

Q3 2008 Conference Call

Laurie Tugman

Good morning ladies and gentlemen. Welcome to the third 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.

There's a touch of irony surrounding our call today. On the one hand we're reviewing the best quarter ever in terms of EBITDA; on the other, we're doing it in what is perhaps the most volatile and uncertain economic times since we went public in 1996. Despite these economic conditions, there are opportunities for companies, such as Marsulex, which are well capitalized and capable of withstanding changes in economic cycles. This morning, we'll follow the usual format. I will review the third quarter; Bill will go over the financial results in more detail; and I will conclude with some comments on our outlook for the business in these turbulent times.

Marsulex continued the momentum we built in the first half of the year and posted strong performance in the third quarter. All of our businesses recorded improvements in revenue. As well, Western Markets and MET recorded improvements in gross profit, while our Industrial Services Group was consistent with Q3, 2007. Overall, it was a similar story to the second quarter – solid operating results from our businesses pretty well across the board, with an additional boost from the strong market for sulphur during the quarter.

Our Industrial Services Group reported another significant increase in revenue primarily reflecting the high international prices for sulphur, offset by higher costs. Fortunately, the hurricanes that hit the Gulf Coast during the quarter and interrupted our customers' operations did not have a material effect on our results.

Western Markets also generated higher revenue primarily as a result of increased prices relating to the cost pass through of sulphur and other raw materials. Some of this was offset by

higher raw material costs and by the timing of the pass through of higher input costs, but nonetheless it was a solid quarter for Western Markets.

Turning to MET, FGD project activity and increased royalty revenues contributed to the higher gross profit.

Overall it was a very good quarter for Marsulex, but clearly, it is the economic downturn and the volatility in capital markets that is on everyone's minds these days. I will have a few brief comments on our outlook and why we believe we're strongly positioned to manage through this period, but first, let me turn the call over to Bill to review the quarter's results in more detail.

Bill Martin

Thank you Laurie, and good morning. Q3, 2008 was another good quarter for Marsulex.

Consolidated revenue was up 21% to \$83.2 million compared to \$68.7 million in the third quarter of last year. The increase was contributed by both Industrial Services and Western Markets. Industrial Services realized higher top line growth from the high international prices for sulphur; while Western Markets also gained as a result of increased revenue from sulphur enhanced products. MET also contributed slightly higher revenue in the quarter.

Third quarter gross profit was \$28.1 million compared with \$25.4 million in Q3, 2007. As was the case in the second quarter, some of the revenue gains were offset by higher sulphur and other input costs.

SG&A and other costs for the third quarter, excluding long-term incentive plan expenses and foreign exchange were \$7.4 million compared with \$8.4 million last year, reflecting lower legal and consulting costs. Included in incentive plan costs is the mark-to-market adjustment for our stock price movement. This price movement resulted in a recovery of \$577,000 this quarter compared with an expense of \$911,000 in Q3, 2007. Just to remind you, a \$1 change in our share price results in an \$800,000 change in incentive plan costs.

Foreign exchange losses for the quarter were \$1 million compared with a gain of \$1.4 million a year ago, the difference reflecting a weakening of the Canadian currency, which ended the quarter at 94 cents against the US dollar.

EBITDA for the third quarter was \$20.2 million, compared with \$17.5 million last year. Pre-tax earnings for the quarter were substantially higher at \$10.3 million, which, in addition to stronger business results, were due primarily to lower interest costs. Net interest expense declined by approximately \$800,000 reflecting a reduction in average debt balances and the interest rate on our debt. For the quarter, the average interest rate stood at 4.9% as compared to 6.9% a year earlier.

Quarterly net earnings were \$7.6 million, or 23 cents per share compared with \$5.4 million, or 16 cents per share in Q3, 2007.

Turning to the business segments, EBITDA of \$14.7 million for the Industrial Services Group, was comparable to last year. This reflects the lower margin sulphur sales, and higher fuel, maintenance and other costs.

In the west, Western Markets generated \$23 million in revenue, up 38% from Q3 2007. This reflected increased prices relating to the cost pass through of sulphur and other raw materials.

MET reported EBITDA of \$1.7 million, up from half a million last year. This reflected the timing of project activity, including contributions from the two new projects awarded earlier this year and increased royalty revenue in the quarter. One of those, Sunbury, has temporarily suspended work until market conditions improve. The timing of any resumption is uncertain at this stage, but in any event, it won't have a material impact on results for the remainder of this year.

Turning to the cash flow statement, cash flow from operations before changes in working capital was \$17.9 million compared to \$12.4 million in 2007 reflecting the overall increase in the business.

Total capital expenditures in the quarter were \$4.6 million and deferred charges and other assets increased \$1.2 million in the quarter to \$19.4 million, reflective of spending on the Montreal engineering design studies.

With the announced completion of our engineering studies in Montreal and our customers' decision not to proceed with the expansion, we expect to be reimbursed approximately \$14 million in the fourth quarter for the costs incurred through September on these studies.

Looking at our balance sheet, at quarter end our long-term debt stood at \$141 million and net debt at \$128 million. Net debt to EBITDA was 1.9 times, against our internal benchmark of 3.0 to 3.5 times.

Together, our cash and undrawn credit facilities stood at \$103 million at September 30th. This, in addition to a \$75 million facility for lender approved acquisitions, provides us with additional flexibility to expand the business through either organic growth or acquisitions.

Turning to the turmoil in the financial markets, like other companies, Marsulex relies on a number of counterparties such as financial institutions, insurance companies, customers and suppliers, all of which have been affected by the recent crisis in the financial markets. Through the third quarter, the affects of markets turmoil on Marsulex and our counterparties did not materially affect our financial results. Given the current economic circumstances, we continue to review and monitor our counterparty risk.

Finally, as you know, market turmoil has also affected the value of the Canadian dollar against the U.S. dollar. As we have noted before and as discussed in our MDA, Marsulex's U.S. operations are naturally hedged against this volatility by our US \$70 million Senior Secured debt.

I'll now hand the call back to Laurie.

Laurie Tugman

Thank you, Bill.

Over the past two months the unprecedented upheavals in capital markets and worsening economic conditions have affected global markets, currencies, commodity prices and corporate performance. We don't believe we are immune to these; however, through September 30th, as our results show, our financial performance has not been materially affected. While it's less certain how the future will unfold, there are a number of reasons we believe Marsulex's long-term prospects remain solid, and that we are, in fact, positioned to take advantage of short-term opportunities.

We believe our long term contractual relationships with customers and the essential nature of our services will allow us to better withstand the impact of a slowdown. This is the solid core of our business that generates reliable cash flow and earnings. While there may be delays in single projects that in the longer term add to our revenue and earnings base, the fact is we don't rely on single projects for our core, sustainable earnings.

We are also well-positioned to take advantage of acquisition opportunities that may emerge as a result of the tough economic conditions. As Bill indicated, our liquidity is in excellent shape with over \$100 million in cash and credit facilities at our disposal. With a strong balance sheet and available credit we are well positioned to take advantage of both organic growth and acquisition opportunities.

Day-to-day, our strategy is to continue to provide outstanding service to our customers and prove every day that we are reliable long-term partners for their business.

We would now be pleased to answer questions.