

Q4 and Full Year 2008 Conference Call

Laurie Tugman

Good morning ladies and gentlemen. Welcome to the fourth quarter and full year 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.

In a sea of what seems to be generally bad news these days, we're pleased to be able to report solid results for the fourth quarter of 2008. These results put the final touch to a year that produced year over year improvements in revenue and gross profit in each quarter.

This performance is significant not only for the growth we achieved and the value created for shareholders, but of more significance, that it was achieved in a year of huge changes in the economic conditions affecting the industries and customers we serve. As we said on our third quarter call when we reported record results for Marsulex, we are not immune to these conditions. However, the nature of the essential services we provide to many of our customers, and the contracts that govern those relationships, mitigate a great deal of the immediate impact of the tough economic conditions.

Therefore, in a volatile year in which the Canadian dollar went from parity to 82 cents at year end; and where sulphur reached \$800 a tonne at one stage then dropped to below \$50, Marsulex was able to generate higher revenues and earnings, pay higher dividends, reduce its debt and close 2008 with \$127 million in cash and undrawn lines of credit.

Looking more closely at our results for the year, the high international prices for sulphur during the first half of the year certainly benefitted our business. However, there were a number of other achievements that were important to 2008 and future years.

Petcoke Services has added a new customer – Marathon's Detroit refinery. This extends our relationship with Marathon.

Finally, MET had a successful year, winning two new contracts in North America. Recently, a MET licensee in China was awarded a project that will be the first to utilize our ammonium sulphate technology outside North America.

Overall it was a very good year for Marsulex, but clearly, predicting the future is more difficult. Fortunately, as I said earlier, because many of our core services are critical to our customers' operations, they are somewhat unaffected by economic cycles. Other parts of our operations, however, do have more exposure. I will have some comments on our outlook for 2009 and what we are doing to deal with these uncertain times after Bill reviews the financial results in more detail.

Bill Martin

Thank you Laurie, and good morning. The fourth quarter rounded off a solid year for Marsulex.

Consolidated revenue for the quarter was up 3% to \$75.1 million. The increase was driven by both Industrial Services and Western Markets. Industrial Services generated higher revenue from hazardous waste processing, while Western Markets gained on increased revenue from sulphur products. The weaker Canadian dollar had a favourable impact of \$6.9 million on revenue. This was partially offset by lower Petcoke Services revenue due to the termination of the Venezuelan contracts and by lower revenue from MET due to the timing of project activity.

Fourth quarter gross profit was \$27.2 million compared with \$24.1 million in Q4' 07. This reflected the higher revenue as well as improved margins on hazardous waste processing.

SGA and other costs were affected by lower long-term incentive plan costs as well as higher foreign exchange charges. Excluding these factors, SG&A for both the quarter and the year were lower than last year. This decline reflects reduced legal and consulting costs offset by higher personnel related costs.

As you are aware, the capital markets experienced a significant decline during 2008. Marsulex's common stock declined to \$8 from the previous year's close of \$14.49. It should be noted that a \$1 decline in the stock price results in an approximate \$900,000 impact on incentive costs.

The value of the Canadian dollar also dropped sharply against the U.S dollar during the year, finishing at 82 cents, down almost 20%. The press release includes a table that sets out the impact on the quarter and the year.

EBITDA for the fourth quarter was \$14.9 million, compared with \$13.2 million last year. Pre-tax earnings for the quarter were \$2.5 million compared to a loss of \$0.6 million in 2007. This reflected the stronger business results and lower interest costs as well as the impact of impairment charges on Venezuelan operations.

Quarterly net earnings were \$3.2 million, or 10 cents per share compared with \$7.4 million, or 23 cents per share a year ago. Q4 '07 results included the benefits of \$8 million of tax recoveries on tax loss benefits from the Harrowston reorganization and a reduction in tax rates.

