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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

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**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Quarterly period ended September 30, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-7099

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**CECO ENVIRONMENTAL CORP.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-2566064**  
(I.R.S. Employer  
Identification No.)

**3120 Forrer Street, Cincinnati, Ohio 45209**  
(Address of principal executive offices) (Zip Code)

**513-458-2600**  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (see the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of latest practical date.

Class: Common, par value \$.01 per share outstanding at November 3, 2008 – 14,323,231

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CECO ENVIRONMENTAL CORP.

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
SEPTEMBER 30, 2008

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CECO ENVIRONMENTAL CORP.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except per share data

	<u>September 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
	<u>(unaudited)</u>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 419	\$ 656
Accounts receivable, net	42,033	47,736
Costs and estimated earnings in excess of billings on uncompleted contracts	16,146	11,541
Inventories	6,486	4,694
Prepaid expenses and other current assets	3,431	2,907
Total current assets	68,515	67,534
Property and equipment, net	12,079	9,284
Goodwill, net	32,505	14,761
Intangibles – finite life, net	2,155	1,480
Intangibles – indefinite life	2,895	2,095
Deferred charges and other assets	1,830	1,381
	<u>\$ 119,979</u>	<u>\$ 96,535</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of debt	\$ 19,265	\$ 4,707
Accounts payable and accrued expenses	31,786	38,012
Billings in excess of costs and estimated earnings on uncompleted contracts	10,556	8,024
Accrued income taxes	102	—
Total current liabilities	61,709	50,743
Other liabilities	2,013	2,178
Debt, less current portion	4,400	—
Deferred income tax liability	2,688	2,688
Related party subordinated note	4,816	—
Total liabilities	75,626	55,609
Shareholders' equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized, 15,087,272 and 14,927,292 shares issued in 2008 and 2007, respectively		
	150	149
Capital in excess of par value	42,581	40,796
Accumulated earnings	3,324	1,674
Accumulated other comprehensive loss	(1,346)	(1,337)
	44,709	41,282
Less treasury stock, at cost, 137,920 shares in 2008 and 2007	(356)	(356)
Total shareholders' equity	44,353	40,926
	<u>\$ 119,979</u>	<u>\$ 96,535</u>

The notes to condensed consolidated financial statements  
are an integral part of the above statements.

CECO ENVIRONMENTAL CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

Dollars in thousands, except per share data

	<u>THREE MONTHS ENDED</u> <u>SEPTEMBER 30,</u>		<u>NINE MONTHS ENDED</u> <u>SEPTEMBER 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net sales	\$ 55,238	\$ 65,257	\$ 159,546	\$ 167,967
Costs and expenses:				
Cost of sales, exclusive of items shown separately below	43,288	54,095	130,124	139,057
Selling and administrative	8,720	6,739	23,483	17,960
Depreciation and amortization	801	373	2,187	1,099
	<u>52,809</u>	<u>61,207</u>	<u>155,794</u>	<u>158,116</u>
Income from operations	2,429	4,050	3,752	9,851
Other income	—	—	—	9
Interest expense (including related party interest of \$81 and \$0, and \$81 and \$1,101, respectively)	(467)	(125)	(1,046)	(1,843)
Income from continuing operations before income taxes	1,962	3,925	2,706	8,017
Income tax provision	766	1,729	1,056	3,530
Net income	<u>\$ 1,196</u>	<u>\$ 2,196</u>	<u>\$ 1,650</u>	<u>\$ 4,487</u>
Per share data:				
Basic net income	<u>\$ .08</u>	<u>\$ .15</u>	<u>\$ .11</u>	<u>\$ .34</u>
Diluted net income	<u>\$ .08</u>	<u>\$ .14</u>	<u>\$ .11</u>	<u>\$ .33</u>
Weighted average number of common shares outstanding:				
Basic	<u>14,821,253</u>	<u>14,633,479</u>	<u>14,764,154</u>	<u>13,054,347</u>
Diluted	<u>15,593,959</u>	<u>15,211,538</u>	<u>15,304,657</u>	<u>13,634,829</u>

The notes to condensed consolidated financial statements  
are an integral part of the above statements.

CECO ENVIRONMENTAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

Dollars in thousands

	NINE MONTHS ENDED SEPTEMBER 30,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,650	\$ 4,487
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	2,187	1,099
Non cash interest expense included in net income	56	876
Compensation expense – stock awards	846	437
Deferred income taxes	—	337
<b>Changes in operating assets and liabilities, net of effects of acquisitions:</b>		
Accounts receivable	14,312	(6,905)
Inventories	(1,046)	(756)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,621)	(2,316)
Prepaid expenses and other current assets	947	123
Deferred charges and other assets	(605)	(31)
Accounts payable and accrued expenses	(14,356)	10,946
Billings in excess of costs and estimated earnings on uncompleted contracts	140	(4,023)
Accrued income taxes	(243)	704
Other	(197)	32
<b>Net cash provided by operating activities</b>	<b>1,070</b>	<b>5,010</b>
<b>Cash flows from investing activities:</b>		
Acquisitions of property and equipment	(1,589)	(1,187)
Net cash paid for acquisitions	(23,535)	(6,955)
<b>Net cash used in investing activities</b>	<b>(25,124)</b>	<b>(8,142)</b>
<b>Cash flows from financing activities:</b>		
Net borrowings (repayments) on revolving credit line	14,558	(9,834)
Proceeds from secondary stock offering	—	14,137
Proceeds from exercise of warrants & options not under plan	—	4,687
Proceeds from exercise of stock options	43	172
Subordinated debt borrowing (repayments)	4,816	(5,743)
Term debt borrowings	5,000	—
Term debt repayments	(600)	—
<b>Net cash provided by financing activities</b>	<b>23,817</b>	<b>3,419</b>
Net (decrease) increase in cash and cash equivalents	(237)	287
Cash and cash equivalents at beginning of the period	656	445
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 419</b>	<b>\$ 732</b>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

<b>Cash paid during the period for:</b>		
Interest	\$ 940	\$ 1,106
Income taxes	\$ 717	\$ 3,484
Stock based consideration for acquisition	\$ 898	\$ —

The notes to condensed consolidated financial statements  
are an integral part of the above statements.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

**1. Basis of reporting for condensed consolidated financial statements and significant accounting policies.**

The accompanying unaudited condensed consolidated financial statements of CECO Environmental Corp. and subsidiaries (the “Company”, “we”, “us”, or “our”) have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, the accompanying unaudited condensed consolidated financial statements of the Company contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of September 30, 2008 and December 31, 2007 and the results of operations for the three-month and nine-month periods ended September 30, 2008 and 2007 and of cash flows for the nine-month periods ended September 30, 2008 and 2007. The results of operations for the three-month period and nine-month period ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year. The balance sheet as of December 31, 2007 has been derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

These financial statements and accompanying notes should be read in conjunction with the audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2007 with the Securities and Exchange Commission.

**2. New Accounting Standards**

Effective January 1, 2008, the Company partially adopted Financial Accounting Standards Board (“FASB”) Statement No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 applies to most current accounting pronouncements that require or permit fair value measurements. SFAS 157 provides a framework for measuring fair value and requires expanded disclosures about fair value methods and inputs by establishing a hierarchy for ranking the quality and reliability of the information used by management to measure and report amounts at fair value.

The Company has only partially applied the provisions of SFAS 157 as management has elected the deferral provisions of FASB Staff Position (“FSP”) SFAS 157-2 as it applies to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The major categories of assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis include certain amounts of property and equipment, intangibles and goodwill reported at fair value as a result of impairment testing, and certain other assets, liabilities and equity instruments recognized as a result of prior business combinations.

The Company does not have any financial instruments that required a cumulative-effect adjustment to beginning accumulated earnings upon adoption. There was no material impact to the Company’s consolidated financial position, results of operations, or cash flows as a result of the partial adoption of SFAS 157.

*Financial instruments and fair value measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

including market, income and cost approaches. Based on these approaches, the Company utilizes certain assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the inputs used in the valuation techniques, the Company classifies the inputs under a fair value hierarchy that ranks the inputs based on their quality and reliability. Financial instruments carried at fair value will be classified and disclosed in one of the following three categories:

**Level 1** – Quoted market prices in active markets for identical assets or liabilities.

**Level 2** – Observable market based inputs or unobservable inputs that are corroborated by market data.

**Level 3** – Unobservable inputs that are not corroborated by market data.

The Company's financial instruments consist primarily of cash and cash equivalents, receivables and certain other assets, such as cash surrender life insurance, as well as obligations under accounts payable and long-term debt. The estimated fair values of the Company's short-term financial instruments, including cash and cash equivalents, receivables and payables arising in the ordinary course of business and certain other assets, such as cash surrender life insurance approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The carrying amount of long-term debt approximates fair value because the interest rates fluctuate with market interest rates. The Company does not have any other financial instruments measured at fair value on a recurring basis that require further disclosure.

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents are placed with high-credit quality financial institutions and the Company does not believe that there is a significant concentration of credit risk associated with cash and cash equivalents. The Company believes that its credit risk associated with trade accounts receivable is limited based on the reputation of their customers, historical collection experience, and industry and geographic diversification of their customers. Credit limits, ongoing credit evaluation, and account monitoring procedures are utilized by management to minimize the risk of loss. The Company maintains an allowance to cover estimated credit losses.

SFAS 159—In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). This statement provides companies with an option to report selected financial assets and liabilities at fair value in an effort to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 requires entities to display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the balance sheet. The standard was effective for the Company as of January 1, 2008; however, the Company did not elect the fair value option for any eligible items.

SFAS 141(R)—In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141 (R)"). This statement defines the acquirer in a business combination as the entity that obtains control of one or more businesses, and

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

establishes the acquisition date as the date the acquirer achieves this control. This statement also refines the application of the purchase method by requiring the acquirer to recognize assets acquired and liabilities assumed at fair value and replacing the cost-allocation process previously required under SFAS 141. Included in fair value are contractual contingencies to the extent that it is more likely than not that such contingencies meet the definition of assets or liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The carrying value of such contractual contingencies remains unchanged until settled or until new information is obtained indicating the value of an asset is lower than acquisition-date fair value or that a liability is higher than acquisition-date fair value. Furthermore, acquisition-related costs and restructuring costs that are expected but not obligatory are required to be recognized separately from the business combination. SFAS 141(R) will be effective prospectively for business combinations with acquisition dates on or after January 1, 2009. Management believes this Statement could have a material impact on the Company's financial statements depending on future acquisition plans.

EITF No. 06-11—In March 2007, the FASB ratified Emerging Issues Task Force (“EITF”) No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards.” EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for nonvested equity-classified employee share-based awards as an increase to additional paid-in capital instead of a credit to income tax expense. The amount recognized in additional paid-in capital will be available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 was effective for fiscal years beginning after December 15, 2007 and therefore is effective for the Company in fiscal year 2008. The adoption of this standard did not have a material effect on the Company's consolidated results of operations, financial position or cash flows.

SFAS 162—In May 2008, the FASB issued SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles”. This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (“GAAP”) in the United States. This statement will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (“PCAOB”) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We do not expect the adoption of this statement will have a material impact on our financial statements.

During June 2008, the FASB issued EITF Issue No. 07-05, “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock” which is effective for fiscal years beginning after December 15, 2008. This Issue addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which is the first part of the scope exception in paragraph 11(a) of Statement 133. If an instrument (or an embedded feature) that has the characteristics of a derivative instrument under paragraphs 6–9 of Statement 133 is indexed to an entity's own stock, it is still necessary to evaluate whether it is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). Other applicable authoritative accounting literature, including Issues EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company Own Stock, and EITF 05-2, The Meaning of “Conventional Debt Instrument” in Issue No. 00-19, provides guidance for determining whether an instrument (or an embedded feature) is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). This Issue does not address that second part of the scope exception in paragraph 11(a) of Statement 133. We are currently evaluating the impact this statement will have on our financial statements.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

**3. Inventories**

*\$ in thousands*

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Raw materials and subassemblies	\$ 4,656	\$ 3,625
Finished goods	966	293
Parts for resale	1,011	786
Obsolescence allowance	(147)	(10)
	<u>\$ 6,486</u>	<u>\$ 4,694</u>

**4. Costs and Estimated Earnings on Uncompleted Contracts**

*\$ in thousands*

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Costs incurred on uncompleted contracts	\$ 208,006	\$ 161,604
Estimated earnings	29,911	20,639
	237,917	182,243
Less billings to date	(232,327)	(178,726)
	<u>\$ 5,590</u>	<u>\$ 3,517</u>

Included in the accompanying consolidated balance sheets under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 16,146	\$ 11,541
Billings in excess of costs and estimated earnings on uncompleted contracts	(10,556)	(8,024)
	<u>\$ 5,590</u>	<u>\$ 3,517</u>

**5. Goodwill and Intangible Assets**

*\$ in thousands*

<u>Goodwill / Tradename</u>	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Goodwill</u>	<u>Tradename</u>	<u>Goodwill</u>	<u>Tradename</u>
Beginning balance	\$14,761	\$ 2,095	\$ 9,527	\$ 1,395
Acquisitions	17,744	800	5,234	700
	<u>\$32,505</u>	<u>\$ 2,895</u>	<u>\$14,761</u>	<u>\$ 2,095</u>

<u>Intangible assets – finite life</u>	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Cost</u>	<u>Accum. Amort.</u>	<u>Cost</u>	<u>Accum. Amort.</u>
Patents	\$ 1,406	\$ 908	\$ 1,342	\$ 844
Backlog	1,204	829	304	169
Customer Lists	1,300	262	800	83
Employment contracts	350	128	180	50
Other	129	107	—	—
	<u>\$ 4,389</u>	<u>\$ 2,234</u>	<u>\$ 2,626</u>	<u>\$ 1,146</u>

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Indefinite life intangible assets are comprised of tradenames, while finite life intangible assets are comprised of patents, backlog, customer lists and employment contracts. Finite life intangible assets are amortized on a straight-line basis over their estimated useful lives of 17 years for patents, 12 to 18 months for backlog, 5 years for customer lists and 3 years for employment contracts. Amortization expense of finite life intangibles for the three months and nine months ended September 30, 2008 was \$376,000 and \$982,000, respectively. Over the next five years amortization expense for these finite life intangible assets will be \$338,000 for the remainder of 2008, \$618,000 in 2009, \$417,000 in 2010, \$351,000 in 2011 and \$257,000 in 2012.

