SUNLINK HEALTH SYSTEMS INC
Form 10-Q/A
September 25, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-12607

SUNLINK HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Ohio	**31-0621189**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

900 Circle 75 Parkway, Suite 1120, Atlanta, Georgia 30339

(Address of principal executive offices)

(Zip Code)

(770) 933-7000

(Registrant s telephone number, including area code)

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 filings requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark whether the registrant 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 during the preceding 12 months (of for such shorter period that the registrant is required to submit and post such files. Yes ¨ No ¨ N/A x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

The number of Common Shares, without par value, outstanding as of May 15, 2009 was 7,998,432.

Amendment No. 1 Overview

SunLink Health Systems, Inc. (SunLink) is filing this Amendment No. 1 of Form 10-Q/A to our Form 10-Q for the three and nine months periods ended March 31, 2009 to reflect the restatement of our previously issued condensed consolidated financial statements and other information to correct the impact of non-cash accounting errors at its Carmichael s Cashway Pharmacy, Inc. subsidiary (Carmichael). For further discussion of the restatement, see Note 1 to our condensed consolidated financial statements and Item 4 contained herein.

In May 2009, Carmichael s then Chief Financial Officer (CFO) resigned. In June 2009, Carmichael hired a new CFO and in July 2009, the new Carmichael CFO and SunLink s CFO began an investigation into unresolved accounting discrepancies between Carmichael s accounts receivable detail and its general ledger. When the new Carmichael CFO was unable to resolve the discrepancies, SunLink, in July 2009, engaged an outside accountant (the **Investigation Accountant**) to investigate the discrepancies. After being informed of the preliminary results of the Investigation Accountant s investigation, the Company informed the Audit Committee of SunLink s Board of Directors (the **Audit Committee**) of the preliminary findings by such Investigation Accountant. Based on such preliminary findings, on August 28, 2009 SunLink concluded that the impact of the Carmichael level accounting irregularities made it likely that SunLink s financial statements for the first, second and third fiscal quarters ended September 30, 2008, December 31, 2008 and March 31, 2009, respectively, should not be relied on.

As we previously disclosed in our Form 8-K filed on August 28, 2009, SunLink reached its conclusion on August 28, 2009, based on information reviewed by SunLink s management and SunLink s Audit Committee and SunLink s independent registered public accounting firm (the **Public Accountants**), including information provided by the Investigation Accountant. SunLink concluded that Carmichael s financial statements, among other things, had misstated the Subsidiary s accounts receivable during the referenced periods and, as a result thereof, the SunLink financial statements for the quarters ended September 30, 2008, December 31, 2008 and March 31, 2009 contained errors in the amount of accounts receivable, net income (loss), revenues, provision for bad debts and contractual allowances. The Public Accountants concur with SunLink s conclusion with respect to the restatement of the condensed consolidated financial statements for the quarter ended September 30, 2008, December 31, 2008 and March 31, 2009.

The information contained in this Amendment, including the condensed consolidated financial statements and the notes hereto, amends Items 1 and 2 of Part I and Item 4T of Part II of the originally filed Quarterly Report on Form 10-Q for the three and nine month periods ended March 31, 2009 and no other items in our originally filed Form 10-Q are hereby amended. This Form 10-Q/A does not materially modify or update other disclosures in the original Form 10-Q, including the nature and character of such disclosure to reflect events occurring after May 14, 2009, the filing date of the original Form 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission. In addition, currently dated certifications from our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this amendment.

The following table sets forth the effects of the restatement on certain line items within our previously reported condensed consolidated financial statements (in thousands, except per share data):

(in thousands, except per share amounts)

Condensed Consolidated Statements of Earnings

	Three Months Ended	
	March 31, 2009 Restated	March 31, 2009 Previously Reported
Net Revenues	$ 53,563	$ 53,827
Provision for bad debts	6,399	5,721
Operating Profit	2,410	3,352
Earnings from continuing operations before income taxes	2,140	3,082
Earnings from continuing operations	981	1,563
Net Earnings	949	1,531
Earnings per Share		
Continuing Operations:		
Basic	0.12	0.20
Diluted	0.12	0.20
Net Earnings:		
Basic	0.12	0.19
Diluted	$ 0.12	$ 0.19

	Nine Months Ended	
	March 31, 2009 Restated	March 31, 2009 Previously Reported
Net Revenues	$ 149,999	$ 150,694
Provision for bad debts	18,131	16,843
Operating Profit	3,325	5,308
Earnings from continuing operations before income taxes	726	2,709
Earnings from continuing operations	217	1,441
Net Earnings	21	1,245
Earnings per Share		
Continuing Operations:		
Basic	0.03	0.18
Diluted	0.03	0.18
Net Earnings:		
Basic	0.00	0.16
Diluted	$ 0.00	$ 0.16

(in thousands, except per share amounts)

Condensed Consolidated Balance Sheets

	March 31, 2009 Restated	March 31, 2009 Previously Reported
Receivables - net	$ 22,476	$ 24,459
Income taxes	655	1,414
Total assets	109,128	111,111
Retained earnings	$ 25,572	$ 26,796

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	March 31, 2009 (Restated)	June 30, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,753	$ 1,716
Receivables - net	22,476	20,052
Inventory	4,612	4,711
Deferred income tax asset	5,135	5,449
Prepaid expenses and other	3,242	3,244
Total Current Assets	37,218	35,172
Property, Plant and Equipment, at cost	71,037	71,205
Less accumulated depreciation and amortization	23,907	19,985
Property, Plant and Equipment - net	47,130	51,220
Intangible assets - net	12,784	13,427
Goodwill	9,453	9,453
Other assets	2,543	2,352
Total Assets	$ 109,128	$ 111,624
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 8,207	$ 8,691
Revolving advances	6,000	3,900
Third-party payor settlements	284	1,664
Current maturities of long-term debt	1,825	1,844
Current maturities of subordinated long-term debt	300	150
Accrued payroll and related taxes	5,813	6,012
Income taxes	655	555
Other accrued liabilities	4,411	4,253
Total Current Liabilities	27,495	27,069
Long-Term Liabilities:		
Long-term debt	31,335	33,118
Subordinated long-term debt	2,700	2,850
Noncurrent liability for professional liability risks	2,575	2,506
Noncurrent deferred income tax liabilities	2,040	3,132
Other noncurrent liabilities	1,427	2,090

Total Long-term Liabilities	40,077	43,696
Commitments and Contingencies		
Minority interest	615	615
Shareholders Equity:		
Preferred shares, authorized and unissued, 2,000 shares		
Common shares, without par value:		
Issued and outstanding, 7,998 shares at March 31, 2009 and 7,932 shares at June 30, 2008	3,999	3,966
Additional paid-in capital	11,558	11,310
Retained earnings	25,572	25,551
Accumulated other comprehensive loss	(188)	(583)
Total Shareholders Equity	40,941	40,244
Total Liabilities and Shareholders Equity	$ 109,128	$ 111,624

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share amounts)

(unaudited)

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2009 (Restated)	2008	2009 (Restated)	2008
Net Revenues	$ 53,563	$ 39,407	$ 149,999	$ 114,612
Costs and Expenses:				
Cost of Goods Sold	10,004		25,299	
Salaries, wages and benefits	20,091	18,943	59,692	54,357
Provision for bad debts	6,399	5,026	18,131	16,871
Supplies	3,790	3,818	10,903	11,343
Purchased services	2,792	2,462	8,714	7,485
Other operating expenses	5,070	4,852	15,964	14,708
Rent and lease expense	841	796	2,401	2,281
Impairment of construction in progress	433		433	
Depreciation and amortization	1,733	1,339	5,137	3,841
Costs and expenses	51,153	37,236	146,674	110,886
Operating Profit	2,410	2,171	3,325	3,726
Other Income (Expense):				
Gain on sale of assets			180	
Interest expense	(292)	(418)	(2,818)	(1,264)
Interest income	22	14	39	47
Earnings from Continuing Operations before Income Taxes	2,140	1,767	726	2,509
Income Tax Expense	1,159	831	509	1,079
Earnings from Continuing Operations	981	936	217	1,430
Loss from Discontinued Operations	(32)	(107)	(196)	(241)
Net Earnings	$ 949	$ 829	$ 21	$ 1,189
Earnings (Loss) Per Share:				
Continuing Operations:				
Basic	$ 0.12	$ 0.12	$ 0.03	$ 0.19
Diluted	$ 0.12	$ 0.12	$ 0.03	$ 0.18
Discontinued Operations:				
Basic	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.03)
Diluted	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.03)

Net Earnings:				
Basic	$ 0.12	$ 0.11	$ 0.00	$ 0.16
Diluted	$ 0.12	$ 0.11	$ 0.00	$ 0.15
Weighted-Average Common Shares Outstanding:				
Basic	7,999	7,544	7,975	7,524
Diluted	7,999	7,796	8,027	7,792

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	NINE MONTHS ENDED MARCH 31,	
	2009 (Restated)	2008
Net Cash Provided By Operating Activities	$ 272	$ 2,554
Cash Flows From Investing Activities:		
Expenditures for property, plant and equipment	(1,032)	(7,009)
Proceeds from sale of assets	522	
Net Cash Used in Investing Activities	(510)	(7,009)
Cash Flows From Financing Activities:		
Proceeds from issuance of common shares under stock option plans	108	137
Revolving advances, net	2,100	5,745
Payments on long-term debt	(1,933)	(665)
Net Cash Provided by Financing Activities	275	5,217
Net Increase in Cash and Cash Equivalents	37	762
Cash and Cash Equivalents at Beginning of Period	1,716	814
Cash and Cash Equivalents at End of Period	$ 1,753	$ 1,576
Supplemental Disclosure of Cash Flow Information:		
Cash Paid For:		
Interest	$ 2,415	$ 1,269
Income taxes	$ 1,145	$ 929
Non-cash investing and financing activities :		
Property, plant and equipment acquired but not paid	$	$ 727
Asset acquired under capital lease obligation	$ 131	$

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED MARCH 31, 2009 AND 2008

(all dollar amounts in thousands, except per share amounts)

(unaudited)

Note 1. Restatement and Basis of Presentation

Restatement

We have restated our Condensed Consolidated Financial Statements and other financial information in our Quarterly Report on Form 10-Q for the three and nine month periods ended March 31, 2009 to correct the impact of non-cash accounting errors at our Carmichael s Cashway Pharmacy, Inc. subsidiary (Carmichael). The accompanying Condensed Consolidated Financial Statements were restated only to reflect the adjustments described below and do not reflect events occurring after May 14, 2009, the date of the filing of our original Form 10-Q, nor modify or update those disclosures that have been affected by subsequent events. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission.

