

**President's Letter**

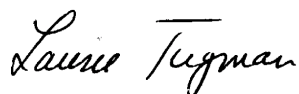
We were pleased with the underlying performance of our businesses in the second quarter and for the first half of the year. Despite challenging economic conditions which impacted our more volume sensitive businesses, incremental revenue and earnings at MET and the positive impact of foreign exchange produced strong financial results.

(In millions of dollars, except per share amounts)	Three months ending June 30,			Six months ending June 30,		
	2009	2008	% chg	2009	2008	% chg
Revenue	\$ 89.4	\$ 89.7	-0.3%	\$ 157.9	\$ 164.3	-3.9%
Gross profit	43.1	25.8	67.1%	65.5	49.3	32.9%
Earnings before income taxes	25.8	8.5	203.5%	27.9	13.8	102.2%
Net earnings	17.3	6.1	183.6%	18.9	9.8	92.9%
Earnings per share - basic	0.53	0.18	194.4%	0.57	0.29	96.6%

In the second quarter, the Industrial Services Group reported lower revenue and earnings, on lower volumes from Toledo, Petcoke Services and the processing of hazardous waste. Lower prices for sulphur also affected revenue and earnings. Western Markets revenues decreased on lower volumes of sulphur-based products and water treatment chemicals. This was more than offset by lower input costs, resulting in higher gross profit in the quarter. MET reported higher revenue and gross profit primarily reflecting the recognition of incremental revenue and earnings relating to project closeouts and the termination of a previously announced project.

**Outlook**

Although we are seeing some stabilization in economic conditions, it is difficult to predict timing of any increase in business activity. We were pleased with the stability of cash generation from our businesses and we will continue to review our cost structures and processes in order to maintain a healthy level of profitability.



Laurie Tugman  
President & CEO

## Management's Discussion and Analysis

*The following commentary provides additional analysis of the operations and financial position for the fiscal period ended June 30, 2009 for Marsulex Inc. ("Marsulex" or "the Company") and includes information available to July 27, 2009. This Commentary should be read in conjunction with the consolidated financial statements, including the accompanying notes, management's report and the auditor's report included in the Company's December 31, 2008 annual report. All dollar amounts are stated in Canadian currency, unless otherwise stated.*

*Certain statements contained in this commentary may constitute forward-looking information, including future-oriented financial information and financial outlooks, within the meaning of securities laws. Forward-looking information may relate to the Company's future outlook and anticipated events or results and may include statements regarding the Company's future financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes, plans and objectives. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue", or other similar expressions concerning matters that are not historical facts. Forward-looking information contained in this commentary is based on certain assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities (collectively, the "Assumptions"). While the Company considers these Assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking information is subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Company currently expects. These risks, uncertainties and other factors include, but are not limited to, the following: the timing and market acceptance of future products, competition in the Company's markets, the Company's reliance on customers, fluctuations in currency and exchange rates, commodity prices or interest rates, the Company's ability to maintain good relations with its employees, changes in the law or regulations regarding the environment or other environmental liabilities, the Company's ability to integrate acquisitions and the Company's ability to protect its intellectual property (collectively, the "Risks"). For more exhaustive information on these Risks you should refer to the "Risks and Uncertainties" section of this MD&A and to the Company's filings with the securities regulatory authorities, including the Company's most recently filed Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.marsulex.com](http://www.marsulex.com). Additional information relating to the Company can be found on the SEDAR website. Other than as required under securities laws, we do not undertake to update any forward-looking information at any particular time. All forward-looking information contained in this commentary is expressly qualified in its entirety by this cautionary statement.*

### RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has in place appropriate information systems, procedures and controls to provide reasonable assurance that information used internally and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying consolidated financial statements.

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), together with other members of management, have evaluated the design of the Company's disclosure controls and procedures as of June 30, 2009 and have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities, particularly during the period in which this report was being prepared.

The CEO and CFO have evaluated the design of the Company's internal controls over financial reporting and have concluded that they have been designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Financial statements for external purposes are prepared in accordance with Canadian GAAP. There have been no changes to the design of internal controls over financial reporting that occurred during the most recent interim period ended June 30, 2009 that have materially affected, or are measurably likely to materially affect, internal controls over financial reporting.

While the Officers of the Company have evaluated the design of disclosure controls and procedures and internal controls over financial reporting as at June 30, 2009 due to the limitations in control systems and procedures, their evaluation can provide only reasonable, not absolute, assurance that such disclosure controls and procedures and internal controls over financial reporting are reliable.

### COMPANY PROFILE AND BUSINESS SEGMENTATION

Marsulex is a leading provider of industrial services, primarily environmental compliance solutions for air quality control and industrial hazardous waste streams, and a leading producer and marketer of sulphur-based industrial and water treatment chemicals. The Company's services are provided to a broad base of customers in a wide range of industries. Increasingly stringent environmental compliance regulations have the potential to create opportunities

for Marsulex to apply its core competency of operating processing plants efficiently and safely. In Western Canada, Marsulex produces and markets sulphur-based industrial and water treatment chemicals.

The Company's activities are divided into four reportable segments. The three operating segments are: Industrial Services, Western Markets and MET ("Marsulex Environmental Technologies"). The fourth non-operating segment is Corporate Support, which provides centralized services, such as finance, information systems, human resources and risk management to the operating segments.

## RESULTS OF CONSOLIDATED OPERATIONS

(In thousands of dollars, except per share)	Three months ending June 30,			Six months ending June 30,		
	2009	2008	% chg	2009	2008	% chg
Revenue	<b>\$ 89,405</b>	\$ 89,741	-0.4%	<b>\$157,857</b>	\$164,254	-3.9%
Gross Profit	<b>43,072</b>	25,770	67.1%	<b>65,501</b>	49,256	33.0%
<i>Gross Profit as a percent of revenue</i>	<b>48.2%</b>	28.7%		<b>41.5%</b>	30.0%	
Selling, general, administrative and other costs (SG&A), including foreign exchange	<b>7,928</b>	7,302	8.6%	<b>18,818</b>	15,387	22.3%
Depreciation and amortization	<b>8,288</b>	8,003	3.6%	<b>16,560</b>	16,017	3.4%
Interest expense - net	<b>1,095</b>	1,946	-43.7%	<b>2,204</b>	4,095	-46.2%
Earnings before income taxes	<b>25,761</b>	8,519	202.4%	<b>27,919</b>	13,757	102.9%
Income taxes	<b>8,438</b>	2,431	247.1%	<b>9,056</b>	3,990	127.0%
Net earnings	<b>\$ 17,323</b>	\$ 6,088	184.5%	<b>\$ 18,863</b>	\$ 9,767	93.1%
Comprehensive Income	<b>\$ 16,846</b>	\$ 5,822	189.4%	<b>\$ 18,552</b>	\$ 11,017	68.4%
Earnings per share--Basic	<b>\$ 0.53</b>	\$ 0.18	194.4%	<b>\$ 0.57</b>	\$ 0.29	96.6%
Earnings per share--Diluted	<b>\$ 0.52</b>	\$ 0.18	188.9%	<b>\$ 0.57</b>	\$ 0.29	96.6%
Cash dividends per share	<b>\$ 0.16</b>	\$ 0.16	n/a	<b>\$ 0.32</b>	\$ 0.32	n/a
Cash generated from operations before non-cash changes to working capital	<b>\$ 20,207</b>	\$ 15,308	32.0%	<b>\$ 32,867</b>	\$ 28,615	14.9%
Changes in non-cash working capital	<b>2,040</b>	8,870	-77.0%	<b>(1,879)</b>	7,918	n/a
Cash provided by operations	<b>\$ 22,247</b>	\$ 24,178	-8.0%	<b>\$ 30,988</b>	\$ 36,533	-15.2%

Revenue for the second quarter of 2009 reflects the recognition of incremental revenue relating to project closeouts and the termination of a previously announced project in MET as well as the positive impact of foreign exchange on U.S. denominated revenues (\$7.1 million). These increases were offset by lower volumes and sales in Industrial Services and Western Markets. Revenue for the first six months of 2009 was \$6.4 million lower than the same period in 2008 as the sulphur-based product volumes and sales declines from the rapid escalation in 2008 sulphur prices outweighed the recognition of the incremental revenue in MET and the positive foreign exchange impact (\$13.7 million).