**6. Business Segment Information**

Our structure and operational integration results in one segment that focuses on engineering, designing, building and installing systems that remove airborne contaminants from industrial facilities, as well as equipment that controls emissions from such facilities. Accordingly, the consolidated financial statements herein reflect the operating results of the segment.

**7. Earnings Per Share**

We consider outstanding options and warrants in computing diluted net income per share only when they are dilutive. Options and warrants to purchase 490,000 shares for the three months and nine months ended September 30, 2008 were not included in the computation of diluted earnings per share due to their exercise price being greater than the market price of the stock. Additionally, the dilutive effect of convertible debt has been reflected by application of the if-converted method pursuant to SFAS No. 128, "Earnings per Share". Accordingly, the numerator has been adjusted to add back or deduct the net-of-tax impact of related interest charges and foreign exchange gains totaling \$8,000 for the three and nine month periods ended September 30, 2008.

**8. Debt**

Total bank debt at September 30, 2008 was \$23.7 million and \$4.7 million at December 31, 2007. The bank debt at September 30, 2008 consists of \$19.3 million due on the revolving line of credit and \$4.4 million due on the term note. Unused credit availability under our \$30.0 million revolving line of credit at September 30, 2008 was \$4.7 million. Availability is limited as determined by a borrowing base formula contained in the credit agreement.

In connection with the acquisition of Fisher-Klosterman, Inc. ("FKI") our credit facility (the "Bank Facility") was amended on February 29, 2008. The amended agreement was entered into by CECO Environmental Corp., the CECO group of companies, FKI Acquisition Corp. and Fifth Third Bank, an Ohio banking corporation. The Bank Facility, as amended, consisted of a new term loan in the amount of \$5.0 million and an

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

increased revolving line of credit of up to \$30.0 million. Credit availability is determined under our revolver on an asset based calculation which is determined by multiplying qualified accounts receivable times a factor of 70% and raw material inventories by a factor of 50%. This resulting availability is then reduced by outstanding letters of credit. Terms of the agreement, which runs through January 31, 2010, include a continuation of the current borrowing rates for the credit line of prime or LIBOR plus 2% and rates for the term note of prime or LIBOR plus 2.25%. Fees paid in connection with this amendment were \$72,000 and we deferred these fees and began amortizing them as an adjustment to interest expense over the remaining term of the arrangement.

In connection with the acquisitions of Flextor, Inc. and AVC Specialists (“AVC”) the Bank Facility was amended again on August 1, 2008. The amended agreement was entered into by CECO Environmental Corp., the CECO group of companies, FKI and Fifth Third Bank, an Ohio banking corporation. Terms of the agreement, which runs through January 31, 2010, include a continuation of the current borrowing rates for the credit line of prime or LIBOR plus 2% and rates for the term note of prime or LIBOR plus 2.25%. At September 30, 2008, we had elected the option to use the prime rate of 5%. Fees paid in connection with this amendment were \$10,000 and we deferred these fees and began amortizing them as an adjustment to interest expense over the remaining term of the arrangement.

Subsequent to the issuance of the Company’s consolidated financial statements as of and for the periods ended June 30, 2008, the Company determined that the outstanding borrowings under its revolving line of credit should be classified as current in accordance with FASB Emerging Issues Task Force 95-22, “Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that Include Both a Subjective Acceleration Clause and a Lock-Box Arrangement” (“EITF 95-22”). Accordingly, the accompanying balance sheet as of September 30, 2008 reflects all such borrowings (\$18.3 million) as current obligations. Additionally, the accompanying December 31, 2007 balance sheet also presents such borrowings (\$4.4 million) as a current obligation although such borrowings had previously been reflected as long-term obligations in the Company’s Form 10-K filed on March 17, 2008. Similarly, \$16.4 million and \$14.1 million of such borrowings should have been reflected as additional current obligations in the Company’s Form 10-Qs for the periods ended March 31, 2008, filed on May 12, 2008, and June 30, 2008, filed on August 11, 2008, respectively.

These reclassifications have no impact on debt covenant compliance, net income, cash flows or net shareholders’ equity as of and for the periods indicated above. The Company has started discussions with its lender with the intent to amend the Bank Facility in such a way that outstanding revolving line of credit borrowings will not be subject to EITF 95-22 and, if so amended, the requirement to classify this long-term debt as current may no longer apply. The Company can make no assurances that it will ultimately enter into such an amendment with its lender.

Additionally, on July 31, 2008, the Company issued a Subordinated Convertible Promissory Note (the “Note”) in the amount of Canadian \$5,000,000 (the “Subordinated Debt”) to Phillip DeZwirek, the Chairman and CEO of the Company. On August 14, 2008, the Company refinanced the Note. The Company repaid all outstanding principal and unpaid interest under the Note and cancelled the Note. On August 14, 2008, the Company issued a new Subordinated Convertible Promissory Note (the “Subdebt Note”) in the amount of Canadian \$5,000,000 (the “Subordinated Debt”) to Icarus Investment Corp., a Canadian company which is controlled by Phillip DeZwirek and Jason DeZwirek, the Secretary and a Director of the Company. The Canadian \$5,000,000 proceeds received by the Company were used to repay the Note. The Subdebt Note provides for interest to accrue at the rate of 10% per annum in 2008, 11% per annum in 2009, and 12% per annum commencing January 1, 2010 until paid. Since it is our intention to pay off the Note as quickly as possible, we are accruing interest at the rate of 10% per annum. Interest payments are payable semi-annually subject to the Subordination Agreement with Fifth Third Bank. The holder of the Note may convert at any time the outstanding principal and accrued and unpaid interest there under into common stock of the Company at a per share price of \$4.75, a price greater than the closing consolidated bid price immediately preceding the issuance of the Note. The Note’s maturity date is the earlier of July 31, 2010 or six (6) months after repayment of the Bank Facility. The Note also matures in the event of a merger or reorganization of the Company that results in a change of control, upon the sale of 50% of the assets of the Company, or any sale of any division of the Company in excess of \$5 million. To the extent that the Company completes an equity financing in excess of \$10 million, 25% of the amounts in excess of the \$10 million are required to be used to repay the Subordinated Debt, provided that the Company is not in default under the Bank Facility.

**9. Employee Benefit Plans**

We sponsor a non-contributory defined benefit pension plan for certain union employees. The plan is funded in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974.

CECO ENVIRONMENTAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

We also sponsor a post retirement health care plan for office employees retiring before January 1, 1990. The plan allows retirees who have attained the age of 65 to elect the type of coverage desired.

Retirement and health care plan expense is based on valuations performed by plan actuaries as of the beginning of each fiscal year. The components of the expense consisted of the following:

<i>\$ in thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Retirement plan:</b>				
Service cost	\$ 44	\$ 37	\$ 132	\$ 111
Interest cost	91	81	273	243
Expected return on plan assets	(105)	(99)	(315)	(297)
Amortization of prior service cost	2	2	6	6
Amortization of net actuarial loss	35	35	105	105
<b>Net periodic benefit cost</b>	<b><u>\$ 67</u></b>	<b><u>\$ 56</u></b>	<b><u>\$ 201</u></b>	<b><u>\$ 168</u></b>
<b>Health care plan:</b>				
Interest cost	\$ 4	\$ 5	\$ 12	\$ 15
Amortization of gain	(2)	—	(5)	—
<b>Net periodic benefit cost</b>	<b><u>\$ 2</u></b>	<b><u>\$ 5</u></b>	<b><u>\$ 7</u></b>	<b><u>\$ 15</u></b>

We previously disclosed in our financial statements for the year ended December 31, 2007 that we expected to make \$615,000 in contributions to the pension plan during the year ending December 31, 2008. As of September 30, 2008, \$420,000 has been contributed to the pension plan and we plan on paying the balance of \$195,000 during the remainder of Fiscal Year 2008.

The funded status for our post-retirement health care plan is calculated based on the accumulated post retirement benefit obligation.

**10. Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires the Company to recognize compensation expense for stock-based awards, measured at the fair value of the awards at the grant date. The Company recognized expense of approximately \$288,000 and \$294,000 during the quarters ended September 30, 2008 and 2007, respectively, and \$846,000 and \$437,000 for the nine months ended September 30, 2008 and 2007, respectively.

During 2008, the Company awarded 40,900 shares of performance-based, restricted stock with a fair value of \$6.89 per share which vest subject to attainment of predetermined Company performance goals by fiscal year end 2008. These shares will vest on March 31, 2009, if certain minimum financial targets are attained. If the minimum level of performance is not attained by the end of 2008, these stock awards will be forfeited and all expense

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recognized to date will be reversed. Additionally, a total of 8,000 shares of restricted stock with a fair value of \$7.19 per share were granted to four independent directors. These shares vest over a one year period.

During the quarter ended September 30, 2008, approximately \$41,000 of previously recorded expense related to performance based grants was reversed due to the expectation that the related financial objectives will not be met.

**11. Income Taxes**

The Company files income tax returns in various federal, state and local jurisdictions. The Company is no longer subject to federal, state and local income tax examinations by tax authorities for years before 2004.

The Company adopted the provisions of FASB Interpretation No. 48 (“Interpretation 48”), Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of Interpretation 48, the Company recognized approximately a \$653,000 increase in the liability for unrecognized tax expense, which was accounted for as a reduction to the January 1, 2007 balance of accumulated earnings. For the year ended December, 31, 2007, the Company recorded additional unrecognized tax benefits of \$244,000 for tax positions relating to prior years and a reduction for tax positions relating to prior years of \$422,000. Therefore, the unrecognized tax benefit as of December 31, 2007, was \$475,000. The Company includes interest and penalties in the unrecognized tax benefit liability.

As of September 30, 2008, the unrecognized tax benefit was \$495,000 which includes additional interest and penalties of \$20,000.

**12. Acquisitions**

On February 29, 2008, the Company, through its wholly owned subsidiary FKI Acquisition Corp., purchased substantially all of the assets of Fisher-Klosterman, Inc. (“FKI”). We acquired FKI to obtain air pollution and particulate recovery products in the fields of petroleum refinery, power production, petrochemicals, and manufacturing. The acquisition also expands our operations into China with FKI’s 40,000 square foot facility in Shanghai, China. The purchase price was approximately \$23.3 million, consisting of net cash paid plus transaction costs totaling approximately \$15.3 million (funded under the amended Bank Facility), liabilities assumed of approximately \$7.1 million and 98,580 shares of restricted common stock valued at \$0.9 million. Additionally, the former owners of FKI are entitled to earn-out payments payable in shares of common stock of up to \$3.5 million upon the attainment of specified gross profit amounts through February 28, 2011. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of closing.

*\$ in thousands*

Current assets	\$6,934
Other assets	41
Property and equipment	1,823
Intangible assets – finite life	1,634
Intangible assets – indefinite life	800

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Goodwill	12,087
Total assets acquired	23,319
Current liabilities assumed	(7,074)
Net assets acquired	<u>\$16,245</u>

The purchase price allocation is preliminary and subject to further refinement based upon completion of asset valuations.

The following unaudited pro forma information represents the Company's results of operations as if the acquisition had occurred on the first day of each of the respective periods.

	<u>Nine Months Ended September 30</u>	
	<u>2008</u>	<u>2007</u>
Net sales	\$ 165,438	\$ 199,254
Net income	\$ 1,770	\$ 4,575
Earnings per share:		
Basic	\$ 0.12	\$ 0.35
Diluted	\$ 0.12	\$ 0.33

On August 1, 2008, the Company, through a subsidiary, acquired all of the stock of Flextor Inc., a Quebec company ("Flextor"), pursuant to the terms of a Stock Purchase Agreement dated August 1, 2008, among the Company, 9199-3626 Quebec Inc., Michael dos Santos, The Dos Santos Family Trust, Thierry Allegrucci, The Allegrucci Family Trust, Francois Rouviere and Antandamy Investments Inc. Additionally, the former owners are entitled to earn-out payments of up to \$.5 million upon the attainment of specified gross profit amounts through July 31, 2011.

Flextor is a provider of engineered-to-order dampers and expansion joints for the power, natural gas, cement, smelting, incineration, and other industries. The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of closing.

*\$ in thousands*

Current assets	\$ 5,247
Property and equipment	286
Intangible assets – finite life	16
Goodwill	5,058
Total assets acquired	10,607
Current liabilities assumed	(3,769)
Net assets acquired	<u>\$ 6,838</u>

The purchase price allocation is preliminary and subject to further refinement based upon completion of asset valuations.

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FKI, purchased all of the assets and assumed certain liabilities of Shideler, Inc. (f/k/a/ A.V.C. Specialists, Inc.) (“AVC”) on August 1, 2008 pursuant to an Asset Purchase Agreement dated August 1, 2008 by and among FKI, AVC, and Thomas J. Shideler and Barbara Shideler. Additionally, the former owners are entitled to earn-out payments of up to \$.4 million upon the attainment of specified gross profit amounts through July 31, 2010. AVC is a provider of electrostatic precipitator components for the power, refining, petrochemical, pulp and paper, cement, and other industries.

The following table summarizes the approximate fair values of the assets acquired and liabilities assumed at the date of closing.

\$ in thousands

Current assets	\$ 486
Property and equipment	302
Goodwill	<u>636</u>
Total assets acquired	1,424
Current liabilities assumed	<u>(74)</u>
Net assets acquired	<u>\$1,350</u>

These two acquisitions, which were not considered significant subsidiaries, were financed with a combination of the proceeds of the Subordinated Debt described in Note 8 and the Bank Facility.

**13. Comprehensive Income**

Comprehensive income consists of net income, changes in the minimum pension liability, and translation gains and losses for foreign operations. Comprehensive income totaled \$1,175,000 and \$2,195,000 during the quarters ended September 30, 2008 and 2007, respectively and \$1,640,000 and \$4,483,000 for the nine months ended September 30, 2008 and 2007, respectively. The accumulated comprehensive loss balance as of September 30, 2008 was \$1,346,000.

**14. Product Warranties**

The Company’s warranty reserve is to cover the products sold and is principally at our Effox subsidiary. The warranty accrual is based on historical claims information. The warranty reserve is reviewed and adjusted as necessary on a quarterly basis. Warranty accrual is not significant at the Company’s other operations due to the nature of the work which includes installation and testing. The change in accrued warranty expense is summarized in the following table:

\$ in thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Beginning balance	\$ 574	\$ 536	\$ 605	\$ 24
Provision	59	84	109	193
Payments	(29)	(68)	(110)	(154)
Acquisition	<u>77</u>	<u>—</u>	<u>77</u>	<u>489</u>
Ending balance	<u>\$ 681</u>	<u>\$ 552</u>	<u>\$ 681</u>	<u>\$ 552</u>

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**15. Subsequent Events**

On October 9, 2008, the Company purchased 626,121 shares of its common stock for an aggregate amount of \$1,565,303 from an institutional investor. The stock repurchase was financed with our Bank Facility.