In May 2009, Carmichael then Chief Financial Officer (CFO) resigned. In June 2009, Carmichael hired a new CFO and in July 2009, the new Carmichael CFO and SunLink s CFO began an investigation into unresolved accounting discrepancies between Carmichael accounts receivable detail and its general ledger. When the new Carmichael CFO was unable to resolve the discrepancies, SunLink, in July 2009, engaged an outside accountant (the **Investigation Accountant**) to investigate the discrepancies. After being informed of the preliminary results of the Investigation Accountant s investigation, the Company informed the Audit Committee of SunLink s Board of Directors (the **Audit Committee**) of the preliminary findings by such Investigation Accountant. Based on such preliminary findings, on August 28, 2009 SunLink concluded that the impact of the Carmichael level accounting irregularities made it likely that SunLink s financial statements for the first, second and third fiscal quarters ended September 30, 2008, December 31, 2008 and March 31, 2009, respectively, should not be relied on.

As we previously disclosed in our Form 8-K filed on August 28, 2009, SunLink reached its conclusion on August 28, 2009, based on information reviewed by SunLink s management and SunLink s Audit Committee and SunLink s independent registered public accounting firm (the **Public Accountants**), including information provided by the Investigation Accountant. SunLink concluded that Carmichael s financial statements, among other things, had misstated the Subsidiary s accounts receivable during the referenced periods and, as a result thereof, the SunLink financial statements for the quarters ended September 30, 2008, December 31, 2008 and March 31, 2009 contained errors in the amount of accounts receivable, net income (loss), revenues, bad debt expense, allowance for doubtful accounts and contractual allowances. The Public Accountants concur with SunLink s conclusion with respect to the restatement of the condensed consolidated financial statements for the quarter ended September 30, 2008, December 31, 2008 and March 31, 2009.

The following table sets forth the effects of the restatement on certain line items within our previously reported condensed consolidated financial statements (in thousands, except per share data):

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Net Revenues	$ 149,999	$ 150,694
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Net Earnings:		
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(in thousands, except per share amounts)

Condensed Consolidated Balance Sheets

	March 31, 2009 Restated	March 31, 2009 Previously Reported
Receivables - net	$ 22,476	$ 24,459
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Total assets	109,128	111,111
Retained earnings	$ 25,572	$ 26,796

Note 2. Business Operations and History

SunLink Health Systems, Inc. is a provider of healthcare services in certain rural and exurban markets in the United States. SunLink s business is composed of two business segments:

- Healthcare Facilities, which consist of
  - Our seven community hospitals which have a total of 402 licensed beds;
  - Our three nursing homes, which have a total of 261 licensed beds, each of which is located adjacent to a corresponding SunLink community hospital; and
  - Our four home health agencies, each of which operates in connection with a corresponding SunLink community hospital.
- Specialty Pharmacy, which consists of
  - Specialty pharmacy services;
  - Durable medical equipment;
  - Institutional pharmacy services; and
  - Retail pharmacy products and services.

SunLink has conducted its healthcare facilities business since 2001 and its specialty pharmacy business since April 2008. Our Specialty Pharmacy Segment is operated through SunLink ScriptsRx LLC and consists of a specialty pharmacy business acquired in April 2008 with four service lines.

Strategy

SunLink s business strategy for our healthcare facilities is to focus our efforts on internal growth of our seven hospitals, three nursing homes and four home health agencies, supplemented by growth from selected rural and exurban healthcare facility acquisitions, including, but not limited to hospitals, nursing homes and home health agencies. During the three and nine month periods ended March 31, 2009, we concentrated our healthcare facilities efforts on the operations of our existing hospitals. During the current and prior fiscal years, we have evaluated certain rural and exurban hospitals and healthcare facilities which were for sale and monitored other selected rural and exurban healthcare acquisition targets we believed might become available for sale. We continue to engage in similar evaluation and monitoring activities with respect to rural and exurban hospitals and healthcare facilities, which are or may become available for acquisition.

Our acquisition strategy for our pharmacy business is to acquire such businesses in rural or exurban markets where the acquisition is complementary to our existing pharmacy services and in new rural and exurban markets where the scale of the acquisition is sufficient to provide a foundation to grow Specialty Pharmacy in that area.

We may consider disposition of one or more of our facilities or businesses based on a variety of factors including asset values, operating performance, return on investment, competition from existing and potential facilities, industry and reimbursement trends and capital improvement needs.

Note 3. Carmichael s Cashway Pharmacy Acquisition

On April 22, 2008, SunLink acquired Carmichael s Cashway Pharmacy, Inc. (Carmichael). The Carmichael acquisition purchase price was $24,000, consisting of $19,000 cash, seller subordinated debt of $3,000 and $2,000 in SunLink shares (334,448 shares). Carmichael had annual revenues of approximately $42,200 for its year ended December 31, 2007 and at the time of acquisition had been in business for over 35 years. Carmichael provides services to patients in rural communities in southwest Louisiana and eastern Texas.

The following table presents selected unaudited consolidated financial information of our Company, for the three and nine months ended March 31, 2008, as if the acquisition of Carmichael had occurred on July 1, 2007. The pro forma results are derived from the historical financial results of Carmichael for all periods presented and are not necessarily indicative of the results that would have occurred had the acquisition been consummated on July 1, 2007.

	Unaudited Nine Months Ended March 31, 2008		Unaudited Three Months Ended March 31, 2008	
Revenues	$	147,770	$	50,308
Earnings from Continuing Operations		1,063		940
Earnings per share from Continuing Operations, diluted	$	0.13	$	0.12

Note 4. Discontinued Operations

All of the businesses discussed below are reported as discontinued operations and the condensed consolidated financial statements for all prior periods have been adjusted to reflect this presentation.

Results for all of the businesses included in discontinued operations are presented in the following table:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Loss from discontinued operations:				
Housewares Segment:				
Loss from operations	$ (51)	$ (95)	$ (191)	$ (232)
Income tax benefit	(23)	(38)	(78)	(92)
Loss from Housewares Segment after taxes	(28)	(57)	(113)	(140)
Mountainside Medical Center				
Loss from operations		(69)	(98)	(128)
Income tax benefit	(3)	(27)	(40)	(50)
Loss from Mountainside Medical Center after taxes	3	(42)	(58)	(78)
Life Sciences and Engineering Segment:				
Loss from operations	(14)	(13)	(43)	(38)
Income tax benefit	(7)	(5)	(18)	(15)
Loss from Life Sciences and Engineering Segment after income taxes	(7)	(8)	(25)	(23)
Loss from discontinued operations	$ (32)	$ (107)	$ (196)	$ (241)

Housewares Segment - Beldray Limited (Beldray), a U.K. housewares manufacturing subsidiary, was sold on October 5, 2001 to two of its managers for nominal consideration. KRUG International U.K. Ltd. (KRUG UK), an inactive U.K. subsidiary of SunLink, entered into a guarantee (the Beldray Guarantee), at a time when it owned Beldray. The Beldray Guarantee covers Beldray s obligations under a lease of a portion of Beldray s former manufacturing location. KRUG UK was placed into involuntary liquidation by the High Court in February 2005. SunLink s non-current liability reserves for discontinued operations at March 31, 2009, included a reserve for a portion of the Beldray Guarantee, which would include certain amounts sought pursuant to the application made by the liquidator of KRUG UK. See the Legal Proceedings subsection in Note 14 Commitments and Contingencies which follows for additional disclosure of the application.

Mountainside Medical Center - On June 1, 2004, SunLink completed the sale of its Mountainside Medical Center (Mountainside) hospital in Jasper, Georgia, for approximately $40,000 pursuant to the terms of an asset sale agreement. Under the terms of the agreement, SunLink sold the operations of Mountainside, which included substantially all the property, plant and equipment and the supplies inventory. SunLink retained Mountainside s working capital except for supplies inventory. The retained liabilities of Mountainside are shown in other accrued liabilities on the consolidated balance sheet. The pre-tax losses in the three and nine months ended March 31, 2009 with respect to the former Mountainside operations resulted primarily from legal expenses related to a claim made by the buyer of Mountainside and a counterclaim made by SunLink. See the Legal Proceedings subsection in Note 14 Commitments and Contingencies which follows for additional disclosure of the claims.

Life Sciences and Engineering Segment - SunLink retained a defined benefit retirement plan which covered substantially all of the employees of this segment when it was sold in fiscal 1998. Effective February 28, 1997, the plan was amended to freeze participant benefits and close the plan to new participants. Included in discontinued operations for the three and nine months ended March 31, 2009 and 2008, respectively, were the following:

	Three Months Ended March 31		Nine Months Ended March 31	
	2009	**2008**	**2009**	**2008**
Interest cost	18	18	54	54
Expected return on assets	(13)	(13)	(38)	(40)
Amortization of prior service cost	9	8	27	24
Net pension expense	14	13	43	38

SunLink did not contribute to the plan in the nine months ended March 31, 2009. We expect to make no contribution to the plan through the end of the fiscal year ending June 30, 2009.

Industrial Segment - In fiscal 1989, SunLink discontinued the operations of its industrial segment and subsequently disposed of substantially all related net assets. However, obligations may remain relating to product liability claims for products sold prior to the disposal.