The increase in gross profit for the second quarter and first six months of 2009 of approximately \$17.3 million and \$16.2 million, respectively, over the same period in 2008 were largely due to recognition of the incremental revenue in MET, the positive foreign exchange impact (\$3.7 million for the quarter and \$5.6 million for the first six months), and lower costs within the Industrials Services and Western Markets Groups. Lower volumes and increased operating costs in Industrial Services offset these increases. When the impact of the incremental revenue and gross profit for MET is excluded, gross profit as a percent of revenue returns to historical levels.

(In thousands of dollars)	Three months ending June 30,			Six months ending June 30,		
	2009	2008	% chg	2009	2008	% chg
SG&A, excluding long-term incentive plan	\$ 8,879	\$ 6,972	27.3%	\$ 17,574	\$ 14,592	20.4%
Long-term incentive plan and director's DSU expense	2,137	641	n/a	3,256	312	n/a
Foreign exchange (gain) loss	(3,088)	(311)	n/a	(2,012)	483	n/a
	\$ 7,928	\$ 7,302	8.6%	\$ 18,818	\$ 15,387	22.3%
As a % of revenue	8.9%	8.1%		11.9%	9.4%	

The increase in SG&A costs for the second quarter reflects the increased expense for the Company's long-term incentive plan resulting from "mark-to-market" adjustments for changes in the underlying share price, an increase in the short-term incentive plan relating to the effect of the incremental earnings (\$1.2 million), and the increase in consulting costs (\$0.3 million). For the first six months the increase in SG&A costs includes an increase in the short-term incentive plan (\$1.3 million) and severance costs (approximately \$0.5 million in Industrial Services and \$0.3 million in Corporate).

The impact of foreign exchange on the translation of U.S. denominated SG&A for the second quarter and six months ended June 30, 2009 was \$0.4 million and \$1.0 million, respectively. The results for the second quarter and first six months of 2009 also include gains on the translation of U.S. denominated monetary items versus losses for the same periods in 2008. Since the beginning of 2009, the Canadian dollar has appreciated 5.3% against the U.S. dollar. Exchange rates at December 31, 2008 were \$0.82 versus \$0.86 at June 30, 2009. A more detailed analysis of the Company's exposure to foreign exchange fluctuations is included under Risk & Uncertainties in this MD&A.

At the end of June 30, 2009 the Company had approximately 939,000 units outstanding under its long-term incentive and director DSU plans. Based on these outstanding units, a \$1 change of the Company's share price would result in an approximate \$0.9 million change in SG&A.

(In thousands of dollars)	Three months ending June 30,			Six months ending June 30,		
	2009	2008	% chg	2009	2008	% chg
Interest expense	\$ 1,112	\$ 2,002	-44.5%	\$ 2,287	\$ 4,208	-45.7%
Interest income	(17)	(56)	-69.6%	(83)	(113)	-26.5%
Net interest expense	\$ 1,095	\$ 1,946	-43.7%	\$ 2,204	\$ 4,095	-46.2%
Weighted average interest rate	3.0%	5.0%		3.0%	5.3%	

Lower net interest expense for the second quarter and the first six months of 2009 reflects lower debt and reduced interest rates that resulted from interest rate reductions in both the U.S. and Canada.

The increase in the pre-tax earnings for the second quarter and first six months of 2009 reflects the higher gross profit, the positive impact of foreign exchange and the decreased interest expense partially offset by increased SG&A costs and depreciation.

The increase in tax expense reflects approximately \$6.0 million in current taxes relating to the increased earnings primarily in MET. The effective tax rate for the second quarter and the first six months of 2009 was 33% and 32% (29% for the same periods in 2008), respectively, and when compared to the statutory rate reflects the higher taxes on earnings in foreign jurisdictions offset by the recognition of previously unrecognized U.S. tax loss carry forwards.

Cash tax is dependent on the Company's earnings by legal entity, the availability of tax losses and accelerated tax depreciation on property, plant and equipment and other deductions to reduce taxable income. During the quarter

the Company made cash tax instalments of \$2.4 million. In the second half of 2009 the Company expects to make approximately \$6.0 million in additional cash taxes instalments relating to incremental earnings recognized during the second quarter of 2009.

Higher comprehensive income was realized in the quarter primarily as a result of increased net earnings for the period.

## REVIEW OF BUSINESS SEGMENTS

### Industrial Services Group

*Industrial Services provides services, including environmental compliance solutions, to oil refiners and other industrial customers, primarily in the U.S. and Canada. Services include the regeneration of spent sulphuric acid produced during the octane enhancement of gasoline; the extraction and recovery of sulphur from hydrogen sulphide gas created during the refining process; the recovery of sulphur dioxide to ensure air quality compliance; cutting and handling of petroleum coke; and the safe handling, treatment, and disposal of industrial hazardous waste streams.*

(In thousands of dollars)	Three months ending June 30,			Six months ending June 30,		
	2009	2008	% chg	2009	2008	% chg
Revenue	\$ 40,113	\$ 52,134	-23.1%	\$ 79,989	\$ 97,437	-17.9%
Gross Profit	15,872	17,214	-7.8%	29,610	32,658	-9.3%
<i>Gross Profit as a percent of revenue</i>	<b>39.6%</b>	33.0%		<b>37.0%</b>	33.5%	
Capital expenditures <sup>1</sup>	\$ 1,786	\$ 1,556	14.8%	\$ 4,230	\$ 2,352	79.8%
Total assets <sup>2</sup>				\$ 288,565	\$ 305,957	-5.7%

1. The above capital expenditures represent cash expenditures for capital assets.

2. 2008 assets are at December 31, 2008.

Revenue for the second quarter and first six months of 2009 declined by 23.1% and 17.9%, respectively, when compared to the same periods in 2008. The decrease is a result of lower prilled sulphur revenue, lower Petcoke and Toledo volumes and the timing of hazardous waste processed from remediation projects partially offset by the positive impact of foreign exchange (\$3.1 million for the second quarter and \$7.2 million for the first six months of 2009).

Gross profit, for the second quarter of 2009, declined by 7.8% as the lower volumes and higher maintenance costs were partially offset by the positive impact of foreign exchange (\$1.3 million for the second quarter and \$2.8 million for the first six months of 2009) lower input costs and the contractual pass throughs of fuel costs. Gross profit was down 9.3% for the first six months ended in 2009 as a result of the lower volumes and additional severance costs in 2009 which were included in the costs of goods sold.

Gross profit as a percentage of revenue increased for the second quarter and first six months of 2009 reflecting lower input costs and cost pass throughs.

The increase in capital expenditures for the first six months of 2009 includes \$1.5 million in expenditures relating to the construction of a treatment basin for the hazardous waste processing facility in Blainville.

### Western Markets Group

*Western Markets produces and provides sulphur-based chemicals to industrial customers and supplies alum, a water treatment chemical used by municipalities and other industrial companies, for water and wastewater treatment. The primary market is Western Canada earning revenues by providing sulphur-based chemicals to the pulp and paper industry, as well as water treatment chemicals used by municipalities throughout Alberta and Saskatchewan for water and wastewater treatment.*

The Group's product range includes: sulphuric acid; liquid sulphur dioxide; aluminum sulphate ("alum"); sodium bisulphate; aqua ammonia; carbon disulphide; hydrogen sulphide; and sulphur.

(In thousands of dollars)	Three months ending June 30,			Six months ending June 30,		
	2009	2008	% chg	2009	2008	% chg
Revenue	\$ 17,815	\$ 20,090	-11.3%	\$ 33,819	\$ 38,307	-11.7%
Gross Profit	6,818	5,359	27.2%	12,938	11,126	16.3%
Gross Profit as a percent of revenue	38.3%	26.7%		38.3%	29.0%	
Capital expenditures	\$ 536	\$ 2,559	-79.1%	\$ 1,108	\$ 3,817	-71.0%
Total assets <sup>1</sup>				\$ 39,307	\$ 40,201	-2.2%

1. 2008 assets are at December 31.

Revenue for the second quarter and first six months of 2009 was down 11.3% and 11.7%, respectively, when compared to the same periods in 2008 reflecting decreased sales and volumes primarily of sulphur-based products. Drier and cooler conditions in Western Canada have also resulted in lower sales of water treatment chemicals. Gross profit for the second quarter and first six months of 2009 was up 27.2% and 16.3%, respectively, compared to the same periods as last year reflecting lower input costs, primarily sulphur and fuel and the timing of maintenance activity. The gross profit and gross profit as a percent of revenue returned to historic levels in 2009.

The decrease in capital expenditures reflects the timing of maintenance capital expenditures relating to the Group's Prince George facility and the replacement of railcars which took place in 2008.

