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

**FORM 10-Q/A
(Amendment No. 1)**

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

For the quarterly period ended March 31, 2018

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: 001-34499

GULF RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

13-3637458

(I.R.S. Employer Identification No.)

Level 11, Vegetable Building, Industrial Park of the East City,
Shouguang City, Shandong,
(Address of principal executive offices)

262700
(Zip Code)

Registrant's telephone number, including area code: +86 (536) 567 0008

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

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

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

Large accelerated filer

Accelerated filer

Emerging Growth Company

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 1, 2018, the registrant had outstanding 46,803,791 shares of common stock.

Explanatory Note

This Amendment No. 1 on Form 10-Q/A is being filed to reflect the correction of an error in the previously reported quarterly financial statements for the period ended March 31, 2018 filed on May 10, 2018 related to the one-time mandatory federal transition tax on accumulated foreign earnings accrued in the fiscal year 2017. See Note 2 to the Consolidated Financial Statements included in item 1 for additional information and a reconciliation of the previously reported amounts to the restated amounts. Items that have not been amended have been omitted from this amendment. The Company is also concurrently filing previously issued financial statements to restate the error described above (i) Amendment No. 2 to the Annual Report for the fiscal year ended December 31, 2017 and (ii) Amendment No. 1 to the Quarterly Report for the six months ended June 30, 2018.

The following are the sections that are impacted by the correction of the error:

Part I, Item 1 – Financial Statement

Part I, Item 4 – Controls and Procedures

Part II, Item 6 - Exhibits

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PART I—FINANCIAL INFORMATION**Item 1. Financial Statements**

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. dollars)

	March 31, 2018 Unaudited (Restated)	December 31, 2017 Audited
Current Assets		
Cash	\$ 236,720,969	\$ 208,906,759
Accounts receivable	10,246,518	29,765,884
Inventories, net	193,801	1,196,785
Prepayments and deposits	1,598,858	1,395,289
Prepaid land leases	607,396	246,640
Other receivable	2,149	2,089
Total Current Assets	249,369,691	241,513,446
Non-Current Assets		
Property, plant and equipment, net	94,051,877	95,114,504
Property, plant and equipment under capital leases, net	484,860	492,238
Prepaid land leases, net of current portion	14,919,014	14,477,771
Deferred tax assets	7,989,879	6,526,555
Goodwill	30,524,646	29,374,909
Total non-current assets	147,970,276	145,985,977
Total Assets	\$ 397,339,967	\$ 387,499,423
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	\$ 991,221	\$ 1,032,083
Retention payable	993,782	956,351
Capital lease obligation, current portion	254,829	203,206
Taxes payable-current	1,771,954	1,041,592
Total Current Liabilities	4,011,786	3,233,232
Non-Current Liabilities		
Capital lease obligation, net of current portion	2,394,174	2,303,995
Total Non-Current Liabilities	2,394,174	2,303,995
Total Liabilities	\$ 6,405,960	\$ 5,537,227
Stockholders' Equity		
PREFERRED STOCK; \$0.001 par value; 1,000,000 shares authorized; none outstanding	\$ —	\$ —
COMMON STOCK; \$0.0005 par value; 80,000,000 shares authorized; 47,052,940 shares issued and 46,803,791 shares outstanding as of March 31, 2018 and December 31, 2017, respectively	23,525	23,525
Treasury stock; 249,149 shares as of March 31, 2018 and December 31, 2017 at cost	(554,870)	(554,870)
Additional paid-in capital	94,524,608	94,524,608
Retained earnings unappropriated	248,595,331	255,572,431
Retained earnings appropriated	24,233,544	24,233,544
Accumulated other comprehensive income	24,111,869	8,162,958
Total Stockholders' Equity	390,934,007	381,962,196
Total Liabilities and Stockholders' Equity	\$ 397,339,967	\$ 387,499,423

See accompanying notes to the condensed consolidated financial statements.

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Expressed in U.S. dollars)
(UNAUDITED)

	Three-Month Period Ended March 31,	
	2018	2017
NET REVENUE		
Net revenue	\$ 2,247,267	\$ 32,788,493
OPERATING INCOME (EXPENSE)		
Cost of net revenue	(1,241,809)	(20,213,863)
Sales, marketing and other operating expenses	(34,974)	(75,833)
Research and development cost	—	(61,898)
Direct labor and factory overheads incurred during plant shutdown	(5,695,519)	—
General and administrative expenses	(3,571,945)	(1,728,460)
Other operating income	—	104,558
	<u>(10,544,247)</u>	<u>(21,975,496)</u>
INCOME/(LOSS) FROM OPERATIONS	<u>(8,296,980)</u>	<u>10,812,997</u>
OTHER INCOME (EXPENSE)		
Interest expense	(43,344)	(41,911)
Interest income	169,478	125,860
INCOME/(LOSS) BEFORE TAXES	<u>(8,170,846)</u>	<u>10,896,946</u>
INCOME TAX (EXPENSE) BENEFIT	<u>1,193,746</u>	<u>(2,821,826)</u>
NET INCOME/(LOSS)	<u>\$ (6,977,100)</u>	<u>\$ 8,075,120</u>
COMPREHENSIVE INCOME:		
NET INCOME/(LOSS)	<u>\$ (6,977,100)</u>	<u>\$ 8,075,120</u>
OTHER COMPREHENSIVE INCOME		
- Foreign currency translation adjustments	15,948,911	2,037,272
COMPREHENSIVE INCOME	<u>\$ 8,971,811</u>	<u>\$ 10,112,392</u>
EARNINGS (LOSS) PER SHARE:		
BASIC	\$ (0.15)	\$ 0.17
DILUTED	\$ (0.15)	\$ 0.17
WEIGHTED AVERAGE NUMBER OF SHARES:		
BASIC	46,803,791	46,793,791
DILUTED	<u>46,826,388</u>	<u>46,804,241</u>

See accompanying notes to the condensed consolidated financial statements.

