22, 2016 and February 24, 2016, the Company entered into note purchase agreement with an institutional investor to sell \$100,000, \$100,000 and \$125,000 of this TCA loan, respectively. On June 28, 2016, the Company entered into note purchase agreement with the third institutional investor to sell \$40,000 of this TCA loan. These notes are 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 the fiscal year ended on September 30, 2016, a total of \$410,100 of loan from TCA, subsequently assigned to three institutional investors, together with accrued interest and other fees of \$524, was converted into 1,219,654 shares of the Company's common stock. During the fiscal year ended on September 30, 2016, derivative liability of \$1,338,888 was initially created due to the loans assigned to three institutional investors containing variable conversion option and the amount of \$2,041,747 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 \$4,900 and the fair value of the derivative liabilities related to the embedded conversion option was \$11,277 as of September 30, 2016.

As described in Note 7, during the fiscal year ended on September 30, 2016, a total of \$440,430 of the \$500,000 loan from Yewen Xi with accrued interest of \$344, including the amount assigned, was converted into 644,802 shares of the Company's common stock. Derivative liability of \$1,023,210 was initially created due to the loans containing variable conversion option and the amounts of \$627,707, which were re-measured on the date of the conversions and written off to additional paid-in capital as a result of the conversion, for the year ended September 30, 2016. The remaining principal of Yewen Xi's \$500,000 note amounted to \$59,570 and the fair value of the derivative liabilities related to the embedded conversion option was \$99,353 as of September 30, 2016.

As described in Note 7, during the fiscal year ended on September 30, 2016, a total of \$390,344 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 975,763 shares of the Company's common stock. Derivative liability of \$1,087,371 was initially created due to the loans assigned to institutional investors containing variable conversion option and the amounts of \$2,689,397, which were re-measured on the date of the conversions and written off to additional paid-in capital as a result of the conversion for the fiscal year ended September 30, 2016. The remaining principal of Kong Tung note amounted to \$166,523 and the fair value of the derivative liabilities related to the embedded conversion option was \$49,772 as of September 30, 2016.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

As described in Note 7, during the fiscal year ended on September 30, 2016, the Company issued multiple convertible promissory notes to the multiple institutional investors and the aggregate principal is \$532,528, and a total of \$182,462 of these multiple convertible promissory notes were converted into 4,870,993 shares of the Company's common stock. Derivative liability of \$2,479,828 was initially created due to the loans assigned to institutional investors containing variable conversion option and the amount of \$466,641 was re-measured on the date of the conversions and written off to additional paid-in capital as a result of the conversion. The fair value of derivative liabilities related to the embedded conversion option was initially determined to be \$365,816 on the date of issuance and subsequently determined to be \$1,292,100 as of September 30, 2016.

The table below shows the Black-Scholes Option Pricing Model inputs used by the Company to value the conversion option derivative liability, as well as the determined value of the option liability at each measurement periods during the fiscal year ended September 30, 2016 and 2015:

	2016	2015
Expected dividend	-%	-%
Expected term (in years)	0.01 - 2.00	0.50
Volatility	170% - 1,499%	131% - 293%
Risk-free rate	0.00% - 0.68%	0.08% - 0.09%

During the fiscal year ended September 30, 2016, the fair value of the embedded conversion options determined using Black-Scholes option -pricing model as of the dates the notes became convertible was \$5,929,296 and \$1,921,700 was recorded as debt discount. The day one loss on derivative liabilities of \$4,007,596 was recorded in change in fair value of derivative liabilities. \$1,872,493 and \$361,452 of debt discount due to embedded conversion option was amortized into interest expense for the fiscal year 2016 and 2015, respectively. The total change in fair value of derivative liabilities related to convertible notes described above amounted to expense of \$5,356,292 and \$127,579 for the fiscal year 2016 and 2015, respectively.

