MARSULEX

Q2 2008 Conference Call

Laurie Tugman

Good morning ladies and gentlemen. Welcome to the second quarter 2008 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.

Marsulex completed the first half of the year with a strong second quarter. Our businesses continued to perform well and demonstrated once again that our diversified base of operations enables us to post reliable and consistent earnings and cash flow. Similarly, our long term contracts with customers (with contractual pass throughs on direct costs) also serve to protect us in most part from large fluctuations in commodity prices.

In the second quarter, our Industrial Services Group reported higher revenue, primarily on higher prices for sulphur. This higher revenue more than offset the impact of foreign exchange on our US dollar denominated businesses leaving us with an 11% increase in gross profit for the quarter.

MET, formerly the Power Generation Group, also reported increases in gross profit. Incidentally, MET, which is an acronym for Marsulex Environmental Technologies, is the name we use to market our environmental systems and services to electric utilities around the world. As one of the world's largest providers of traditional flue gas desulphurization systems and services, the MET brand is recognized internationally. We therefore feel that it is appropriate to recognize this brand name in our external reporting.

Turning to Western Markets, the business unit generated higher revenues, but the timing of pass through of higher raw material input costs negatively impacted gross margins in the quarter.

Overall, we were pleased with the results. Our businesses continue to generate solid performance, year over year gains and good cash flow.

Before commenting on our outlook for the business, let me turn the call over to Bill to discuss the quarter's results in more detail.

Bill Martin

Thank you Laurie, and good morning. It was another good quarter for Marsulex.

Consolidated revenue was up 16% to $89.7 million compared to $77.3 million in the second quarter of last year. The majority of the increase was contributed by Industrial Services, which benefitted from the continuing high prices for sulphur. Western Markets also generated higher revenue, mostly reflecting the pass through of higher sulphur and other input costs. MET reported slightly lower revenue, due primarily to the mix and timing of projects.

Gross profit for the quarter was $26.3 million compared with $25.1 million in Q2 07. Some of the revenue gains were offset by the foreign exchange impact of $4.6 million on our U.S. operations, and by higher sulphur and other input costs in Western Markets.

SG&A and other costs for the second quarter, excluding long-term incentive plan expenses and foreign exchange were $7.5 million compared with $7.8 million last year, reflecting lower legal and consulting costs. Incentive plan expenses, which reflect mark-to-market adjustments for our stock price movement, were $640,000 this quarter compared with $1.9 million in Q2 07. You will recall that our share price appreciated by over $4 in the first half of 2007.

Foreign exchange gains for the quarter were $300,000 compared with $2 million a year ago, the difference reflecting relative movements in the Canadian dollar against its US counterpart.

EBITDA for the second quarter was $18.5 million, compared with $17.4 million last year. Pre-tax earnings for the quarter were substantially higher at $8.5 million, due primarily to lower depreciation and to lower interest and financing costs. Net interest expense declined by approximately $600,000 reflecting a reduction in the weighted average interest rate on our debt to 5.0% as compared to 6.6% a year earlier.
Quarterly net earnings were $6.1 million, or 18 cents per share compared with $5.4 million, or 16 cents per share in Q2 07.

Turning to the business segments, EBITDA was $15 million for the Industrial Services Group, compared to $13.2 million last year.

Negative exchange rate impacts from our US operations were more than offset by the strength in sulphur-related sales.

In the west… Western Markets generated higher revenue up $3 million in the quarter. This reflected increased prices related to the pass through of higher costs for sulphur and other raw material inputs. Our agreements with customers allow us to recover most of these costs, but there is a lag, and as a result, the higher input costs more than offset the increased revenue. In addition, sales of water treatment chemicals were lower than last year.

MET reported EBITDA of $2.2 million, up from $2 million last year. This reflected the timing of project activity, including contributions from two new projects awarded earlier this year.

Turning to the cash flow statement, cash flow from operations before changes in working capital was $15.3 million compared to $11.5 million in 2007 reflecting the overall increase in the business.

Total capital expenditures in the quarter were $4.6 million and included maintenance capital expenditures at the Company's Prince George facility.

Deferred charges increased $4.8 million in the quarter reflective of spending on the Montreal engineering design studies.

Looking at our balance sheet, at June 30, 2008 our long-term debt stood at $156 million and net debt at approximately $139 million. Net debt to EBITDA was 2.1 times, against our internal benchmark level of 3.0 to 3.5 times.

The undrawn balance of $73 million on our Revolving Term facilities, together with available cash and an additional $75 million facility for lender approved acquisitions, provides us with additional flexibility to expand the business through either organic growth or acquisitions.

I'll now hand the call back to Laurie.

Laurie Tugman

Thank you, Bill.

The second quarter continued the strong performance we posted in the first quarter and we remain confident about the outlook for Marsulex.

Although there are clear signs of a slow down in the North American economy, we believe the impact on Marsulex will be limited due to the long term contracts and relationships we share with our customers, the markets we serve and the associated opportunities for growth.

The outlook for our business with refineries remains robust, and we continue to pursue numerous business development opportunities. As we have said before, the lead times are long, but we are able to offer a compelling range of services and a track record for reliability in the services we provide.

Our solid base of stable earnings, solid cash flow and a strong balance sheet will present a number of advantages as we pursue these growth opportunities.

We would now be pleased to answer questions.