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE-MONTH PERIOD ENDED MARCH 31, 2018
(Expressed in U.S. dollars)

	Common stock			Amount	Treasury stock	Additional paid-in capital	Retained earnings unappropriated (Restated)	Retained earnings appropriated	Accumulated other comprehensive income	Total (Restated)
	Number of shares issued	Number of shares outstanding	Number of treasury stock							
BALANCE AT DECEMBER 31, 2017 (Audited)	47,052,940	46,803,791	249,149	\$ 23,525	\$ (554,870)	\$ 94,524,608	\$ 255,572,431	24,233,544	\$ 8,162,958	\$381,962,196
Translation adjustment	—	—	—	—	—	—	—	—	15,948,911	15,948,911
Net loss for three-month period ended March 31, 2018	—	—	—	—	—	—	(6,977,100)	—	—	(6,977,100)
Transfer to statutory common reserve fund	—	—	—	—	—	—	—	—	—	—
BALANCE AT MARCH 31, 2018 (Unaudited) (Restated)	<u>47,052,940</u>	<u>46,803,791</u>	<u>249,149</u>	<u>\$ 23,525</u>	<u>\$ (554,870)</u>	<u>\$ 94,524,608</u>	<u>\$ 248,595,331</u>	<u>\$ 24,233,544</u>	<u>\$ 24,111,869</u>	<u>\$390,934,007</u>

See accompanying notes to the condensed consolidated financial statements.

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. dollars)
(UNAUDITED)

	Three-Month Period Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	\$ (6,977,100)	\$ 8,075,120
Adjustments to reconcile net income(loss) to net cash provided by operating activities:		
Interest on capital lease obligation	41,797	41,753
Amortization of prepaid land leases	144,097	107,461
Depreciation and amortization	4,757,530	5,439,098
Unrealized exchange loss on translation of inter-company balances	1,058,852	137,255
Deferred tax asset	(1,193,746)	—
Stock-based compensation expense	—	9,000
Changes in assets and liabilities		
Accounts receivable	20,442,483	(8,523,139)
Inventories	1,039,959	767,825
Prepayments and deposits	(81,635)	(29,129)
Other receivables	—	(580)
Accounts payable and accrued expenses	(68,833)	1,641,677
Retention payable	—	(736,894)
Taxes payable	735,426	1,493,322
Net cash provided by operating activities	19,898,830	8,422,769
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions of prepaid land leases	(367,143)	(324,743)
Purchase of property, plant and equipment	(121,710)	(59,975)
Net cash used in investing activities	(488,853)	(384,718)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	8,404,233	881,453
NET INCREASE IN CASH AND CASH EQUIVALENTS	27,814,210	8,919,504
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	208,906,759	163,884,574
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 236,720,969	\$ 172,804,078
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	\$ —	\$ 1,798,807

See accompanying notes to the condensed consolidated financial statements.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Expressed in U.S. dollars)
(UNAUDITED)

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

(a) Basis of Presentation and Consolidation

The accompanying condensed financial statements have been prepared by Gulf Resources, Inc (“Gulf Resources”) a Nevada corporation and its subsidiaries (collectively, the “Company”), without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair statement of its financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States (“US GAAP”).

In the opinion of management, the unaudited financial information for the quarter ended March 31, 2018 presented reflects all adjustments, which are only normal and recurring, necessary for a fair statement of results of operations, financial position and cash flows. These condensed financial statements should be read in conjunction with the financial statements included in the Company’s 2017 Form 10-K/A (Amendment No. 2). Operating results for the interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and accompanying disclosures. Although these estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the estimates. The Company also exercises judgments in the preparation of these condensed financial statements in the areas including classification of leases and related party transactions.

On September 2, 2016, the Company announced the planned merger of two of its 100% owned subsidiaries, Shouguan Yuxin Chemical Co., Limited (“SYCI”) and Shouguan Rongyuan Chemical Co., Ltd (“SCRC”). On March 24, 2017, the legal process of the merger was completed and SCRC was officially deregistered on March 28, 2017. The results of these two subsidiaries were reported as SYCI in the three months ended March 31, 2018.

The consolidated financial statements include the accounts of Gulf Resources, Inc. and its wholly-owned subsidiary, Upper Class Group Limited, a company incorporated in the British Virgin Islands, which owns 100% of Hong Kong Jiaying Industrial Limited, a company incorporated in Hong Kong (“HKJI”). HKJI owns 100% of Shouguang City Haoyuan Chemical Company Limited (“SCHC”) which owns 100% of Shouguang Yuxin Chemical Industry Co., Limited (“SYCI”) and Daying County Haoyuan Chemical Company Limited (“DCHC”). All material intercompany transactions have been eliminated on consolidation.

(b) Nature of the Business

The Company manufactures and trades bromine and crude salt through its wholly-owned subsidiary, Shouguang City Haoyuan Chemical Company Limited (“SCHC”) and manufactures chemical products for use in the oil industry, pesticides, paper manufacturing industry and for human and animal antibiotics through its wholly-owned subsidiary, Shouguang Yuxin Chemical Industry Co., Limited (“SYCI”) in the People’s Republic of China (“PRC”). DCHC was established to further explore and develop natural gas and brine resources (including bromine and crude salt) in the PRC. DCHC’s business was not fully operational as of March 31, 2018.

On September 1, 2017, the Company received notification from the Government of Yangkou County, Shouguang City of PRC that production at all its factories should be halted with immediate effect in order for the Company to perform rectification and improvement in accordance with the county’s new safety and environmental protection requirements.

The Company has been working closely with the county authorities to develop rectification plans for both its bromine and crude salt businesses and had agreed on a plan in October 2017. SCHC is currently under rectification process. The Company believes this rectification and improvement process will cost approximately \$35 million in total. The Company incurred rectification and improvements in the amount of \$18,046,005 and \$17,938,652 as of March 31, 2018 and December 31, 2017.

Originally, six bromine factories completed their rectification process and passed the inspection by local governments and were scheduled for production commencement by April 2018. Subsequently, the Provincial government required the local government to conduct “four rating and one comprehensive evaluation” for all of the chemical companies within its jurisdiction. This has delayed the production commencement schedule of the six factories.

The Company is currently actively working on the rectification of the remaining four factories. The Company expects to complete the rectification and improvements of the bromine and crude salt factories and be ready for the government inspection, rating and evaluation by June 2018, and will resume operation for those when they have approval from the government.

Four of the remaining bromine and crude salt factories have a slightly more complex issue that needs to be resolved. All bromine factories now require paired crude salt pans to prevent the halogen water resulting from the production process from flowing into the sea. Four of these bromine factories do not have a designated crude salt pan where the wastewater could be channeled. The Company has four alternatives for these four factories which do not have paired crude salt pans: 1. It can form partnerships with adjacent bromine facilities that do have crude salt pans. The nature of these partnerships could take many forms. 2. The company could petition the government for a zoning change so that additional land for salt pans could be obtained. This might be difficult but is worth pursuing. 3. The Company could negotiate a different method of dealing with this issue. 4. Or these factories could conceivably be forced to close. At the present time, the Company is working with the government on these issues and did not reach the final solution yet.