#### Warrants and Convertible Preferred Stock

On September 4, 2015, as compensation for services, the Company granted the consultant, Shaoying Wang, a warrant ("warrant A") to purchase 250 shares of the Company's common stock. 250 shares of the Company's warrant became exercisable immediately and the exercise price is fixed at \$464. On December 10, 2015, warrant A was exercised and the Company received proceeds of \$116,000. Pursuant to the January 14, 2016 amendment to the consulting agreement dated September 4, 2015, the Company granted Shaoying Wang an additional warrant ("warrant C") to purchase 500 shares of the Company's common stock for a fixed exercise price at \$64. On February 25, 2016, warrant C was exercised and the Company received proceeds of \$32,000. 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 and warrant C are valued using Black Scholes pricing models on the following assumptions: dividend yield of 0%, volatility of 167%-255%, risk free rate of 0.49%-0.90%, and an expected term of 1.85-2.33 year.



As of September 30, 2016 and 2015, the carrying amounts of the derivative liabilities for warrant A and warrant C were \$0 and \$98,870, respectively. The net changes in fair value of derivative liabilities of warrant A and warrant C were income of \$0 and \$98,870 during the fiscal year ended September 30, 2016 and 2015, 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, 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 in ASC 815.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

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 Company analyzed and concluded the embedded conversion option is not clearly and closely related to the host contract as the preferred shares are redeemable at the holder's option. 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 ASC 815.

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 September 30, 2016 and 2015, the carrying amounts of the derivative liabilities for warrant B were \$0 and \$18,744, respectively, and the carrying amounts of the derivative liabilities for preferred stock conversion option were \$8,506,075 and \$2,603,626. The net changes in fair value of derivative liabilities of warrant B and preferred stock during the periods were expense of \$5,883,105 and \$727,662 during fiscal year ended September 30, 2016 and 2015.

Below is the reconciliation of the fair value of the Company's derivative liabilities during the fiscal year ended September 30, 2016 and 2015:

Beginning balance as of September 30, 2014	\$ 1,848,041
Additions due to convertible note - TCA loan	361,452
Additions due to warrants	115,805
Change in fair value of derivative liabilities	884,973
Ending balance as of September 30, 2015	3,210,271
Additions due to debt discount on convertible notes	1,921,700
Additions due to warrant derivative liabilities	32,000
Write-off of derivative liabilities due to conversion of convertible notes	(5,825,491)
Write-off of derivative liabilities due to exercise of warrants	(32,000)
Change in the fair value of derivative liabilities	
(Gain) or loss related to derivative liabilities being marked to market	7,354,925
Write-off of derivative liabilities due to settlement of TCA note	(710,425)
Day one loss related to embedded conversion option	4,007,596
Ending balance as of September 30, 2016	\$ 9,958,576

#### NOTE 9 - RELATED PARTY TRANSACTIONS

##### List of Related Parties

We have specified the following persons and entities as related parties with ending balances as of September 30, 2016 and 2015:

- James (Yuejian) Wang, the CEO, CFO and sole member of the Board of Directors of the Company;

- Xiaowen Zhuang, a management member of CDI Shanghai Management and brother of James (Yuejian) Wang;
- Lawrence Wang, the brother of James (Yuejian) Wang;
- Dragon Capital Group, Corp. ("Dragon Capital"), a company organized under the laws of Nevada, USA, the principal owner of Dragon Capital is Lawrence Wang;
- and individuals who are regularly employed by China Direct Investments.