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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Our condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2008 and 2007 are as follows:

(\$'s in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	\$ 55.2	\$ 65.3	\$159.5	\$168.0
Cost of sales	43.2	54.1	130.1	139.1
Gross profit (excluding depreciation and amortization)	\$ 12.0	\$ 11.2	\$ 29.4	\$ 28.9
Percent of sales	21.7%	17.1%	18.4%	17.2%
Selling and administrative expenses	\$ 8.7	\$ 6.7	\$ 23.5	\$ 18.0
Percent of sales	15.8%	10.3%	14.7%	10.7%
Operating income	\$ 2.4	\$ 4.1	\$ 3.8	\$ 9.9
Percent of sales	4.3%	6.3%	2.4%	5.9%

Consolidated net sales for the third quarter were \$55.2 million, a decrease of \$10.1 million or 15.5% compared to \$65.3 million for the same quarter in 2007. Consolidated net sales for the first nine months of 2008 were \$159.5 million, a decrease of \$8.5 million or 5.1% compared to the same period in 2007. This decline in sales for both the three month and nine month periods was due primarily to a decrease in sales for our contracting divisions partially offset by increases in sales of component parts and equipment. New acquisitions provided \$11.1 million of additional revenues for the quarter and \$32.2 million for the nine month period. New orders booked were \$54.0 million (including acquired backlog of \$3.8 million) during the third quarter of 2008 and \$160.9 million (including acquired backlog of \$17.8 million) for the first nine months of 2008, as compared to \$35.7 million during the third quarter of 2007 and \$165.2 million in the first nine months of 2007. The increase in bookings for the quarter is not necessarily indicative of an increase in demand for our products and services because types and sizes of orders vary from quarter to quarter and the flow of orders is not consistent.

Third quarter 2008 gross profit increased by \$0.8 million or 7.1% to \$12.0 million compared to a gross profit of \$11.2 million during the same period in 2007. Gross profit for the quarter as a percentage of sales increased by 4.6 percentage points to 21.7% from 17.1% due to changes in product mix driven primarily by higher margin equipment sales. For the first nine months of 2008, gross profit increased by \$0.5 million or 1.7% to \$29.4 million compared to \$28.9 million for the same period in 2007. Gross profit as a percentage of sales increased by 1.2 percentage points to 18.4% from 17.2% in 2007. This increase was also due to the same changes in product mix as discussed for the three month period.

Selling and administrative expenses increased by \$2.0 million or 29.4% to \$8.7 million during the third quarter of 2008 from \$6.7 million in the same period of 2007. The increase was due primarily to additional selling and administrative expenses of \$1.9 million from our latest 2008 acquisitions: Fisher Klosterman, Inc. ("FKI"), Flextor, Inc. and AVC Specialists as well as \$0.2 million for three additional months of GMD Environmental (acquired November 1, 2007) expenses for the current

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quarter compared to none last year. Selling and administrative expenses as a percent of sales increased by 5.5 percentage points from 10.3% in the 2007 quarter to 15.8% in the 2008 quarter. Selling and administrative expenses increased by \$5.5 million or 30.6% to \$23.5 million during the first nine months of 2008 from \$18.0 million in the same period of 2007. This nine month increase consisted of two additional months of Effox, (acquired March 1, 2007), selling and administrative expenses in 2008 totaling \$0.7 million, plus additional selling and administrative expenses of \$4.6 million for the 2008 acquisitions discussed previously. Selling and administrative expenses as a percent of sales increased by 4.0 percentage points from 10.7% in the 2007 nine month period compared to 14.7% for the nine months ended September 30, 2008.

Depreciation and amortization increased from \$0.4 million in the 2007 third quarter to \$0.8 million during the third quarter of 2008 and in the first nine months from \$1.1 million in 2007 to \$2.2 million in 2008. Amortization of finite life intangibles resulting from acquisitions amounted to \$376,000 and \$982,000, respectively for the quarter and nine month periods.

Operating income decreased by approximately \$1.7 million or 41.5% to \$2.4 million in the third quarter of 2008 compared to operating income of \$4.1 million during the same quarter of 2007. The impact of lower revenues offset by higher margins due to changing product mix in the third quarter, accompanied by related additions from acquisitions of selling and administrative expenses, were the primary factors for the decrease in operating income. Operating income for the first nine months of 2008 decreased by \$6.1 million or 61.6% to \$3.8 million compared to operating income of \$9.9 million during the same period of 2007. This decrease was also due to the impact of decreased revenues and higher margins due to changing product mix in the nine month period, offset by related increases in selling and administrative expenses.

Interest expense for the three months ended September 30, 2008 increased by \$0.4 million to \$0.5 million compared to \$0.1 million during the third quarter of 2007. This increase was due to higher outstanding loan balances on the Company's credit facility and the addition of subordinated debt used to finance acquisitions in 2008.

Interest expense for the nine months ended September 30, 2008 decreased by \$0.8 million to \$1.0 million compared to \$1.8 million during the first nine months of 2007. The 2007 interest expense included a non-cash charge of \$0.7 million to expense the remaining discount on the subordinated notes that were retired using the proceeds from our secondary stock offering in May 2007.

Federal and state income tax provision was \$0.8 million during the third quarter of 2008 compared to \$1.7 million during the third quarter of 2007. Federal and state income tax expense was \$1.1 million for the first nine months of 2008 compared to a tax expense of \$3.5 million in 2007.

The federal and state income tax expense for the three months and nine months ended September 30, 2008 was 39% of income from operations before income taxes. Our effective income tax rate is affected by certain permanent timing differences including non-deductible compensation expense related to the issuance of incentive stock options. The federal and state income tax expense for the three months ended September 30, 2007 was 44% of income from operations before income taxes.

Net income for the quarter ended September 30, 2008 was \$1.2 million compared with net income of \$2.2 million for the same period in 2007. Net income for the nine months ended September 30, 2008 was \$1.7 million compared with a net income of \$4.5 million for the same period in 2007. This decrease in net income for the quarter and for the nine months ended September 30, 2008 was the result of the previously discussed factors.

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**Backlog**

Our backlog consists of the amount of revenues we expect from full performance of orders we have received that have not been completed for products and services we expect to substantially ship and deliver within the next 12 months. There can be no assurances that backlog will be replicated, increased or translated into higher revenues in the future.

Our backlog, as of September 30, 2008 was \$86.9 million compared to \$85.5 million as of December 31, 2007. The success of our business depends on a multitude of factors related to our backlog and the orders secured during the subsequent period(s). Certain contracts are highly dependent on the work of contractors and other subcontractors participating in a project, over which we have no or limited control, and their performance on such project could have an adverse effect on the profitability of our contracts. Delays resulting from these contractors and subcontractors, changes in the scope of the projects, weather, and labor availability also can have an affect on a contract's profitability.

**Financial Condition, Liquidity and Capital Resources**

Our principal sources of liquidity are cash flows from operations, available borrowings under our revolving credit facility and secondary equity offerings. Our principal uses of cash are operating costs, debt service, capital expenditures, working capital and other general corporate requirements.

At September 30, 2008 and December 31, 2007, cash and cash equivalents totaled \$419,000 and \$656,000 respectively. Generally, we do not carry significant cash and cash equivalent balances because excess amounts are used to pay down our debt.

Total bank debt at September 30, 2008 was \$23.7 million and \$4.7 million at December 31, 2007. The bank debt at September 30, 2008 consists of \$19.3 million due on the revolving line of credit and \$4.4 million due on the term note. Unused credit availability under our \$30.0 million revolving line of credit at September 30, 2008 was \$4.7 million. Availability is limited as determined by a borrowing base formula contained in the credit agreement.

In connection with the acquisition of Fisher-Klosterman, Inc. ("FKI") our credit facility (the "Bank Facility") was amended on February 29, 2008. The amended agreement was entered into by CECO Environmental Corp., the CECO group of companies, FKI Acquisition Corp. and Fifth Third Bank, an Ohio banking corporation. The Bank Facility, as amended, consisted of a new term loan in the amount of \$5.0 million and an increased revolving line of credit of up to \$30.0 million. Credit availability is determined under our revolver on an asset based calculation which is determined by multiplying qualified accounts receivable times a factor of 70% and raw material inventories by a factor of 50%. This resulting availability is then reduced by outstanding letters of credit. Terms of the agreement, which runs through January 31, 2010, include a continuation of the current borrowing rates for the credit line of prime or LIBOR plus 2% and rates for the term note of prime or LIBOR plus 2.25%. Fees paid in connection with this amendment were \$72,000 and we deferred these fees and began amortizing them as an adjustment to interest expense over the remaining term of the arrangement.

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In connection with the acquisitions of Flextor, Inc. and AVC Specialists ("AVC") the Bank Facility was amended again on August 1, 2008. The amended agreement was entered into by CECO Environmental Corp., the CECO group of companies, FKI and Fifth Third Bank, an Ohio banking corporation. Terms of the agreement, which runs through January 31, 2010, include a continuation of the current borrowing rates for the credit line of prime or LIBOR plus 2% and rates for the term note of prime or LIBOR plus 2.25%. At September 30, 2008, we had elected the option to use the prime rate at a rate of 5%. Fees paid in connection with this amendment were \$10,000 and we deferred these fees and began amortizing them as an adjustment to interest expense over the remaining term of the arrangement.

Subsequent to the issuance of the Company's consolidated financial statements as of and for the periods ended June 30, 2008, the Company determined that the outstanding borrowings under its revolving line of credit should be classified as current in accordance with FASB Emerging Issues Task Force 95-22, "Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that Include Both a Subjective Acceleration Clause and a Lock-Box Arrangement" ("EITF 95-22"). Accordingly, the accompanying balance sheet as of September 30, 2008 reflects all such borrowings (\$18.3 million) as current obligations. Additionally, the accompanying December 31, 2007 balance sheet also presents such borrowings (\$4.4 million) as a current obligation although such borrowings had previously been reflected as long-term obligations in the Company's Form 10-K filed on March 17, 2008. Similarly, \$16.4 million and \$14.1 million of such borrowings should have been reflected as additional current obligations in the Company's Form 10-Qs for the periods ended March 31, 2008, filed on May 12, 2008, and June 30, 2008, filed on August 11, 2008, respectively.

These reclassifications have no impact on debt covenant compliance, net income, cash flows or net shareholders' equity as of and for the periods indicated above. The Company has started discussions with its lender with the intent to amend the Bank Facility in such a way that outstanding revolving line of credit borrowings will not be subject to EITF 95-22 and, if so amended, the requirement to classify this long-term debt as current may no longer apply. The Company can make no assurances that it will ultimately enter into such an amendment with its lender.

Additionally, on July 31, 2008, the Company issued a Subordinated Convertible Promissory Note (the "Note") in the amount of Canadian \$5,000,000 (the "Subordinated Debt") to Phillip DeZwirek, the Chairman and CEO of the Company. On August 14, 2008, the Company refinanced the Note. The Company repaid all outstanding principal and unpaid interest under the Note and cancelled the Note. On August 14, 2008, the Company issued a new Subordinated Convertible Promissory Note (the "Subdebt Note") in the amount of Canadian \$5,000,000 (the "Subordinated Debt") to Icarus Investment Corp., a Canadian company which is controlled by Phillip DeZwirek and Jason DeZwirek, the Secretary and a Director of the Company. The Canadian \$5,000,000 proceeds received by the Company were used to repay the Note. The Subdebt Note provides for interest to accrue at the rate of 10% per annum in 2008, 11% per annum in 2009, and 12% per annum commencing January 1, 2010 until paid. Since it is our intention to pay off the Note as quickly as possible, we are accruing interest at the rate of 10% per annum. Interest payments are payable semi-annually subject to the Subordination Agreement with Fifth Third Bank. The holder of the Note may convert at any time the outstanding principal and accrued and unpaid interest there under into common stock of the Company at a per share price of \$4.75, a price greater than the closing consolidated bid price immediately preceding the issuance of the Note. The Note's maturity date is the earlier of July 31, 2010 or six (6) months after repayment of the Bank Facility. The Note also matures in the event of a merger or reorganization of the Company that results in a change of control, upon the sale of 50% of the assets of the Company, or any sale of any division of the Company in excess of \$5 million. To the extent that the Company completes an equity financing in excess of \$10 million, 25% of the amounts in excess of the \$10 million are required to be used to repay the Subordinated Debt, provided that the Company is not in default under the Bank Facility.

Overview of Cash Flows and Liquidity

(\$'s in thousands)	For the nine months ended September 30,	
	2008	2007
Net cash provided by operating activities	\$ 1,070	\$ 5,010
Net cash used in investing activities	(25,124)	(8,142)
Net cash provided by financing activities	23,817	3,419
Net (decrease) increase	\$ (237)	\$ 287

Cash provided by operating activities was \$1.1 million in 2008 compared to cash provided in 2007 of \$5.0 million. Cash provided by operating activities for the first nine months of 2008 was the result of net income of \$1.7 million plus non-cash charges for depreciation and amortization of \$2.2 million, non cash charges for stock based compensation of \$0.8 million, a decrease in accounts

receivable of \$14.3 million and a decrease in prepaid expenses of \$0.9 million offset by decreases in accounts

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payable and accrued expenses of \$14.4 million, an increase in costs and estimated earnings in excess of billings of \$2.6 million, an increase in inventory of \$1.0 million and an increase in deferred charges and other assets of \$0.6 million. Other changes in working capital items used cash of \$0.2 million. Our net investment in working capital (excluding cash and cash equivalents and current portion of debt) at September 30, 2008 and December 31, 2007 was \$25.7 million and \$20.8 million, respectively.

Net cash used in investing activities related to capital expenditures for property and equipment of \$1.6 million compared with \$1.2 million for the same period in 2007 and new business acquisitions of \$23.5 million for the first nine months of 2008 compared with \$7.0 for 2007. We are managing our capital expenditure spending in light of the current level of sales. Additionally, capital expenditures may be incurred depending on the ultimate disposition of our Cincinnati property.

Financing activities provided cash of \$23.8 million during the first nine months of 2008 compared with cash provided of \$3.4 million during the same period of 2007. The 2008 cash flows consisted primarily of additional borrowing on the credit facility of \$14.6 million, new term debt of \$5.0 million and new subordinated debt of \$4.8 million offset by term debt repayments of \$600,000.