Discontinued Operations Reserves - Over the past 19 years, SunLink has discontinued operations carried on by its former Mountainside Medical Center and its former industrial, U.K. leisure marine, life sciences and engineering, and European child safety segments, as well as the U.K. housewares segment. SunLink s reserves relating to discontinued operations of these segments represent management s best estimate of SunLink s possible liability for property, product liability and other claims for which SunLink may incur liability. These estimates are based on management s judgments, using currently available information, as well as, in certain instances, consultation with its insurance carriers, third party advisors and legal counsel. While estimates have been based on the evaluation of available information, it is not possible to predict with certainty the ultimate outcome of many contingencies relating to discontinued operations. SunLink intends to continue to adjust its estimates of the reserves as additional information is developed and evaluated. However, management believes that the final resolution of these contingencies will not have a material adverse impact on the financial position, cash flows or results of operations of SunLink.

Note 5. Stock-Based Compensation

For the three months ended March 31, 2009 and 2008, SunLink recognized $26 and $89, respectively, in salaries, wages and benefit expense for share options issued to employees and directors of the Company and for the nine months ended March 31, 2009 and 2008, SunLink recognized $173 and $295 respectively, in salaries, wages and benefit expense for share options issued to employees and directors of the Company. The fair value of the share options granted was estimated using the Black-Scholes option pricing model. There were zero share options granted during the three months ended March 31, 2009 and 28,000 share options granted during the nine months ended March 31, 2009.

In November 2008, SunLink approved an Executive Bonus Plan for 2009 (the Plan), which is a variable cash incentive program designed to reward Executives of SunLink and its affiliates for successful achievement of certain short-term corporate goals and objectives. The Plan was offered to all of the Company s executive officers and certain other employees, and requires that each participant, in order to participate in the Plan, agree to relinquish any and all stock options that such executive officer holds that have an exercise price equal to or greater than $6.00 per share. During the nine months ended March 31, 2009, stock options totaling 601,106 shares were relinquished under the Plan.

Note 6. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements.

Effective July 1, 2008, the Company adopted the provisions of SFAS No. 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis. The adoption of the provisions of SFAS No. 157 related to financial assets and liabilities and other assets and liabilities that are carried at fair value on a recurring basis did not materially impact the Company s consolidated financial position and results of operations.

In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157* which provides for a one-year deferral of the provisions of SFAS No. 157 for non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a non-recurring basis. The Company is currently evaluating the impact of adopting the provisions of Statement No. 157 for non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis (adoption is required on July 1, 2009).

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is not Active* , which provides guidance for determining the fair value of a financial asset in an inactive market. The adoption of FSP 157-3 did not have a material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* , which provided additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. It also provides guidance on identifying circumstances that indicate a transaction is not orderly. FSP No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 and shall be applied prospectively.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS No. 157 describes three levels of inputs that may be used to measure fair value:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - quoted prices for similar assets and liabilities in active markets or inputs that are observable;

Level 3 - inputs that are unobservable (for example cash flow modeling inputs based on assumptions).

The Company did not have any financial instruments that were required to be disclosed under SFAS No. 157 at March 31, 2009. See Note 15, Commitments and Contingencies.

In February 2007, the FASB issued SFAS No. 159*, The Fair Value Option for Financial Assets and Financial Liabilities,* which provides companies with an option to report selected financial assets and liabilities at fair value. It also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. There has been no effect on the Company s consolidated statement of earnings from the adoption of this statement.

In March 2007, the FASB issued SFAS No. 141R, *Business Combinations* , which is intended to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R includes a substantial number of new disclosure requirements. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company will comply with the new SFAS No. 141R requirements for any business combination transactions concluded after June 30, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* , which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is intended to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way as equity in the consolidated financial statements. SFAS No. 160 includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the effect of adopting SFAS No. 160 on the Company s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* , which requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of this Statement did not have a material impact on the Company s consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* . This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* . The Company is required to adopt FSP

142-3 on September 1, 2009; earlier adoption is prohibited. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. The Company is currently evaluating the effect of FSP 142-3 on its consolidated financial statements

In May 2008, the FASB issued SFAS No. 162, *Hierarchy of Generally Accepted Accounting Principles* (*SFAS 162*). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement was effective on November 15, 2008. Any effect of applying the provisions of this statement were required to be reported as a change in accounting principle in accordance with FASB Statement No. 154 *Accounting Changes and Error Corrections.* The adoption of this Statement did not have a material impact on the Company s consolidated financial statements.

In September 2008, the FASB issued FSP No. FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* . This FSP amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* , to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* , to require an additional disclosure about the current status of the payment/performance risk of a guarantee. Further, this FSP clarifies the Board s intent about the effective date of FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* . This FSP is effective for fiscal years and interim periods ending after November 15, 2008. The adoption of this Statement did not have a material impact on the Company s consolidated financial statements.

In December 2008, the FASB issued FSP No. FSP 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* . This FSP amends and clarifies FASB Statement No. 141 (revised 2007), *Business Combinations* , to address application issues raised on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

Note 7. Receivables- net

	March 31, 2009 (Restated)	June 30, 2008
Accounts receivable (net of contractual allowances)	$ 36,726	$ 34,190
Less allowance for doubtful accounts	(14,250)	(14,138)
Receivables - net	$ 22,476	$ 20,052

Net revenues included $119 and $116 for the three months ended March 31, 2009 and 2008, respectively, for the settlements and filings of prior year Medicare and Medicaid cost reports.

Net revenues included $391 and $439 for the nine months ended March 31, 2009 and 2008, respectively, for the settlements and filings of prior year Medicare and Medicaid cost reports.

Note 8. Goodwill And Intangible Assets

SunLink has goodwill and intangible assets resulting from acquisitions of its Healthcare Facilities and Specialty Pharmacy segments.

Intangibles consist of the following, net of amortization:

	March 31, 2009	June 30, 2008
Healthcare Facilities Segment	$ 610	$ 706
Specialty Pharmacy Segment	12,174	12,721
	$ 12,784	$ 13,427

Amortization expense was $240 and $44, for the quarters ended March 31, 2009 and 2008, respectively. Amortization expense was $692 and $129, for the nine months ended March 31, 2009 and 2008, respectively.

Goodwill consists of the following:

	March 31, 2009	June 30, 2008
Healthcare Facilities Segment	$ 2,944	$ 2,944
Specialty Pharmacy Segment	6,509	6,509
	$ 9,453	$ 9,453

Note 9. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2009	June 30, 2008
Term Loan	$ 33,023	$ 34,854
Capital lease obligations	137	108
Total	33,160	34,962
Less current maturities	(1,825)	(1,844)
	$ 31,335	$ 33,118

SunLink Credit Facilities - On April 23, 2008, SunLink entered into a $47,000 seven-year senior secured credit facility (2008 Credit Facility) comprised of a revolving line of credit of up to $12,000 with an interest rate at LIBOR plus 3.50% (6.25% at March 31, 2009) (the Revolving Loan) and a $35,000 term loan with an interest rate at LIBOR plus 5.07% (7.82% at March 31, 2009) (the Term Loan). In the 2008 Credit Facility, LIBOR is defined as the Thirty-Day published rate, not to be less than 2.75%, nor more than 5.50%. The total availability of credit under both components of the credit facility is keyed to the level of SunLink s earnings, which, based upon the Company s estimates, provided for current borrowing capacity, before any draws,

of approximately $45,023 at March 31, 2009. At closing, the entire $35,000 term loan and $5,500 of the revolving loan were drawn. The Company used the initial proceeds of the loans in the amount of $40,500 to repay outstanding debt, including its 2004 Credit Agreement, to pay the cash portion of the purchase price for the Carmichael acquisition, to pay fees and expenses thereunder and for general corporate purposes. Costs and fees related to execution of the credit facility were $2,190. The fees will be amortized over seven years at approximately $309 a year and are recorded in other assets and other non-current assets. Amortization expense was $95 and $282, respectively, for the quarter and nine months ended March 31, 2009. Accumulated amortization was $343 at March 31, 2009. The 2008 Credit Facility is secured by a first priority security interest in substantially all real and personal property of the Company and its consolidated domestic subsidiaries, including a pledge of all of the equity interests in such subsidiaries.

Note 10. Subordinated Long-Term Debt

Subordinated long-term debt consisted of the following:

	March 31, 2009	June 30, 2008
Carmichael	$ 3,000	$ 3,000
Less current maturities	(300)	(150)
	$ 2,700	$ 2,850

Carmichael s Loan - On April 22, 2008, SunLink Scripts Rx, LLC (formerly known as SunLink Homecare Services LLC) entered into a $3,000 promissory note agreement with an interest rate of 8% with the former owners of Carmichael as part of the acquisition purchase price. The note is payable in semi-annual installments of $150 beginning on April 22, 2009 with the remaining balance of $1,200 due April 22, 2015. Interest is payable in arrears semi-annually on the six-month anniversary of the issuance of the note. The note is guaranteed by SunLink Health Systems, Inc. for the payment of principal and accrued but unpaid interest. The note is subordinate to the 2008 Credit Facility.

Note 11. Income Taxes

Income tax expense of $1,159 ($837 federal tax and $322 state tax expense) and income tax expense of $831 ($781 federal tax and $50 state tax expense) was recorded for the three months ended March 31, 2009 and 2008, respectively. Income tax expense of $509 ($260 federal tax expense and $249 state tax expense) and $1,079 ($1,003 federal tax expense and $76 state tax expense) was recorded for the nine months ended March 31, 2009 and 2008, respectively. We had an estimated net operating loss carry-forward for federal income tax purposes of approximately $6,400 at March 31, 2009. Use of this net operating loss carry-forward is subject to the limitations of the provisions of Internal Revenue Code Section 382. As a result, not all of the net operating loss carry-forward is available to offset federal taxable income in the current year. At March 31, 2009, we have provided a partial valuation allowance against the domestic deferred tax asset so that the net domestic tax asset was $2,724. Based upon management s assessment that it was more likely than not that a portion of its domestic deferred tax asset (primarily its domestic net operating losses subject to limitation) would not be recovered, the Company established a valuation allowance for the portion of the domestic tax asset which may not be utilized. The Company has provided a valuation allowance for the entire amount of the foreign tax asset as it is more likely than not that none of the foreign deferred tax assets will be realized through future taxable income or implementation of tax planning strategies.