Turning to the business segments, the Industrial Services Group posted EBITDA of \$15.8 million in the fourth quarter compared with \$13.9 million in 2007. This reflects margin improvement on the hazardous waste business, and the positive impact of foreign exchange.

In the west, Western Markets generated \$20 million in revenue, up 17% from Q4 2007, and EBITDA of \$5.1 million compared with \$3.8 million a year earlier. This reflected increased prices relating to the cost pass through of sulphur and other raw materials.

MET's revenue of \$8.9 million and EBITDA of \$200 thousand were both lower than the previous year. This reflected both the timing of project activity and less activity on the LCRA project which is now substantially complete.

Looking at the full year, 2008 revenue was \$323 million, 12% ahead of 2007, and gross profit was up over 7% to \$105.6 million. Each of our operating groups contributed to the increase.

Earnings before tax were higher at \$26.6 million compared with \$14.8 million in 2007, reflecting improved operating results as well as a reduction in interest costs of approximately \$3 million. Net earnings were \$20.7 million compared with \$19.7 million in 2007, with tax recoveries of \$4.9 million favourably affecting 2007 results.

Cash flow from operations doubled from \$40.5 million in 2007 to \$80.5 million in 2008 as a result of the increases in operating earnings and deferred revenues.

During the fourth quarter the Company also received \$14.5 million in cost reimbursement for the Montreal East engineering and design studies.

Total maintenance capital expenditures for 2008 were \$15.5 million as compared to \$13.1 million in 2007. Looking forward, we see this as a good time to be investing in operations and expect to spend more in 2009 on maintenance capital. In addition, there will be some incremental cash flow for upgrades to the two Ohio plants as per the terms of settlement with the EPA.

Looking at our balance sheet, at quarter end our long-term debt stood at \$153 million and net debt at \$116 million. Net debt to EBITDA was 1.7 times, against our internal benchmark level of 3.0 to 3.5 times.

Together, our cash and undrawn credit facilities stood at \$127 million at December 31. 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.

As you can see from these results, we have entered 2009 with a strong balance sheet and the expectation of continued healthy cash flows. Nevertheless, we understand the uncertainty the economic downturn has imposed on some of our customers, and we are closely monitoring those situations.

Yesterday, the Marsulex Board of Directors approved a regular quarterly dividend of 16 cents per share to be paid to shareholders of record on May 15, 2009. On an annualized basis, the dividend represents a yield of approximately 8%. This dividend reinforced our belief in the sustainability of our business model.

In November 2008 we also initiated a share buyback program, and in January of this year repurchased approximately 600,000 shares for cancellation at a total cost of approximately \$4.5 million. We currently have room under the Normal Course Issuer Bid to buy back an additional 1 million shares prior to mid-November, 2009.

I'll now hand the call back to Laurie.

Laurie Tugman

Thank you, Bill.

Although the severe decline in the economy really didn't take hold until the latter part of 2008, the severity of the impact on many industries and businesses is very apparent. As we have said, and I think our results reinforce the point, the nature of a large part of our business provides some protection in that we provide operations-critical services to customers that are unlikely to cease operations.

Having said that, there has been some fallout for us, namely, the cancellation of the Montreal expansion and the suspension of the Sunbury power project where MET was contracted to install a flue gas desulphurization system. Large projects such as these are susceptible to delays or even cancellation. Of course, not all large projects are going to be held up, and the new petcoke services contract with Marathon Detroit is an example.

As Bill noted, the impact on other parts of our business may be different, but it is very hard to predict what may happen. Customers that use our industrial chemicals or hazardous waste processing services are in turn dependent on demand from their own customers. We fully appreciate that there will be some impact on our businesses, but the extent is not so easy to predict. For that reason we are closely monitoring all our relationships and will do all that we can to assist our customers but also protect our financial interests.

We will also continue to seek organic growth opportunities and acquisitions. We are indeed fortunate that we have a strong balance sheet and the financial flexibility to pursue opportunities that may emerge as a result of the tough economic conditions.

We would now be pleased to answer questions.