**Forward-Looking Statements**

This Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding industry prospects or future results of operations or financial position made in this Form 10-Q are forward-looking. We use words such as "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project," "should," and similar expressions to identify forward-looking statements. Forward-looking statements are based on management's current expectations of our near-term results, based on current information available pertaining to us and are inherently uncertain. We caution investors that any forward-looking statements made by or on our behalf are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited to: our dependence on fixed price contracts and the risks associated therewith, including actual costs exceeding our estimates and our method of accounting for contract revenue; our history of losses and possibility of further losses; fluctuations in operating results from period to period due to seasonality of our business; the effect of growth on our infrastructure, resources, and existing sales; our ability to expand our operations in both new and existing markets; the potential for contract delay or cancellation; the potential for fluctuations in prices for manufactured components and raw materials; our ability to raise capital and the availability of capital resources; our ability to fully utilize and retain executives; the impact of federal, state, or local government regulations; labor shortages or increases in labor costs; economic and political conditions generally; and the effect of competition in the air pollution control and industrial ventilation industry.

We caution investors that other factors might, in the future, prove to be important in affecting our results of operations. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Investors are further cautioned not to place undue reliance on such forward-looking statements as they speak only to our views as of the date the statement is made. We undertake no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events or otherwise.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

**Risk Management Activities**

In the normal course of business, we are exposed to market risk including changes in interest and raw material commodity prices. We may use derivative instruments to manage our interest rate exposures. We do not use derivative instruments for speculative or trading purposes. Generally, we enter into hedging relationships such that changes in the fair values of cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives.

**Interest Rate Management**

We may use interest rate swap contracts to adjust the proportion of our total debt that is subject to variable interest rates. The Company has not entered into any interest rate swap contracts as of September 30, 2008.

The remaining amount of loans outstanding under the Bank Facility bear interest at the floating rates as described in Note 8.

**Raw Materials**

The profitability of our manufactured products is affected by changing purchase prices of steel and other materials. If higher steel or other material prices cannot be passed on to our customers, operating income will be adversely affected.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### *Evaluation of Disclosure Controls and Procedures*

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on this evaluation, such officers have concluded that these controls and procedures are not effective as of the end of the period covered by this quarterly report on Form 10-Q in ensuring that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely discussions regarding required disclosure. This conclusion was based on the existence of the material weaknesses in our Financial Close and Reporting Process, Information Technology Applications and Infrastructure, Segregation of Duties, and Entity-level Controls as further disclosed in Item 9A ("Management's Annual Report on Internal Control Over Financial Reporting") in the Company's annual report on Form 10-K for the year ended December 31, 2007 (the "2007 Form 10-K"). A more complete description of these material weaknesses can be found in Item 9A of the 2007 Form 10-K.

The Company is in the process of developing and implementing a remediation plan to address the material weaknesses described above. The Company has taken the following actions to improve internal control over financial reporting:

- Since December 31, 2007, the Finance division has been strengthened by the addition of an Assistant Controller in the Financial Analysis and General Accounting areas. The Company plans to continue to enhance the staffing and competency level within the Finance division.
- We have engaged four third party professionals to advise the Company in connection with (1) the remediation of existing deficiencies including the conversion to a new information technology enterprise management system, (2) SEC related activities including accounting guidance and periodic reporting, (3) all tax related activities and (4) valuation of goodwill and intangibles.

In addition, the following are specific remedial actions to be taken for matters related to accounting for significant or non-routine transactions:

- Require all significant or non-routine transactions to be thoroughly researched, analyzed, and documented by qualified accounting personnel. In addition, all major transactions will require the additional review and approval of the Chief Financial Officer.

- In addition to the review performed by the Company's management, implement an additional review by subject matter experts for complex accounting estimates and accounting treatments, where appropriate.
- Develop and implement focused monitoring controls and other procedures in the Internal Audit organization.
- Develop and implement written policies and procedures governing the financial close and reporting process.
- Develop and implement effective communications of and education on a control framework and effectively communicate management's expectations for controls, and business process owners' accountability for controls.
- The Company has purchased and is in the process of implementing an integrated software system which includes industry standard and current best practice inherent controls. The new system is expected to address and remediate deficiencies including segregation of duties, security (through access restriction limited to job responsibilities), change control procedures, and reduced use of spreadsheets in preparing financials.

We anticipate the actions described above and resulting improvements in controls will strengthen our internal control over financial reporting including our disclosure controls and procedures and will, over time, address the identified material weaknesses. However, because the remedial actions relate to the hiring of additional personnel and many of the controls in our system of internal controls rely extensively on manual review and approval, the successful operation of these new controls for at least several quarters may be required prior to management being able to conclude that the material weaknesses have been remediated.

The Company is committed to continuing to improve its internal control processes and will continue to review its disclosure controls and procedures and internal control over financial reporting. As management continues to evaluate and work to improve the Company's controls, additional control deficiencies may be identified. Further, management may determine to take additional measures to address control deficiencies.

Other than as described above, there have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CECO ENVIRONMENTAL CORP.

PART II -OTHER INFORMATION

ITEM 6. EXHIBITS

- 2.1 Stock Purchase Agreement dated August 1, 2008 among CECO Environmental Corp., 9199-3626 Quebec Inc., Michael dos Santos, The Dos Santos Family Trust, Thierry Allegrucci, The Allegrucci Family Trust, Francois Rouviere and Antandamy Investments Inc. (Incorporated by reference from Exhibit 2.1 of the Company's Current Report on Form 8-K filed on August 4, 2008.)
- 2.2 Asset Purchase Agreement dated as of August 1, 2008 by and among Fisher-Klosterman, Inc., Shideler, Inc. (f/k/a A.V.C. Specialists, Inc.), and Thomas J. Shideler and Barbara Shideler (Incorporated by reference from Exhibit 2.2 of the Company's Current Report on Form 8-K filed on August 4, 2008.)
- 10.1 Fourth Amendment to Credit Agreement dated August 1, 2008 (Incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 4, 2008.)
- 10.2 Subordinated Convertible Promissory Note of CECO Environmental Corp. in the principal amount of Canadian \$5,000,000 dated as of July 31, 2008 in favor of Phillip DeZwirek (repaid August 14, 2008)
- 10.3 Subordinated Convertible Promissory Note of CECO Environmental Corp. in the principal amount of Canadian \$5,000,000 dated as of August 14, 2008 in favor of Icarus Investment Corp., an Ontario corporation
- 10.4 Security Agreement dated as of August 14, 2008 by the Company and its United States subsidiaries in favor of Icarus Investment Corp., an Ontario corporation
- 10.5 Registration Rights Agreement dated as of August 14, 2008 between CECO Environmental Corp. and Icarus Investment Corp., an Ontario corporation
- 31.1 Rule 13(a)/15d-14(a) Certification by Chief Executive Officer
- 31.2 Rule 13(a)/15d-14(a) Certification by Chief Financial Officer
- 32.1 Certification of Chief Executive Officer (18 U.S. Section 1350)
- 32.2 Certification of Chief Financial Officer (18 U.S. Section 1350)

CECO ENVIRONMENTAL CORP.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CECO ENVIRONMENTAL CORP.

/s/ Dennis W. Blazer

Dennis W. Blazer

V.P. - Finance and Administration  
and Chief Financial Officer

Date: November 10, 2008

NEITHER THIS NOTE NOR ANY SECURITIES WHICH MAY BE ISSUED UPON THE EXERCISE OF CONVERSION RIGHTSHEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR OTHERWISE QUALIFIED UNDER ANY STATE SECURITIES LAW. NEITHER THIS NOTE NOR ANY SUCH SECURITIES MAY BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT AND REGISTRATION OR OTHER QUALIFICATION UNDER ANY APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION OR OTHER QUALIFICATION IS NOT REQUIRED.

**Notwithstanding anything herein to the contrary, (i) the obligations evidenced by this Subordinated Convertible Promissory Note are subordinated to the prior payment in full of the Senior Obligations (as defined in the Subordination Agreement hereinafter referred to) pursuant to, and to the extent provided in the Subordination Agreement, dated as of July 31, 2008 (as amended, restated, supplemented or modified from time to time, the “Subordination Agreement”) in favor of Fifth Third Bank (together with its successors and assigns, and the other holders, if any, of the Senior Obligations identified therein or contemplated thereby, the “Senior Lender”) and (ii) the rights of the holder of this Note hereunder are subject to the limitations and provisions of the Subordination Agreement. In the event of any conflict between the terms of the Subordination Agreement and the terms of this Subordinated Convertible Promissory Note, the terms of the Subordination Agreement shall govern.**

**CECO Environmental Corp.**

**SUBORDINATED CONVERTIBLE  
PROMISSORY NOTE**

Canadian \$5,000,000

July 31, 2008

FOR VALUE RECEIVED, the undersigned, CECO Environmental Corp. (the “Company”), a Delaware corporation, hereby promises to pay to the order of Phillip DeZwirek or registered assigns (“Holder”), the principal sum of FIVE MILLION DOLLARS (\$5,000,000) (or such lesser amounts as may be outstanding from time to time under this Note) on the Maturity Date, as defined in Section 1 below. Unless otherwise set forth herein, all references to \$ means Canadian dollars.

1. Maturity. This Note shall be due and payable upon the earlier to occur of the following events (the “Maturity Date”): (i) July 31, 2010; (ii) six (6) months after repayment of the Superior Debt (as defined in Section 8 below); or (iii) the closing (any such closing referred to as the “Closing”) of a Sale Transaction. For purposes of this Note, a Sale Transaction shall mean (i) a merger, consolidation, corporate reorganization, or sale of shares of stock of the Company as a result of which there is a change in control

and/or the shareholders of the Company on the date hereof (“Current Shareholders”) own 50% or less of the outstanding shares of the Company on a fully-diluted basis immediately after the transaction and, including as outstanding for purposes of such calculation, any warrants, options or other instruments convertible or exchangeable into equity securities of the Company issued to persons other than the Current Shareholders in connection with the transaction or (ii) the sale of (A) fifty percent or more of the assets of the Company or (B) any subsidiary, division or line of business of the Company for total consideration in excess of USD \$5 million.

2. Interest. Interest shall accrue on the unpaid principal balance hereof and on any interest payment that is not made when due at the simple compounded rate of (i) ten percent (10%) per annum from the date hereof through and including December 31, 2008, (ii) eleven percent (11%) per annum from January 1, 2009 through and including December 31, 2009, and (iii) twelve percent (12%) per annum (each such interest rate then in effect a “Base Rate”) from January 1, 2010 until the principal amount of this Note is paid in full. Accrued interest shall be due and payable on June 30 and December 31 of each year with a final payment of accrued and unpaid interest due and payable on the Maturity Date. It shall not be a default hereunder and interest will not accrue on any portion of such interest payments deferred pursuant to the Subordination Agreement (“Deferred Interest”) so long as the Deferred Interest is paid at the time and in the manner allowed by the Subordination Agreement. In the Event of Default (as defined herein) interest shall accrue on all unpaid amounts due hereunder, including without limitation interest, at the rate of the Base Rate plus three percent (3%). If a judgment is entered against Lender on this Note, the amount of the judgment so entered shall bear interest at the highest rate authorized by law as of the date of the entry of the judgment.

3. Payments. Payments of both principal and interest shall be made at the principal executive office of the Company, or such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

So long as no Event of Default has occurred in this Note, all payments hereunder shall first be applied to interest, then to principal. Upon the occurrence of an Event of Default in this Note, all payments hereunder shall first be applied to costs pursuant to Section 14.5, then to interest and the remainder to principal.

4. Registration, Transfer and Exchange of Notes. The Company will keep at its principal office a register in which it will provide for the registration of and transfer of this Note, at its own expense (excluding transfer taxes). If this Note is surrendered at said office or at the place of payment named in this Note for registration of transfer or exchange (accompanied in the case of registration of transfer or exchange by a written instrument of transfer in form satisfactory to the Company duly executed by or on behalf of the holder), the Company, at its expense, will deliver in exchange one or more new notes in denominations of \$10,000 or larger multiples of \$1,000, as requested by the holder for the aggregate unpaid principal amount. Any note or notes issued in a transfer or exchange shall carry the same rights to increase notes surrendered. The Holder agrees that prior to making any sale, transfer, pledge, assignment, hypothecation, or other disposition (each, a “Transfer”) of this Note, the Holder shall give written notice to the Company

describing the manner in which any such proposed Transfer is to be made and providing such additional information and documentation regarding the Transfer as the Company reasonably requests. If the Company so requests, the Holder shall at his expense provide the Company with an opinion of counsel (which counsel must be reasonably satisfactory to the Company), in form and substance satisfactory to the Company, that the proposed Transfer complies with applicable federal and state securities laws. The Company shall have no obligation to Transfer this Note unless the Holder thereof has complied with the foregoing provisions, and any such attempted Transfer shall be null and void.

5. Registered Owner. Prior to due presentation for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of, and interest on, such Note and for all other purposes.

6. Conversion.

Holder shall have the following conversion rights:

(a) Subject to the terms and conditions of this Note, Holder shall have the right, at Holder's option, to convert the outstanding principal amount of this Note and/or accrued and unpaid interest or any portion thereof into shares of common stock, \$.01 par value (the "Common Stock"), of the Company, at a price per share equal to USD \$5.83, or in case an adjustment in such price has taken place pursuant to the provisions of this Note, then at the price as last adjusted (such price or adjusted price being referred to herein as the "Conversion Price"). Such rights of conversion shall be exercised by Holder by giving written notice that Holder elects to convert the stated portion of the principal amount of and/or accrued and unpaid interest on this Note into Common Stock and by surrender of this Note accompanied by a written instrument of transfer duly executed by Holder to the Company, at the Company's principal office (or such other office or agency of the Company as the Company may designate by notice in writing to Holder) at any time during its usual business hours. For convenience, the conversion of any portion of the principal of or accrued interest on this Note into Common Stock is hereinafter sometimes referred to as the "conversion" of this Note. Holder may exercise this conversion right at any time and from time to time on and after the date of its receipt of this Note. The exchange rate for conversion shall be determined using the noon buying rate of the Federal Reserve Bank of New York as of the date immediately preceding the date of conversion, or if not available, as listed in the Wall Street Journal for the day immediately preceding the date of conversion or, if determining the exchange rate using such other method is appropriate or required under Securities and Exchange Commission or Nasdaq laws, rules or regulations, then such method shall be used.

