



Q4 and Full Year 2007 Conference Call

Laurie Tugman

Good morning ladies and gentlemen. Welcome to the fourth quarter 2007 conference call and webcast this morning.

With me on the call this morning is Bill Martin our Chief Financial Officer.

Before we commence our presentation this morning, we would remind you that our remarks may contain forward-looking statements. These statements are based on current views and expectations that are subject to risks, uncertainties, and assumptions that are difficult to predict, and actual results might differ materially from results suggested in any forward-looking statements whether as a result of new information, future developments or otherwise.

Additional information identifying risks, uncertainties and assumptions is contained in the Company's filings with the securities regulatory authorities, which are available through the Company's website, www.marsulex.com.

2007 was another year of significant accomplishment for Marsulex. We achieved several noteworthy milestones in 2007.

- We posted significantly higher financial results, including revenue growth of 15% to \$288 million and net earnings of \$19.7 million, or 60 cents per share;
- We began paying regular quarterly dividends (some \$15 million over 3 quarters) to our shareholders; this was in addition to a 66% increase in the Company's stock price in 2007, and
- We further strengthened our senior management team to better position the company for growth.

We're very positive about the outlook for 2008 and beyond, and our achievements in 2007 have positioned us for further opportunities in the years ahead.

Before Bill covers our financial results, let me spend a few minutes discussing our operating performance.

The Industrial Services Group is our largest segment both in terms of revenue and contribution.

Segment results benefited from full year contributions from the Montreal expansion and Petcoke Services. In addition we experienced meaningful improvements in the prilled

sulphur business, Stablex and Petcoke. This growth came despite the strengthening of the Canadian dollar, up on average 5% year over year.

Looking briefly at each of the operating groups, within Industrial Services, our Toledo spent acid operation performed well, processing higher volumes than in 2006. This is one of our core businesses, and we continue to invest in reliability and efficiency improvements including the addition of a new furnace for the plant in 2007.

Our hazardous waste processing business made an increased contribution to 2007 results. We continue to focus on a higher margin, more profitable business mix. We are also processing higher volumes of Canadian waste product, and lower volumes of lower margined event or remediation waste streams.

Petcoke Services made a solid contribution in its first full year as part of Marsulex, and this strategic acquisition is fulfilling its promise of adding strength to the value proposition we offer our customers. While it is disappointing that we will lose certain Venezuelan contracts for reasons outside our control, we have successfully expanded our relationship with other customers in North America and we continue to be confident that our track record will lead to more opportunities, particularly as refineries commit capital for additional cokers.

In the other business segments, Power Generation's gross profit contribution was almost \$1 million higher than 2006. Revenue was significantly higher, which reflected higher revenue from projects including LCRA, but as we have noted before, projects attract lower margins than royalty and licensing revenue, which was a higher percentage of overall revenue mix in 2006..

In Western Markets, a significant increase in revenue and gross profit from water treatment products was more than offset by lower sales of sulphides products and the high cost of sulphur which affected margins for the Group's sulphur enhanced products.

For several quarters, I have commented on the impacts of sulphur pricing on certain of our business units including Western Markets and the Prilled Sulphur business. Despite the significant increase in sulphur prices, the overall impact on our Company was less than a million dollars in 2007. Our strategy is to minimize commodity risks through long term contractual services that reward us for providing capacity and/or product volume to our customers. To the extent that input prices change, we have agreements with most of our customers for contractual pass throughs.

A key focus in 2007 was on ensuring we maintain excellence in all parts of our operations and continue to provide uninterrupted service to our customers, which is the foundation of our long-term relationships with customers. We will continue that focus in 2008 and beyond by reinvesting in our facilities and by strengthening the Company's management and technical skills through training, development and news hires. The appointment of Keith McLeod as Senior VP, Operations this past October last year was another example of our commitment to excellence and growth and we are already benefiting from his contribution.

2007 results demonstrate the solid base we have established for sustainable earnings and continued growth into the future. The board's decision in March last year to begin

paying regular quarterly dividends, and in November to increase the rate, was tangible evidence of our confidence in the future.

I'll now hand the call over to Bill for his review of the financial results.

Bill Martin

Thank you, Laurie and good morning.

The fourth quarter was a solid quarter for Marsulex on a number of fronts

1. We recorded revenue growth of 5% on stronger revenues within the Power Generation Group and Western Markets.
2. We reduced our interest costs by \$1.4 million thanks to a very favorable interest rate environment. (These reduced rates also served to buffer the negative impact of foreign exchange rates).
3. We also recorded an \$8 million income tax recovery, primarily due to Canadian tax rate reductions and tax loss benefits assumed on a reorganization and amalgamation of Marsulex with Harrowston Holdings Limited.

For the quarter, EBITDA was down to \$13.2 million from \$17.9 million a year earlier. Many of the contributing factors are timing related and do not affect the fundamentals of our business.

