

September 30, 2009

Dear Fellow Shareholder,

During fiscal 2009 SunLink Health Systems, Inc. realized several objectives while, at the same time, facing a number of significant challenges that made it a difficult year.

Highlights of the year include:

- An increase in net revenues of 25.8% as a result of revenues contributed by our specialty pharmacy segment which was acquired in April 2008. Our hospital net revenues were essentially flat as a result of a 3.4% decline in equivalent admissions.
- Earnings from continuing operations of \$1,067,000, which represented a 46.9 % decline from our fiscal 2008 results. Although our net revenues and operating profit increased, we were not able to bring this increase to the bottom line due to higher interest expense resulting primarily from the acquisition of Carmichael's Cashway Pharmacy.
- We paid down \$2,767,000 of senior debt on our \$47 million credit facility and reduced our subordinated debt by \$150,000. Given the current economic circumstances, as well as the uncertainty of healthcare reform, we are focusing on paying down debt rather than actively pursuing acquisitions.
- Overall our balance sheet improved during 2009 with an increase in working capital of approximately \$3,500,000 and an increase in shareholders' equity of approximately \$1,500,000.

As noted above, we continue to experience weak patient volume at our hospitals as well as in the physician practices we operate. We have increased the number of employed physicians in our markets in an effort to better manage the services provided in our communities and in response to competition in some of our less rural markets. In 2009 we added a net total of two physicians including six new employed physicians. While we believe employing physicians is the correct approach in some markets, our employed physicians have yet to achieve the volume of patients needed to cover their employment and clinic costs nor have they yet contributed at expected levels to our hospitals' volume. We are continuing to monitor these physician practices and make adjustments to their operations as needed.

SunLink has also been affected this year by other negative factors such as cuts in Medicaid reimbursement and the troubled economy. These factors affect individuals' healthcare coverage, increase bad debts and dissuade potential patients from seeking the care they need, when they need it. For example, bad debts in our hospitals were \$22,100,000 this year or 14.6% of net revenues. Few businesses experience this level of unpaid revenue, and it limits our ability to expand services and make capital

improvements in our hospitals. Our experience is generally consistent with trends in the hospital industry as a whole. In response to these and other factors, we continue to modify and upgrade our clinical and business systems to reflect this new reality as we believe these conditions are likely to continue to affect our operations at least in the near term.

We are unable to predict with any reasonable degree of confidence whether there will be any meaningful healthcare reform legislation this year and, if there is, what impact it would have on our hospital operations. We believe it is essential that a way be found to cover the costs of uncompensated care in our nation's healthcare system, and especially rural hospitals, is to survive and continue to provide access and effective treatment to a broad segment of the population.

In April 2008, we purchased Carmichael's Cashway Pharmacy, a specialty pharmacy business in rural Southwest Louisiana. Carmichael's contributed net revenues of approximately \$47,300,000 and EBITDA of approximately \$3,400,000 this year, its first full year of operations under SunLink ownership. We believe Carmichael's broadens our rural business model and complements our hospital portfolio. Nevertheless, the process of integrating the acquisition has not been without challenges and we have taken substantial non-cash charges to correct accounting errors made at Carmichael's in fiscal 2009. Once the integration of Carmichael's is fully accomplished, we believe our specialty pharmacy and infusion business should result in improved profits and offer the potential for substantial growth.

Clinical and operational excellence is a key mission objective for SunLink. Our efforts to achieve clinical and operational excellence continue to receive notice on the national level. This past fiscal year, we received the following recognitions and awards:

- Carmichael's achieved Joint Commission Certification of its medical supply and IV services for a three-year period.
- Chilton Medical Center received national recognition from Ingenix Health Information Management for operational excellence or improvement.
- Memorial Hospital of Adel received the Excellence Through Insight Award for Most Improved Overall Emergency Department.
- Missouri Southern Healthcare was named by OCS and DecisionHealth® to the 2008 HomeCare Elite™, ranking it among the top home health providers in the country.
- North Georgia Medical Center in Ellijay, Georgia was recognized for its Leadership of Excellence by the American College of Healthcare Administrators for its Outstanding Resident Care Levels.
- Trace Regional Hospital was named as one of Thomson Reuter's™ Top 100 Performance Improvement Leaders.

As we enter fiscal 2010, we look to the continued efforts of our management teams, hospital and specialty pharmacy leaders, physicians and the entire SunLink staff to meet the immediate challenges of our industry and position SunLink for future growth and profitability.

Sincerely,

Robert M. Thornton, Jr.
Chairman & Chief Executive Officer