(b) Promptly after the receipt of the written notice referred to above and surrender of this Note for conversion, the Company shall issue and deliver, or cause to be issued and delivered, a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion. Such conversion shall be deemed to have been effected and the Conversion Price shall be the

Conversion Price as of the close of business on the date on which such written notice shall have been received by the Company and this Note shall have been surrendered for conversion as aforesaid, and at such time the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become at such time the holder or holders of record of the shares represented thereby. In the event that only a portion of this Note is converted, the Company shall execute and deliver to Holder, at the expense of the Company, a new Note, in the same form as this Note, in principal amount and accrued interest equal to the unconverted portion of this Note.

(c) No fractional shares shall be issued upon conversion into Common Stock and no payment or adjustment shall be made upon any conversion on account of any cash dividends (having a record date prior to the effective date of conversion) on the Common Stock issued upon such conversion. If any fractional share of Common Stock would, except for the provisions of the first sentence of this paragraph (c), be delivered upon such conversion, the Company, in lieu of delivering such fractional share, shall pay to Holder, subject to the Subordination Agreement (as defined in Section 8), an amount in cash equal to the fraction represented by such share multiplied by the closing price of the Common Stock on the conversion date.

(d) Whenever the Company shall (i) declare or pay a dividend or make a distribution on shares of Common Stock in shares of Common Stock or in any other shares of capital stock of the Company or in other securities of the Company (ii) subdivide, split or reclassify the outstanding shares of Common Stock into a greater number of shares of Common Stock or (iii) combine or reclassify the outstanding shares of Common Stock into a smaller number of shares of Common Stock, the Conversion Price in effect at the time of the record date for such dividend or distribution or on the effective date of such subdivision, split, combination or reclassification, shall be proportionately adjusted so that Holder shall upon conversion into shares of Common Stock after such time, be entitled to receive the number of shares of Common Stock or other securities of the Company which Holder would have been entitled to receive immediately after such time had this Note been converted into shares of Common Stock immediately prior to such time. Such adjustment shall be made successively each time any event described in this paragraph (d) shall occur.

(e) In case of any reclassification, capital reorganization or change by the Company of the outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision, combination or reclassification of the outstanding shares of Common Stock into a greater or lesser number of shares of Common Stock (which is treated in paragraph (d) above), but including any change of such shares into one or more other classes or series of shares of capital stock), or in case of any consolidation of the Company with, or merger of the Company with or into, another person (other than a consolidation or merger in which the Company is the continuing entity and which does not result in any reclassification or change of the Company' outstanding shares), or in case of any sale or other conveyance to another person of the property of the Company as an entirety or substantially as an entirety, the Company or such successor or purchasing person shall provide, as a

condition to such transaction, that Holder shall acquire, upon conversion of, or in exchange for, this Note the kind and amount of shares and other securities and property (including cash and evidences of indebtedness) which would have been received by Holder upon such reclassification, reorganization, change, consolidation, merger, or sale or conveyance of assets if Holder had converted this Note into shares of Common Stock immediately prior thereto. Such other person, which shall thereafter be deemed to be the Company for purposes of this paragraph (e), shall provide for similar future adjustments as nearly equivalent as may be practicable to the adjustments provided herein. Such adjustment shall be made successively each time any event described above in this paragraph (e) shall occur.

(f) In the event the Company at any time after the date of the original issuance of this Note shall distribute shares of stock or other securities of other persons, evidences of indebtedness issued by the Company or other property (other than cash) to the holders of its Common Stock by way of dividend or otherwise, in either case other than in connection with a capital reorganization, consolidation, merger or sale or other conveyance of all or substantially all of the Company's assets (each of which transactions is provided for in paragraph (e) above), then, in each such case, Holder, upon conversion of this Note into shares of Common Stock as provided hereby, shall be entitled to receive, and the Company shall reserve for issuance to Holder upon such conversion, the shares of stock or other securities, evidences of indebtedness, or other property which it would have been entitled to receive if it had so converted and become the holder of record of the shares of Common Stock issued upon such conversion immediately prior to the record date fixed for the determination of the stockholders entitled to receive such dividend or distribution. The foregoing adjustments shall be made successively whenever any event listed above in this paragraph (f) shall occur.

(g) Upon the occurrence of any event requiring an adjustment of the Conversion Price, then and in each such case the Company shall give prompt written notice thereof to Holder, which notice shall state the Conversion Price resulting from such adjustment, setting forth in reasonable detail the method upon which such calculation is based and stating that such adjustment calculation has been reviewed and approved by the Company's independent certified public accountants.

(h) In case at any time:

(i) the Company shall declare any dividend upon its Common Stock payable in cash, stock, property or any security (whether of the Company or otherwise) or make any other distribution to the holders of its Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization or reclassification of the capital stock of the Company, or a consolidation or merger of the Company with or into, or a sale of all or substantially all its assets to, another entity or entities; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give (A) at least 10 days prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up and (B) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, or at least 10 days prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing clause (A) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Common Stock shall be entitled thereto and such notice in accordance with the foregoing clause (B) shall also specify the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, as the case may be.

(i) The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock solely for the purpose of issuance upon the conversion of this Note, as provided in this Note, free from any pre-emptive rights (if any), such number of shares of Common Stock as shall then be issuable upon the conversion of this Note. The Company covenants that all shares of Common Stock which shall be so issued shall be duly and validly issued and fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof, and, without limiting the generality of the foregoing, the Company covenants that it shall from time to time take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the Conversion Price in effect at the time. The Company shall not take any action which results in any adjustment of the Conversion Price if the total number of shares of Common Stock which have been issued at or prior to the time such action was taken and those which are issuable after such action upon conversion of this Note and exercise of all options and conversion of all convertible securities of the Company would exceed the total number of shares of Common Stock authorized by the Company's Certificate of Incorporation.

(j) The issuance to the Holder of certificates for shares of Common Stock upon conversion of this Note shall be made without charge to the holder for any issuance, stock transfer or documentary stamp tax in respect thereof. All such certificates shall bear a legend stating that the shares represented by such certificates have not been registered under the U.S. Securities Act of 1933, as amended, or applicable state or provincial law and such other legends as are customary for unregistered securities.

(k) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least one percent in such price; provided, however, that any such adjustment which is not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(l) The Holder has been granted registration rights with respect to the shares of Common Stock issuable upon conversion of this Note as more fully set forth in a Registration Rights Agreement dated the date hereof.

## 7. Prepayment.

7.1 Optional Prepayment. Subject to the Subordination Agreement, the Company, at its option and without any premium, may prepay in whole or in part the principal amount of this Note at 100% of the face value of this Note at any time; provided, however that the Company shall give Holder not less than 10 days written notice prior to any pre-payment of this Note, including without limitation repayments pursuant to Section 9 (the "Prepayment Notice"). The Prepayment Notice shall specify the date upon ("Prepayment Date") and the place at which, payment may be obtained and shall call upon the Holder to surrender this Note to the Company in the manner and at the place designated. On the Prepayment Date, the Holder shall surrender this Note to the Company in the manner and at the place designated in the Prepayment Notice, and thereupon prepayment shall be made to Holder and this Note shall be cancelled. In the event that less than all the principal amount of this Note is prepaid, upon surrender of this Note to the Company, the Company shall execute and deliver to Holder a new note or notes in principal amount equal to the unpaid principal amount of this Note. The Company shall, at the time of any such prepayment, pay to the holder of this Note all interest accrued and unpaid to the Prepayment Date. Notwithstanding the foregoing, once a notice of the Closing of a Sale Transaction pursuant to Section 14.4 has been sent to the Holder, the Company may not prepay this Note prior to the Closing of a Sale Transaction, or until the Sale Transaction has been formally abandoned without the consent of Holder. The parties acknowledge that Holder may effect Holder's conversion rights under Section 6 prior to any such Prepayment Date, notwithstanding receipt of a Prepayment Notice.

7.2 Cessation of Rights. From and after the Prepayment Date, unless there has been a default under the Prepayment Notice, all interest on the redeemed principal amount shall cease to accrue and all rights of Holder as a Holder of this Note shall cease with respect to the principal amount prepaid and, with respect to such amount, this Note thereafter shall not be deemed to be outstanding for any purpose whatsoever. By acceptance of this Note, Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company in order to implement the foregoing provisions of this Section.

7.3 Mandatory Prepayment. Commencing August 4, 2008, the Holder shall have the option for ninety (90) days (the "Option Period") to cause the Company to repay this Note in full subject to the Subordination Agreement, provided that (i) a third party, which third party may be an affiliate of Holder (a "Refinancing Party") pays the Company the amount then outstanding under this Note in full, provided that, subject to the Subordination Agreement, the Company may repay Holder the amount of the then accrued and unpaid interest in connection with a repayment under this Section 7.3, in which event the Refinancing Party shall pay the Company the outstanding principal amount then owed under this Note, (ii) the Refinancing Party enters into a subordination agreement, security agreement, and subordinated note substantially in the form of the Subordination Agreement, Security Agreement and this Note, provided that the conversion price will be adjusted so that it is equal to the closing consolidated bid price of the common stock of the Company as listed on the NASDAQ stock exchange, immediately prior to the issuance of the new note, in accordance with NASDAQ rules and regulations, or such greater price as the Refinancing Party and the Company mutually agree, and (iii) the Company does not incur any additional indebtedness in connection with the issuance of the note to the Refinancing Party, other than the amount of any interest that may have accrued under this Note prior to repayment. If the Holder provides the Company written notice of his election to exercise the option right under this Section within the Option Period, the Company shall use its commercially reasonable efforts to repay this Note as soon as practicable following receipt of such notice, subject to the Refinancing Party's cooperation.

8. Subordination. The indebtedness evidenced by this Note shall at all times be wholly subordinate and junior in right of payment to all indebtedness, liabilities, and obligations of the Company and the Subsidiaries (as defined below), existing or in the future incurred, under or in connection with the Credit Agreement dated December 29, 2005, as amended (the Credit Agreement, as amended, restated, supplemented or modified from time to time, the "Credit Agreement") and the other Loan Documents (as defined in the Credit Agreement) ("Superior Debt") among the Company, CECO Group Inc., CECO Filters, Inc., New Bush Co., Inc., The Kirk & Blum Manufacturing Company, kbd/Technic, Inc., CECO Aire, Inc., CECO Abatement Systems, Inc., H.M. White, Inc., Effox Inc., GMD Environmental Technologies, Inc., FKI, LLC, CECO Mexico Holdings LLC, Fisher-Klosterman, Inc. (collectively, other than the Company, the "Subsidiaries") and Fifth Third Bank (the "Senior Lender"), upon the terms and conditions contained in the Subordination Agreement, dated as of July \_\_\_\_, 2008 (as amended, restated, supplemented or modified from time to time, the "Subordination Agreement") in favor of Fifth Third Bank (together with its successors and assigns, and the other holders, if any, of the Senior Obligations identified therein).

9. Repayment of Notes. Subject to the terms of the Subordination Agreement, in the event the Company completes an equity financing or offering or a series of equity financing or offerings for a total consideration in excess of USD \$10,000,000, then twenty-five percent (25%) of all such consideration in excess of USD \$10,000,000 shall be used immediately, upon receipt by the Company, to pre-pay this Note, subject to the Subordination Agreement. The Company may also pre-pay this Note in whole or in part upon the consent of the Senior Lender.

10. Covenants of the Company. The Company covenants and agrees that it shall not, without the prior written approval of the Holder:

10.1 Obtain or incur any indebtedness or other monetary obligations that are senior to or on parity with the Note, other than the Superior Debt.

10.2 Allow, suffer or cause to exist any lien, claim, security interest or encumbrance on the Company's property or assets, other than with respect to the Superior Debt and any other Permitted Liens (as defined in the Credit Agreement).

11. Events of Default.

11.1 Occurrences of Events of Default. Each of the following events shall constitute an "Event of Default" for purposes of this Note:

(a) if the Company fails to pay any amount payable, under this Note when due;

(b) if the Company breaches any of its representations, warranties or covenants set forth in this Note and such breach is not cured within thirty (30) days of notice of such breach;

(c) the commencement of an involuntary case against the Company or any of its subsidiaries under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or the appointing of a receiver, liquidator, assignee, custodian, trustee or similar official of the Company or for any substantial part of the Company or one of its subsidiary's property, or ordering the winding-up or liquidation of the Company or one of its subsidiary's affairs;

(d) if the Company or any of its subsidiaries shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or similar official of the Company or its subsidiary or for any substantial part of the Company or one of its subsidiary's property, or shall make any general assignment for the benefit of creditors, or shall take any corporate action in furtherance of any of the foregoing; or

(e) if the Company's business shall fail, as determined in good faith by the Holder and evidenced by the Company's inability to pay its ongoing debts as such debts become due.

11.2 Acceleration Upon Event of Default. If any Event of Default shall have occurred and be continuing, for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise), the unpaid principal amount of, and the accrued interest on, this Note shall automatically become immediately due and payable, without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by the Company.

12. Investment Representations of the Holder. With respect to the purchase of this Note, the Holder hereby represents and warrants to the Company as follows:

12.1 Experience. The Holder has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests.

12.2 Investment. The Holder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof. The Holder is an "accredited investor" within the meaning of Regulation D, Section 501(a), promulgated by the Securities and Exchange Commission.

12.3 Access to Data. The Holder has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has also had an opportunity to ask questions of the Company's officers, which questions were answered to its satisfaction.

13. Security. This Promissory Note is secured by a Security Agreement (the "Security Agreement") dated the date hereof among Holder and the Company and the Subsidiaries. This Promissory Note, the Security Agreement and any and all other agreements presently existing or hereafter entered into which evidence and/or secure any indebtedness from the Company to Holder in connection with this Note or the Security Agreement, other than (i) that certain Registration Rights Agreement between Holder and the Company dated the date hereof and (ii) any equity or equity related rights (including obligations pertaining to any conversion rights) under the Note, shall hereinafter be collectively referred to as the "Loan Documents." The terms, covenants, conditions, provisions, stipulations and agreements of the Loan Documents are hereby made a part of this Note, to the same extent and with the same effect as if they were fully set forth herein. The Company does hereby covenant to abide by and comply with each and every term, covenant, condition, provision, stipulation and agreement set forth in the Loan Documents.

14. Miscellaneous.

14.1 Invalidity of Any Provision. If any provision or part of any provision of this Note shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Note and this Note shall be construed as if such invalid, illegal or unenforceable provisions or part hereof had never been contained herein, but only to the extent of its invalidity, illegality or unenforceability.

14.2 Governing Law. The Note shall be governed in all respects by the laws of the State of Delaware, excluding its conflict of laws.