#### MET (Marsulex Environmental Technologies)

MET provides environmental systems and services for air quality compliance, primarily to electric utilities, and also to petrochemical and general industrial customers worldwide.

The activities associated with MET include the design of pollution control equipment, engineering and project management services, and the licensing of technology.

(In thousands of dollars)	Three months ending June 30,			Six months ending June 30,		
	2009	2008	% chg	2009	2008	% chg
Revenue	\$ 31,477	\$ 17,517	79.7%	\$ 44,049	\$ 28,510	54.5%
Gross Profit	20,382	3,197	537.5%	22,953	5,472	319.5%
Gross Profit as a percent of revenue	64.8%	18.3%		52.1%	19.2%	
Capital expenditures	\$ --	\$ --	n/a	\$ --	\$ --	n/a
Total assets <sup>1</sup>				\$ 6,892	\$ 9,066	-24.0%

1. 2008 assets are at December 31.

For the second quarter and first six months of 2009, MET's higher revenue and gross profit primarily reflected the recognition of incremental revenue and earnings relating to project closeouts and the termination of a previously announced project. Revenue and earnings that would have been recognized over the course of the project have been accounted for in the second quarter. When the impact of the incremental revenue and gross profit is removed, the results for the second quarter and first six months of 2009 are comparable to the same periods in 2008 and reflect ongoing project activity. Foreign exchange had a positive impact on revenue for the second quarter and first six months of 2009 of \$4.0 million and \$6.5 million, respectively, and on gross profit, for the same periods, of \$2.4 million and \$2.8 million, respectively. 2009 project activity includes engineering to retrofit a previous FGD installation and several FGD projects secured by one of MET's China licensees.

The decrease in total assets is the result of billable work relating to the timing of project activity and the impact of foreign exchange on the U.S. dollar denominated assets.

## LIQUIDITY AND CAPITAL RESOURCES

Total assets for the Company were \$381.7 million at June 30, 2009 compared to the \$394.9 million at December 31, 2008.

Accounts receivable decreased to \$31.9 million at June 30, 2009 from \$39.3 million at December 31, 2008 which reflects lower revenues for the second quarter of 2009, excluding incremental MET revenues, the timing of payments and the impact of the changes in the translation of U.S. dollar denominated receivables.

Inventories at June 30, 2009 were comparable to December 31, 2008 balances.

Prepaid expenses and other assets increased to \$3.4 million at June 30, 2009 from \$2.0 million reflecting payment of insurance premiums.

The Company holds investments in the amount of \$0.9 million, which were invested in Canadian third party Asset-Backed Commercial Paper ("ABCP"). At the time of the investment, these certificates were rated by Dominion Bond Rating Service ("DBRS") as R1-High, which met the criteria of the Company's investment guidelines.

The Company has classified these investments as held-for-trading and has presented them on the consolidated balance sheet as long-term since it is expected these assets will not be realized within a 365-day period. On January 21, 2009, the Pan-Canadian Investors Committee for Third Party Asset Backed Commercial Paper announced that the restructuring plan had been fully implemented. Pursuant to the plan, the Company received restructured ABCP in the form of longer term notes. The ultimate amount recovered from the notes will not be material to the Company's consolidated financial statements. Currently, the Company has sufficient cash and credit facilities to satisfy its financial obligations as they come due.

The net book value of property, plant, and equipment at June 30, 2009 decreased to \$192.3 million from a December 31, 2008 balance of \$201.4 million. The decrease is the result of capital additions during the first six months of 2009 being more than offset by depreciation expense and the impact of foreign exchange on U.S. dollar denominated assets.

Intangible assets decreased to \$20.6 million from the December 31, 2008 balance of \$23.6 million reflecting the amortization expense for the first six months of 2009 and the impact of foreign exchange partially offset by the acquisition of a new licensed technology in MET.

Goodwill decreased to \$80.1 million from the December 31, 2008 balance of \$82.4 million with goodwill being unchanged except for the impact of changes in the Canadian dollar on the translation of U.S. denominated goodwill.

Total current liabilities balance decreased to \$81.4 million from the December 31, 2008 balance of \$83 million, reflecting a reduction in deferred revenue relating to MET and a decrease in accounts payable. The decrease was partially offset by the increase in current taxes payable as a result of the higher earnings as well as the increase in the current portion of long-term debt resulting from \$9.2 million of mandatory principal repayments, on the \$115 million Senior Secured Credit Facility (maturing February 28, 2012), which begin on March 31, 2010 and the increase in accruals.

### Financial Condition

	June 30, 2009	December 31, 2008
Cash including current portion of cash held in trust (in millions of dollars)	\$ 43.4	\$ 36.8
Debt (in millions of dollars)	\$ 147.1	\$ 152.5
Net debt <sup>1</sup> (in millions of dollars)	\$ 103.7	\$ 115.7
Debt to equity	1.3x	1.3x
Net debt <sup>1</sup> to equity	0.9x	1.0x
Interest coverage (Gross Profit <sup>2</sup> to interest expense <sup>2</sup> )	19.9x	13.0x

1. Net debt is defined as total debt less cash and cash equivalents, including cash held in trust.

2. Calculated for the latest twelve months.

The excess amount of cash and cash equivalents, including cash held in trust, is invested in "overnight", bank backed interest-bearing deposits and government backed treasury bills. The Company continues to invest a significant proportion of its excess cash in government backed T-bills forgoing higher returns in favour of security.

The Company generates positive cash flows from operations that are used to fund maintenance and expansion capital projects, meet debt obligations and make dividend payments. The Company's growth strategy includes acquisition or expansion of processing operations, development of new technologies, and development or expansion of the Company's presence in new markets. To the extent required, the Company would seek additional financing to fund this growth strategy. As a consequence of pursuing its strategy, the Company's financial leverage ratios may increase in the short-term and will reduce with the full year contribution from any acquisition or from the commencement of earnings from expansion projects. Given current economic conditions, it is believed that access to additional credit, should it be required to fund growth initiatives, would be at interest rates that are higher than prevailing rates with the existing credit facility.

At June 30, 2009, the following remained undrawn under the Company's credit facilities.

(In thousands of dollars)	Approved Limit	Undrawn
Revolving Term Facility	\$ 70,000	\$ 70,000
Revolving Operating Facility	20,000	20,000

Total debt at June 30, 2009 was \$147.1 million, down slightly from \$152.5 million as at December 31, 2008, reflecting the impact of foreign exchange on the U.S. dollar denominated debt (\$4.3 million) and loan repayments (\$1.0 million). As a result of the decrease in total debt and the increase in the net cash position of approximately \$6.6 million, net debt has decreased to \$103.7 million at June 30, 2009 (December 31, 2008 balance of \$115.7 million).

The interest rate on the Long-term Loan is fixed under contractual agreements and bears interest of 7.3% per annum.

The Senior Secured Credit Facility, maturing in 2012, is subject to near-term interest rate fluctuations as interest is at variable rates. The loan can be drawn as LIBOR, Bankers' Acceptance and prime rate loans with margins ranging from 100 to 225 basis points and prime rate loans with margins ranging from 0 to 125 basis points.

At June 30, 2009, the interest rates were:

- ◆ U.S. LIBOR loan (U.S. \$70 million) – 0.32% plus 125 basis points
- ◆ Cdn. Bankers' Acceptance loan – 0.43% plus 125 basis points
- ◆ Cdn. Prime rate loan – 2.25% plus 25 basis points

Based on the outstanding balances at June 30, 2009, a 1% increase in LIBOR, Bankers' Acceptances and prime rate would increase the Company's interest payments by U.S. \$813,764, \$333,000 and \$3,000, respectively.

The Company's net debt to EBITDA ratio was 1.3 times (December 31, 2008 – 1.7 times) for the latest twelve months ended June 30, 2009. EBITDA is discussed in the Supplemental Financial Information section of this MD&A.

At June 30, 2009, the Company had met all of its debt related covenants.

## Working Capital

The Company's working capital and current ratio were as follows:

	June 30, 2009	December 31, 2008	June 30, 2008
Working capital <sup>1</sup> (in thousands of dollars)	\$ 1,401	\$ (803)	\$ (8,188)
Current ratio <sup>1</sup>	1.02 to 1.0	0.99 to 1.0	0.91 to 1.0

1. Includes cash and cash equivalents and cash held in trust.

The Company's cash on hand and positive cash flows in conjunction with the undrawn portions of the Revolving Term and Operating facilities provide the Company with sufficient working capital to meet its financial commitments. Given the nature of its business, it is not unusual for the Company to experience a negative working capital position.