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* on July 1, 2007. It requires that a change in judgment related to prior years tax positions be recognized in the quarter of such change. As a result of the implementation of FIN 48, the Company recognized a liability for unrecognized tax benefits in the amount of $58 which was accounted for as the creation of a deferred tax asset as of July 1, 2007. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Balance at July 1, 2008	$ 58
Additions based on tax positions related to current year	24
Additions for tax positions of prior years	
Reductions for tax positions of current year	
Reductions for tax positions of prior years	(17)
Settlements	
Balance at March 31, 2009	$ 65

The Company and its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Company is not currently subject to U.S. federal, state or local, or non-U.S. income tax examinations by tax authorities for any tax years. We therefore believe that there is no tax jurisdiction in which the outcome of unresolved issues or claims is likely to be material to our financial position, cash flows or results of operations. We further believe that we have made adequate provision for all income tax uncertainties.

At July 1, 2008, our unrecognized tax benefits, the aggregate tax effect of differences between tax return positions and the benefits recognized in our financial statements as shown above, amounted to $58. This amount increased during the current period to $65. If recognized, all of our unrecognized tax benefits would not reduce our income tax expense or effective tax rate except as such recognition related to the removal of the liability associated with interest classified as income tax expense. No portion of any such reduction may be reported as discontinued operations. During 2009, certain factors could potentially reduce our unrecognized tax benefits, either because of the expiration of open statutes of limitation or modifications to our intercompany accounting policies and procedures. Of these tax positions, none relate to positions that would affect our total tax provision or effective tax rate (except as such recognition related to the removal of the liability associated with interest classified as income tax expense).

We classify interest on tax deficiencies and income tax penalties as tax expense. At July 1, 2008, before any tax benefits, our accrued interest on unrecognized tax benefits amounted to $10 and we had recorded no related accrued penalties. The amount of accrued interest increased by $4 during the nine months ended March 31, 2009 to $14.

Note 12. Minority Interest

On February 1, 2008, SunLink sold 17% of the Chilton Medical Center in Clanton, Alabama, to individual physicians practicing at that facility. The minority interest reported reflects these physicians ownership interest at March 31, 2009. The results of operations for the period from February 1, 2008 to June 30, 2008 and from July 1, 2008 to March 31, 2009 were a loss and did not result in any change in the physicians ownership interest.

Note 13. Impairment of Construction In Progress Land Acquisition Costs

In August 2007, SunLink received final approval of a Certificate of Need application with the State of Georgia to build a replacement hospital in Ellijay, Georgia. SunLink exercised its option to purchase land in Ellijay to build the replacement hospital; however, the owner failed to close. SunLink is pursuing a claim for damages against the owner based upon the owner s failure to close the sale as agreed. We are currently in litigation with the owner. The outcome of the litigation is uncertain. The agreed purchase price for such property was approximately $3,300. During the three months ended March 31, 2009, SunLink expensed $433 of costs which had been capitalized relating to the land.

Note 14. Comprehensive Earnings

Comprehensive earnings for SunLink include foreign currency translation adjustments and change in minimum pension liability. The foreign currency translation adjustment results primarily from the effect of changes in the exchange rates of the UK pound on the Company s reserve for the Beldray Guarantee (See Note 4. *Discontinued Operations*).

Total comprehensive earnings for the following periods were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009 (Restated)	2008	2009 (Restated)	2008
Net earnings	$ 949	$ 829	$ 21	$ 1,189
Other comprehensive income net of tax:				
Change in equity due to:				
Foreign currency translation adjustments	62		395	14
Comprehensive earnings	$ 1,011	$ 829	$ 416	$ 1,203

Note 15. Commitments and Contingencies

On July 13, 2006, Piedmont Healthcare, Inc. (PHI) and Piedmont Mountainside Hospital, Inc. (PMH) (collectively the Plaintiffs or Piedmont filed a Complaint in the Superior Court of Cobb County, Georgia, alleging breach of the Asset Purchase Agreement (the Agreement) dated as of April 9, 2004 by and among PMH, Piedmont Medical Center, Inc. (n/k/a PMI), Southern Health Corporation of Jasper, Inc. (SHCJ), SunLink Healthcare LLC (formerly SunLink Healthcare Corp.) and SunLink (collectively Defendants or SunLink) pursuant to which the Mountainside Medical Center was sold to PMH in June 2004. Specifically, Piedmont seeks to have SunLink reimburse Piedmont for certain costs associated with an alleged indigent and charity care shortfall of Piedmont Mountainside Hospital (formerly Mountainside Medical Center) for the fiscal year ended June 30, 2004 demanded by the Georgia Department of Community Health (DCH). In addition, Piedmont seeks reimbursement for funds allegedly recouped from PMH by DCH in respect of Medicaid Cost Report settlements and adjustments for the reporting periods ended June 30, 2002, June 30, 2003 and May 31, 2004. Piedmont also seeks a declaratory judgment to the effect that PMH may retain certain payments it has received or likely will receive from the DCH s Indigent Care Trust Fund for Disproportionate Share Hospitals. Piedmont also seeks recovery of costs and attorney s fees pursuant to the Agreement and under Georgia Law.

On August 11, 2006, SunLink filed an Answer to the complaint asserting factual and legal defenses, along with a Counterclaim. In the Counterclaim, SHCJ alleges that PMH breached the Agreement by failing to reimburse SHCJ for certain Medicaid Cost Report adjustments for the reporting periods ended June 30, 1999, and June 30, 2000, as well as funds paid or expected to be paid to PMH from the DCH s Indigent Care Trust Fund for Disproportionate Share Hospitals, which payments Defendants contend qualify as excluded assets not sold to PMH under the Agreement. SHCJ also alleged that PMH breached the Agreement by failing to cooperate with SHCJ in an appeal of certain Medicaid Cost Reports settlements for the reporting periods ended June 30, 2002, June 30, 2003 and May 31, 2004. SHCJ further alleged that Piedmont breached its obligations to guarantee PMH s payment and performance of its obligations under the Agreement. SunLink sought a declaratory judgment regarding the parties rights in respect of the Medicaid Cost Report settlements and adjustments, as well as the payment made and expected to be made under the Indigent Care Trust Fund. Also, Defendants sought to recover their costs and attorney s fees pursuant to the Agreement and under Georgia law.

On October 13, 2008, the Superior Court of Cobb County, Georgia, ruled in SunLink s favor and determined that the May and August 2006 DSH payments constitute excluded assets not sold to PMH under the Agreement and, therefore, the right to receive the payments belonged to SunLink. By PMH retaining the payments for itself and failing to pay an equivalent amount of money to SunLink, PMH was in breach of the agreement. PMH is liable to SunLink for damages in the amount of $1,056 plus prejudgment interest from August 11, 2006 to October 13, 2008 at the legal rate of 7%. PMH has appealed the Superior Court of Cobb County, Georgia, ruling, therefore SunLink has not recorded a receivable for the judgment amount or any prejudgment interest.

As discussed in Note 4. *Discontinued Operations* , SunLink sold its former U.K. housewares manufacturing subsidiary, Beldray Limited (Beldray), to two of its managers in October 2001. Beldray has since entered into administrative receivership and is under the administration of its primary lender. SunLink believes Beldray ceased to operate in October 2004.

KRUG International U.K. Ltd. (KRUG UK), an inactive U.K. subsidiary of SunLink, entered into a guarantee (the Beldray Guarantee), at a time when it owned Beldray. The Beldray Guarantee covers Beldray s obligations under a lease of a portion of Beldray s former manufacturing location. KRUG UK was placed into involuntary liquidation by the High Court in February 2005.

On August 6, 2007, the liquidator of KRUG UK made an application in the Birmingham County Court in Birmingham, England, in which the liquidator is seeking a declaration by the court that a transfer of certain funds in 2001 from KRUG UK to SunLink in connection with the purchase of certain preferred stock of another subsidiary of SunLink and the making of a loan to SunLink, and certain forgiveness of debt to SunLink by KRUG UK was improper, among other things, as KRUG UK was then effectively insolvent and that the approval of such transfers by the then directors of KRUG UK resulted in a breach of their fiduciary duties. The liquidator seeks to have the court order the former directors or, in the alternative, the Company, to account for, repay or restore such funds plus interest to the liquidator of KRUG UK. On December 4, 2007, the case went to mediation but no settlement was reached and the court case is continuing. In connection with the allegations in the application of breach of fiduciary duty by the directors of KRUG UK in approving such transfer of funds, SunLink has indemnification obligations to the former directors of KRUG UK. SunLink denies any liability to KRUG UK other than to it in KRUG UK s status as a preferred stockholder (the unpaid balance on the promissory note was paid by SunLink at maturity in August 2008). SunLink, through its United Kingdom counsel, intends to vigorously defend against the liquidator s claims.

SunLink s non-current liability reserves for discontinued operations at March 31, 2009, included a reserve for a portion of the Beldray Guarantee. Such reserve was based upon management s estimate, after consultation with its property consultants and legal counsel, of the cost to satisfy the Beldray Guarantee in light of KRUG UK s limited assets and before taking into account any other claims against KRUG UK. The maximum potential obligation of KRUG UK for rent under the Beldray Guarantee is estimated to be approximately $8,400. SunLink expensed $51 in the three months ended March 31, 2009 and $191 in the nine months ended March 31, 2009 on legal costs to defend against the claim. As a result of this claim and the U.K. liquidation proceedings against KRUG UK, SunLink expects KRUG UK to be wound-up in liquidation in the UK and has fully reserved for any assets of KRUG UK.

Additional contingent obligations, other than with respect to our existing operations, include potential product liability claims for products manufactured and sold before the disposal of our discontinued industrial segment in fiscal year 1989 and for guarantees of certain obligations of former subsidiaries. We have provided an accrual at March 31, 2009 related to the Beldray Lease Guarantee, as discussed above. Based upon an evaluation of information currently available and consultation with legal counsel, management has not reserved any amounts for contingencies related to these liquidations.