On November 24, 2017, the Company received a letter from the Government of Yangkou County, Shouguang City notifying the Company to relocate its two chemical production plants located in the second living area of the Qinghe Oil Extraction Plant to the Bohai Marine Fine Chemical Industrial Park ("Bohai Park"). This is because the two plants are located in a residential area and their production activities will impact the living environment of the residents. This is as a result of the country's effort to improve the development of the chemical industry, manage safe production and curb environmental pollution accidents effectively, and ensure the quality of the living environment of residents. All chemical enterprises which do not comply with the requirements of the safety and environmental protection regulations will be ordered to shut down. The Company believes this relocation process will cost approximately \$60 million in total. The Company incurred relocation cost in the amount of \$9,732,118 as of March 31, 2018 and December 31, 2017 and estimated that the new factory will be fully operational by the beginning of 2020.

During the first quarter, the Company continued its related environmental and planning preparation work for the new factory. Since the Company has paid for the lease of a piece of land at the Bohai Park, it does not see any potential delay with the construction of the new factory. The Company has signed several contracts for the new factory (see subsequent event in Note 19).

As previously disclosed, during the course of drilling for more bromine and crude salt resources, the Company found natural gas resources under our bromine well in the Sichuan area. DCHC was established to further explore and develop natural gas and brine resources (including bromine and crude salt). On January 2017, the Company completed the first brine water and natural gas well field construction in Sichuan Province and announced the commencement of trial production. The Company has been working with Xinan Shiyou Daxue (Southwest Petroleum University) and developed a solution to DHCH's technical drilling problem. In resolving the problem, the Company needs customized equipment. The customized equipment has been ordered and is now being manufactured. Once the equipment arrives, it will be installed and production will commence. While the Company hopes this will occur during the second quarter of 2018, the company has no control over the exact timing of the delivery of the equipment. It is possible the commencement of production might not occur until early in the third quarter in 2018.

(c) Allowance for Doubtful Accounts

As of March 31, 2018 and December 31, 2017, allowances for doubtful accounts were nil. No allowances for doubtful accounts were charged to the condensed consolidated statements of income for the three-month periods ended March 31, 2018 and 2017.

(d) Concentration of Credit Risk

The Company is exposed to credit risk in the normal course of business, primarily related to accounts receivable and cash and cash equivalents. Substantially all of the Company's cash and cash equivalents are maintained with financial institutions in the PRC, namely, Industrial and Commercial Bank of China Limited, China Merchants Bank Company Limited and Sichuan Rural Credit Union, which are not insured or otherwise protected. The Company placed \$236,720,969 and \$208,906,759 with these institutions as of March 31, 2018 and December 31, 2017, respectively. The Company has not experienced any losses in such accounts in the PRC.

Concentrations of credit risk with respect to accounts receivable exists as the Company sells a substantial portion of its products to a limited number of customers. However, such concentrations of credit risks are limited since the Company performs ongoing credit evaluations of its customers' financial condition. Approximately 24% and 13% of the balance of accounts receivable as of March 31, 2018 and December 31, 2017, respectively, are outstanding for less than three months. For the balances of accounts receivable aged more than 90 days as of March 31, 2018, approximately 41% were collected by April 30, 2018.

The rate of collection in April 2018 for accounts receivable aged more than 90 days as of March 31, 2018 was analyzed as follows:

Accounts Receivable Aging	Percent Collected
90-120 days	0%
121-150 days	12%
151-180 days	0%
181-210 days	16%
211-240 days	100%

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Expressed in U.S. dollars)
(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Expenditures for new facilities or equipment, and major expenditures for betterment of existing facilities or equipment are capitalized and depreciated using the straight-line method at rates sufficient to depreciate such costs less 5% residual value over the estimated productive lives. All other ordinary repair and maintenance costs are expensed as incurred.

Mineral rights are recorded at cost less accumulated depreciation and any impairment losses. Mineral rights are amortized ratably over the term of the lease, or the equivalent term under the units of production method, whichever is shorter.

Construction in process primarily represents direct costs of construction of plant, machinery and equipment. Costs incurred are capitalized and transferred to property and equipment upon completion, at which time depreciation commences.

The Company's depreciation and amortization policies on property, plant and equipment, other than mineral rights and construction in process, are as follows:

	Useful life (in years)
Buildings (including salt pans)	8 - 20
Plant and machinery (including protective shells, transmission channels and ducts)	3 - 8
Motor vehicles	5
Furniture, fixtures and equipment	3-8

Property, plant and equipment under the capital lease are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the lease, which is 20 years.

Producing oil and gas properties are depreciated on a unit-of-production basis over the proved developed reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved developed reserves of the respective oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

(f) Retirement Benefits

Pursuant to the relevant laws and regulations in the PRC, the Company participates in a defined contribution retirement plan for its employees arranged by a governmental organization. The Company makes contributions to the retirement plan at the applicable rate based on the employees' salaries. The required contributions under the retirement plans are charged to the condensed consolidated statement of income on an accrual basis when they are due. The Company's contributions totaled \$302,418 and \$255,216 for the three-month periods ended March 31, 2018 and 2017, respectively.

(g) Revenue Recognition

Net revenue is net of discount and value added tax and comprises the sale of bromine, crude salt and chemical products. Revenue is recognized when the control of the promised goods is transferred to the customers in an amount that reflects the consideration that the Company expects to receive from the customers in exchange for those goods. The acknowledgement of receipt of goods by the customers is when control of the product is deemed to be transferred. Invoicing occurs upon acknowledgement of receipt of the goods by the customers. Customers have no rights to return the goods upon acknowledgement of receipt of goods.

(h) Recoverability of Long-lived Assets

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10-35 "Impairment or Disposal of Long-lived Assets", long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable or that the useful lives of those assets are no longer appropriate. The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Expressed in U.S. dollars)
(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(h) Recoverability of Long-lived Assets – Continued

The Company determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets.

To comply with the new safety and environmental regulations (see Note 1 (b)), the Company started the rectification and improvement program for the bromine and crude salt factories towards the end of the third quarter of fiscal year 2017, and as a result recorded an impairment loss of \$216,181 and a write-off of \$728,740 for certain property, plant and equipment in the year ended December 31, 2017.

With the relocation of the chemical factories and the length of time required to set up the new factory building in the Bohai Marine Fine Chemical Industrial Park (see Note 1 (b)), the Company believes that it is not beneficial to move the existing plant and equipment to the new premises. This is because of the age of the plant and equipment and the impact on the production efficiency at the new plant using plant and equipment that are idle for a substantial amount of time. In addition, the Company also risks the possibility of not passing the inspection by the government at the new plant if existing plant and equipment are used. Therefore, an impairment loss of \$16,636,322 equivalent to the net book values of all the property, plant and equipment at the two chemical factories was recorded in the year ended December 31, 2017.