Looking at the components, gross profit was down \$3.4 million and SG&A was up \$1.3 million. In addition to foreign exchange impacts, the lower gross profit reflected a \$1 million impact on Industrial Services in part due to the timing of contractual pass-through of energy costs of the Toledo spent acid operation that benefited Q4 '06 results. In addition, Power Generation margins were \$1.1 million lower because of the timing and mix of project revenues versus licensing fees and royalties.

Quarterly SG&A costs were higher than a year earlier reflecting \$2.2 million in additional costs for settlement of legacy litigation and associated legal activity.

From an earnings perspective, we generated \$7.4 million earnings in the quarter up from a loss of \$1.4 million a year earlier. The increase was despite a \$3.4 million impairment charge, primarily related to our Venezuelan joint venture upon receiving notification that the Petcoke contracts would be discontinued. This was disappointing news but something that was outside of our control. On a more bullish note, we continue to see significant business development activity from the Petcoke business unit as refiners look to expand their coker capacity.

Overall we closed the quarter with quarterly EPS of 23 cents up from a loss of 4 cents a year earlier.

Looking at the full year, 2007 revenue was \$288 million, 15% ahead of 2006, and gross profit was up almost 11% to \$98.4 million. Most of the gross profit increase was

attributable to the Industrial Services Group, offset by lower results from Western Markets.

Earnings before tax were \$14.8 million compared with \$9.6 million in 2006, and net earnings were \$19.7 million, a \$12.6 million increase over 2006. Tax recoveries and lower interest rates were again significant contributors to the overall improvement.

Earnings per share were significantly higher at 60 cents compared with 22 cents in 2006.

At the operating group level, Industrial Services reported a 19% increase in gross profit to \$67 million, generated from revenue of \$175 million, which was 6% higher than in 2006. The full year contribution of the Montreal expansion was by far the biggest factor in the increase, followed by Petcoke Services.

Our hazardous waste business also reported higher gross profit. This reflected the increase in business in eastern Canada and overall improved margins.

The Toledo spent acid operation handled higher volumes during the year, but the strengthening Canadian dollar had a negative impact on revenue.

Western Markets generated revenue of \$65 million, up 5% despite the impact in the first quarter of the CN rail disruption. Sales of water treatment chemicals were strong throughout the year. Sales of sulphur enhanced products were also higher than 2006, but increased costs for sulphur more than offset the improvement in revenue for these products. Costs were also impacted by maintenance shutdowns at a supplier's plant and in Prince George where we invested approximately \$1.7 million on new equipment.

Power Generation recorded a significant increase in revenue, more than doubling from \$22 million to \$48 million. The vast majority of the increase was related to projects, including the Lower Colorado River Authority project. Gross profit was also approximately \$1 million higher.

Overall foreign exchange had a negative impact on revenue and gross profit of approximately \$7.9 million and \$2.3 million respectively. This was offset by foreign exchange gains of \$4.3 million on monetary items (including US\$10 million debt) and \$10.6 million on US \$60 million debt, the latter which is accounted for as a designated hedge on US denominated net assets.

Capital expenditures for the year were \$17 million, of which \$13 million was for maintenance capital. We expect our maintenance capex spending for 2008 to stay within the \$13–14 million range.

Looking at our balance sheet, you will recall that early in 2007 we completed an amended \$205 million credit facility with our banking syndicate. The amended facility, together with existing cash, enabled us to redeem the Senior Subordinated Notes and reduce our cost of capital. The undrawn balance of \$70 million, together with an additional \$75 million facility for lender approved acquisitions, provides us with additional flexibility to expand the business through either organic growth or acquisitions.

The interest rate environment is currently very favorable for our business. Based on recently announced rate reductions, the average interest rate on our debt is currently 1.75% below the average rate for 2007. Based on outstanding debt of say, \$150 million, this would result in a further \$2.6 million annualized reduction in interest costs.

As Laurie mentioned, the introduction of a regular quarterly dividend was indicative of our confidence in the business to generate sustainable earnings. We paid three cash dividends in 2007 totalling 45 cents per share, and the fourth dividend, which was paid on February 15th, was at the increased rate of 16 cents per share.

Looking ahead, we believe 2008 will be another solid year for Marsulex. 2007 results fully reflect the impact of recent acquisitions and expansions. While the stronger Canadian dollar will continue to have some short term impact on reported earnings from our U.S operations, we should benefit from lower interest rates and increased purchasing power of the higher Canadian dollar.

I'll now hand the call back to Laurie.

Laurie Tugman

Thank you, Bill.

2007 illustrated the sound base we have built for Marsulex. A key part of that base is our reputation for safe and reliable service and our strong customer relationships. Both of these will continue to be a focus of our day-to-day operations. The strengthening of our senior management team supports that focus and also prepares us for future growth.

As we have noted on our past calls, we believe the growth opportunities are robust, although they sometimes take a long time to come to fruition. Nonetheless, we have also seen that patience and commitment to delivering the best possible result for our customers also pays dividends for our shareholders.

In 2007 the Marsulex share price increased by 66%. This, together with the quarterly dividend rewarded shareholders with a much improved total return. We will continue to conduct the business in a way that delivers long-term value and sustained returns for our shareholders.

We would now be pleased to answer questions.