SunLink is a party to claims and litigation incidental to its business, for which it is not currently possible to determine the ultimate liability, if any. Based on an evaluation of information currently available and consultation with legal counsel, management believes that resolution of such claims and litigation is not likely to have a material effect on the financial position, cash flows, or results of operations of the Company. The Company expenses legal costs as they are incurred.

Contractual Obligations, Commitments and Contingencies

Contractual obligations, commitments and contingencies related to long-term debt, non-cancelable operating leases, physician guarantees and interest on outstanding debt from continuing operations at March 31, 2009 were as follows:

Payments due in:	**Long-Term Debt**	**Subordinated Long-Term Debt**	**Operating Leases**	**Physician Guarantees**	**Interest On Outstanding Debt**	**Interest On Subordinated Outstanding Debt**
1 year	$ 1,750	$ 300	$ 2,560	$ 1,048	$ 2,535	$ 224
2 years	1,750	300	1,486	829	2,391	200
3 years	1,750	300	735	68	2,251	176
4 years	1,750	300	397		2,103	152
5 years	1,750	300	254		1,967	128
5 years +	24,273	1,500	1,240		1,898	104
	$ 33,023	$ 3,000	$ 6,672	$ 1,945	$ 13,145	$ 984

At March 31 2009, SunLink had contracts with three physicians which contained guaranteed minimum gross receipts. A physician with whom a guarantee agreement is made generally agrees to maintain his/her practice within the hospital geographic area for a specific period (normally three years) or be liable to repay all or a portion of the guarantee received. The physician s liability for any guarantee repayment due to non-compliance with guarantee provisions generally is collateralized by the physician s patient accounts receivable and/or a promissory note from the physician. Included in the Company s consolidated balance sheet at March 31, 2009 is a liability of $561 for two physicians guarantees accounted for under the provisions of FSP FIN 45-3. SunLink expensed $214 and $116 for the three months ended March 31, 2009 and 2008, respectively, and expensed $598 and $432 for the nine months ended March 31, 2009 and 2008, respectively. The table above shows noncancelable commitments under physician guarantee contracts as of March 31, 2009.

Other

The former owners of Carmichael s Cashway Pharmacy, Inc. (Sellers) received 334,448 common shares of SunLink as partial consideration for the business. In the April 2008 acquisition agreement, SunLink was obligated to pay the difference between the market value at the acquisition date and the price per share the Sellers received for shares sold, less $1 per share, if the shares were sold within one year from the acquisition date. In March 2009, SunLink and the Sellers agreed to cancel SunLink s price guarantee obligation relating to the shares. Concurrently SunLink and the Sellers agreed to an one-year extension of a consulting agreement with one of the Sellers, assumption by SunLink of $227 of disputed pre-acquisition expenses that SunLink determined were the obligation of the Sellers and payment by SunLink of certain post closing items.

Note 16. Related Party Transactions

A director of the Company and our company secretary (who was a director of SunLink until November 2003 and is now a director emeritus) are members of two different law firms, each of which provides services to SunLink. The Company has paid to these firms an aggregate of $118 and $344 for the three months ended March 31, 2009 and 2008, respectively, and $433 and $783 for the nine months ended March 31, 2009 and 2008, respectively for such services.

Note 17. Financial Information By Segments

Prior to the acquisition of Carmichael in April 2008, we operated as a single business segment. Under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-making group is composed of the chief executive officer and members of senior management. Our two reportable operating segments are Healthcare Facilities and Specialty Pharmacy.

We evaluate performance of our operating segments based on revenue and operating profit (loss). Segment information for the quarter and nine months ended March 31, 2009 is as follows:

	Healthcare Facilities	Specialty Pharmacy	Corporate And Other	Total
Three months ended March 31, 2009:				
(Restated)				
Net Revenues from external customers	$ 39,774	$ 13,789	$	$ 53,563
Operating profit (loss)	3,572	60	(1,222)	2,410
Depreciation and amortization	1,249	384	100	1,733
Assets	70,193	28,147	10,788	109,128
Expenditures for property, plant and equipment	$ 374	$ 78	$ 6	$ 458
Nine months ended March 31, 2009:				
(Restated)				
Net Revenues from external customers	$ 113,271	$ 36,728	$	$ 149,999
Operating profit (loss)	6,170	1,051	(3,896)	3,325
Depreciation and amortization	3,670	1,138	329	5,137
Assets	70,193	28,147	10,788	109,128
Expenditures for property, plant and equipment	$ 716	$ 265	$ 182	$ 1,163

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(dollars in thousands, except per share and admissions data)

Forward-Looking Statements

This report, and the documents incorporated by reference herein are, other than purely historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Exchange Act.

We use words such as anticipate, believe, could, continue, estimate, expect, forecast, guidance, indicate, intend, may, should, will, would, and similar expressions or the negative thereof to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements appear throughout this report and the documents incorporated by reference into this report.

All of our statements, other than statements of historical facts, are forward-looking statements, including estimates, projections, statements relating to our business plans and objectives, expected financial performance and expected results of operations, our operations and related industry developments, the revenue and pricing environment, our future financing plans and needs, our overall economic condition, and the overall economic environment. Forward-looking statements also include the assumptions upon which such statements are based.

Forward-looking statements are based upon information currently available to us and our current intent, beliefs, and expectations. Certain forward-looking statements discuss the possible future effects of current known trends or uncertainties and include statements which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured.

Forward-looking statements are subject to significant risks and uncertainties that could cause actual events, including our actual results and financial position, to differ materially from expectations. There may be other existing factors not identified, of which we may not be currently aware or which we may not appreciate, that may be separate risks or that may affect matters discussed in the forward-looking statements and such unknown or unappreciated or underappreciated risks also may cause actual events and results to differ materially from those discussed. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and, accordingly, you should not place undue reliance on our forward-looking statements.

Any forward-looking statement speaks only as of the date on which it is made, and, except as may be required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement to reflect new information or changes in assumptions, events or circumstances after the date on which the statement is made, including actual results or to reflect the occurrence of unanticipated events or changes in other factors affecting such statements. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual events or results to differ materially from information contained in any forward-looking statements.

Certain important factors could cause actual events or results to differ materially from those expressed or implied by forward-looking statements include those factors discussed elsewhere in this report or in the documents incorporated by reference into this report, including in Risk Factors. Such risks, uncertainties, and forward looking statements include, but are not limited to, statements and risks regarding the following:

General Business Conditions

- general economic and business conditions in the U.S., both nationwide and in the states in which we operate;
- the competitive nature of the U.S. community hospital, homecare and specialty businesses;
- demographic changes in areas where we operate;
- the availability of cash or borrowings to fund working capital, renovations, replacement, expansion and capital improvements at existing hospital facilities and for acquisitions and replacement hospital facilities;
- changes in accounting principles generally accepted in the U.S.; and,
- fluctuations in the market value of equity securities including SunLink common shares;

Operational Factors

- inability to operate profitability in the homecare and pharmacy business;
- the availability of, and our ability to attract and retain, sufficient qualified staff physicians, management, nurses, pharmacists and staff personnel for our operations;
- timeliness and amount of reimbursement payments received under government programs;
- restrictions imposed by debt agreements;
- the cost and availability of insurance coverage including professional liability (e.g., medical malpractice) and general liability insurance;
- the efforts of insurers, healthcare providers, and others to contain healthcare costs;
- the impact on hospital services of the treatment of patients in lower acuity healthcare settings, whether with drug therapy or via alternative healthcare services, such as surgery centers or urgent care centers;
- changes in medical and other technology;

risks of changes in estimates of self insurance claims and reserves;

increases in prices of materials and services utilized in our hospital and pharmacy operations;

increases in wages as a result of inflation or competition for management, physician, nursing, pharmacy and staff positions;

increases in the amount and risk of collectibility of accounts receivable, including deductibles and co-pay amounts; and,

the functionality or costs with respect to our management information system for our hospitals, including both software and hardware;

Liabilities, Claims, Obligations and Other Matters

claims under leases, guarantees and other obligations relating to discontinued operations, including sold facilities, retained or acquired subsidiaries and former subsidiaries;

potential adverse consequences of known and unknown government investigations;

claims for product and environmental liabilities from continuing and discontinued operations; and,

professional, general and other claims which may be asserted against us;

Regulation and Governmental Activity

existing and proposed governmental budgetary constraints;

the regulatory environment for our businesses, including state certificate of need laws and regulations, rules and judicial cases relating thereto;

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2
Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3
Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's financial instruments consist of cash and cash equivalents, accounts payable, stock option liability and warrant derivative liability.

The carrying amounts of cash and cash equivalents and accounts payable approximate fair value at January 31, 2018 and October 31, 2017 due to the short maturities of these financial instruments.

Derivative liability

The Company classifies warrants with a $CDN exercise price on its interim condensed consolidated balance sheets as a derivative liability which is fair valued at each reporting period subsequent to the initial issuance as the functional currency of Silver Bull is the U.S. Dollar. The Company has used the Black-Scholes pricing model to determine the fair value of the warrants that do not have an acceleration feature and has used the Monte Carlo valuation model to determine the fair value of the warrants that do have an acceleration feature (Note 12). Determining the appropriate fair-value model and calculating the fair value of warrants requires considerable judgment. Any change in the estimates used may cause the value to be higher or lower than that reported. The estimated volatility of the Company's common stock at the date of issuance, and at each subsequent reporting period, is based on the historical volatility adjusted to reflect the implicit discount to historical volatilities observed in the prices of traded warrants. The risk-free interest rate is based on rates published by the government for bonds with a maturity similar to the expected remaining life of the warrants at the valuation date. The expected life of the warrants is assumed to be equivalent to their remaining contractual term. The dividend yield is expected to be none as the Company has not paid dividends nor does the Company anticipate paying a dividend in the foreseeable future.