For the three-month period ended March 31, 2018 and 2017, the Company determined that there were no events or circumstances indicating possible additional impairment of its long-lived assets.

(i) Basic and Diluted Net Income per Share of Common Stock

Basic earnings per common share are based on the weighted average number of shares outstanding during the periods presented. Diluted earnings per share are computed using weighted average number of common shares plus dilutive common share equivalents outstanding during the period. Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive, i.e. the exercise prices of the outstanding stock options were greater than the market price of the common stock. Anti-dilutive common stock equivalents which were excluded from the calculation of number of dilutive common stock equivalents amounted to 75,614 and 25,000 shares for the three-month periods ended March 31, 2018 and 2017, respectively.

The following table sets forth the computation of basic and diluted earnings per share:

	Three-Month Period Ended March 31,	
	2018	2017
Numerator		
Net income/(loss)	\$ (6,977,100)	\$ 8,075,120
Denominator		
Basic: Weighted-average common shares outstanding during the period	46,803,791	46,793,791
Add: Dilutive effect of stock options	22,597	10,450
Diluted	<u>46,826,388</u>	<u>46,804,241</u>
Net income/(loss) per share		
Basic	\$ (0.15)	\$ 0.17
Diluted	<u>\$ (0.15)</u>	<u>\$ 0.17</u>

(j) Reporting Currency and Translation

The financial statements of the Company's foreign subsidiaries are measured using the local currency, Renminbi ("RMB"), as the functional currency; whereas the functional currency and reporting currency of the Company is the United States dollar ("USD" or "\$").

As such, the Company uses the "current rate method" to translate its PRC operations from RMB into USD, as required under FASB ASC 830 "Foreign Currency Matters". The assets and liabilities of its PRC operations are translated into USD using the rate of exchange prevailing at the balance sheet date. The capital accounts are translated at the historical rate. Adjustments resulting from the translation of the balance sheets of the Company's PRC subsidiaries are recorded in stockholders' equity as part of accumulated other comprehensive income. The statement of income and comprehensive income is translated at average rate during the reporting period. Gains or losses resulting from transactions in currencies other than the functional currencies are recognized in net income for the reporting periods as part of general and administrative expense. The statement of cash flows is translated at average rate during the reporting period, with the exception of the consideration paid for the acquisition of business which is translated at historical rates.

(k) Foreign Operations

All of the Company's operations and assets are located in PRC. The Company may be adversely affected by possible political or economic events in this country. The effect of these factors cannot be accurately predicted.

(l) Exploration Costs

Exploration costs, which included the cost of researching appropriate places to drill wells and the cost of well drilling in search of potential natural brine or other resources, are charged to the income statement as incurred. Once the commercial viability of a project has been confirmed, all subsequent costs are capitalized.

For oil and gas properties, the successful efforts method of accounting is adopted. The Company carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalized and are reviewed periodically for impairment.

(m) Goodwill

Goodwill represents the excess of the purchase price over the net of the fair value of the identifiable tangible and intangible assets acquired and the fair value of liabilities assumed in business acquisitions. Goodwill impairment is assessed based on qualitative factors to determine whether it is more likely than not that the fair value of a reporting entity is less than its carrying amount, including goodwill. If the Company determines that it is more likely than not that the fair value of a reporting entity is less than its carrying amount, the two-step goodwill impairment test will be performed. The Company performs its impairment assessment annually and between annual tests in certain circumstances and determined that the two-step goodwill impairment test is not required to be carried out as of March 31, 2018.

(n) New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In May 2014 and April 2016, the FASB issued ASU No. 2014-09 and ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14, which deferred the effective date of Update 2014-09 to annual reporting periods beginning after December 15, 2017. The Company adopted this Update as of January 1, 2018. This adoption did not have a material impact on the Company's condensed consolidated financial statements as of and for the three months ended March 31, 2018 as the amount and timing of all the Company's revenue will continue to be recognized at a point in time. As required by the Update, the Company disclosed its revenues from contracts with customers into disaggregated categories in Note 14.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. The Update addresses eight specific changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company adopted this Update as of January 1, 2018 with no material impact on the condensed consolidated financial statements as of and for the three months ended March 31, 2018.

In May 2017, the FASB issued ASU No. 2017-09, Compensation – Stock Compensation (Topic 718), Scope of Modification Accounting. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Company adopted this Update as of January 1, 2018 with no material impact on the condensed consolidated financial statements as of and for the three months ended March 31, 2018.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this Update specify the accounting for leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the effect of this on the consolidated financial statements and related disclosure.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The amendments in this Update affect loans, debt securities, trade receivables, and any other financial assets that have the contractual right to receive cash. The ASU requires an entity to recognize expected credit losses rather than incurred losses for financial assets. For public entities, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the effect of this on the consolidated financial statements and related disclosure.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating effect of this on the consolidated financial statements and related disclosure.

NOTE 2 – RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company determined that the entire one-time mandatory federal transition tax on accumulated foreign earnings accrued in fiscal year 2017 can be offset against a portion of the Company's US federal net operating loss carryovers and foreign tax credit carryovers. As a result, the Company did not need to accrue the \$5,402,000 of income taxes in fiscal year 2017 and the Company is restating condensed consolidated financial statements as of March 31, 2018 to correct this error.

The table below sets forth the effect of the restatement on the condensed consolidated balance sheet as of March 31, 2018.

	As Reported	Correction	As Restated
Taxes payable-current	\$ 2,204,954	\$ (433,000)	\$ 1,771,954
Total Current Liabilities	4,444,786	(433,000)	4,011,786
Taxes payable-non-current	4,969,000	(4,969,000)	—
Total non-Current Liabilities	7,363,174	(4,969,000)	2,394,174
Total Liabilities	11,807,960	(5,402,000)	6,405,960
Retained earnings unappropriated	243,193,331	5,402,000	248,595,331
Total Stockholders' Equity	\$ 385,532,007	\$ 5,402,000	\$ 390,934,007

The table below sets forth the effect of the restatement on the consolidated statement of stockholders' equity as of March 31, 2018.

	Retained earnings unappropriated	Total
Balance at March 31, 2018 as reported	\$ 243,193,331	\$ 385,532,007
Correction	\$ 5,402,000	\$ 5,402,000
Balance at March 31, 2018 as restated	\$ 248,595,331	\$ 390,934,007

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NOTE 3 – INVENTORIES

Inventories consist of:

	March 31, 2018	December 31, 2017
Raw materials	\$ 23,893	\$ 396,482
Finished goods	175,381	844,224
Allowance for obsolete and slow-moving inventory	(5,473)	(43,921)
	<u>\$ 193,801</u>	<u>\$ 1,196,785</u>

NOTE 4 – PREPAID LAND LEASES

The Company prepaid for land leases with lease terms for periods ranging from one to fifty years to use the land on which the production facilities and warehouses of the Company are situated. The prepaid land lease is amortized on a straight line basis.