As of September 30, 2016, loan and other payables - related parties were \$966,550 consisting of other payables - related parties of \$546,068 and loan payables - related party of \$420,482 as set forth below:

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

## Other Payables- Related Parties

As of September 30, 2016 and 2015, other payables-related parties were \$546,068 and \$381,354, respectively, as follows:

CD International Subsidiary	Related Party	September 30, 2016	September 30, 2015
China Direct Investments	James (Yuejian) Wang	\$ 423,769	\$ 331,935
China Direct Investments	CDII Employees	55,000	-
CDI Shanghai Management	Xiaowen Zhuang	49,313	43,124
CDI Shanghai Management	Dragon Capital	17,986	6,295
<b>Total Other Payable-Related Parties</b>		<b>\$ 546,068</b>	<b>\$ 381,354</b>

Other payables-related parties represent advances to the Company for working capital purpose and expenses James (Yuejian) Wang paid on behalf of the Company. During the fiscal year ended on September 30, 2016, two employees advanced to the Company amounts totaling \$55,000. The advances are interest-free and are due on demand. As of September 30, 2016, total employee advance outstanding is \$55,000, which was included in other liabilities.

## Loan Payables - Related Party

As of September 30, 2016 and 2015, loan payables - related party for working capital purposes were \$420,482 and \$388,082, respectively, as follows:

CD International Subsidiary	Related Party	September 30, 2016	September 30, 2015
China Direct Investments	James (Yuejian) Wang	\$ 420,482	\$ 388,082
<b>Total Loan Payables-Related Parties</b>		<b>\$ 420,482</b>	<b>\$ 388,082</b>

From time to time, China Direct Investments borrowed funds from James (Yuejian) Wang. At September 30, 2016 and 2015, CDII owed James Wang a total of \$420,482 and \$388,082, including aggregate principal loan amount of \$300,000 and accrued interest of \$120,482 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.

## Revenue - Related Party

The Company provided consulting service to one of its related companies, Dragon Capital. The consulting revenues of \$45,249 and \$31,250 were recognized for the years ended September 30, 2016 and 2015, respectively.

## NOTE 10 - OTHER LIABILITIES

Other liabilities included the following as of September 30, 2016 and 2015:

Account	September 30, 2016	September 30, 2015
Accrued salary payable	\$ 1,151,243	\$ 964,718
Accrued income tax expense assessments (1)	6,011,529	-
Accrued dividend payable	197,270	148,749
Other taxes payable	3,785	-
Other payable	46,567	86,389
Total other liabilities	\$ 7,410,394	\$ 1,199,856

(1) In April 2016, the Company received a notice of tax assessed by examination from IRS, based on which the Company's additional tax liabilities for fiscal year 2008, 2010 and 2011 remained to be approximately \$4.6 million. Additionally, accrued interest and penalties of approximately \$1.4 million was imposed as of April 22, 2016.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

NOTE 11 - CAPITAL STOCK

Preferred Stock and Related Dividends

Effective March 25, 2016, the Company's total number of shares of preferred stock authorized increased from 10,000,000 to 20,000,000 shares, par value \$.0001, pursuant to the unanimous approval of the board of directors on March 8, 2016. As of September 30, 2016 and 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. The embedded conversion option is not clearly and closely related to the host contract as the preferred shares are redeemable at the holder's option. In addition, 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 ASC 815. See Note 8 for discussion on derivative liabilities.

We are authorized to issue 20,000,000 shares of preferred stock with a par value of \$.0001. Of the 20,000,000 shares of preferred stock:

- 1) 12,950 shares have been designated as Series A Preferred Stock ("Series A")
- 2) 41,524 shares have been designated as Series D Preferred Stock ("Series D")
- 3) 209,375 shares have been designated as Series E Preferred Stock ("Series E")
- 4) 1,670,000 shares have been designated as Series G Preferred Stock ("Series G")

As of September 30, 2016 and 2015, Series D, E, and G preferred stock have no shares issued and outstanding and there is 1,006 shares of Series A preferred stock issued and outstanding.

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 fiscal year 2016 and 2015, we did not pay cash dividends, dividends were paid in form of our common stock of 125,000 shares, valued at \$32,000 on our series A convertible preferred stock on April 18, 2016. As of September 30, 2016 and 2015, accrued dividend payable is \$197,270 and \$148,749, respectively.