The Company reclassifies stock options granted to consultants with a $CDN exercise price on its interim condensed consolidated balance sheets upon vesting as a stock option liability which is fair valued at each reporting period subsequent to reclassification as the functional currency of Silver Bull is the U.S. Dollar. The Company has used the Black-Scholes pricing model to fair value these stock options. Determining the appropriate fair-value model and calculating the fair value of these stock options requires considerable judgment. Any change in the estimates used may cause the value to be higher or lower than that reported. The estimated volatility of the Company's common stock at the date of reclassification, and at each subsequent reporting period, is based on the historical volatility of the Company's common stock and adjusted if future volatility is expected to vary from historical experience. The risk-free interest rate is based on rates published by the government for bonds with a maturity similar to the expected remaining life of the options at the valuation date. The expected life of the options is based upon historical and expected future exercise behavior. The dividend yield is expected to be none as the Company has not paid dividends nor does the Company anticipate paying any dividend in the foreseeable future.

The derivatives are not traded in an active market and the fair value is determined using valuation techniques. The estimates may be significantly different from those recorded in the interim condensed consolidated financial statements because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. All changes in the fair value are recorded in the interim condensed consolidated statement of operations and comprehensive loss each reporting period. These are considered to be a Level 3 financial instrument.

The Company has the following liabilities under the fair value hierarchy:

	January 31, 2018		
Liability	Level 1	Level 2	Level 3
Stock option liability	$—	$ —	$13,235
Warrant derivative liability	$—	$ —	$1,858,741

<u>Credit Risk</u>

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. To mitigate exposure to credit risk on financial assets, the Company has established policies to ensure liquidity of funds and ensure that counterparties demonstrate acceptable levels of creditworthiness.

The Company maintains its U.S. dollar and Canadian dollar cash and cash equivalents in bank and demand deposit accounts with major financial institutions with high credit standings. Cash deposits held in the United States are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000, and Canadian dollar cash deposits held in Canada are insured by the Canada Deposit Insurance Corporation ("CDIC") for up to $CDN 100,000. Certain United States and Canadian bank accounts held by the Company exceed these federally insured limits or are uninsured as they relate to U.S. dollar deposits held in Canadian financial institutions. As of January 31, 2018, and October 31, 2017, the Company's cash and cash equivalent balances held in United States and Canadian financial institutions included $118,730 and $578,773, respectively, which was not insured by the FDIC or CDIC, respectively. The Company has not experienced any losses on such accounts, and management believes that using major financial institutions with high credit ratings mitigates the credit risk to cash and cash equivalents.

The Company also maintains cash in bank accounts in Mexico. These accounts are denominated in the local currency and are considered uninsured. As of January 31, 2018, and October 31, 2017, the U.S. dollar equivalent balance for these accounts was $10,579 and $25,408, respectively.

<u>Interest Rate Risk</u>

The Company holds substantially all of its cash and cash equivalents in bank and demand deposit accounts with major financial institutions. The interest rates received on these balances may fluctuate with changes in economic conditions. Based on the average cash and cash equivalent balances during the three months ended January 31, 2018, a 1% decrease in interest rates would have resulted in a reduction of approximately $640 in interest income for the period.

Foreign Currency Exchange Risk

The Company is not subject to any significant market risk related to foreign currency exchange rate fluctuations.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Compliance with Environmental Regulations

The Company's exploration activities are subject to laws and regulations controlling not only the exploration and mining of mineral properties, but also the effect of such activities on the environment. Compliance with such laws and regulations may necessitate additional capital outlays or affect the economics of a project, and cause changes or delays in the Company's activities.

Property Concessions in Mexico

To properly maintain property concessions in Mexico, the Company is required to pay a semi-annual fee to the Mexican government and complete annual assessment work.

Royalty

The Company has agreed to pay a 2% net smelter return royalty on certain property concessions within the Sierra Mojada Property based on the revenue generated from production. Total payments under this royalty are limited to $6.875 million (the "Royalty").

Litigation and Claims

On May 20, 2014, a cooperative named Sociedad Cooperativa de Exploración Minera Mineros Norteños, S.C.L. ("Mineros Norteños") filed an action in the Local First Civil Court in the District of Morelos, State of Chihuahua, Mexico, against the Company's subsidiary, Minera Metalin, claiming that Minera Metalin breached an agreement regarding the development of the Sierra Mojada Property. Mineros Norteños sought payment of the Royalty, including interest at a rate of 6% per annum since August 30, 2004, even though no revenue has been produced from the applicable mining concessions. It also sought payment of wages to the cooperative's members since August 30, 2004, even though none of the individuals were hired or performed work for Minera Metalin under this agreement and Minera Metalin did not commit to hiring them. On January 19, 2015, the case was moved to the Third District Court (of Federal jurisdiction). On October 4, 2017, the court ruled that Mineros Norteños was time barred from bringing the case. On October 19, 2017, Mineros Norteños appealed this ruling. The Company and the Company's Mexican legal counsel believe that it is unlikely that the court's ruling will be overturned. The Company has not accrued any amounts in its interim condensed consolidated financial statements with respect to this claim.

On February 15, 2016, Messrs. Jaime Valdez Farias and Maria Asuncion Perez Alonso (collectively, "Valdez") filed an action before the Local First Civil Court of Torreon, State of Coahuila, Mexico, against the Company's subsidiary, Minera Metalin, claiming that Minera Metalin had breached an agreement regarding the development of the Sierra Mojada Property. Valdez sought payment in the amount of $5.9 million for the alleged breach of the agreement. On April 28, 2016, Minera Metalin filed its response to the complaint, asserting various defenses, including that Minera Metalin terminated the agreement before the payment obligations arose and that certain conditions precedent to such payment obligations were never satisfied by Valdez. The Company and the Company's Mexican legal counsel asserted all applicable defenses. In May 2017, a final judgment was entered finding for the Company, the defendant, acquitting the Company of all of the plaintiff's claims and demands. The Company did not accrue any amounts in its interim condensed consolidated financial statements with respect to this claim.

From time to time, the Company is involved in other disputes, claims, proceedings and legal actions arising in the ordinary course of business. The Company intends to vigorously defend all claims against the Company, and pursue its full legal rights in cases where the Company has been harmed. Although the ultimate outcome of these proceedings cannot be accurately predicted due to the inherent uncertainty of litigation, in the opinion of management, based upon current information, no other currently pending or overtly threatened proceeding is expected to have a material adverse effect on the Company's business, financial condition or results of operations.

NOTE 15 – SEGMENT INFORMATION

The Company operates in a single reportable segment: the exploration of mineral property interests. The Company has mineral property interests in Sierra Mojada, Mexico.

Geographic information is approximately as follows:

	For the Three Months Ended January 31,	
	2018	2017
Mexico	$(201,000)	$(409,000)
Canada	(1,936,000)	(260,000)
Gabon	-	86,000
Net Loss	$(2,137,000)	$(583,000)

The following table details the allocation of assets included in the accompanying balance sheet at January 31, 2018:

	Canada	Mexico	Total
Cash and cash equivalents	$200,000	$10,000	$210,000
Value-added tax receivable, net	-	154,000	154,000
Income tax receivable	-	3,000	3,000
Other receivables	4,000	1,000	5,000
Prepaid expenses and deposits	114,000	14,000	128,000
Office and mining equipment, net	-	202,000	202,000
Property concessions	-	5,020,000	5,020,000
Goodwill	-	2,058,000	2,058,000
	$318,000	$7,462,000	$7,780,000

The following table details the allocation of assets included in the accompanying balance sheet at October 31, 2017:

	Canada	Mexico	Total
Cash and cash equivalents	$657,000	$25,000	$682,000
Value-added tax receivable, net	-	157,000	157,000
Other receivables	4,000	1,000	5,000
Prepaid expenses and deposits	102,000	15,000	117,000
Office and mining equipment, net	-	209,000	209,000
Property concessions	-	5,004,000	5,004,000
Goodwill	-	2,058,000	2,058,000
	$763,000	$7,469,000	$8,232,000

The Company has significant assets in Coahuila, Mexico. Although Mexico is generally considered economically stable, it is always possible that unanticipated events in Mexico could disrupt the Company's operations. The Mexican government does not require foreign entities to maintain cash reserves in Mexico.

The following table details the allocation of exploration and property holding costs for the exploration properties:

	For the Three Months Ended January 31,	
	2018	2017
Exploration and property holding costs for the period		
Mexico Sierra Mojada	$(181,000)	$(402,000)
Gabon Mitzic	-	34,000
	$(181,000)	$(368,000)

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

When we use the terms "Silver Bull," "we," "us," or "our," we are referring to Silver Bull Resources, Inc. and its subsidiaries, unless the context otherwise requires. We have included technical terms important to an understanding of our business under "Glossary of Common Terms" in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes certain statements that may be deemed to be "forward-looking statements" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the U.S. Private Securities Litigation Reform Act of 1995, and "forward-looking information" within the meaning of applicable Canadian securities legislation. We use words such as "anticipate," "continue," "likely," "estimate," "expect," "may," "will," "projection," "should," "believe," "potential," "could," or similar words suggesting future outcomes (including negative and grammatical variations) to identify forward-looking statements. Forward-looking statements include statements we make regarding:

- The sufficiency of our existing cash resources to enable us to continue our operations for the next 12 months as a going concern;
- Our ability to undertake a strategic transaction, such as a joint venture, asset divestiture, sale or merger of Silver Bull, or other strategic transaction;
- Our planned activities at the Sierra Mojada project in 2018, including maintaining our property concessions and drilling activities;
- Prospects of entering the development or production stage with respect to any of our projects;
- Whether any part of the Sierra Mojada project will ever be confirmed or converted into SEC Industry Guide 7-compliant "reserves";
- Our planned drill program targeting sulphide mineralization targets, including target areas identified by channel sampling;
- The impact of the fine bubble flotation test work on the recovery of minerals and initial rough concentrate grade;
- The possible advantages of zinc mineralization at the Sierra Mojada Property;
- The impact of recent accounting pronouncements on our financial position, results of operations or cash flows and disclosures;
- The impact of changes to current state or federal laws and regulations on estimated capital expenditures, the economics of a particular project and/or our activities;
- Our ability to raise additional capital and/or pursue additional strategic options, and the potential impact on our business, financial condition and results of operations of doing so or not;
- The impact of changing foreign currency exchange rates on our financial condition;
- Our expectations regarding future recovery of value-added taxes ("VAT") paid in Mexico; and
- The merits of any claims in connection with, and the expected timing of any, ongoing legal proceedings.