The Company paid \$9,732,118 for a 50-year lease of a parcel of land for the new factory at Bohai Marine Fine Chemical Industrial Park in December, 2017. The land use certificate is being processed by the government and the commencement date of the lease will be known upon completion of the application process.

During the three-month period ended March 31, 2018, amortization of prepaid land lease totaled \$144,097, which amount was recorded as direct labor and factory overheads incurred during plant shutdown.

During the three-month period ended March 31, 2017, amortization of prepaid land leases totaled \$107,461, which amount was recorded as cost of net revenue.

The Company has the rights to use certain parcels of land located in Shouguang, the PRC, through lease agreements signed with local townships or the government authority. For parcels of land that are collectively owned by local townships, the Company cannot obtain land use rights certificates. The parcels of land of which the Company cannot obtain land use rights certificates covers a total of approximately 54.97 square kilometers of aggregate carrying value of \$916,059 and approximately 54.97 square kilometers of aggregate carrying value of \$645,761 as at March 31, 2018 and December 31, 2017, respectively.

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NOTE 5 – PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consist of the following:

	March 31, 2018	December 31, 2017
At cost:		
Mineral rights	\$ 4,896,244	\$ 4,711,822
Buildings	70,400,195	67,748,512
Plant and machinery	208,538,996	200,742,652
Motor vehicles	9,136	8,792
Furniture, fixtures and office equipment	4,313,043	4,150,588
Construction in process	190,200	183,036
Total	288,347,814	277,545,402
Less: Accumulated depreciation and amortization	(174,767,162)	(163,597,407)
Impairment	(19,528,775)	(18,833,491)
Net book value	<u>\$ 94,051,877</u>	<u>\$ 95,114,504</u>

The Company has certain buildings and salt pans erected on parcels of land located in Shouguang, PRC, and such parcels of land are collectively owned by local townships or the government authority. The Company has not been able to obtain property ownership certificates over these buildings and salt pans. The aggregate carrying values of these properties situated on parcels of the land are \$28,025,014 and \$27,432,351 as at March 31, 2018 and December 31, 2017, respectively.

During the three-month period ended March 31, 2018, depreciation and amortization expense totaled \$4,688,248, of which \$4,504,249 and \$183,999 were recorded in direct labor and factory overheads incurred during plant shutdown and administrative expenses, respectively.

During the three-month period ended March 31, 2017, depreciation and amortization expense totaled \$5,360,103, of which \$5,068,503 and \$291,600 were recorded as cost of net revenue and administrative expenses, respectively.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT UNDER CAPITAL LEASES, NET

Property, plant and equipment under capital leases, net consist of the following:

	March 31, 2018	December 31, 2017
At cost:		
Buildings	\$ 130,868	\$ 125,939
Plant and machinery	2,404,774	2,314,196
Total	2,535,642	2,440,135
Less: Accumulated depreciation and amortization	(2,050,782)	(1,947,897)
Net book value	<u>\$ 484,860</u>	<u>\$ 492,238</u>

The above buildings erected on parcels of land located in Shouguang, PRC, are collectively owned by local townships. The Company has not been able to obtain property ownership certificates over these buildings as the Company could not obtain land use rights certificates on the underlying parcels of land.

During the three-month period ended March 31, 2018, depreciation and amortization expense totaled \$69,282, which was recorded in direct labor and factory overheads incurred during plant shutdown. During the three-month period ended March 31, 2017, depreciation and amortization expense totaled \$78,996, which was recorded as cost of net revenue.

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NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	March 31, 2018	December 31, 2017
Accounts payable	\$ —	\$ —
Salary payable	270,901	393,617
Social security insurance contribution payable	140,671	135,203
Other payables	579,649	503,263
Total	<u>\$ 991,221</u>	<u>\$ 1,032,083</u>

NOTE 8 – RELATED PARTY TRANSACTIONS

During the three-month period ended March 31, 2018, the Company borrowed a sum of \$185,912 from Jiaxing Lighting Appliance Company Limited (Jiaxing Lighting”), in which Mr. Ming Yang, a shareholder and the Chairman of the Company, has a 100% equity interest. The amount due to Jiaxing Lighting was unsecured, interest free and repayable on demand and was fully settled in the three-month period ended March 31, 2018. There was no balance owing to Jiaxing Lighting as of March 31, 2018 and December 31, 2017.

On September 25, 2012, the Company purchased five floors of a commercial building in the PRC, through SYCI, from Shandong Shouguang Vegetable Seed Industry Group Co., Ltd. (the “Seller”) at a cost of approximately \$5.7 million in cash, of which Mr. Ming Yang, the Chairman of the Company, had a 99% equity interest in the Seller. During the first quarter of 2018, the Company entered into an agreement with the Seller, a related party, to provide property management services for an annual amount of approximately \$99,200 for five years from January 1, 2018 to December 31, 2022. The expense associated with this agreement for the three months ended March 31, 2018 was approximately \$24,500.

NOTE 9 – TAXES PAYABLE

Taxes payable consists of the following:

	March 31, 2018 (Restated)	December 31, 2017
Natural resource tax	\$ —	\$ 156,147
Land use tax payable	1,698,290	810,841
Other tax payables	73,664	74,604
Total current taxes payable	<u>\$ 1,771,954</u>	<u>\$ 1,041,592</u>

NOTE 10 – CAPITAL LEASE OBLIGATIONS

The components of capital lease obligations are as follows:

	Imputed Interest rate	March 31, 2018	December 31, 2017
Total capital lease obligations	6.7%	\$ 2,649,003	\$ 2,507,201
Less: Current portion		(254,829)	(203,206)
Capital lease obligations, net of current portion		<u>\$ 2,394,174</u>	<u>\$ 2,303,995</u>

Interest expenses from capital lease obligations amounted to \$41,797 and \$41,753 for the three-month periods ended March 31, 2018 and 2017, respectively, were charged to the condensed consolidated statement of income. See Note 18 for future minimum lease payments disclosure.

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NOTE 11 –EQUITY

(a) Authorized shares

During the annual general meeting held on June 18, 2013, the shareholders of the Company approved the amendment to the Certificate of Incorporation to decrease the number of the authorized shares of the Company's common stock to 80,000,000. The Company filed an amended and restated Certificate of Incorporation with the Secretary of the State of Delaware to decrease the number of authorized shares of the Company's common stock. Accordingly, 80,000,000 is disclosed as the authorized shares of the Company's common stock in the consolidated balance sheets as of March 31, 2018 and December 31, 2017.