14.3 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given (i) on the date of delivery if delivered personally, (ii) one (1) business day after transmission by facsimile transmission with a written confirmation copy sent by first class mail, or (iii) five (5) days after mailing if mailed by first class mail, to the following addresses:

If to the Company:   CECO Environmental Corp.  
                              3120 Forrer Street  
                              Cincinnati, Ohio 45209  
                              Attention: Dennis W. Blazer

And if to the Holder, to the address or facsimile number of Holder as set forth on the Company's records, or such other address as the Holder has provided to the Company by notice duly given.

14.4 Notice of a Sale Transaction. The Company shall give the Holder of this Note notice of the Closing of a Sale Transaction at least thirty (30) days prior to such Closing.

14.5 Collection. If the indebtedness represented by this Note or any part thereof is collected at law or in equity or in bankruptcy, receivership or other judicial proceedings or if this Note is placed in the hands of attorneys for collection after the occurrence of an Event of Default, the Company agrees to pay, in addition to the outstanding principal and accrued interest payable hereon, reasonable attorneys' fees and costs incurred by the Holder, or on behalf of the Holder by a representative of the Holder.

14.6 Successors and Assigns. The rights and obligations of the Company and the Holder shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

14.7 Waivers. The Company and any endorsers, sureties, guarantors, and all others who are, or may become liable for the payment hereof severally: (a) waive presentment for payment, demand, notice of demand, notice of nonpayment or dishonor, protest and notice of protest of this Note, and all other notices in connection with the delivery, acceptance, performance, default, or enforcement of the payment of this Note, (b) consent to all extensions of time, renewals, postponements of time of payment of this Note or other modifications hereof from time to time prior to or after the maturity date hereof, whether by acceleration or in due course, without notice, consent or consideration to any of the foregoing, (c) agree to any substitution, exchange, addition, or release of any of the security for the indebtedness evidenced by this Note or the addition or release of any party or person primarily or secondarily liable hereon, (d) agree that Holder shall not be required first to institute any suit, or to exhaust its remedies against the Company or any other person or party to become liable hereunder or against the security in order to enforce the payment of this Note and (e) agree that, notwithstanding the occurrence of any of the foregoing (except by the express written release by Holder of any such person), the Company shall be and remain, directly and primarily liable for all sums due under this Note.

14.8 Time. Time is of the essence in this Note.

14.9 Captions. The captions of sections of this Note are for convenient reference only, and shall not affect the construction or interpretation of any of the terms and provisions set forth in this Note.

13.10 Number and Gender. Whenever used in this Note, the singular number shall include the plural, and the masculine shall include the feminine and the neuter, and *vice versa*.

14.11 Remedies. All remedies of the Holder shall be cumulative and concurrent and may be pursued singly, successively, or together at the sole discretion of the Holder and may be exercised as often as occasion therefor shall arise. No act of omission or commission of the Holder, including specifically any failure to exercise any right, remedy or recourse shall be effective unless it is set forth in a written document executed by the Holder and then only to the extent specifically recited therein. A waiver or release with reference to one event shall not be construed as continuing as a bar to or as a waiver or release of any subsequent right, remedy, or recourse as to any subsequent event.

14.12 No Waiver by Holder. The acceptance by Holder of any payment under this Note which is less than the amount then due or the acceptance of any amount after the due date thereof, shall not be deemed a waiver of any right or remedy available to Holder nor nullify the prior exercise of any such right or remedy by Holder. None of the terms or provisions of this Note may be waived, altered, modified or amended except by a written document executed by Holder and then only to the extent specifically recited therein. No course of dealing or conduct shall be effective waive, alter, modify or amend any of the terms or provisions

hereof. The failure or delay to exercise any right or remedy available to Holder shall not constitute a waiver of the right of the Holder to exercise the same or any other right or remedy available to Holder at that time or at any subsequent time.

14.13 Submission to Jurisdiction. BORROWER, AND ANY ENDORSERS, SURETIES, GUARANTORS AND ALL OTHERS WHO ARE, OR WHO MAY BECOME, LIABLE FOR THE PAYMENT HEREOF SEVERALLY, IRREVOCABLY AND UNCONDITIONALLY (A) AGREE THAT ANY SUIT, ACTION, OR OTHER LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS NOTE OR ANY OTHER AGREEMENT, DOCUMENT OR INSTRUMENT DELIVERED PURSUANT TO, OR IN CONNECTION WITH THIS NOTE SHALL BE BROUGHT AND MAINTAINED IN THE COURTS IN AND FOR HAMILTON COUNTY, OHIO, OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF OHIO; (B) CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH SUIT, ACTION OR PROCEEDING; AND (C) WAIVE ANY OBJECTION WHICH IT OR THEY MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH SUIT, ACTION, OR PROCEEDING IN ANY OF SUCH COURTS.

14.14 Waiver of Trial by Jury. HOLDER AND BORROWER HEREBY KNOWINGLY, IRREVOCABLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT EITHER MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY ACTION, PROCEEDING OR COUNTERCLAIM BASED ON THIS NOTE, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION THEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR HOLDER TO MAKE THE LOAN EVIDENCED BY THIS NOTE.

[signature page follows]

CECO ENVIRONMENTAL CORP.

By: /s/ Dennis W. Blazer

\_\_\_\_\_  
Dennis W. Blazer  
Vice President – Finance and Administration and  
Chief Financial Officer

Phillip DeZwirek

/s/ Phillip DeZwirek

NEITHER THIS NOTE NOR ANY SECURITIES WHICH MAY BE ISSUED UPON THE EXERCISE OF CONVERSION RIGHTSHEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR OTHERWISE QUALIFIED UNDER ANY STATE SECURITIES LAW. NEITHER THIS NOTE NOR ANY SUCH SECURITIES MAY BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT AND REGISTRATION OR OTHER QUALIFICATION UNDER ANY APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION OR OTHER QUALIFICATION IS NOT REQUIRED.

**Notwithstanding anything herein to the contrary, (i) the obligations evidenced by this Subordinated Convertible Promissory Note are subordinated to the prior payment in full of the Senior Obligations (as defined in the Subordination Agreement hereinafter referred to) pursuant to, and to the extent provided in the Subordination Agreement, dated as of August 14, 2008 (as amended, restated, supplemented or modified from time to time, the “Subordination Agreement”) in favor of Fifth Third Bank (together with its successors and assigns, and the other holders, if any, of the Senior Obligations identified therein or contemplated thereby, the “Senior Lender”) and (ii) the rights of the holder of this Note hereunder are subject to the limitations and provisions of the Subordination Agreement. In the event of any conflict between the terms of the Subordination Agreement and the terms of this Subordinated Convertible Promissory Note, the terms of the Subordination Agreement shall govern.**

**CECO ENVIRONMENTAL CORP.**

**SUBORDINATED CONVERTIBLE  
PROMISSORY NOTE**

Canadian \$5,000,000

August 14, 2008

FOR VALUE RECEIVED, the undersigned, CECO ENVIRONMENTAL CORP. (the “Company”), a Delaware corporation, hereby promises to pay to the order of ICARUS INVESTMENT CORP., an Ontario corporation or registered assigns (“Holder”), the principal sum of FIVE MILLION DOLLARS (\$5,000,000) (or such lesser amounts as may be outstanding from time to time under this Note) on the Maturity Date, as defined in Section 1 below. Unless otherwise set forth herein, all references to \$ means Canadian dollars.

1. Maturity. This Note shall be due and payable upon the earlier to occur of the following events (the “Maturity Date”): (i) July 31, 2010; (ii) six (6) months after repayment of the Superior Debt (as defined in Section 8 below); or (iii) the closing (any such closing referred to as the “Closing”) of a Sale Transaction. For purposes of this Note, a Sale Transaction shall mean (i) a merger, consolidation, corporate reorganization, or sale of shares of stock of the Company as a result of which there is a change in control and/or the shareholders of the Company on the date hereof (“Current Shareholders”) own 50% or less of the outstanding shares of the Company on a fully-diluted basis immediately after the transaction and, including as outstanding for purposes of such calculation, any

warrants, options or other instruments convertible or exchangeable into equity securities of the Company issued to persons other than the Current Shareholders in connection with the transaction or (ii) the sale of (A) fifty percent or more of the assets of the Company or (B) any subsidiary, division or line of business of the Company for total consideration in excess of USD \$5 million.

2. **Interest.** Interest shall accrue on the unpaid principal balance hereof and on any interest payment that is not made when due at the simple compounded rate of (i) ten percent (10%) per annum from the date hereof through and including December 31, 2008, (ii) eleven percent (11%) per annum from January 1, 2009 through and including December 31, 2009, and (iii) twelve percent (12%) per annum (each such interest rate then in effect a "Base Rate") from January 1, 2010 until the principal amount of this Note is paid in full. Accrued interest shall be due and payable on June 30 and December 31 of each year with a final payment of accrued and unpaid interest due and payable on the Maturity Date. It shall not be a default hereunder and interest will not accrue on any portion of such interest payments deferred pursuant to the Subordination Agreement ("Deferred Interest") so long as the Deferred Interest is paid at the time and in the manner allowed by the Subordination Agreement. In the Event of Default (as defined herein) interest shall accrue on all unpaid amounts due hereunder, including without limitation interest, at the rate of the Base Rate plus three percent (3%). If a judgment is entered against Lender on this Note, the amount of the judgment so entered shall bear interest at the highest rate authorized by law as of the date of the entry of the judgment.

3. **Payments.** Payments of both principal and interest shall be made at the principal executive office of the Company, or such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

So long as no Event of Default has occurred in this Note, all payments hereunder shall first be applied to interest, then to principal. Upon the occurrence of an Event of Default in this Note, all payments hereunder shall first be applied to costs pursuant to Section 14.5, then to interest and the remainder to principal.

4. **Registration, Transfer and Exchange of Notes.** The Company will keep at its principal office a register in which it will provide for the registration of and transfer of this Note, at its own expense (excluding transfer taxes). If this Note is surrendered at said office or at the place of payment named in this Note for registration of transfer or exchange (accompanied in the case of registration of transfer or exchange by a written instrument of transfer in form satisfactory to the Company duly executed by or on behalf of the holder), the Company, at its expense, will deliver in exchange one or more new notes in denominations of \$10,000 or larger multiples of \$1,000, as requested by the holder for the aggregate unpaid principal amount. Any note or notes issued in a transfer or exchange shall carry the same rights to increase notes surrendered. The Holder agrees that prior to making any sale, transfer, pledge, assignment, hypothecation, or other disposition (each, a "Transfer") of this Note, the Holder shall give written notice to the Company describing the manner in which any such proposed Transfer is to be made and providing such additional information and documentation regarding the Transfer as the Company reasonably requests. If the Company so requests, the Holder shall at his

expense provide the Company with an opinion of counsel (which counsel must be reasonably satisfactory to the Company), in form and substance satisfactory to the Company, that the proposed Transfer complies with applicable federal and state securities laws. The Company shall have no obligation to Transfer this Note unless the Holder thereof has complied with the foregoing provisions, and any such attempted Transfer shall be null and void.

5. Registered Owner. Prior to due presentation for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of, and interest on, such Note and for all other purposes.

6. Conversion. Holder shall have the following conversion rights:

(a) Subject to the terms and conditions of this Note, Holder shall have the right, at Holder's option, to convert the outstanding principal amount of this Note and/or accrued and unpaid interest or any portion thereof into shares of common stock, \$.01 par value (the "Common Stock"), of the Company, at a price per share equal to USD \$4.75, or in case an adjustment in such price has taken place pursuant to the provisions of this Note, then at the price as last adjusted (such price or adjusted price being referred to herein as the "Conversion Price"). Such rights of conversion shall be exercised by Holder by giving written notice that Holder elects to convert the stated portion of the principal amount of and/or accrued and unpaid interest on this Note into Common Stock and by surrender of this Note accompanied by a written instrument of transfer duly executed by Holder to the Company, at the Company's principal office (or such other office or agency of the Company as the Company may designate by notice in writing to Holder) at any time during its usual business hours. For convenience, the conversion of any portion of the principal of or accrued interest on this Note into Common Stock is hereinafter sometimes referred to as the "conversion" of this Note. Holder may exercise this conversion right at any time and from time to time on and after the date of its receipt of this Note. The exchange rate for conversion shall be determined using the noon buying rate of the Federal Reserve Bank of New York as of the date immediately preceding the date of conversion, or if not available, as listed in the Wall Street Journal for the day immediately preceding the date of conversion or, if determining the exchange rate using such other method is appropriate or required under Securities and Exchange Commission or Nasdaq laws, rules or regulations, then such method shall be used.

(b) Promptly after the receipt of the written notice referred to above and surrender of this Note for conversion, the Company shall issue and deliver, or cause to be issued and delivered, a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion. Such conversion shall be deemed to have been effected and the Conversion Price shall be the Conversion Price as of the close of business on the date on which such written notice shall have been received by the Company and this Note shall have been surrendered for conversion as aforesaid, and at such time the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become at such time the holder or holders of record of the shares represented thereby. In the event that only a portion of this Note is converted, the Company shall execute and deliver to Holder, at the expense of the Company, a new Note, in the same form as this Note, in principal amount and accrued interest equal to the unconverted portion of this Note.

(c) No fractional shares shall be issued upon conversion into Common Stock and no payment or adjustment shall be made upon any conversion on account of any cash dividends (having a record date prior to the effective date of conversion) on the Common Stock issued upon such conversion. If any fractional share of Common Stock would, except for the provisions of the first sentence of this paragraph (c), be delivered upon such conversion, the Company, in lieu of delivering such fractional share, shall pay to Holder, subject to the Subordination Agreement (as defined in Section 8), an amount in cash equal to the fraction represented by such share multiplied by the closing price of the Common Stock on the conversion date.

(d) Whenever the Company shall (i) declare or pay a dividend or make a distribution on shares of Common Stock in shares of Common Stock or in any other shares of capital stock of the Company or in other securities of the Company (ii) subdivide, split or reclassify the outstanding shares of Common Stock into a greater number of shares of Common Stock or (iii) combine or reclassify the outstanding shares of Common Stock into a smaller number of shares of Common Stock, the Conversion Price in effect at the time of the record date for such dividend or distribution or on the effective date of such subdivision, split, combination or reclassification, shall be proportionately adjusted so that Holder shall upon conversion into shares of Common Stock after such time, be entitled to receive the number of shares of Common Stock or other securities of the Company which Holder would have been entitled to receive immediately after such time had this Note been converted into shares of Common Stock immediately prior to such time. Such adjustment shall be made successively each time any event described in this paragraph (d) shall occur.