Common Stock

Effective March 25, 2016, the Company's total number of shares of common stock authorized increased from 1,000,000,000 to 2,500,000,000 shares, par value \$.0001, pursuant to the unanimous approval of the board of directors

on March 8, 2016. On June 27, 2016, the Company received approval from FINRA for our 200 to 1 reverse split on the Company's common stock; the reverse split was effective as of June 28, 2016. Effective December 1, 2016, the Company's total number of shares of common stock authorized increased from 2,500,000,000 to 9,500,000,000 shares, par value \$.0001, pursuant to the unanimous approval of the board of directors on October 12, 2016. On November 29, 2016, the Company received approval from FINRA for our 100 to 1 reverse split on the Company's common stock; the reverse split was effective as of December 1, 2016. At September 30, 2016, there were 9,947,740 shares of common stock issued and outstanding and 5,011 shares of common stock issued and outstanding at September 30, 2015. All share and per share amounts herein have been retroactively restated to reflect the splits.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

During fiscal year 2016, the Company issued a total of 9,942,729 share of our common stock comprised of: 1,250 shares of our common stock to partially pay off dividends on our series A convertible preferred stock, value at \$32,000; 2,151,000 shares of our common stock for employee compensation, valued at \$286,000; 25,897 shares of our common stock to consultants for services, valued at \$95,023; 7,761,478 shares of common stock, for the convertible notes on Note 7, valued at \$1,491,778 and derivative liabilities written off into additional paid-in capital due to debt conversions of \$5,825,491. The Company also issued 750 shares in connection with the exercise of 750 stock options for consideration in the total of \$148,000, and the Company received the proceeds of the exercise of options in the amount of \$116,000 on December 10, 2015 and \$32,000 on February 25, 2016, respectively. The Company cancelled 450 stock options granted to James (Yuejian) Wang and \$80,350 stock option expenses were reversed due to the forfeiture of unvested options. In addition, 2,354 shares of common stock were issued for fraction of shares due to reverse stock.

During fiscal year 2015, we issued a total of 2,055 shares of our common stock. On August 7, 2015, we issued 1,000 shares of common stock to four Chinese citizens converting the four promissory notes in the amount of \$1,000,000 originally signed on August 21, 2012, into 1,000 shares of CDII common stock at \$1,000 per share. The Company determined the fair value of the shares issued to be \$512,000 and recorded a gain on settlement of debt of \$488,000, which was included in other income. The Company also issued 430 shares to consultants for services, valued at \$300,510. On August 28, 2015, the Board of the Director of the Company approved the issuance of 475 shares of common stock to the employees as repayment for salaries owed in the past years. The shares were issued on September 3, 2015 and valued at \$142,500. On October 1, 2014, the Company cancelled 99 shares of the common stock, which were granted to the employees on September 12, 2014. The \$99,200 stock based compensation recorded in fiscal year 2014 was reversed accordingly. On October 1, 2014, the Company also reversed 13 shares of the 416 shares previously cancelled in connection with the disposal of the magnesium segment since both Mr. Huang and the Company agreed that the number of shares to be cancelled should be 404 and the 13 shares held by parties related to Mr. Huang were not originally issued for the acquisitions of magnesium facilities. The Company also issued 150 share of common stock, valued at \$50,100, to Xiaowen Zhuang on September 3, 2015 pursuant to the exercise of the options.

#### 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 150 shares of the Company's common stock at an exercise price of \$334 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 150 shares 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 \$50,100 subscription receivable as an asset on the consolidated balance sheets as of September 30, 2015.

On April 1, 2016, the Company cancelled James (Yuejian) Wang's option to purchase 450 shares of common stock at \$1,000 per share, granted on September, 30, 2013, and vested on September 30, 2014, 2015 and 2016 for every 150 stock options.