(b) Retained Earnings - Appropriated

In accordance with the relevant PRC regulations and the PRC subsidiaries' Articles of Association, the Company's PRC subsidiaries are required to allocate its profit after tax to the following reserve:

Statutory Common Reserve Funds

SCHC, SYCI and DCHC are required each year to transfer at least 10% of the profit after tax as reported under the PRC statutory financial statements to the Statutory Common Reserve Funds until the balance reaches 50% of the registered share capital. This reserve can be used to make up any loss incurred or to increase share capital. Except for the reduction of losses incurred, any other application should not result in this reserve balance falling below 25% of the registered capital. The Statutory Common Reserve Fund as of March 31, 2018 for SCHC, SYCI and DCHC is 46%, 14% and 0% of its registered capital respectively.

NOTE 12 – STOCK-BASED COMPENSATION

Pursuant to the Company's Amended and Restated 2007 Equity Incentive Plan approved in 2011("Plan"), the aggregate number shares of the Company's common stock available for grant of stock options and issuance is 4,341,989 shares. On October 5, 2015, during the annual meeting of the Company's stockholders, the aggregate number of shares reserved and available for grant and issuance pursuant to the Plan was increased to 10,341,989. As of March 31, 2018, the number of shares of the Company's common stock available for issuance under the Plan is 6,714,989.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The risk free rate is based on the yield-to-maturity in continuous compounding of the US Government Bonds with the time-to-maturity similar to the expected tenor of the option granted, volatility is based on the annualized historical stock price volatility of the Company, and the expected life is based on the historical option exercise pattern.

During the three months ended March 31, 2018, there were no options issued to employees or non-employees.

The following table summarizes all Company stock option transactions between January 1, 2018 and March 31, 2018.

	Number of Option and Warrants Outstanding and exercisable	Weighted- Average Exercise price of Option and Warrants	Range of Exercise Price per Common Share
Balance, January 1, 2018	808,500	\$ 1.61	\$1.44 - \$4.80
Granted and vested during the period ended March 31, 2018	—	—	—
Expired during the period ended March 31, 2018	—	—	—
Balance, March 31, 2018	808,500	\$ 1.61	\$1.44 - \$4.80

Stock and Warrants Options Exercisable and Outstanding

	Outstanding at March 31, 2018	Range of Exercise Prices	Weighted Average Remaining Contractual Life (Years)
Exercisable and outstanding	808,500	\$1.44 - \$4.80	2.86

The aggregate intrinsic value of options outstanding and exercisable as of March 31, 2018 was \$0.

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NOTE 13 – INCOME TAXES (Restated)

The Company utilizes the asset and liability method of accounting for income taxes in accordance with FASB ASC 740-10.

(a) United States (“US”)

Gulf Resources, Inc. may be subject to the United States of America Tax laws at a tax rate of 21%. No provision for the US federal income taxes has been made as the Company had no US taxable income for the three-month periods ended March 31, 2018 and 2017, and management believes that its earnings are permanently invested in the PRC.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted in law. With the new tax law, the corporation income tax rate is reduced from 35% to 21% and there is a one-time mandatory federal transition tax on accumulated foreign earnings. The Company computed this one-time mandatory transition tax on accumulated foreign earnings to be approximately \$5.4 million. However, as the Company has available US federal net operating loss carryovers and foreign tax credit to fully offset the mandatory inclusion of the accumulated foreign earnings, no net tax liability arose from the inclusion of these accumulated foreign earnings.

(b) British Virgin Islands (“BVI”)

Upper Class Group Limited, a subsidiary of Gulf Resources, Inc., was incorporated in the BVI and, under the current laws of the BVI, it is not subject to tax on income or capital gain in the BVI. Upper Class Group Limited did not generate assessable profit for the three-month periods ended March 31, 2018 and 2017.

(c) Hong Kong

Hong Kong Jiaying Industrial Limited, a subsidiary of Upper Class Group Limited, was incorporated in Hong Kong and is subject to Hong Kong profits tax. The Company is subject to Hong Kong taxation on its activities conducted in Hong Kong and income arising in or derived from Hong Kong. No provision for profits tax has been made as the Company has no assessable income for the three-month periods ended March 31, 2018 and 2017. The applicable statutory tax rates for the three-month periods ended March 31, 2018 and 2017 are 16.5%.

(d) PRC

Enterprise income tax (“EIT”) for SCHC, SYCI and DCHC in the PRC is charged at 25% of the assessable profits.

The operating subsidiaries SCHC, SYCI and DCHC are wholly foreign-owned enterprises (“FIE”) incorporated in the PRC and are subject to PRC Local Income Tax Law.

On February 22, 2008, the Ministry of Finance (“MOF”) and the State Administration of Taxation (“SAT”) jointly issued Cai Shui [2008] Circular 1 (“Circular 1”). According to Article 4 of Circular 1, distributions of accumulated profits earned by a FIE prior to January 1, 2008 to foreign investor(s) in 2008 will be exempted from withholding tax (“WHT”) while distribution of the profit earned by an FIE after January 1, 2008 to its foreign investor(s) shall be subject to WHT at 5% effective tax rate.

As of March 31, 2018 and December 31, 2017, the accumulated distributable earnings under the Generally Accepted Accounting Principles (“GAAP”) of PRC that are subject to WHT are \$286,732,938 and \$282,660,981, respectively. Since the Company intends to reinvest its earnings to further expand its businesses in mainland China, its foreign invested enterprises do not intend to declare dividends to their immediate foreign holding companies in the foreseeable future. Accordingly, as of March 31, 2018 and December 31, 2017, the Company has not recorded any WHT on the cumulative amount of distributable retained earnings of its foreign invested enterprises that are subject to WHT in China. As of March 31, 2018 and December 31, 2017, the unrecognized WHT are \$14,336,647 and \$14,133,049, respectively.

The Company’s tax returns are subject to the various tax authorities’ examination. The federal, state and local authorities of the United States may examine the Company’s tax returns filed in the United States for three years from the date of filing. The Company’s US tax returns since 2014 are currently subject to examination. Inland Revenue Department of Hong Kong may examine the Company’s tax returns filed in Hong Kong for seven years from date of filing. The Company’s Hong Kong tax returns since incorporation in year 2010 are currently subject to examination. The tax authorities of the PRC may examine the Company’s PRC tax returns for three years from the date of filing.