(e) In case of any reclassification, capital reorganization or change by the Company of the outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision, combination or reclassification of the outstanding shares of Common Stock into a greater or lesser number of shares of Common Stock (which is treated in paragraph (d) above), but including any change of such shares into one or more other classes or series of shares of capital stock), or in case of any consolidation of the Company with, or merger of the Company with or into, another person (other than a consolidation or merger in which the Company is the continuing entity and which does not result in any reclassification or change of the Company' outstanding shares), or in case of any sale or other conveyance to another person of the property of the Company as an entirety or substantially as an entirety, the Company or such successor or purchasing person shall provide, as a condition to such transaction, that Holder shall acquire, upon conversion of, or in exchange for, this Note the kind and amount of shares and other securities and property (including cash and evidences of indebtedness) which would have been received by Holder upon such reclassification, reorganization, change, consolidation, merger, or sale or conveyance of assets if Holder had converted this Note into shares of Common Stock immediately prior thereto. Such other person, which shall thereafter be deemed to be the Company for purposes of this paragraph (e), shall provide for similar future adjustments as nearly equivalent as may be practicable to the adjustments provided herein. Such adjustment shall be made successively each time any event described above in this paragraph (e) shall occur.

(f) In the event the Company at any time after the date of the original issuance of this Note shall distribute shares of stock or other securities of other persons, evidences of indebtedness issued by the Company or other property (other than cash) to the holders of its Common Stock by way of dividend or otherwise, in either case other than in connection with a capital reorganization, consolidation, merger or sale or other conveyance of all or substantially all of the Company's assets (each of which transactions is provided for in paragraph (e) above), then, in each such case, Holder, upon conversion of this Note into shares of Common Stock as provided hereby, shall be entitled to receive, and the Company shall reserve for issuance to Holder upon such conversion, the shares of stock or other securities, evidences of indebtedness, or other property which it would have been entitled to receive if it had so converted and become the holder of record of the shares of Common Stock issued upon such conversion immediately prior to the record date fixed for the determination of the stockholders entitled to receive such dividend or distribution. The foregoing adjustments shall be made successively whenever any event listed above in this paragraph (f) shall occur.

(g) Upon the occurrence of any event requiring an adjustment of the Conversion Price, then and in each such case the Company shall give prompt written notice thereof to Holder, which notice shall state the Conversion Price resulting from such adjustment, setting forth in reasonable detail the method upon which such calculation is based and stating that such adjustment calculation has been reviewed and approved by the Company's independent certified public accountants.

(h) In case at any time:

(i) the Company shall declare any dividend upon its Common Stock payable in cash, stock, property or any security (whether of the Company or otherwise) or make any other distribution to the holders of its Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization or reclassification of the capital stock of the Company, or a consolidation or merger of the Company with or into, or a sale of all or substantially all its assets to, another entity or entities; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give (A) at least 10 days prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up and (B) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, or at least 10 days prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing clause (A) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Common

Stock shall be entitled thereto and such notice in accordance with the foregoing clause (B) shall also specify the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, as the case may be.

(i) The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock solely for the purpose of issuance upon the conversion of this Note, as provided in this Note, free from any pre-emptive rights (if any), such number of shares of Common Stock as shall then be issuable upon the conversion of this Note. The Company covenants that all shares of Common Stock which shall be so issued shall be duly and validly issued and fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof, and, without limiting the generality of the foregoing, the Company covenants that it shall from time to time take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the Conversion Price in effect at the time. The Company shall not take any action which results in any adjustment of the Conversion Price if the total number of shares of Common Stock which have been issued at or prior to the time such action was taken and those which are issuable after such action upon conversion of this Note and exercise of all options and conversion of all convertible securities of the Company would exceed the total number of shares of Common Stock authorized by the Company's Certificate of Incorporation.

(j) The issuance to the Holder of certificates for shares of Common Stock upon conversion of this Note shall be made without charge to the holder for any issuance, stock transfer or documentary stamp tax in respect thereof. All such certificates shall bear a legend stating that the shares represented by such certificates have not been registered under the U.S. Securities Act of 1933, as amended, or applicable state or provincial law and such other legends as are customary for unregistered securities.

(k) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least one percent in such price; provided, however, that any such adjustment which is not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(l) The Holder has been granted registration rights with respect to the shares of Common Stock issuable upon conversion of this Note as more fully set forth in a Registration Rights Agreement dated the date hereof.

## 7. Prepayment.

7.1 Optional Prepayment. Subject to the Subordination Agreement, the Company, at its option and without any premium, may prepay in whole or in part the principal amount of this Note at 100% of the face value of this Note at any time; provided, however that the Company shall give Holder not less than 10 days written notice prior to any pre-payment of this Note, including without limitation repayments pursuant to Section 9 (the "Prepayment Notice"). The Prepayment Notice shall specify the date upon ("Prepayment Date") and the place at which, payment may be obtained and shall call upon the Holder to surrender

this Note to the Company in the manner and at the place designated. On the Prepayment Date, the Holder shall surrender this Note to the Company in the manner and at the place designated in the Prepayment Notice, and thereupon prepayment shall be made to Holder and this Note shall be cancelled. In the event that less than all the principal amount of this Note is prepaid, upon surrender of this Note to the Company, the Company shall execute and deliver to Holder a new note or notes in principal amount equal to the unpaid principal amount of this Note. The Company shall, at the time of any such prepayment, pay to the holder of this Note all interest accrued and unpaid to the Prepayment Date. Notwithstanding the foregoing, once a notice of the Closing of a Sale Transaction pursuant to Section 14.4 has been sent to the Holder, the Company may not prepay this Note prior to the Closing of a Sale Transaction, or until the Sale Transaction has been formally abandoned without the consent of Holder. The parties acknowledge that Holder may effect Holder's conversion rights under Section 6 prior to any such Prepayment Date, notwithstanding receipt of a Prepayment Notice.

7.2 Cessation of Rights. From and after the Prepayment Date, unless there has been a default under the Prepayment Notice, all interest on the redeemed principal amount shall cease to accrue and all rights of Holder as a Holder of this Note shall cease with respect to the principal amount prepaid and, with respect to such amount, this Note thereafter shall not be deemed to be outstanding for any purpose whatsoever. By acceptance of this Note, Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company in order to implement the foregoing provisions of this Section.

8. Subordination. The indebtedness evidenced by this Note shall at all times be wholly subordinate and junior in right of payment to all indebtedness, liabilities, and obligations of the Company and the Subsidiaries (as defined below), existing or in the future incurred, under or in connection with the Credit Agreement dated December 29, 2005, as amended (the Credit Agreement, as amended, restated, supplemented or modified from time to time, the "Credit Agreement") and the other Loan Documents (as defined in the Credit Agreement) ("Superior Debt") among the Company, CECO Group Inc., CECO Filters, Inc., New Bush Co., Inc., The Kirk & Blum Manufacturing Company, kbd/Technic, Inc., CECO Aire, Inc., CECO Abatement Systems, Inc., H.M. White, Inc., Effox Inc., GMD Environmental Technologies, Inc., FKI, LLC, CECO Mexico Holdings LLC, Fisher-Klosterman, Inc. (collectively, other than the Company, the "Subsidiaries") and Fifth Third Bank (the "Senior Lender"), upon the terms and conditions contained in the Subordination Agreement, dated as of August 14, 2008 (as amended, restated, supplemented or modified from time to time, the "Subordination Agreement") in favor of Fifth Third Bank (together with its successors and assigns, and the other holders, if any, of the Senior Obligations identified therein).

9. Repayment of Notes. Subject to the terms of the Subordination Agreement, in the event the Company completes an equity financing or offering or a series of equity financing or offerings for a total consideration in excess of USD \$10,000,000, then twenty-five percent (25%) of all such consideration in excess of USD \$10,000,000 shall be used immediately, upon receipt by the Company, to pre-pay this Note, subject to the Subordination Agreement. The Company may also pre-pay this Note in whole or in part upon the consent of the Senior Lender.

10. Covenants of the Company. The Company covenants and agrees that it shall not, without the prior written approval of the Holder:

10.1 Obtain or incur any indebtedness or other monetary obligations that are senior to or on parity with the Note, other than the Superior Debt.

10.2 Allow, suffer or cause to exist any lien, claim, security interest or encumbrance on the Company's property or assets, other than with respect to the Superior Debt and any other Permitted Liens (as defined in the Credit Agreement).

11. Events of Default.

11.1 Occurrences of Events of Default. Each of the following events shall constitute an "Event of Default" for purposes of this Note:

(a) if the Company fails to pay any amount payable, under this Note when due;

(b) if the Company breaches any of its representations, warranties or covenants set forth in this Note and such breach is not cured within thirty (30) days of notice of such breach;

(c) the commencement of an involuntary case against the Company or any of its subsidiaries under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or the appointing of a receiver, liquidator, assignee, custodian, trustee or similar official of the Company or for any substantial part of the Company or one of its subsidiary's property, or ordering the winding-up or liquidation of the Company or one of its subsidiary's affairs;

(d) if the Company or any of its subsidiaries shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or similar official of the Company or its subsidiary or for any substantial part of the Company or one of its subsidiary's property, or shall make any general assignment for the benefit of creditors, or shall take any corporate action in furtherance of any of the foregoing; or

(e) if the Company's business shall fail, as determined in good faith by the Holder and evidenced by the Company's inability to pay its ongoing debts as such debts become due.

11.2 Acceleration Upon Event of Default. If any Event of Default shall have occurred and be continuing, for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise), the unpaid principal amount of, and the accrued interest on, this Note shall automatically become immediately due and payable, without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by the Company.

12. Investment Representations of the Holder. With respect to the purchase of this Note, the Holder hereby represents and warrants to the Company as follows:

12.1 Experience. The Holder has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests.

12.2 Investment. The Holder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof. The Holder is an “accredited investor” within the meaning of Regulation D, Section 501(a), promulgated by the Securities and Exchange Commission.

12.3 Access to Data. The Holder has had an opportunity to discuss the Company’s business, management and financial affairs with the Company’s management and has also had an opportunity to ask questions of the Company’s officers, which questions were answered to its satisfaction.

13. Security. This Promissory Note is secured by a Security Agreement (the “Security Agreement”) dated the date hereof among Holder and the Company and the Subsidiaries. This Promissory Note, the Security Agreement and any and all other agreements presently existing or hereafter entered into which evidence and/or secure any indebtedness from the Company to Holder in connection with this Note or the Security Agreement, other than (i) that certain Registration Rights Agreement between Holder and the Company dated the date hereof and (ii) any equity or equity related rights (including obligations pertaining to any conversion rights) under the Note, shall hereinafter be collectively referred to as the “Loan Documents.” The terms, covenants, conditions, provisions, stipulations and agreements of the Loan Documents are hereby made a part of this Note, to the same extent and with the same effect as if they were fully set forth herein. The Company does hereby covenant to abide by and comply with each and every term, covenant, condition, provision, stipulation and agreement set forth in the Loan Documents.

14. Miscellaneous.

14.1 Invalidity of Any Provision. If any provision or part of any provision of this Note shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Note and this Note shall be construed as if such invalid, illegal or unenforceable provisions or part hereof had never been contained herein, but only to the extent of its invalidity, illegality or unenforceability.

14.2 Governing Law. The Note shall be governed in all respects by the laws of the State of Delaware, excluding its conflict of laws.

14.3 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given (i) on the date of delivery if delivered personally, (ii) one (1) business day after transmission by facsimile transmission with a written confirmation copy sent by first class mail, or (iii) five (5) days after mailing if mailed by first class mail, to the following addresses:

If to the Company:   CECO Environmental Corp.  
                              3120 Forrer Street  
                              Cincinnati, Ohio 45209  
                              Attention: Dennis W. Blazer

And if to the Holder, to the address or facsimile number of Holder as set forth on the Company's records, or such other address as the Holder has provided to the Company by notice duly given.

14.4 Notice of a Sale Transaction. The Company shall give the Holder of this Note notice of the Closing of a Sale Transaction at least thirty (30) days prior to such Closing.

14.5 Collection. If the indebtedness represented by this Note or any part thereof is collected at law or in equity or in bankruptcy, receivership or other judicial proceedings or if this Note is placed in the hands of attorneys for collection after the occurrence of an Event of Default, the Company agrees to pay, in addition to the outstanding principal and accrued interest payable hereon, reasonable attorneys' fees and costs incurred by the Holder, or on behalf of the Holder by a representative of the Holder.

14.6 Successors and Assigns. The rights and obligations of the Company and the Holder shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

14.7 Waivers. The Company and any endorsers, sureties, guarantors, and all others who are, or may become liable for the payment hereof severally: (a) waive presentment for payment, demand, notice of demand, notice of nonpayment or dishonor, protest and notice of protest of this Note, and all other notices in connection with the delivery, acceptance, performance, default, or enforcement of the payment of this Note, (b) consent to all extensions of time, renewals, postponements of time of payment of this Note or other modifications hereof from time to time prior to or after the maturity date hereof, whether by acceleration or in due course, without notice, consent or consideration to any of the foregoing, (c) agree to any substitution, exchange, addition, or release of any of the security for the indebtedness evidenced by this Note or the addition or release of any party or person primarily or secondarily liable hereon, (d) agree that Holder shall not be required first to institute any suit, or to exhaust its remedies against the Company or any other person or party to become liable hereunder or against the security in order to enforce the payment of this Note and (e) agree that, notwithstanding the occurrence of any of the foregoing (except by the express written release by Holder of any such person), the Company shall be and remain, directly and primarily liable for all sums due under this Note.

14.8 Time. Time is of the essence in this Note.

14.9 Captions. The captions of sections of this Note are for convenient reference only, and shall not affect the construction or interpretation of any of the terms and provisions set forth in this Note.

13.10 Number and Gender. Whenever used in this Note, the singular number shall include the plural, and the masculine shall include the feminine and the neuter, and *vice versa*.

14.11 Remedies. All remedies of the Holder shall be cumulative and concurrent and may be pursued singly, successively, or together at the sole discretion of the Holder and may be exercised as often as occasion therefor shall arise. No act of omission or commission of the Holder, including specifically any failure to exercise any right, remedy or recourse shall be effective unless it is set forth in a written document executed by the Holder and then only to the extent specifically recited therein. A waiver or release with reference to one event shall not be construed as continuing as a bar to or as a waiver or release of any subsequent right, remedy, or recourse as to any subsequent event.