## Share Capital Outstanding

	July 27, 2009	June 30, 2009	December 31, 2008
Number of common shares	32,840,198	32,840,198	33,312,748
Number of options	287,665	287,665	435,415

On November 14, 2008, the Company commenced a Normal Course Issuer Bid ("NCIB") pursuant to which the Company is entitled to purchase 1,650,000 of its issued and outstanding common shares. The NCIB terminates no later than November 13, 2009. All shares purchased under the issuer bid will be cancelled.

On January 27, 2009 the Company purchased for cancellation 620,300 of its common shares pursuant to a block purchase exemption under its NCIB. The shares were purchased at a cost of \$7.25 per share for a total cost of approximately \$4.5 million. As at June 30, 2009, the Company has additional availability under the NCIB to purchase up to 1,029,700 million of its common shares prior to November 13, 2009.

For the three months ended June 30, 2009, the Company issued 24,500 common shares for cash proceeds of \$94,325 upon the exercise of stock options. For the six months ended June 30, 2009 the Company issued 147,750 common shares for cash proceeds of \$472,550 upon the exercise of stock options.

All dividends on Marsulex common shares received by shareholders in 2007 and later are eligible dividends as defined in amendments to section 89 of the *Income Tax Act* (unless otherwise designated) and, accordingly, entitle an individual shareholder resident in Canada to a higher dividend gross-up and dividend tax credit. During the quarter the dividend (16 cents per share) was increased to 18.5 cents per share for the August 14, 2009 payment.

## Related Party Transactions

The Company has entered into a management services contract with its majority shareholder, Birch Hill Equity Partners, for the supply of management and financial services. In addition, certain of the Company's Directors hold senior positions with firms that provide services to the Company. The Company incurred the following fees:

(In thousands of dollars)	Three months ending June 30,			Six months ending June 30,		
	2009	2008	% chg	2009	2008	% chg
Fees to Birch Hill Equity Partners	\$ 131	\$ 104	26.0%	\$ 241	\$ 207	16.4%
Fees to firms of certain Directors	3,277	3,816	-14.1%	3,473	4,229	-17.9%

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### Cash Flow from Operations

For the second quarter and first six months of 2009, the Company generated \$22.2 million and \$31.0 million respectively in cash from operations compared to \$24.2 million and \$36.5 for the same periods in 2008. The decrease was primarily due to the deposits received on projects in 2008.

Cash and cash equivalents at June 30, 2009 were \$42.5 million, up \$6.5 million from \$36 million at December 31, 2008. The accumulation of excess cash to meet the maintenance capital expenditure requirements for the second half of 2009 has contributed to this increase.

## Capital Expenditures

(In thousands of dollars)	Three months ending June 30,		Six months ending June 30,	
	2009	2008	2009	2008
Maintenance capital <sup>1</sup>	\$ 3,148	\$ 4,601	\$ 6,386	\$ 6,781

1. Including expenditures for placement cells (recorded as other charges).

The Company is expecting to spend approximately \$18 – 19 million on maintenance capital expenditures in 2009, excluding incremental expenditures it will incur on the two Ohio facilities per the terms of the USEPA settlement agreement.

## RISKS & UNCERTAINTIES

There have been no changes in the Company's business risks described in the December 31, 2008 MD&A and Annual Information Form.

The Company has U.S.-based operations and reports in Canadian dollars and therefore is exposed to foreign exchange fluctuations in the following three areas: (1) monetary assets and liabilities, working capital and the U.S. denominated portion of the Senior Secured Term Loan; (2) revenues and expenses; and (3) the net investment in self-sustaining operations. Highlights of exchange rate movements for the quarter are as follows:

	Three months ending June 30,			Six months ending June 30,		
	2009	2008	% chg	2009	2008	% chg
Average U.S. exchange rates	0.8593	0.9931	-13.5%	0.8313	0.9947	-16.4%
Closing U.S. exchange rates <sup>1</sup>	0.8602	0.9817	-12.4%	0.8602	0.9817	-12.4%

1. The December 31, 2008 closing rate was 0.8166.

Components of foreign exchange:

(Gains/(losses) in thousands of dollars)	Three months ending June 30,		Six months ending June 30,	
	2009	2008	2009	2008
Impact on gross margin and SG&A	\$ 3,300	\$ (900)	\$ 4,600	\$ (2,600)
Impact on U.S. denominated net monetary items	3,088	311	2,012	(483)
Impact on Comprehensive Income	(477)	(266)	(311)	1,250

The impact on gross margin and SG&A reflects the increased year-over-year U.S. dollar average rate. The decrease in comprehensive income is a result of the strengthening Canadian dollar on the translation of the Company's investment in U.S. dollar denominated self-sustaining net assets, which was reduced at December 31, 2008.

The Company's exposure to foreign currency risk relating to its financial instruments was as follows based on notional amounts:

(In thousands of dollars)	June 30, 2009	December 31, 2008
U.S. dollar net working capital asset	\$ 40,219	\$ 28,997
U.S. dollar portion of Senior Secured Term Loan	(70,000)	(70,000)
Net U.S. dollar net monetary items affecting net earnings	\$ (29,781)	\$ (41,003)
U.S. dollar net monetary items affecting comprehensive income <sup>1</sup>	\$ 21,934	\$ 4,372

1. U.S. dollar net investment in self-sustaining foreign operations.

The following table illustrates the foreign exchange impact of a one-cent increase in the value of the Canadian dollar on the Company's U.S. denominated operating results for the first 6 months ending June 30, 2009:

(In thousands of dollars)	Six months ending June 30, 2009
Gross profit	\$ (480)
SG&A costs	80
Foreign exchange on U.S. denominated net monetary items	400
Earnings from operations before the under noted	--
Depreciation and amortization of intangible assets	40
Net interest expense	--
Earnings before income taxes	\$ 40
FX on comprehensive income	\$ (300)

## CHANGES IN ACCOUNTING POLICIES

### Goodwill and Intangible Assets

In February 2008, the CICA approved Handbook Section 3064, Goodwill and Intangible Assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. Standards concerning goodwill are unchanged. This new standard is applicable to fiscal years beginning on or after October 1, 2008. The Company has evaluated the new section and determined that adoption of these new requirements did not have a material impact on the Company's consolidated financial statements.

### Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The Company has evaluated the new EIC and determined that adoption of the new requirement did not have a material impact on the Company's consolidated financial statements.

### Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009.

## **NEW ACCOUNTING POLICIES**

### **Business Combinations**

In October 2008, the CICA issued Handbook Section 1582, Business Combinations, which established new standards for accounting for business combinations. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is considering early adoption to coincide with the adoption of International Financial Reporting Standards.

### **Non-Controlling Interests**

In October 2008, the AcSB issued Handbook Section 1602, Non-Controlling Interests, to provide guidance on accounting for non-controlling interests subsequent to a business combination. The section is effective for fiscal years beginning on or after January, 2011.

### **Adoption of International Financial Reporting Standards**

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. The AcSB has recently confirmed that accounting standards in Canada for public companies are to converge with International Financial Reporting Standards ("IFRS") effective for fiscal periods beginning on or after January 1, 2011. The Company will be required to begin reporting under IFRS for the quarter ending March 31, 2011 and will be required to prepare an opening balance sheet and provide information that conforms to IFRS for comparative periods. The Company has assembled an IFRS transition team which has started to assess the impact of the convergence of Canadian GAAP and IFRS, and which will involve:

- ◆ assessing the implications of IFRS 1--First-time adoption of IFRS;
- ◆ assessing the differences between existing Canadian GAAP and IFRS at a high level;
- ◆ determining the financial reporting implication of the differences;
- ◆ evaluating information technology and data systems required for implementation;
- ◆ presentations to the Board of Directors and Audit Committee with status updates;
- ◆ developing a plan for implementing the changes; and
- ◆ monitoring the progress of the implementation.

The Company has completed an IFRS project plan that details an implementation strategy for IFRS, the individual responsible for each area, and an estimated time budget. The Company is continually updating this document and monitoring the progress of the implementation.