The components of the provision for income tax expense (benefit) from continuing operations are:

	Three-Month Period Ended March31,	
	2018	2017
Current taxes – PRC	\$ —	\$ 2,821,826
Deferred tax – PRC	(1,193,746)	—
	<u>\$ (1,193,746)</u>	<u>\$ 2,821,826</u>

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NOTE 13 – INCOME TAXES (Restated) – Continued

The effective income tax expenses differ from the PRC statutory income tax rate of 25% from continuing operations in the PRC as follows:

Reconciliations	Three-Month Period Ended March 31,	
	2018	2017
Statutory income tax rate	25%	25%
Non-deductible expense and change in valuation allowance	(7%)	1%
Non-taxable items	(3%)	—
Effective tax rate	15%	26%

Significant components of the Company's deferred tax assets and liabilities at March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018 (Restated)	December 31, 2017
Deferred tax liabilities	\$ —	\$ —
Deferred tax assets:		
Allowance for obsolete and slow-moving inventories	\$ 1,368	\$ 10,980
Impairment on property, plant and equipment	4,076,604	4,610,228
Exploration costs	1,979,924	1,905,347
Compensation costs of unexercised stock options	98,088	98,092
PRC tax losses	1,931,983	—
US federal net operating loss	27,100	—
Total deferred tax assets	8,115,067	6,624,647
Valuation allowance	(125,188)	(98,092)
Net deferred tax asset	\$ 7,989,879	\$ 6,526,555

The increase in valuation allowance for the three-month period ended March 31, 2018 is \$27,096.

The increase in valuation allowance for the three-month period ended March 31, 2017 is \$40,800.

There were no unrecognized tax benefits and accrual for uncertain tax positions as of March 31, 2018 and December 31, 2017.

NOTE 14 – BUSINESS SEGMENTS

The Company has four reportable segments: bromine, crude salt, chemical products and natural gas. The reportable segments are consistent with how management views the markets served by the Company and the financial information that is reviewed by its chief operating decision maker.

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NOTE 14 – BUSINESS SEGMENTS – Continued

An operating segment's performance is primarily evaluated based on segment operating income, which excludes share-based compensation expense, certain corporate costs and other income not associated with the operations of the segment. These corporate costs (income) are separately stated below and also include costs that are related to functional areas such as accounting, treasury, information technology, legal, human resources, and internal audit. The Company believes that segment operating income, as defined above, is an appropriate measure for evaluating the operating performance of its segments. All the customers are located in PRC.

Three-Month Period Ended March 31, 2018	Bromine *	Crude Salt *	Chemical Products	Natural Gas	Segment Total	Corporate	Total
Net revenue (external customers)	\$ —	\$ 1,638,493	\$ 608,774	\$ —	\$ 2,247,267	\$ —	\$ 2,247,267
Net revenue (intersegment)	—	—	—	—	—	—	—
Income (loss) from operations before income taxes(benefit)	(5,590,555)	(807,884)	(674,771)	(35,655)	(7,108,865)	(1,188,115)	(8,296,980)
Income tax expense (benefit)	(1,391,152)	(201,971)	399,377	—	(1,193,746)	—	(1,193,746)
Income (loss) from operations after income taxes(benefit)	(4,199,403)	(605,913)	(1,074,148)	(35,655)	(5,915,119)	(1,188,115)	(7,103,234)
Total assets	149,458,703	52,746,108	192,807,722	2,162,119	397,174,652	165,315	397,339,967
Depreciation and amortization	3,719,712	913,350	124,468	—	4,757,530	—	4,757,530
Capital expenditures	93,174	14,179	—	14,357	121,710	—	121,710
Goodwill	—	—	30,524,646	—	30,524,646	—	30,524,646

Three-Month Period Ended March 31, 2017	Bromine *	Crude Salt *	Chemical Products	Natural Gas	Segment Total	Corporate	Total
Net revenue (external customers)	\$ 13,922,394	\$ 1,813,778	\$ 17,052,321	\$ —	\$ 32,788,493	\$ —	\$ 32,788,493
Net revenue (intersegment)	2,178,493	—	—	—	2,178,493	—	2,178,493
Income (loss) from operations before income taxes	5,271,933	885,888	4,946,177	(23,758)	11,080,240	(267,243)	10,812,997
Income taxes	1,330,103	223,582	1,268,141	—	2,821,826	—	2,821,826
Income (loss) from operations after income taxes	3,941,830	662,306	3,678,036	(23,758)	8,258,414	(267,243)	7,991,171
Total assets	155,178,113	28,641,633	192,675,503	1,802,854	378,298,103	37,109	378,335,212
Depreciation and amortization	3,998,581	454,447	986,070	—	5,439,098	—	5,439,098
Capital expenditures	—	—	—	59,975	59,975	—	59,975
Goodwill	—	—	27,820,174	—	27,820,174	—	27,820,174

* Certain common production overheads, operating and administrative expenses and asset items (mainly cash and certain office equipment) of bromine and crude salt segments in SCHC were split by reference to the average selling price and production volume of respective segment.

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NOTE 14 – BUSINESS SEGMENTS – Continued

Reconciliations	Three-Month Period Ended March 31,	
	2018	2017
Total segment operating income (loss)	\$ (7,108,865)	\$ 11,080,240
Corporate costs	(129,263)	(129,988)
Unrealized loss on translation of intercompany balance	(1,058,852)	(137,255)
Income (loss) from operations	(8,296,980)	10,812,997
Other income	126,134	83,949
Income (loss) before income taxes	<u>\$ (8,170,846)</u>	<u>\$ 10,896,946</u>

The following table shows the major customer(s) (10% or more) for the three-month period ended March 31, 2018.

Number	Customer	Bromine (000's)	Crude Salt (000's)	Chemical Products (000's)	Total Revenue (000's)	Percentage of Total Revenue (%)
1	Shandong Morui Chemical Company Limited	\$ —	\$ 534	\$ 155	\$ 689	30.6%
	Shandong Brother Technology Limited, Kuerle					
2	Xingdong Trading Limited	\$ —	\$ 670	\$ —	\$ 670	29.8%
3	Shouguang Weidong Chemical Company Limited	\$ —	\$ 435	\$ —	\$ 435	19.3%

The following table shows the major customer(s) (10% or more) for the three-month period ended March 31, 2017.