These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, and our actual results could differ from those expressed or implied in these forward-looking statements as a result of the factors described under "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017, including without limitation, risks associated with the following:

- Our ability to obtain additional financial resources on acceptable terms to (i) conduct our exploration activities and (ii) maintain our general and administrative expenditures at acceptable levels;
- Results of future exploration at our Sierra Mojada project;
- Worldwide economic and political events affecting (i) the market prices for silver, zinc, lead, copper and other minerals that may be found on our exploration properties (ii) interest rates and (iii) foreign currency exchange rates;
- The amount and nature of future capital and exploration expenditures;
- Volatility in our stock price;
- Our inability to obtain required permits;
- Competitive factors, including exploration-related competition;
- Timing of receipt and maintenance of government approvals;
- Unanticipated title issues;
- Changes in tax laws;
- Changes in regulatory frameworks or regulations affecting our activities;
- Our ability to retain key management and consultants and experts necessary to successfully operate and grow our business; and
- Political and economic instability in Mexico and other countries in which we conduct our business, and future potential actions of the governments in such countries with respect to nationalization of natural resources or other changes in mining or taxation policies.

These factors are not intended to represent a complete list of the general or specific factors that could affect us.

All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. You should not place undue reliance on these forward-looking statements.

Cautionary Note Regarding Exploration Stage Companies

We are an exploration stage company and do not currently have any known reserves and cannot be expected to have reserves unless and until a feasibility study is completed for the Sierra Mojada concessions that shows proven and probable reserves. There can be no assurance that our concessions contain proven and probable reserves, and investors may lose their entire investment. See "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

Business Overview

Silver Bull, incorporated in Nevada, is an exploration stage company, engaged in the business of mineral exploration. Our primary objective is to define sufficient mineral reserves on the Sierra Mojada Property to justify the development of a mechanized mining operation. We conduct our operations in Mexico through our wholly-owned Mexican subsidiaries, Minera Metalin S.A. de C.V. ("Minera Metalin") and Contratistas de Sierra Mojada S.A. de C.V. ("Contratistas"), and through Minera Metalin's wholly-owned subsidiary, Minas de Coahuila SBR S.A. de C.V. ("Minas"). However, as noted above, we have not established any reserves at the Sierra Mojada Property, we are in the exploration stage, and we may never enter the development or production stage.

Our principal office is located at 777 Dunsmuir Street, Suite 1610, Vancouver, BC, Canada V7Y 1K4, and our telephone number is 604-687-5800.

Current Developments

2018 Warrants Exercised

In January 2018, we raised net proceeds of approximately $95,000 from the exercise of share purchase warrants as described in the "Material Changes in Financial Condition; Liquidity and Capital Resources" section. Subsequent to January 31, 2018, we raised gross proceeds of approximately $296,000 from the exercise of share purchase warrants as described in the "Material Changes in Financial Condition; Liquidity and Capital Resources" section.

Properties Concessions and Property Concessions Outlook

Sierra Mojada Property

In January 2018, our board of directors approved a calendar-year 2018 budget of $0.7 million for the Sierra Mojada Property. The focus of the 2018 calendar year program is 1,200 meters of underground drilling focused on sulphide targets and maintaining our property concessions. We do not currently have sufficient cash on hand to undertake our proposed budget.

Drilling

During the three months period ended January 31, 2018, we completed a 440 meters of underground drilling to test the continuity along strike and down dip of sulphide zones we have identified.

Mineralized Material Estimate

On June 30, 2015, Tuun Consulting Inc. and AKF Mining Services Inc. delivered an amended technical report (the "Report") on the silver and zinc mineralization at the Sierra Mojada project in accordance with Canadian National Instrument 43-101. The Report includes an update on the silver and zinc mineralization, which was estimated from 1,363 diamond drill holes, 24 reverse circulation drill holes, 9,027 channel samples and 2,346 underground long holes. Using a net smelter return economic cut-off, the Report indicates mineralized material in the Lerchs-Grossman optimized pit of 56.8 million tonnes at an average silver grade of 50 grams/tonne silver, an average zinc percentage of 3.4%, an average copper percentage of 0.04% and an average lead percentage of 0.3%. In addition, using the net smelter return economic cut-off, the Report indicates underground mineralized material outside the Lerchs-Grossman optimized pit of 1.9 million tonnes at an average zinc percentage of 9.4%, an average copper percentage of 0.02% and an average lead percentage of 0.4%. Mineralized material estimates do not include any amounts categorized as inferred resources.

"Mineralized material" as used in this Quarterly Report on Form 10-Q, although permissible under the Securities and Exchange Commission's ("SEC's") Industry Guide 7, does not indicate "reserves" by SEC standards. We cannot be certain that any part of the Sierra Mojada project will ever be confirmed or converted into SEC Industry Guide 7-compliant "reserves." Investors are cautioned not to assume that all or any part of the mineralized material will ever be confirmed or converted into reserves or that mineralized material can be economically or legally extracted.

Metallurgical Studies

During May 2015, we selected and shipped samples of high grade zinc material to a lab in Denver, Colorado for "fine bubble" flotation test work and to a group in Australia to assess its proprietary hydrometallurgy process. Previous test work completed by Silver Bull using mechanical flotation has shown an 87% recovery of zinc from the white zinc zone to produce a rough concentrate of 43% zinc, and a 72.5% recovery of zinc from the red zinc zone to produce a rough concentrate of 30% zinc. The "fine bubble" flotation test work that was performed did not improve recovery, but based on analysis of the results, it was determined that the "fine bubble" flotation test process may be able to be adjusted to improve recovery. Further testing is not planned at this time.

In addition, we previously conducted a metallurgical program to test the recovery of the silver mineralization using the agitation cyanide leach method and of the zinc mineralization using the SART process (sulfidization, acidification, recycling, and thickening). The test work on the silver zone focused on cyanide leach recovery of the silver using "Bottle Roll" tests to simulate an agitation leach system and to determine the recovery of low-grade zinc that occurs in the silver zone and high-grade zinc from the zinc zone that had been blended with mineralization from the silver zone to the leach solution. The silver was recovered from the cyanide leach solution using the Merrill Crowe technique, and the zinc was recovered from the leach solution using the SART process. The SART process is a metallurgical process that regenerates and recycles the cyanide used in the leaching process of the silver and zinc and allows for the recovery of zinc that has been leached by the cyanide solution. The results showed an overall average silver recovery of 73.2% with peak values of 89.0% and an overall average zinc recovery of 44% in the silver zone.

Results of Operations

Three Months Ended January 31, 2018 and January 31, 2017

For the three months ended January 31, 2018, we experienced a net loss of $2,137,000, or approximately $0.01 per share, compared to a net loss of $583,000, or approximately $nil per share, during the comparable period last year. The $1,554,000 increase in net loss was primarily due to a $1,595,000 increase in other expenses which included a $1,598,000 expense from change in fair value of warrant derivative liability, and a $142,000 increase in general and administrative expenses, which was partially offset by a $187,000 decrease in exploration and property holding costs compared to the comparable period last year as described below.

Exploration and Property Holding Costs

Exploration and property holding costs decreased $187,000 to $181,000 for the three months ended January 31, 2018, compared to $368,000 for the comparable period last year. This decrease was the result of underground drilling using our termite drill in the three months ended January 31, 2018 compared to drilling from surface in the comparable period last year.

General and Administrative Costs

We recorded a general and administrative expense of $345,000 for the three months ended January 31, 2018 as compared to $203,000 for the comparable period last year. The $142,000 increase was mainly the result of a $16,000 increase in personnel costs, a $37,000 increase in office and administrative cost, a $10,000 increase in professional services, a $7,000 increase in directors' fees and a $19,000 provision for uncollectible VAT compared to a $51,000 recovery of uncollectible VAT in the comparable period last year as described below.

Personnel costs increased $16,000 to $132,000 for the three months ended January 31, 2018 as compared to $116,000 for the comparable period last year. This increase was mainly due to a $10,000 increase in stock-based compensation expense as a result of stock options vesting in the three months ended January 31, 2018 having a higher fair value than stock options vesting in the comparable period last year.

Office and administrative costs increased $37,000 to $99,000 for the three months ended January 31, 2018 as compared to $62,000 for the same period last year. This increase was mainly due to increased investor relations activities and an increase in the value of $CDN compared to the U.S. dollar in the three months ended January 31, 2018.

Professional fees increased $10,000 to $52,000 for the three months ended January 31, 2018 compared to $42,000 for the comparable period last year. This increase is mainly due to an increase in accounting fees.

Directors' fees increased $7,000 to $42,000 for the three months ended January 31, 2018 as compared to $35,000 for the comparable period last year. This increase was primarily due to a $6,000 increase in stock-based compensation as a result of stock options vesting in the three months ended January 31, 2018 having a higher fair value than stock options vesting in the three months ended January 31, 2017.

We recorded a provision of $19,000 for uncollectible VAT for the three months ended January 31, 2018 as compared to a $51,000 recovery in the comparable period last year. The allowance for uncollectible taxes was estimated by management based upon a number of factors, including the length of time the returns have been outstanding, responses received from tax authorities, general economic conditions in Mexico and estimated net recovery after commissions.

Other Expenses

We recorded other expense of $1,609,000 for the three months ended January 31, 2018 as compared to other expenses of $14,000 for the comparable period last year. The significant factor contributing to other expense in the three months ended January 31, 2018 was a $1,598,000 expense from change in fair value of warrant derivative liability. The $1,598,000 expense from change in fair value of warrant derivative liability was due to an increase in fair value of warrants with a $CDN exercise price from October 31, 2017 to January 31, 2018.

Material Changes in Financial Condition; Liquidity and Capital Resources

2018 Warrants Exercised

In January 2018, 887,500 warrants to acquire 887,500 shares of common stock were exercised at an exercise price of $CDN 0.13 per share of common stock for aggregate gross proceeds of $92,861 ($CDN 115,375). In addition, 21,875 warrants to acquire 21,875 shares of common stock were exercised at an exercise price of $CDN 0.10 per share of common stock for aggregate gross proceeds of $1,773 ($CDN 2,188). We incurred costs of $220 related to these warrant exercises.