While a number of differences between current Canadian GAAP and IFRS have been identified, the areas of highest potential impact are as follows: property, plant and equipment, IFRS 1, provisions, impairment of assets, certain aspects of revenue recognition, leases and income taxes. The Company expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

The Company has assembled cross-functional teams to assess the impact of IFRS on the accounting for property, plant and equipment with the following progress being achieved:

- ◆ detailed analysis of major differences between Canadian GAAP and IFRS;
- ◆ detailed analysis and pilot test on largest site, including allocating costs to each major component;
- ◆ detailed implementation plans documenting the process at other sites; and
- ◆ initial assessment of resources required.

As well, the transition team has begun analyzing potential impact areas in further detail on revenue recognition, lease accounting, impairment of assets, and income taxes.

In addition, the transition team has met with several information technology service providers to help it assess and evaluate the impact of the implementation on its core financial system.

## **OUTLOOK**

Although there has been some stabilization in economic conditions, the Company anticipates continued uncertainty in its more volume sensitive business sectors and along with lower sulphur prices, the Company expects revenues to be lower than 2008 levels for the remainder of the year.

The Company continues to work on a number of business development opportunities, but the timing and realization against these efforts remains uncertain.

Management consultants engaged by the Company to review operational costs have completed their preliminary evaluation. Management is currently undertaking a more detailed assessment of the savings opportunities and developing action plans to produce near term savings opportunities. It is not anticipated that this initiative will have a measurable impact on operational costs in 2009.

The Company is well positioned to benefit from a low interest rate environment and available credit under its existing credit facility.

## QUARTERLY OPERATING PERFORMANCE

### Selected Quarterly Financial Information

	2 <sup>nd</sup> Quarter		1 <sup>st</sup> Quarter		4 <sup>th</sup> Quarter		3 <sup>rd</sup> Quarter	
(In millions of dollars, except per share amounts)	2009	2008	2009	2008	2008	2007	2008	2007
Revenue	<b>89.4</b>	89.7	<b>68.5</b>	74.5	<b>75.2</b>	73.0	<b>83.2</b>	68.7
Gross Profit <sup>1</sup>	<b>43.1</b>	25.8	<b>22.5</b>	23.4	<b>26.5</b>	23.4	<b>27.5</b>	24.8
SG&A and other costs <sup>1</sup>	<b>7.9</b>	7.3	<b>10.9</b>	8.0	<b>11.7</b>	10.3	<b>7.2</b>	7.3
Other expenses	--	--	--	--	<b>1.8</b>	3.4	--	--
Depreciation and amortization, including (gains) losses on disposals	<b>8.3</b>	8.0	<b>8.3</b>	8.0	<b>8.9</b>	8.1	<b>8.2</b>	8.1
Interest expense - net	<b>1.1</b>	2.0	<b>1.1</b>	2.2	<b>1.5</b>	2.5	<b>1.8</b>	2.7
Earnings (loss) before income taxes	<b>25.8</b>	8.5	<b>2.2</b>	5.2	<b>2.6</b>	(0.6)	<b>10.3</b>	6.8
Net earnings	<b>17.3</b>	6.1	<b>1.5</b>	3.7	<b>3.3</b>	7.5	<b>7.6</b>	5.4
Basic earnings per share	<b>0.53</b>	0.18	<b>0.05</b>	0.11	<b>0.10</b>	0.23	<b>0.23</b>	0.17
Diluted earnings per share	<b>0.52</b>	0.18	<b>0.05</b>	0.11	<b>0.09</b>	0.23	<b>0.23</b>	0.16
Cash generated from operations before non-cash working capital	<b>20.2</b>	15.3	<b>12.6</b>	13.3	<b>14.4</b>	13.1	<b>17.9</b>	12.4
Changes in non-cash operating working capital	<b>2.0</b>	8.9	<b>(3.9)</b>	(0.9)	<b>3.4</b>	(3.9)	<b>8.3</b>	(3.3)
Cash provided by operations	<b>22.2</b>	24.2	<b>8.7</b>	12.4	<b>17.8</b>	9.2	<b>26.2</b>	9.1
Total Assets	<b>381.7</b>	399.9	<b>382.9</b>	389.0	<b>394.9</b>	380.1	<b>388.8</b>	382.6

1. During the second quarter of 2009 the Company reclassified certain costs previously recorded in SG&A to cost of goods sold and reclassified the comparative periods.

### Review of Quarterly Trends

The volumes processed by the Industrial Services Group may be affected by the market demand and seasonal variations of the refineries' products, generally peaking during the summer driving season. The Stablex operations are also affected by seasonality as the industrial waste streams processed include site remediation projects where activity generally peaks through the summer months and slows, as the waste materials freeze, in the winter months. Western Markets Group volumes and revenues are generally stable year over year although some products may experience seasonal fluctuations. For example, the water treatment needs of its municipal customers generally peak during the spring "run off" and summer seasons. The timing of revenues earned from MET projects and licensing activities results in variances in the Group's quarterly results.

For the four quarters ended June 30, 2009, revenue averaged \$79.1 million per quarter while for the four quarters ended June 30, 2008, revenue averaged \$76.5 million per quarter. For the four quarters ended June 30, 2009, gross profit averaged \$29.9 million per quarter while for the four quarters ended June 30, 2008, gross profit averaged \$24.4 million per quarter. In addition to business seasonality, the Company's quarterly revenue and gross profit have been affected primarily by the following:

- ◆ The recognition of the incremental revenue and earnings relating to project closeouts and the termination of a previously announced project in MET;
- ◆ The impact, of lower volumes in Industrial Services and Western Markets, on revenue;
- ◆ The net impact resulting from the changes in the price of sulphur on revenue and gross profit; and
- ◆ The impact of foreign exchange fluctuations on revenue and profit.

SG&A and other costs have averaged on an annual basis between 10-12% of revenues over the past two years. SG&A and other costs were 8.8% of revenue in the second quarter of 2009. The percentage decrease in the second quarter of 2009 is primarily a result of recognition of the incremental revenue and earnings, the impact of foreign exchange on the translation of U.S. denominated SG&A and lower legal costs partially offset by increased expense for the Company's long-term incentive plan resulting from "mark-to-market" adjustments for changes in the underlying share price and increased personnel related costs in the business units.

Average depreciation and amortization for the quarter ended June 30, 2009 is consistent with the same period in 2008.

Cash generated by operations is also impacted by seasonal fluctuations in revenues as well as the quarterly changes in non-cash working capital relating to business activity and timing of payment. Given the size of the Company and the significant expansion capital expenditures incurred, it is not unusual for the Company to experience temporary fluctuations from quarter to quarter in working capital.

The change in the second quarter 2009 non-cash working capital largely reflects the increased net earnings partially offset by the foreign exchange on long-term debt.

## SUPPLEMENTAL FINANCIAL INFORMATION

EBITDA is a supplemental, non-generally accepted accounting principle financial measure. EBITDA is defined as earnings before interest, taxes, depreciation, and amortization or "EBITDA". It is used by management internally not only to measure the performance of the business as a whole, but also to measure the performance of the individual segments, and it forms the primary basis upon which employees of the Company receive incentive compensation. EBITDA is also used by the Company as a basis to measure compliance with certain debt covenants. EBITDA is presented as supplemental information because management, through its discussions with key stakeholders of the Company including shareholders, analysts and other financial institutions, believes it is a widely used financial indicator of the Company's operating profitability and performance before the effects of capital investment and financing decisions. Since EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP), it should not be considered in isolation of, or as a substitute for net earnings, consolidated cash flow from operations or any other measure of performance required by GAAP or as an indicator of the Company's operating performance. The Company's method of calculating EBITDA may differ from other companies and accordingly, the Company's EBITDA may not be comparable to measures used by other companies. In addition, this measure does not necessarily represent funds available for discretionary use and is not necessarily a measure of the Company's ability to fund its cash requirements. The Company's non-GAAP performance measure, EBITDA, has certain material limitations as follows:

- ◆ It does not include interest expense. Because the Company has borrowed money to finance some of its operations, interest is a necessary part of the Company's costs and ability to generate revenue. Therefore, any measure that excludes interest has material limitations;
- ◆ It does not include depreciation and amortization expense. Because the Company must utilize capital assets in order to generate revenues, depreciation and amortization expense is a necessary and ongoing part of the Company's costs. Therefore, any measure that excludes depreciation and amortization expense has material limitations;
- ◆ It does not include taxes. Because the payment of taxes is a necessary and ongoing part of the Company's operations, any measure that excludes taxes has material limitations.