The Company recognized a total of \$(80,348) and \$130,657 stock option expenses for fiscal year ended September 30, 2016 and 2015, 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 fiscal year 2016 and 2015 (adjusted for the splits):

Description	Shares underlying options	Weighted average exercise price
Balance at September 30, 2014	450	\$ 1,000
Outstanding and exercisable at September 30, 2014	150	1,000
Granted	150	3.34
Exercised	(150)	3.34
		1,000
Balance at September 30, 2015	450	\$
Outstanding and exercisable at September 30, 2015	300	\$ 1,000
Cancelled	(450)	1,000
Balance at September 30, 2016	-	\$ -
Outstanding and Exercisable at September 30, 2016	-	\$ -

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

As of September 30, 2016 we cancelled all 450 share options and reversed the stock option expense previously recognized related to the forfeiture of unvested options for a total amount of \$80,348. As of September 30, 2015, we had 450 and 300 shares underlying options outstanding and exercisable, respectively.

#### Common Stock Purchase Warrants

On September 4, 2015, 250 warrants with an exercise price of \$464, 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. On January 14, 2016, due to amendment to the consulting agreement dated September 4, 2015, the Company issued additional 500 shares warrants with an exercise price of \$64. The Company received proceeds of \$32,000 from exercise of the 500 shares warrants on February 25, 2016. Also see Note 8.

The following table is a summary of the status of our outstanding common stock purchase warrants granted as of September 30, 2016 and 2015 (adjusted for the splits):

	Shares underlying warrants	Weighted average exercise price
Outstanding and exercisable at September 30, 2014	107	\$ 44,000
Expired	(68)	46,000
Granted	250	460
Outstanding and exercisable at September 30, 2015	289	\$ 5,800
Expired	(39)	40,000
Granted	500	64
Excised	(500)	64
Excised	(250)	464
Outstanding and exercisable at September 30, 2016	-	\$ -

#### NOTE 12 - SEGMENT INFORMATION

For fiscal year 2016 and 2015, the Company operated in two reportable business segments - (1) Trading, formerly Mineral Trading / Basic Materials segment, where we sell and distribute of a variety of products, including iron ore products, non -ferrous metals, recycled materials, and industrial commodities, and (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 fiscal year 2016 and 2015 are as follows:

Revenues:	2016	2015
Trading	\$ -	\$ -
Consulting	82,614	360,049
Total revenue:	\$ 82,614	\$ 360,049
Depreciation:	2016	2015
Trading	\$ -	\$ -
Consulting	9,759	17,880

Total depreciation:	\$	9,759	\$	17,880
Interest expense and interest expense - related party:		2016		2015
Trading	\$	-	\$	-
Consulting		2,338,582		834,639
Total interest expense and interest expense - related party:	\$	2,338,582	\$	834,639
Net loss from continuing operations:		2016		2015
Trading	\$	500	\$	50,057
Consulting		20,415,253		4,600,604
Total net loss from continuing operations:	\$	20,415,753	\$	4,650,661

F - 27

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

Total tangible assets by segment as of September 30, 2016 and 2015 are as follows:

	September 30, 2016	September 30, 2015
Trading	\$ -	\$ -
Consulting	1,265	63,088
Total tangible assets	\$ 1,265	\$ 63,088

#### NOTE 13 - INCOME TAXES

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

The components of income (loss) before income taxes for fiscal year 2016 and 2015 consisted of the following:

Description	September 30, 2016	September 30, 2015
U.S. Operations	\$ (21,997,885)	\$ (3,317,833)
China Operations	1,582,132	(1,253,320)
Brunei Operations	-	(79,508)
)Discontinued Operations	-	1,554,144
Total income (loss) before income taxes	\$ (20,415,753)	\$ (3,096,517)

We did not incur any income tax expenses from continuing operations for fiscal year 2016 and 2015. In fiscal year 2016, the income from discontinued operations was primarily from the gain on disposal of discontinued operations. However, as the Company received nominal considerations for disposal of subsidiaries, the gain on disposal of discontinued operations did not have any income tax implications.