From February 1, 2018 through the date of this filing, 2,927,500 warrants to acquire 2,927,500 shares of common stock were exercised at an exercise price of $CDN 0.13 per share of common stock for aggregate gross proceeds of $295,387 ($CDN 380,575). In addition, 8,750 warrants to acquire 8,750 shares of common stock were exercised at an exercise price of $CDN 0.10 per share of common stock for aggregate gross proceeds of $693 ($CDN 875).

Cash Flows

During the three months ended January 31, 2018, we primarily utilized cash and cash equivalents to fund exploration activities at the Sierra Mojada Property and for general and administrative expenses. Additionally, during the three months ended January 31, 2018, we received net cash proceeds of $95,000 from warrants exercised. As a result of the exploration activities and general and administrative expenses, which was partially offset by net cash proceeds received from the warrants exercised, cash and cash equivalents decreased from $682,000 at October 31, 2017 to $211,000 at January 31, 2018.

Cash flows used in operating activities for the three months ended January 31, 2018 was $557,000 as compared to $702,000 for the comparable period in 2017. This decrease was mainly due to the decreased exploration work at the Sierra Mojada Property, which was partially offset by the increased general and administrative expenses.

Cash flows used in investing activities for the three months ended January 31, 2018 was $16,000 for the acquisition of property concessions. Cash flows provided by investing activities in the comparable period last year was $nil.

Cash flows provided by financing activities for the three months ended January 31, 2018 was $95,000 as compared to $nil for the comparable period last year. The cash flow provided by financing activities was due to warrants exercised in the three months ended January 31, 2018.

Capital Resources

As of January 31, 2018, we had cash and cash equivalents of $211,000 as compared to cash and cash equivalents of $682,000 as of October 31, 2017. The decrease in our liquidity was primarily the result of the exploration activities at the Sierra Mojada Property and general and administrative expenses, which was partially offset by warrants exercised. Since our inception in November 1993, we have not generated revenue and have incurred a deficit of $124,472,000. Accordingly, we have not generated cash flows from operations, and since inception we have relied primarily upon proceeds from private placements and registered direct offerings of our equity securities and warrant exercises as the primary sources of financing to fund our operations. As of January 31, 2018, we had cash equivalents of $211,000. Based on our limited cash and cash equivalents, and history of losses, there is substantial doubt as to whether our existing cash resources are sufficient to enable us to continue our operations for the next 12 months as a going concern. Management plans to pursue one or a combination of the following possible financing and strategic options not limited to: obtaining adequate equity financing (including warrant exercises) and joint venture opportunities on the Sierra Mojada Property (including farmout agreements, exploration and development agreements or similar transactions). Management has successfully pursued certain of these options previously and believes that they alleviate the substantial doubt as to whether our existing cash resources are sufficient to enable us to continue our operations for the next 12 months as a going concern. However, there is no assurance that we will be successful in pursuing these plans.

Any future additional financing in the near term will likely be in the form of an issuance of equity securities, which will result in dilution to our existing shareholders. Moreover, we may incur significant fees and expenses in the pursuit of a financing or other strategic transaction, which will increase the rate at which our limited cash and cash equivalents is depleted.

Capital Requirements and Liquidity; Need for Additional Funding

Our management and board of directors monitor our overall costs, expenses, and financial resources and, if necessary, will adjust our planned operational expenditures in an attempt to ensure that we have sufficient operating capital. We continue to evaluate our costs and planned expenditures, including for our Sierra Mojada Property as discussed below. As noted above, however, if we are unable to obtain adequate additional financial resources, there is substantial doubt as to whether our existing cash resources are sufficient to enable us to continue our operations for the next 12 months as a going concern.

The continued exploration of the Sierra Mojada Property will require significant amounts of additional capital. In January 2018, our Board approved a calendar year 2018 budget of $0.7 million for the Sierra Mojada Property and a $1.0 million budget for general and administration expense. As of March 16, 2018, we had approximately $0.3 million in cash and cash equivalents. We do not currently have sufficient cash on hand to undertake our proposed budget. We will continue to evaluate our ability to obtain additional financial resources, and we will attempt to reduce expenditures on the Sierra Mojada Property and general and administrative costs if we determine that additional financial resources are unavailable or available on terms that we determine are unacceptable. However, it may not be possible to reduce costs, and even if we are successful in reducing costs, we still may not be able to continue operations for the next 12 months as a going concern. If we are unable to fund future operations by obtaining additional financial resources, including through public or private offerings of equity, we do not expect to have sufficient available cash and cash equivalents to continue our operations for the next 12 months as a going concern. Equity financing may not be available to us on acceptable terms, if at all. Equity financing, if available, will likely result in substantial dilution to existing shareholders. Moreover, the continued exploration and if warranted, development, of the Sierra Mojada Property ultimately will require us to raise significant additional capital or identify a strategic partner.

We continue to pursue efforts to achieve a strategic transaction. These efforts may result in a joint venture with a third party with respect to the Sierra Mojada Property (such as a farmout agreement, exploration and development agreement, or similar transaction), asset divestiture, sale or merger of Silver Bull, or some other strategic transaction. However, there is no assurance that we will be successful pursuing these strategic options.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our shareholders.

Critical Accounting Policies

The critical accounting policies are defined in our Annual Report on Form 10-K for the year ended October 31, 2017 filed on January 17, 2018.

Income Taxes

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and executive compensation, and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system. The law did not have a material impact on our financial position, results of operations or cash flows and disclosures.

Recent Accounting Pronouncements Adopted in the Three-Month Period Ended January 31, 2018

Effective November 1, 2017 we adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting," which amends several aspects of the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The adoption of this update did not have a material impact on our financial position, results of operations or cash flows and disclosures.

Effective November 1, 2017, we adopted the FASB's ASU 2015-17, "Balance Sheet Classification of Deferred Income Taxes (Topic 740)," which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The adoption of this update did not have a material impact on our financial position, results of operations or cash flows and disclosures.

Recent Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," which clarifies the definition of a business to assist entities in the evaluation of acquisitions and disposals of assets or businesses. These changes become effective for our fiscal year beginning November 1, 2018. At this time, we have not determined the effects of this update on our financial position, results of operations or cash flows and disclosures.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which will require entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. These changes become effective for our fiscal year beginning November 1, 2018. At this time, we have not determined the effects of this update on our financial position, results of operations or cash flows and disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance on the presentation and classification of certain cash receipts and payments in the statement of cash flows. These changes become effective for our fiscal year beginning November 1, 2018. At this time, we have not determined the effects of this update on our financial position, results of operations or cash flows and disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases," which will require lessees to recognize assets and liabilities for the rights and obligations created by most leases on the balance sheet. These changes become effective for our fiscal year beginning November 1, 2019. Modified retrospective adoption for all leases existing at, or entered into after, the date of initial application, is required with an option to use certain transition relief. At this time, we have not determined the effects of this update on our financial position, results of operations or cash flows and disclosures.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," which (i) requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, (ii) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (iii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and (iv) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These changes become effective for our fiscal year beginning November 1, 2018. Early application is permitted. At this time, we have not determined the effects of this update on our financial position, results of operations or cash flows and disclosures.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", which has subsequently been amended to update revenue guidance under the newly-created ASC 606. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" to become effective for our fiscal year beginning November 1, 2018. At this time, we have not determined the effects of this update on our financial position, results of operations or cash flows and disclosures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of January 31, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of January 31, 2018.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

During the quarter ended January 31, 2018, there have not been any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Note 14 – Commitments and Contingencies in the Notes to Financial Statements (Part I, Item 1 of this Quarterly Report on Form 10-Q) for information regarding legal proceedings in which we are involved.

ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors included in our Annual Report on Form 10-K for the year ended October 31, 2017.

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

Recent Sales of Unregistered Securities

In January, February and March, 2018, 3,815,000 warrants to acquire 3,815,000 shares of common stock were exercised by participants in the Company's private placement in July 2017 at an exercise price of $CDN 0.13 per share of common stock for aggregate gross proceeds of $388,248 ($CDN 495,950). On January 29 and February 20, 2018, 30,625 warrants to acquire 30,625 shares of common stock were exercised by participants in the Company's private placement in July 2017 at an exercise price of $CDN 0.10 per common stock for aggregate gross proceeds of $2,466 ($CDN 3,063). The Company relied on the exemption from registration under Section 4(a)(2) of the Securities Act or Rule 506 of Regulation D, or Regulation S, for purposes of issuance of issuance common stock on the exercise of warrants.

Purchases of Equity Securities by the Company and Affiliated Purchasers

No purchases of equity securities were made by or on behalf of Silver Bull or any "affiliated purchaser" within the meaning of Rule 10b-18 under the Exchange Act during the period covered by this report.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Exhibit	Filed Herewith
31.1	Certification of CEO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of CFO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS*	XBRL Instance Document				X
101.SCH*	XBRL Schema Document				X
101.CAL*	XBRL Calculation Linkbase Document				X
101.DEF*	XBRL Definition Linkbase Document				X

101.LAB* XBRL Labels Linkbase Document X

101.PRE* XBRL Presentation Linkbase Document X

* The following financial information from Silver Bull Resources, Inc.'s Quarterly Report on Form 10-Q for the three months ended January 31, 2018, formatted in XBRL (Extensible Business Reporting Language): Interim Condensed Consolidated Balance Sheets, Interim Condensed Consolidated Statements of Operations and Comprehensive Loss, Interim Condensed Consolidated Statement of Stockholders' Equity, Interim Condensed Consolidated Statements of Cash Flows

SIGNATURES

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

SILVER BULL RESOURCES, INC.

Dated:	March 16, 2018	By:	/s/ Timothy Barry Timothy Barry President and Chief Executive Officer (Principal Executive Officer)
Dated:	March 16, 2018	By:	/s/ Sean Fallis Sean Fallis Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)