Management compensates for these limitations by considering the economic effect of the excluded expense items independently as well as in connection with its analysis of net earnings. Because EBITDA is used to evaluate the Company's financial performance, it is reconciled to net earnings which is the most comparable financial measure calculated and presented in accordance to GAAP. The following is a reconciliation of EBITDA to net earnings:

Supplemental selected information:

For the three months ending June 30, 2009 (In thousands of dollars)	Industrial Services	Western Markets	MET	Corporate Support <sup>1</sup>	Total
Earnings (loss) before the undernoted (EBITDA)	\$ 13,625	\$ 6,203	\$ 18,794	\$ (3,478)	\$ 35,144
Depreciation	5,732	821	22	70	6,645
Amortization of other assets and intangible assets	1,643	--	--	--	1,643
Interest expense - net	--	--	--	1,095	1,095
Earnings (loss) before income taxes	\$ 6,250	\$ 5,382	\$ 18,772	\$ (4,643)	\$ 25,761
Income taxes	--	--	--	8,438	8,438
Net earnings (loss)	\$ 6,250	\$ 5,382	\$ 18,772	\$ (13,081)	\$ 17,323

For the three months ending June 30, 2008 (In thousands of dollars)	Industrial Services	Western Markets	MET	Corporate Support <sup>1</sup>	Total
Earnings (loss) before the undernoted (EBITDA)	\$ 14,978	\$ 4,807	\$ 2,192	\$ (3,509)	\$ 18,468
Depreciation	5,482	681	28	71	6,262
Amortization of other assets and intangible assets	1,741	--	--	--	1,741
Interest expense - net	--	--	--	1,946	1,946
Earnings (loss) before income taxes	\$ 7,755	\$ 4,126	\$ 2,164	\$ (5,526)	\$ 8,519
Income taxes	--	--	--	2,431	2,431
Net earnings (loss)	\$ 7,755	\$ 4,126	\$ 2,164	\$ (7,956)	\$ 6,089

For the six months ending June 30, 2009 (In thousands of dollars)	Industrial Services	Western Markets	MET	Corporate Support <sup>1</sup>	Total
Earnings (loss) before the undernoted (EBITDA)	\$ 24,345	\$ 11,679	\$ 19,840	\$ (9,181)	\$ 46,683
Depreciation	11,491	1,654	45	140	13,330
Amortization of other assets and intangible assets	3,230	--	--	--	3,230
Interest expense - net	--	--	--	2,204	2,204
Earnings (loss) before income taxes	\$ 9,624	\$ 10,025	\$ 19,795	\$ (11,525)	27,919
Income taxes	--	--	--	9,056	9,056
Net earnings (loss)	\$ 9,624	\$ 10,025	\$ 19,795	\$ (20,581)	\$ 18,863

For the six months ending June 30, 2008 (In thousands of dollars)	Industrial Services	Western Markets	MET	Corporate Support <sup>1</sup>	Total
Earnings (loss) before the undernoted (EBITDA)	\$ 28,246	\$ 10,026	\$ 3,362	\$ (7,765)	\$ 33,869
Depreciation, including loss on disposal	11,050	1,367	57	142	12,616
Amortization of other assets and intangible assets	3,401	--	--	--	3,401
Interest expense - net	--	--	--	4,095	4,095
Earnings (loss) before income taxes	\$ 13,795	\$ 8,659	\$ 3,305	\$ (12,002)	\$ 13,757
Income taxes	--	--	--	3,990	3,990
Net earnings (loss)	\$ 13,795	\$ 8,659	\$ 3,305	\$ (15,992)	\$ 9,767

1. Summary of Corporate Support

(In thousands of dollars)	Three months ending June 30, 2008		Six months ending June 30, 2008	
	2009	2008	2009	2008
Corporate costs	\$ 4,429	\$ 3,179	\$ 7,937	\$ 6,970
Long-term incentive plans and Directors DSU's	2,137	641	3,256	312
Foreign exchange (gains) losses	(3,088)	(311)	(2,012)	483
Corporate Support costs	\$ 3,478	\$ 3,509	\$ 9,181	\$ 7,765

EBITDA for the second quarter of 2009 was \$35.1 million compared to \$18.5 million for the same period of 2008 and EBITDA for the first six months of 2009 was \$46.7 million compared to \$33.9 million for the same period in 2008. The recognition of the incremental revenue and earnings relating to project closeouts and the termination of a previously announced project in MET and the impact of foreign exchange were partially offset by decreased sales

and volumes in Industrial Services and Western Markets. Corporate Support reflects the impact of foreign exchange fluctuations on U.S. monetary items, and the higher costs of both the long-term and short-term incentive plans.

**MARSULEX INC.**  
**Consolidated Balance Sheets (unaudited)**  
(In thousands of dollars)

	<b>June 30, 2009</b>	December 31, 2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 42,504	\$ 35,986
Cash held in trust (note 4)	924	837
Accounts receivable	31,880	39,285
Inventories (note 5)	3,288	3,425
Future income tax asset	725	725
Prepaid expenses and other assets	3,445	1,955
	<b>82,766</b>	82,213
Long-term investments held in trust	900	900
Property, plant and equipment	192,338	201,402
Other assets	4,998	4,417
Intangible assets	20,617	23,570
Goodwill	80,063	82,431
	<b>\$ 381,682</b>	\$ 394,933
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 16,694	\$ 19,835
Accrued liabilities	26,827	23,851
Income taxes payable	6,062	2,810
Dividends payable to shareholders (note 6)	6,075	5,329
Interest payable	267	362
Current portion of deferred revenue	14,125	28,788
Current portion of long-term debt	11,315	2,041
	<b>81,365</b>	83,016
Long-term debt	135,830	150,451
Deferred revenue	9,149	10,220
Employee future benefits	1,761	1,855
Other liabilities	9,254	9,866
Future income tax liability	27,246	25,646
Shareholders' equity:		
Capital stock	63,758	64,488
Retained earnings	53,314	49,075
Accumulated other comprehensive income	5	316
	<b>117,077</b>	113,879
	<b>\$ 381,682</b>	\$ 394,933

See accompanying notes to consolidated financial statements

**MARSULEX INC.****Consolidated Statements of Operations and Comprehensive Income (unaudited)**

(In thousands of dollars, except per share amounts)

	Three months ending June 30,		Six months ending June 30,	
	2009	2008	2009	2008
Revenue	<b>\$ 89,405</b>	\$ 89,741	<b>\$157,857</b>	\$164,254
Cost of sales and services	<b>46,333</b>	63,971	<b>92,356</b>	114,998
Gross profit	<b>43,072</b>	25,770	<b>65,501</b>	49,256
Selling, general, administrative and other costs	<b>11,016</b>	7,613	<b>20,830</b>	14,904
Depreciation	<b>6,645</b>	6,262	<b>13,330</b>	12,616
Amortization	<b>1,643</b>	1,741	<b>3,230</b>	3,401
Foreign exchange loss (gain) on monetary items	<b>(3,088)</b>	(311)	<b>(2,012)</b>	483
Interest expense – net (note 9)	<b>1,095</b>	1,946	<b>2,204</b>	4,095
Earnings before income taxes	<b>25,761</b>	8,519	<b>27,919</b>	13,757
Income taxes:				
Current	<b>7,079</b>	1,080	<b>7,395</b>	1,699
Future	<b>1,359</b>	1,351	<b>1,661</b>	2,291
	<b>8,438</b>	2,431	<b>9,056</b>	3,990
Net earnings	<b>17,323</b>	6,088	<b>18,863</b>	9,767
Other comprehensive income				
Effect of change in foreign exchange on the translation of net assets of self-sustaining operations, net of tax (note 10)	<b>(477)</b>	(266)	<b>(311)</b>	1,250
Total comprehensive income	<b>\$ 16,846</b>	\$ 5,822	<b>\$ 18,552</b>	\$ 11,017
Earnings per share (note 7):				
Basic	<b>\$ 0.53</b>	\$ 0.18	<b>\$ 0.57</b>	\$ 0.29
Diluted	<b>\$ 0.52</b>	\$ 0.18	<b>\$ 0.57</b>	\$ 0.29

*See accompanying notes to consolidated financial statement*

**MARSULEX INC.**  
**Consolidated Statements of Shareholders' Equity (unaudited)**  
(In thousands of dollars, except share amounts)