The significant components of our net deferred tax assets and liabilities consisted of federal net operating loss carry forwards. U.S. GAAP requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that a full valuation allowance of approximately \$25.4 million and \$14.5 million against its net deferred taxes is necessary as of September 30, 2016 and 2015, respectively. Therefore, our net deferred tax asset is zero as of September 30, 2016 and 2015, respectively.

As of September 30, 2016 and 2015, we had approximately \$55.4 million and \$41.5 million of U.S. net operating loss carry forwards remaining, which will expire in 2029. The IRS audited the Company's consolidated income tax returns for fiscal year 2008, 2010, and 2011. The IRS has initially proposed an adjustment to the Company's income tax liabilities for a total amount 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. The Company 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, the management believes that no income tax or penalties would be assessed against us by the IRS.

In April 2016, the Company received a notice of tax assessed by examination from IRS, based on which the Company's additional tax liabilities for fiscal year 2008, 2010 and 2011 remained to be \$4.6 million. Additionally, accrued interest and penalties of approximately \$1.4 million was imposed as of April 22, 2016. The Company accrued for this liability of \$6,011,529. In May 2016, an attorney was retained by the Company to represent before IRS in connection with the outstanding federal income tax liability. On June 6, 2016, the IRS closed the examination of the Company's tax returns for fiscal year 2008, 2010 and 2011. The Company is currently considering filing an offer-in-compromise based on doubt as to collectability. As of the filing date, a reasonable estimate of loss cannot be made by the management as there have been no negotiations with an IRS representative. If the offer is ultimately rejected, the final tax liabilities enforced by IRS could have a material effect on the Company's results of operations and financial position and liquidity.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

## NOTE 14 - CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

For the years ended September 30, 2016 and 2015, customers accounting for 10% or more of the Company's revenue are as follows:

Customer	For the Years Ended September 30,	
	2016	2015
A	54.77%	58.85%
B	*%	10.42%
C	27.79%	*%
D	12.23%	*%
E	*%	*%
F	*%	*%

\*% Less than 10%

During the fiscal year of 2016 and 2015, there were three and two customers who contributed more than ten percent of the total revenues, respectively, and the total account receivables from these two customers was zero. The loss of these main customers could have an adverse effect on the Company's business, operating results, or financial condition.

## NOTE 15 - DISCONTINUED OPERATIONS

## Subsidiaries Disposed

In April 2016, the Company ceased the operation and disposed of Capital Resource Management. The disposal of Capital Resource Management does not qualify as discontinued operations, nor is it a significant disposition because Capital Resource Management had limited net assets and engaged in minimal operations. The loss on disposal of Capital Resource Management was \$50,590, for abandoned current assets and fixed assets, was reported as "loss on disposal of subsidiary" for the fiscal year ended September 30, 2016. In connection with the disposal, intercompany other receivables of CDI Shanghai Management, China Direct Investments and other subsidiaries in the amounts of \$699,367, \$1,564,065 and \$3,093, respectively, from the disposed Capital Resource Management as of the dates of disposals were deemed uncollectable and as a result were written off and eliminated.

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, and its assets and liabilities as of September 30, 2014 were reclassified to discontinued assets and liabilities. The Company had a gain on disposal of subsidiaries of \$1.6 million in fiscal year 2015. In connection with the disposal, other receivables of CDI Shanghai Management, Capital Resource Management and CDII Minerals in the amount of \$475,846, \$1,403,967 and \$381,159, respectively, from the disposed entities as of the dates of disposals were deemed uncollectable and as a result were written off. The write-off of receivables for total amount of \$2,260,972 was

included in gain or loss on disposal of subsidiaries.

#### Summarized Financial Information for Discontinued Operations

After impairment charges, the assets and liabilities of discontinued operations were all zero as of September 30, 2016 and 2015.