Number	Customer	Bromine (000's)	Crude Salt (000's)	Chemical Products (000's)	Total Revenue (000's)	Percentage of Total Revenue (%)
1	Shandong Morui Chemical Company Limited	\$ 2,594	\$ 497	\$ 1,085	\$ 4,176	12.7%

NOTE 15– CUSTOMER CONCENTRATION

During the three-month periods ended March 31, 2018 and 2017, the Company sold 88.8% and 36.4% of its products to its top five customers, respectively. As of March 31, 2018 and 2017, amounts due from these customers were \$8,831,030 and \$30,263,356, respectively. This concentration makes the Company vulnerable to a near-term severe impact, should the relationships be terminated.

NOTE 16 – MAJOR SUPPLIERS

During the three-month period ended March 31, 2018 and 2017, the Company purchased 0% and 69.7% of its raw materials from its top five suppliers, respectively. As of March 31, 2018 and 2017, amounts due to those suppliers included in accounts payable were \$0 and \$5,639,164, respectively. This concentration makes the Company vulnerable to a near-term severe impact, should the relationships be terminated.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Expressed in U.S. dollars)
(UNAUDITED)

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of financial instruments, which consist of cash, accounts receivable and accounts payable and other payables, approximate their fair values due to the short-term nature of these instruments. There were no material unrecognized financial assets and liabilities as of March 31, 2018 and December 31, 2017.

NOTE 18 – CAPITAL COMMITMENT AND OPERATING LEASE COMMITMENTS

As of March 31, 2018, the Company has leased a real property adjacent to Factory No. 1, with the related production facility, channels and ducts, other production equipment and the buildings located on the property, under a capital lease. The future minimum lease payments required under the capital lease, together with the present value of such payments, are included in the table show below.

The Company has leased nine parcels of land under non-cancelable operating leases, which are fixed rentals and expire through December 2021, December 2023, December 2030, December 2031, December 2032, December 2040, February 2059, August 2059 and June 2060, respectively.

The Company has no purchase commitments as of March 31, 2018.

The following table sets forth the Company's contractual obligations as of March 31, 2018:

	Capital Lease Obligations	Operating Lease Obligations	Property Management Fees	Capital Expenditure
Payable within:				
the next 12 months	\$ 298,499	\$ 1,045,795	\$ 99,213	\$ 167,016
the next 13 to 24 months	298,499	1,069,473	99,213	—
the next 25 to 36 months	298,499	1,094,416	99,213	—
the next 37 to 48 months	298,499	942,133	99,213	—
the next 49 to 60 months	298,499	960,539	99,213	—
thereafter	2,387,996	16,951,287	—	—
Total	<u>3,880,491</u>	<u>\$ 22,063,643</u>	<u>\$ 496,065</u>	<u>\$ 167,016</u>
Less: Amount representing interest	(1,231,488)			
Present value of net minimum lease payments	<u>\$ 2,649,003</u>			

Rental expenses related to operating leases of the Company amounted to \$281,613 and \$255,120, which were charged to the condensed consolidated statements of income for the three months ended March 31, 2018 and 2017, respectively.

NOTE 19 – SUBSEQUENT EVENTS

In April 2018, SYCI signed several contracts (preliminary design, investigative work and assessment and evaluation of safety) related to the SYCI's relocation project. The total of these contracts amounted to approximately \$1.3 million (RMB8.0 million).

In April 2018, SYCI and Shouguang City Rongyuan Pharmaceutical Co., Ltd signed a land lease contract for a 20-year term commencing May 1, 2018 in the Bohai Park for an annual rent of approximately \$13,000. This is for an area of 26.89 mou (approximately 1.79 hectares) and for the construction of the new chemical factory.

In April 2018, SCHC signed a purchase agreement for rectification equipment for an amount of approximately \$260,000 (RMB1.7 million).

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules, regulations and related forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our CEO and CFO concluded that due to the material weakness described below, our disclosure controls and procedures were ineffective as of the end of the period covered by this Form 10-Q/A to provide reasonable assurance 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, and were not effective as of the end of the period covered by this Form 10-Q/A to provide reasonable assurance that such information is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

(b) Changes in internal controls

Subsequent to the filing of the Company's quarterly report on Form 10-Q for the period ended March 31, 2018, the Company filed Amendment No. 2 on Form 10-K/A to reflect the correction of an error in the previously reported fiscal year 2017 financial statements as filed on March 23, 2018 related to the one-time mandatory federal transition tax on accumulated foreign earnings.

Management is actively engaged in the planning for, and implementation of, remediation efforts to address the material weakness identified above. The remediation plan includes i) the implementation of new controls designed to evaluate the appropriateness of foreign tax recognition policies and procedures, ii) new controls over recording of foreign tax transactions, and iii) additional training for the accounting and financial reporting personnel.

Management believes the measures described above and others that may be implemented will remediate the material weakness that we have identified. As management continues to evaluate and improve internal control over financial reporting, we may decide to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures identified.

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION**Item 6. Exhibits**

Exhibit No.	Description
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following financial statements from Gulf Resources, Inc.'s Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarterly period ended March 31, 2018 formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Other Comprehensive Income (Loss); (iii) the Consolidated Statements of Changes in Equity; (iv) the Consolidated Statement of Cash Flows; and, (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.

SIGNATURES

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

GULF RESOURCES, INC.

Dated: November 9, 2018

By: /s/ Xiaobin Liu
Xiaobin Liu
Chief Executive Officer

Dated: November 9, 2018

By: /s/ Min Li
Min Li
Chief Financial Officer

Exhibit 31.1

**Certification of Chief Executive Officer
Pursuant to Rule 13A-14(A)/15D-14(A)
of the Securities Exchange Act of 1934**

I, Xiaobin Liu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A (Amendment No. 1) for the period ended March 31, 2018 of Gulf Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - c. evaluated the effectiveness of registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

By: /s/ Xiaobin Liu
Xiaobin Liu
Chief Executive Officer

Dated: November 9, 2018

Exhibit 31.2

**Certification of Chief Financial Officer
Pursuant to Rule 13A-14(A)/15D-14(A)
of the Securities Exchange Act of 1934**

I, Min Li, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A (Amendment No. 1) for the period ended March 31, 2018 of Gulf Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - c. evaluated the effectiveness of registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

By: /s/ Min Li
Min Li
Chief Financial Officer

Dated: November 9, 2018

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350 AND EXCHANGE ACT RULES 13a-14(b) AND 15d-14(b)
(Section 906 of the Sarbanes-Oxley Act of 2002)**

In connection with the Quarterly Report of Gulf Resources, Inc. on Form 10-Q/A (Amendment No. 1) for the period ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge and belief:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of the operation of the Company.

Dated: November 9, 2018

By: /s/ Xiaobin Liu
Xiaobin Liu
Chief Executive Officer

Dated: November 9, 2018

By: /s/ Min Li
Min Li
Chief Financial Officer