	Number of Common Shares	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income ("AOCI")	Total Shareholders' Equity
<b>Balance, December 31, 2007</b>	<b>33,105,498</b>	<b>\$ 63,144</b>	<b>\$ 49,701</b>	<b>\$ (3,588)</b>	<b>\$ 109,257</b>
Exercise of stock options	165,500	1,197	--	--	1,197
Dividends	--	--	(10,621)	--	(10,621)
Net income for the period	--	--	9,767	--	9,767
Effect of change in foreign exchange on the translation of net assets of self-sustaining foreign operations, net of tax (note 10)	--	--	--	1,250	1,250
<b>Balance, June 30, 2008</b>	<b>33,270,998</b>	<b>\$ 64,341</b>	<b>\$ 48,847</b>	<b>\$ (2,338)</b>	<b>\$ 110,850</b>
<b>Balance, December 31, 2008</b>	<b>33,312,748</b>	<b>\$ 64,488</b>	<b>\$ 49,075</b>	<b>\$ 316</b>	<b>\$ 113,879</b>
Exercise of stock options	147,750	473	--	--	473
Normal Course Issuer Bid purchase and cancellation	(620,300)	(1,203)	(3,294)	--	(4,497)
Dividend (note 6)	--	--	(11,330)	--	(11,330)
Net income for the period	--	--	18,863	--	18,863
Effect of change in foreign exchange on the translation of net assets of self-sustaining foreign operations, net of tax (note 10)	--	--	--	(311)	(311)
<b>Balance, June 30, 2009</b>	<b>32,840,198</b>	<b>\$ 63,758</b>	<b>\$ 53,314</b>	<b>\$ 5</b>	<b>\$ 117,077</b>

See accompanying notes to consolidated financial statements

**MARSULEX INC.**  
**Consolidated Statements of Cash Flows (unaudited)**  
(In thousands of dollars)

	Three months ending June 30, 2009		Six months ending June 30, 2008	
Cash provided by (used in):				
Operating activities:				
Net earnings	<b>\$ 17,323</b>	\$ 6,088	<b>\$ 18,863</b>	\$ 9,767
Items not affecting cash:				
Depreciation and amortization	<b>8,288</b>	8,003	<b>16,560</b>	16,017
Foreign exchange loss (gain) on long-term debt	<b>(6,840)</b>	(92)	<b>(4,344)</b>	305
Future income taxes	<b>1,359</b>	1,351	<b>1,661</b>	2,291
Accretion of asset retirement obligations	<b>26</b>	24	<b>51</b>	48
Other non-cash items	<b>51</b>	(66)	<b>76</b>	187
Change in non-cash operating working capital	<b>2,040</b>	8,870	<b>(1,879)</b>	7,918
Cash provided by operating activities	<b>22,247</b>	24,178	<b>30,988</b>	36,533
Financing activities:				
Decrease in long-term debt	--	(3,000)	--	(3,000)
Repurchase of common shares	--	--	<b>(4,497)</b>	--
Repayment of long-term debt	<b>(505)</b>	(470)	<b>(1,003)</b>	(932)
Issuance of common shares	<b>94</b>	1,052	<b>473</b>	1,197
Dividends paid	<b>(5,251)</b>	(5,299)	<b>(10,582)</b>	(10,595)
	<b>(5,662)</b>	(7,717)	<b>(15,609)</b>	(13,330)
Investing activities:				
Additions to property, plant and equipment	<b>(2,317)</b>	(4,193)	<b>(5,349)</b>	(6,340)
Additions to intangible assets	<b>(287)</b>	--	<b>(287)</b>	--
Increase in other assets	<b>(838)</b>	(5,000)	<b>(2,422)</b>	(9,311)
(Increase) decrease in cash held in trust	<b>461</b>	(47)	<b>(87)</b>	(94)
	<b>(2,981)</b>	(9,240)	<b>(8,145)</b>	(15,745)
Foreign exchange (gain) loss on cash held in foreign currency	<b>(791)</b>	(5)	<b>(716)</b>	123
Increase (decrease) in cash and cash equivalents	<b>12,813</b>	7,216	<b>6,518</b>	7,581
Cash and cash equivalents – beginning of period	<b>29,691</b>	9,387	<b>35,986</b>	9,022
Cash and cash equivalents – end of period	<b>\$ 42,504</b>	\$ 16,603	<b>\$ 42,504</b>	\$ 16,603
Supplemental cash flow information:				
Interest paid	<b>\$ 1,112</b>	\$ 2,005	<b>\$ 2,377</b>	\$ 4,234
Income taxes paid, net of refunds	<b>2,396</b>	443	<b>4,347</b>	689

See accompanying notes to consolidated financial statements

## MARSULEX INC.

### Notes to Consolidated Financial Statements (unaudited)

(In thousands of dollars)

#### 1. Basis of presentation:

The unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. The preparation of the financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements (except for changes as described in note 3). These unaudited consolidated financial statements do not include all of the disclosures required by generally accepted accounting principles for annual financial statements and accordingly should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Company's 2008 Annual Report.

These consolidated financial statements include the accounts of Marsulex Inc. ("the Company") and its subsidiaries from their respective dates of acquisition. All intercompany transactions have been eliminated.

#### 2. Seasonality of the business:

The revenue generated by the Company may be affected by seasonal variation of customers' activities, generally peaking during the summer.

#### 3. Change in accounting policies:

##### Goodwill and intangibles:

The Company adopted CICA Section 3064, Goodwill and Intangible Assets, effective January 1, 2009, which replaced Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and has been adopted on a retrospective basis. The adoption of this new standard did not have a material impact on the Company's financial statement disclosures or results of operations.

##### EIC 173 – Credit risk and the fair value of financial assets and financial liabilities:

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The Company has evaluated the new EIC and determined that adoption of the new requirement did not have a material impact on the Company's consolidated financial statements.

##### Financial Instruments – Disclosures:

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009.

#### 4. Cash and cash equivalents, including cash held in trust:

	<b>June 30, 2009</b>	December 31, 2008
Bank deposits	<b>\$ 12,517</b>	\$ 9,011
Government treasury bills	<b>30,911</b>	27,812
	<b>\$ 43,428</b>	\$ 36,823

5. Inventories:

Inventories of raw materials, semi-finished products and finished goods are stated at the lower of cost and net realizable value. The measurement of inventories includes the direct costs of materials, labour, cost of conversions and other costs needed to bring inventories to their present location and condition. The cost of conversion includes a systematic allocation of fixed and variable overhead production costs incurred to convert materials into finished goods. Fixed production overhead costs are allocated using normal production capacity of the production facility. Costs are determined using a first in, first out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs for sale and distribution.

	<b>June 30, 2009</b>	December 31, 2008
Raw materials and work in progress	<b>\$ 889</b>	\$ 1,029
Finished goods	<b>940</b>	877
Supplies inventory	<b>1,459</b>	1,519
	<b>\$ 3,288</b>	\$ 3,425

Cost of sales for the three months and six months ended June 30, 2009 does not include \$816,000 and \$1,611,000 (2008 - \$675,500 and \$1,253,000) of depreciation expense for factory buildings and equipment.

6. Dividend:

On June 17, 2009 the Company announced the payment of a cash dividend of 18.5 cents per share on August 14, 2009 to common shareholders of record at the close of business on July 15, 2009.

7. Earnings per share:

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

	<b>Three months ending June 30, 2009</b>		<b>Six months ending June 30, 2009</b>	
Numerator:				
Net earnings available to common shareholders	<b>\$ 17,323</b>	\$ 6,088	<b>\$ 18,863</b>	\$ 9,767
Denominator (shares in thousands):				
Weighted average common shares outstanding	<b>32,834</b>	33,188	<b>32,867</b>	33,147
Effect of dilutive securities:				
Employee stock options	<b>198</b>	404	<b>229</b>	418
Adjusted weighted average shares and assumed conversions	<b>33,032</b>	33,592	<b>33,096</b>	33,565
Earnings per share – Diluted	<b>\$ 0.52</b>	\$ 0.18	<b>\$ 0.57</b>	\$ 0.29

8. Pensions and Other Post-Retirement Benefits:

Components of Net Periodic Benefit Cost for Defined Benefit Plans

	Three months ending June 30,				Six months ending June 30,			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	\$ 108	\$ 221	\$ 3	\$ 7	\$ 216	\$ 442	\$ 6	\$ 13
Interest cost	185	208	15	13	370	416	30	26
Expected return on plan assets	(178)	(226)	--	1	(356)	(452)	--	2
Amortization of actuarial and investment loss	(1)	11	(1)	--	(2)	22	(2)	--
Post retirement benefits expense	\$ 114	\$ 214	\$ 17	\$ 21	\$ 228	\$ 428	\$ 34	\$ 41

9. Net interest expense:

	Three months ending June 30,		Six months ending June 30,	
	2009	2008	2009	2008
Interest expense	\$ 1,112	\$ 2,002	\$ 2,287	\$ 4,208
Interest income	(17)	(56)	(83)	(113)
	\$ 1,095	\$ 1,946	\$ 2,204	\$ 4,095

10. Effect of change in foreign exchange on the translation of net assets of self-sustaining operations, net of tax:

	Three months ending June 30,		Six months ending June 30,	
	2009	2008	2009	2008
Foreign exchange gain (loss) on the translation of net assets of self-sustaining operations	\$ (477)	\$ (175)	\$ (311)	\$ 948
Future tax (expense) recovery	--	(91)	--	302
	\$ (477)	\$ (266)	\$ (311)	\$ 1,250

11. Stock-based compensation:

Performance Share Units ("PSU's") and Deferred Share Units ("DSU's") are accounted for using the intrinsic value method such that the value of the share units at the vesting date, including a dividend credit, together with the subsequent changes in the common share price in relation to the unit issue price are recorded as compensation expense and included in selling, general, administrative and other costs ("SG&A").