The following table presents the results of discontinued operations in fiscal year 2016 and 2015:

	For the Year Ended September 30,	
	2016	2015
Revenues	\$ -	\$ -
Cost of revenues	-	-
Loss before income taxes	-	(19,033)
Income tax expense	-	-
Loss from discontinuing operations	-	(19,033)
Gain from disposal, net of taxes	-	1,573,177
Total (Loss) Gain from discontinued operations	\$ -	\$ 1,554,144

F - 29

---

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Leases

The Company entered into a lease agreement on September 1, 2013 for office space of approximately 6,170 square feet at 431 Fairway Dr Ste 200, Deerfield Beach FL 33441 for rental expense of approximately \$209,078 annually. The lease expires on March 31, 2019. On May 1, 2015, the Company signed an amendment to amend and restate this lease agreement to downsize the office space to 4,694 square feet at the same location for an annual rental expense of approximately \$207,108. On October 31, 2016, the Company entered into a termination of lease agreement to cancel all purposes of the above lease agreement. Pursuant the termination of lease agreement, the Company agreed to pay the monthly installments of \$7,007 to repay the past due balance of \$84,081. In fiscal year 2016 and 2015, our lease expense incurred was \$150,688 and \$156,604, respectively. In November 2016, the company entered into a new lease with CFO Oncall, Inc. for office space of approximately 150 square feet at 1333 S. University Drive, Suite 202, Plantation, FL 33324 for annual rental expense is \$11,280, which has one month advance notice for termination.

CDI Shanghai Management leases approximately 1,500 square feet of office space in Shanghai for an annual expense of approximately \$57,100 (RMB 350,592) in fiscal year 2014. On September 25, 2014, CDI Shanghai Management signed a lease for a new office place of approximately 1,127 square feet of office space in Shanghai, for an annual expense of approximately \$16,161 (RMB105,600) per year. The lease term begins on October 1, 2014, expired on September 30, 2016 and was renewed to expire on September 30, 2018.

Income Tax Matters

In April 2016, the Company received the notice of tax assessed by examination from IRS, based on which the Company's additional tax liabilities for fiscal year 2008, 2010 and 2011 remained to be \$4.6 million. Additionally, accrued interest and penalties of approximately \$1.4 million was imposed as of April 22, 2016. In May 2016, an attorney was retained by the Company to represent before IRS in connection with the outstanding federal income tax liability. On June 6, 2016, the IRS closed the examination of the Company's tax returns for fiscal year 2008, 2010 and 2011. The Company is currently considering filing an offer-in-compromise based on doubt as to collectability. As of the filing date, a reasonable estimate of loss cannot be made by the management as there have been no negotiations with an IRS representative. If the offer is ultimately rejected, the final tax liabilities enforced by IRS could have a material effect on the Company's results of operations and financial position and liquidity. The Company accrued a liability of \$6,011,529 during 2016 associated with this assessment.

Legal Contingencies

As described in Note 7, our wholly owned subsidiary, China Direct Investments owes to Draco Resources, Inc. for an amount of \$200,000, which is due on March 18, 2015 with 2% annual interest rate. The loan is unsecured and currently in default. On March 15, 2016, Draco Resources, Inc. filed Chapter 7 for bankruptcy in California (Case No. 14-31654DM). Andrea A Wirum, Chapter 7 trustee of Draco Resources, Inc., entered into default judgment from Draco Resources, Inc. to China Direct Investments in the total amount of \$210,679, consisting of principal sum of \$200,000, interest pursuant to contract in the amount of \$7,989 and attorneys' fees and costs pursuant to contract in the amount of \$2,690. As of September 30, 2016, China Direct Investments has paid attorneys' fees and costs of \$2,690. The Company has properly accrued all the liabilities related to the default judgment.



NOTE 17 - SUBSEQUENT EVENTS

On October 5, 2016, the Company issued 7 million shares of restricted common stock to James Wang, valued at \$140,000, as partial payment of the outstanding compensation accrued since 2013.