	Three months ending June 30,		Six months ending June 30,	
	2009	2008	2009	2008
Expense – Director DSU's	\$ 285	\$ 108	\$ 471	\$ 6
Expense – PSU's	1,852	533	2,785	306
	\$ 2,137	\$ 641	\$ 3,256	\$ 312

	June 30, 2009		December 31, 2008	
	Number of Units Outstanding	Liability valued at \$9.91	Number of Units Outstanding	Liability valued at \$8.00
PSUs	329,683	\$ 3,267	347,265	\$ 2,778
DSUs	608,993	6,035	528,465	4,228

12. Financial instruments:

Categories of financial assets and liabilities:

	Accounting Policy	Fair Value	June 30, 2009 Carrying Value	Fair Value	December 31, 2008 Carrying Value
Cash and cash equivalents and cash held in trust	Held-for-trading	\$ 43,428	\$ 43,428	\$ 36,823	\$ 36,823
Accounts receivable	Loans and receivable	31,880	31,880	39,285	39,285
Long-term investments held in trust	Held-for-trading	900	900	900	900
Accounts payable, accrued liabilities and other liabilities	Other liabilities	52,775	52,775	53,552	53,552
Long-term debt , senior secured term loan and revolvers	Held-for-trading	114,976	114,976	119,321	119,321
Long-term loan , Fort McMurray Facility	Other liabilities	32,642	32,169	33,690	33,171

13. Comparative figures:

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation adopted in the current period. Net earnings previously reported have not been affected by this reclassification.

14. Business segments:

The Company's activities are divided into four reportable segments. The three operating segments are: Industrial Services, Western Markets, and MET. The fourth non-operating segment is Corporate Support, which provides centralized services, such as finance, information systems, human resources and risk management to the operating segments.

**Industrial Services** provides services, including environmental compliance solutions, to oil refiners and other industrial customers, primarily in the U.S. and Canada. Services include the regeneration of spent sulphuric acid produced during the octane enhancement of gasoline; the extraction and recovery of sulphur from hydrogen sulphide gas created during the refining process; the recovery of sulphur dioxide to ensure air quality compliance; cutting and handling of petroleum coke; and the safe handling, treatment, and disposal of industrial hazardous waste streams.

**Western Markets** produces and provides sulphur-enhanced chemicals to industrial customers and supplies alum, a water treatment chemical used by municipalities and other industrial companies, for water and wastewater treatment. The primary market for these and other chemicals is Western Canada.

**MET** provides environmental systems and services for air quality compliance, primarily to electric utilities, and also to petrochemical and general industrial customers worldwide.

**MARSULEX INC.**  
**Notes to Consolidated Financial Statements (unaudited)**

14. Business segments (continued):

	Industrial Services		Western Markets		MET		Inter-segment Revenue		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
For the three months ended June 30 (In thousands of dollars)										
Revenue from external customers	\$ 40,113	\$ 52,134	\$ 17,815	\$ 20,090	\$ 31,477	\$ 17,517	\$ --	\$ --	\$ 89,405	\$ 89,741
Gross profit	\$ 15,872	\$ 17,214	\$ 6,818	\$ 5,359	\$ 20,382	\$ 3,197	\$ --	\$ --	\$ 43,072	\$ 25,770
SG&A <sup>1</sup>	2,247	2,236	615	552	1,588	1,005	6,566	3,820	11,016	7,613
Foreign exchange losses (gains)	--	--	--	--	--	--	(3,088)	(311)	(3,088)	(311)
Earnings (loss) before the under noted Depreciation, including loss on disposal	\$ 13,625	\$ 14,978	\$ 6,203	\$ 4,807	\$ 18,794	\$ 2,192	(3,478)	(3,509)	\$ 35,144	\$ 18,468
Amortization of other assets and intangible assets	5,732	5,482	821	681	22	28	70	71	6,645	6,262
Net interest expense	1,643	1,741	--	--	--	--	--	--	1,643	1,741
Earnings (loss) before income taxes	\$ 6,250	\$ 7,755	\$ 5,382	\$ 4,126	\$ 18,772	\$ 2,164	\$ (4,643)	\$ (5,526)	\$ 25,761	\$ 8,519
Capital expenditures	\$ 1,786	\$ 1,556	\$ 536	\$ 2,559	\$ --	\$ --	\$ 19	\$ 78	\$ 2,341	\$ 4,193

	Industrial Services		Western Markets		MET		Inter-segment Revenue		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
For the six months ended June 30 (In thousands of dollars)										
Revenue from external customers	\$ 79,989	\$ 97,437	\$ 33,819	\$ 38,307	\$ 44,049	\$ 28,510	\$ --	\$ --	\$ 157,857	\$ 164,254
Gross profit	\$ 29,610	\$ 32,658	\$ 12,938	\$ 11,126	\$ 22,953	\$ 5,472	\$ --	\$ --	\$ 65,501	\$ 49,256
SG&A <sup>1</sup>	5,265	4,412	1,259	1,100	3,113	2,110	11,193	7,282	20,830	14,904
Foreign exchange losses (gains)	--	--	--	--	--	--	(2,012)	483	(2,012)	483
Earnings (loss) before the under noted Depreciation, including loss on disposal	\$ 24,345	\$ 28,246	\$ 11,679	\$ 10,026	\$ 19,840	\$ 3,362	\$ (9,181)	\$ (7,765)	\$ 46,683	\$ 33,869
Amortization of other assets and intangible assets	11,491	11,050	1,654	1,367	45	57	140	142	13,330	12,616
Net interest expense	3,230	3,401	--	--	--	--	--	--	3,230	3,401
Earnings (loss) before income taxes	\$ 9,624	\$ 13,795	\$ 10,025	\$ 8,659	\$ 19,795	\$ 3,305	\$ (11,525)	\$ (12,002)	\$ 27,919	\$ 13,757
Capital expenditures	\$ 4,230	\$ 2,352	\$ 1,108	\$ 3,817	\$ --	\$ --	\$ 37	\$ 171	\$ 5,375	\$ 6,340
Total assets before goodwill and intangible assets <sup>2</sup>	\$ 198,473	\$ 210,568	\$ 34,839	\$ 35,733	\$ 772	\$ 2,862	\$ 46,918	\$ 39,769	\$ 281,002	\$ 288,932
Goodwill and intangible assets, net of accumulated amortization <sup>2</sup>	90,092	95,389	4,468	4,468	6,120	6,144	--	--	100,680	106,001
Total assets <sup>2</sup>	\$ 288,565	\$ 305,957	\$ 39,307	\$ 40,201	\$ 6,892	\$ 9,066	\$ 46,918	\$ 39,769	\$ 381,682	\$ 394,933

1. Selling, general, administrative and other costs.

2. 2008 assets are at December 31<sup>st</sup>.



## **Corporate Information**

### **Head Office**

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M2H 3R1

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### **Stock Exchange Listing**

The Toronto Stock Exchange  
Stock symbol: **MLX**

### **Transfer Agent and Registrar**

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General shareholder inquiry telephone:  
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General shareholder inquiry fax:  
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### **Investor Information**

Shareholders or other interested parties seeking financial information about the Company are invited to call:

Bill Martin - Chief Financial Officer  
416-496-9655

### **Financial Calendar 2009**

Fiscal year end: December 31

Interim reports mailed:  
May, August, November

### **Web Site**

[www.marsulex.com](http://www.marsulex.com)