On October 31, 2016, the Company entered into a termination of lease agreement to cancel all purposes of the old lease agreement. Pursuant the termination of lease agreement, the Company agreed to pay the monthly installments of \$7,007 to repay the past due balance of \$84,081. In November 2016, the company entered into a new lease with CFO Oncall, Inc. for office space of approximately 150 square feet at 1333 S. University Drive, Suite 202, Plantation, FL 33324 for annual rental expense is \$11,280, which has one month advance notice for termination.

Effective December 1, 2016, the Company's total number of shares of common stock authorized increased from 2,500,000,000 to 9,500,000,000 shares, par value \$.0001, pursuant to the unanimous approval of the board of directors on October 12, 2016. On November 29, 2016, the Company received approval from FINRA for our 100 to 1 reverse split on the Company's common stock; the reverse split was effective as of December 1, 2016. All share and per share amounts herein have been retroactively restated to reflect the split.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 and 2015

On December 2, 2016, the Company issued 5,400,000 shares of common stock under the Company's S-8 registration to three employees, 1,800,000 shares of common stock for each employee, at the price of \$0.005, granted to them pursuant to the employees' agreements.

On December 6, 2016, the Company issued 1,000,000 shares of restricted common stock valued at \$5,000 to a consultant for consulting service fees.

As described in Note 7, China Direct Investments had a convertible note of 600,000 with Kong Tung. On December 15, 2016, Kong Tung converted of remaining \$4,320 of this note into 2,400,000 shares of the Company's common stock.

As described in Note 7, on October 20, 2015, the Company issued a convertible note to an institutional investor for the principal amount of \$40,000 with interest rate of 10% and maturity date of October 20, 2016. Subsequent to September 30, 2016, the institutional investor converted of \$6,569 for accrued interest of this note into 4,438,000 shares of the Company's common stock, including 1,576,000 shares of converted common stock which conversion notice was given to the Company on January 5, 2017, but have not yet been issue as of filing date.

As described in Note 7, on December 9, 2015, the Company issued a convertible note to an institutional investor for the principal amount of \$120,000 with interest rate of 12% and maturity date of December 9, 2016. Subsequent to September 30, 2016, the institutional investor converted of the remaining \$10,822 of this note into 3,580,454 shares of the Company's common stock.

As described in Note 7, on March 2, 2016, the Company issued a convertible note to an institutional investor for the principal amount of \$56,750 with interest rate of 10% and maturity date of December 2, 2016. Subsequent to September 30, 2016, the institutional investor converted \$2,190 for accrued interest of this note into 2,620,000 shares of the Company's common stock, including 1,600,000 shares of converted common stock which conversion notice was given to the Company on December 22, 2016, but have not yet been issue as of filing date.

As described in Note 7, on June 28, 2016 the Company entered into a note purchase agreement with an institutional investor to sell \$40,000 of TCA's note. Subsequent to September 30, 2016, the institutional investor converted the remaining principal of \$2,500 and accrued interest of \$56 of note into 464,756 shares of the Company's common stock.

As described in Note 7, on April 19, 2016, the Company issued a convertible promissory note for the amount of \$15,000 to an institutional investor, at a 12% annual interest rate. This note becomes due and payable on January 19, 2017. On December 5, 2017, the institutional investor converted \$1,780 of this note into 899,468 shares of the Company's common stock.

On January 10, 2017, the Company entered into convertible promissory note with Yewen Xi for the principal amount of \$40,000, at a 12% annual interest rate and maturity date of January 9, 2018. Yewen Xi shall have right to convert the outstanding principal amount and accrued interest after July 9, 2017 and the conversion features equal to 75% of the average closing price of the Company's common stock five consecutive days prior to the conversion. The Company received \$40,000 in cash on January 10, 2017.

On January 12, 2017, the Company entered into a loan settlement agreement with Money Works Direct for the sum of remaining balance of \$34,726 for \$50,000 and \$120,000 loans. The Company is required to pay back with the specific weekly amount of \$1,500. The loan is secured by pledge of assets of CDII and guaranteed by the James (Yuejian) Wang, the CEO of the Company.

F - 31

---