14.12 No Waiver by Holder. The acceptance by Holder of any payment under this Note which is less than the amount then due or the acceptance of any amount after the due date thereof, shall not be deemed a waiver of any right or remedy available to Holder nor nullify the prior exercise of any such right or remedy by Holder. None of the terms or provisions of this Note may be waived, altered, modified or amended except by a written document executed by Holder and then only to the extent specifically recited therein. No course of dealing or conduct shall be effective waive, alter, modify or amend any of the terms or provisions hereof. The failure or delay to exercise any right or remedy available to Holder shall not constitute a waiver of the right of the Holder to exercise the same or any other right or remedy available to Holder at that time or at any subsequent time.

14.13 Submission to Jurisdiction. BORROWER, AND ANY ENDORSERS, SURETIES, GUARANTORS AND ALL OTHERS WHO ARE, OR WHO MAY BECOME, LIABLE FOR THE PAYMENT HEREOF SEVERALLY, IRREVOCABLY AND UNCONDITIONALLY (A) AGREE THAT ANY SUIT, ACTION, OR OTHER LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS NOTE OR ANY OTHER AGREEMENT, DOCUMENT OR INSTRUMENT DELIVERED PURSUANT TO, OR IN CONNECTION WITH THIS NOTE SHALL BE BROUGHT AND MAINTAINED IN THE COURTS IN AND FOR HAMILTON COUNTY, OHIO, OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF OHIO; (B) CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH SUIT, ACTION OR PROCEEDING; AND (C) WAIVE ANY OBJECTION WHICH IT OR THEY MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH SUIT, ACTION, OR PROCEEDING IN ANY OF SUCH COURTS.

14.14 Waiver of Trial by Jury. HOLDER AND BORROWER HEREBY KNOWINGLY, IRREVOCABLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT EITHER MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY ACTION, PROCEEDING OR COUNTERCLAIM BASED ON THIS NOTE, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION THEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR HOLDER TO MAKE THE LOAN EVIDENCED BY THIS NOTE.

[signature page follows]

**CECO ENVIRONMENTAL CORP.,**  
a Delaware corporation

By: /s/ Dennis W. Blazer  
Dennis W. Blazer  
Vice President - Finance and Administration and  
Chief Financial Officer

**ICARUS INVESTMENT CORP.**

By: /s/ Phillip DeZwirek

Its: /s/ President

**SECURITY AGREEMENT**

THIS SECURITY AGREEMENT (the “**Agreement**”) is made as of this 14<sup>th</sup> day of August, 2008, by **CECO ENVIRONMENTAL CORP.** (“**Debtor**”) and its Subsidiaries (the Debtor and its Subsidiaries collectively, the “**Pledging Parties**”) for the benefit of **ICARUS INVESTMENT CORP.**, an Ontario corporation (“**Secured Party**”).

**RECITALS:**

WHEREAS, Secured Party has agreed to make a loan (the “**Loan**”) to Debtor in the principal amount of Canadian \$5,000,000; and

WHEREAS, the Loan is evidenced by a Subordinated Convertible Promissory Note in the principal amount of Canadian \$5,000,000 (the “**Note**”) of even date herewith from Debtor to Secured Party; and

WHEREAS, Secured Party requires, and the Pledging Parties are willing to grant, as security for the Loan, a security interest in all their right, title and interest in and to the “**Collateral**” (as such term is defined in Paragraph 18 hereof), to secure the payment and performance by Debtor of the Liabilities (as defined below in Section 2), subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, to secure the payment and performance of the Liabilities, each of the Pledged Parties hereby agrees with Secured Party as follows:

1. **Grant; Collateral.** Each Pledging Party hereby assigns and pledges to Secured Party, for collateral purposes, and grants to Secured Party a security interest in, all its right, title and interest in and to the Collateral (as defined in Section 18(b) hereof), subject to and in accordance with the terms and conditions set forth in this Agreement and the Note. Capitalized terms used, but not defined herein, shall have the meanings ascribed to them in the Note.

2. **Liabilities.** This Agreement, and the security interest herein granted to Secured Party, is given to secure all the following (the same being herein sometimes collectively referred to as the “**Liabilities**”):

- (a) the principal, interest and all other sums owed under the Note;
- (b) all amounts owed Secured Party under this Agreement including without limitation of all advances, costs or expenses paid or incurred by the Secured Party, to protect any or all of the Collateral, perform any obligation of the Pledging Parties hereunder, or to sell the Collateral.;
- (c) any and all costs of enforcement and collection of the Note and the enforcement of this Agreement, including without limitations reasonable attorneys’ fees; and
- (d) interest on all of the foregoing at the rate specified in the Note.

The parties agree that Liabilities do not include (i) the obligations of the Company under that certain Registration Rights Agreement between the Company and Secured Party dated the date hereof, (ii) any amounts under the Note that are converted to common stock under the Note, and (iii) any equity or equity related rights (including obligations pertaining to any conversion rights) under the Note.

3. Representations and Warranties. Each Pledging Party hereby represents and warrants to, and covenants with, Secured Party that:

- (a) Each Pledging Party is the absolute and exclusive owner of its respective Collateral other than leased Collateral, and except for the security interest herein granted to Secured Party and to Senior Lender (as defined in Section 17), has not made and shall not make any sale, assignment, pledge, hypothecation or other transfer of the Collateral, or any portion thereof other than in the ordinary course of business and except as permitted by the Senior Lender Credit Agreement (as defined in the Subordination Agreement which is defined in Section 17), and shall forever warrant and defend Secured Party's title and interest in and to the Collateral against the claims and demands of all persons whomsoever, subject to the terms of the Subordination Agreement (as defined in Section 17);
- (b) Except for the security interest herein granted to Secured Party, to the Senior Lender and the other Permitted Liens (as defined in the Senior Lender Credit Agreement), the Collateral is free and clear of all liens, charges, claims, encumbrances and security interests as of the date hereof;
- (c) The Pledging Parties will keep the Collateral, to the extent applicable, in good order, repair and condition and free and clear of all levies, attachments, liens, charges, claims, encumbrances, security interests of every kind and nature, except for the assignment and security interests herein granted to Senior Lender, Secured Party and the other Permitted Liens (as defined in the Senior Lender Credit Agreement);
- (d) No instruments of assignment and transfer or financing statements covering the Collateral, or any part thereof, have been executed by the Pledging Parties or are on file in any public office, except for those in favor of Secured Party and Senior Lender and any other applicable Permitted Liens (as defined in the Senior Lender Credit Agreement), and the Pledging Parties will not execute, or file or cause to be filed in any public office, any instruments of assignment and transfer or any financing statement or statements, affecting the Collateral, or any part thereof, except in favor of Secured Party or Senior Lender;
- (e) Each Pledging Party will, at the request of Secured Party, execute or join with Secured Party in executing and, at Pledging Parties' expense, file and refile under the Uniform Commercial Code of the State in which such Pledging

Party is organized or incorporated (the “Code”), such financing statements and amendments thereto, continuation statements and other documents in such states and in such offices as Secured Party may deem necessary or appropriate and wherever required or permitted by law in order to perfect and preserve Secured Party’s security interest in the Collateral, and each Pledging Party hereby authorizes Secured Party to file any and all such financing statements, amendments thereto and continuation statements and other documents relative to all or any part of the Collateral without the signature of such Pledging Party where permitted by law;

- (f) No Pledging Party shall use or permit the Collateral to be used in violation of any applicable law, ordinance, rule, regulation or requirement, now or hereafter in effect, of governmental authorities or any policy or contract of insurance;
- (g) Each Pledging Party shall perform and comply with all policies of insurance, and the rules and requirements of underwriters’ and fire prevention agencies, and all laws, ordinances, rules and regulations relating to, and shall promptly pay when due all license fees, registration fees, taxes, assessments and other charges which may be levied upon or assessed against, the ownership, operation, possession, maintenance, use or method of use of the Collateral;
- (h) Secured Party or its representatives shall have the right to inspect, at each Pledging Party’s place of business, the Collateral, at any time and from time to time, at reasonable times during normal business hours and upon reasonable notice to such Pledging Party;
- (i) Each Pledging Party shall, at such time or times as Secured Party may request and at such Pledging Party’s cost and expense, prepare list(s), in such form as shall be reasonably satisfactory to Secured Party, certified by such Pledging Party describing in reasonable detail all Collateral of such Pledging Party subject to this Agreement;
- (j) Each Pledging Party shall promptly give written notice to Secured Party of any damage to or destruction of its Collateral, or any part thereof, by fire or other casualty, or by condemnation or taking. No Pledging Party shall make, accept or consent to any settlement or agreement in respect of insurance or condemnation proceeds except as agreed in writing by Senior Lender, and if no such consent is required, by Secured Party; and
- (k) None of the Collateral is in a damaged or destroyed condition by reason of fire or other casualty in excess of \$500,000.

4. **Events of Default.** Each Pledging Party hereby agrees that the occurrence or existence of any one of the following events or conditions, as well as those events or conditions as defined in the Note as Events of Default shall constitute an Event of Default herein (referred to herein singularly as “**Event of Default**” and collectively as “**Events of Default**”):

- (a) any material representation or warranty made by Debtor in the Note or by a Pledging Party in this Agreement shall be breached or violated, or prove to be false, misleading or inaccurate, in any material respect which is not cured within 10 days following notice from Secured Party;
- (b) any attachment, seizure or levy shall be made upon the Collateral, in whole or in part which is not cured within 10 days following notice from Secured Party;
- (c) a Pledging Party shall sell, assign or otherwise transfer, voluntarily or involuntarily, all or any part of the Collateral, except as expressly permitted herein which is not cured within 10 days following notice from Secured Party;
- (d) Debtor shall fail to pay, perform and discharge the Liabilities, when and as due in accordance with the Note, and such failure shall continue uncured or uncorrected past the applicable curative periods, if any;
- (e) except for the security interest granted to Secured Party herein and to the Senior Lender, any security interest, lien, charge or encumbrance against the Collateral other than valid leases of property to a Pledging Party and any other Permitted Liens (as defined in the Senior Lender Credit Agreement), whether prior to, concurrent with or subsequent to the interest herein granted to Secured Party, shall accrue (other than to the Senior Lender) which is not cured within 10 days following notice from Secured Party;
- (f) the failure by a Pledging Party to perform an obligation under, or the occurrence of any other default with respect to any provision of this Agreement other than as specifically described in any other clause of this Section 4, and the continuation of such default for a period of ten (10) days after written notice thereof;
- (g) breach by a Pledging Party of any of the covenants, representations, warranties or other obligations hereunder which is not cured within 10 days following notice from Secured Party; or
- (h) the failure by Debtor to perform any obligation under, or the occurrence of any other default or event of default with respect to any provision of the Note (other than as specifically described in any other clause of this Section 4), which is not cured within the time period provided therefor, if any. For purposes of the foregoing definition, with respect to any event or occurrence which constitutes an Event of Default hereunder solely by reason of its

constituting a default under another document or instrument, to the extent (if any) that such other document or instrument provides a grace or cure period with respect to such default, the same grace or cure period, and only such period, shall apply with respect thereto under this Agreement.

5. Remedies. Upon the occurrence or existence of any of the Events of Default, then at the option of Secured Party and without demand or notice to any Pledging Party (demand and notice as to any such Events of Default being hereby expressly waived by each Pledging Party except as expressly provided in Paragraph 4 hereof), Secured Party shall, to the fullest extent permitted by law, be entitled, subject to the Subordination Agreement, to:

(a) appropriate and apply on the payment of the Liabilities (whether or not due and in any order of priority as may be selected by Secured Party in its sole discretion), any and all accounts or monies held in possession of Secured Party for the benefit of a Pledging Party;

(b) enter upon a Pledging Party's premises and take possession of the Collateral;

(c) exercise in respect to the Collateral all the rights, powers and remedies available to Secured Party upon default under the Code then in effect, including the right to sell, publicly or privately, the Collateral, or any part thereof; and

(d) exercise any and all other rights, powers and remedies as may be provided in the Note and such other rights and remedies as may be provided at law or in equity.

If any notification of intended disposition of the Collateral is required by law, such notification, if mailed shall be deemed reasonably and properly given if mailed at least ten (10) days before such disposition, full postage prepaid, sent by certified mail return receipt requested, addressed to a Pledging Party, at the address appearing on the records of Secured Party. Upon any sale of all, or any part of, the Collateral by Secured Party hereunder (whether by virtue of the power of sale herein granted, pursuant to judicial process or otherwise), the receipt of Secured Party or the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold, and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to Secured Party or such officer or be answerable in any way for the misapplication or non-application thereof.

6. Application of Proceeds. All proceeds of sale of any of the Collateral by Secured Party as herein provided shall be applied in any order of priority determined by Secured Party which is in accordance with the terms of the Note and the Subordination Agreement.

7. Incorporation of Note. It is expressly understood and agreed that all the terms, covenants, conditions, agreements, representations, warranties, obligations and provisions contained in the Note are, by this reference, adopted and incorporated in this

Agreement to the same full extent and with the same binding force and effect as if all such terms, covenants, conditions, representations, warranties, obligations and provisions thereof were herein stated in full, it being the express intent that the Note complement and supplement this Agreement to the extent necessary or required to protect, preserve and confirm the rights, powers and remedies of Secured Party in respect of the Liabilities.

8. Secured Party's Right to Cure. If a Pledging Party shall fail to do any act or thing which such Pledging Party has covenanted to do hereunder, or any covenant, representation or warranty by a Pledging Party shall be breached or violated, Secured Party may, but shall not be obligated to, after the expiration of the applicable curative or grace period, if any, except in the case of an emergency, do the same or cause it to be done, or remedy such breach or violation, and if, in connection therewith, Secured Party shall make any advances or expenditures of money for the account of such Pledging Party, then there shall be added to the Liabilities the reasonable costs or expenses so paid or incurred by Secured Party, and any and all amounts paid or incurred by Secured Party in taking any such action shall be repaid to Secured Party upon demand being made to such Pledging Party therefor and shall bear interest at the Default Rate, as defined in the Note from the date advanced or expended, to and including the date of repayment.

9. Waiver of Liability. Nothing herein contained shall be construed as constituting Secured Party a trustee or mortgagee in-possession. In the exercise of the powers herein granted and assigned to Secured Party, no liability shall be asserted or enforced against Secured Party, all such liability being expressly waived and released by each Pledging Party and any person or persons claiming by, through or under a Pledging Party.

10. Indemnity. Each Pledging Party shall and does hereby agree to indemnify, protect, save and hold forever harmless Secured Party and its agents (collectively, "**Secured Party's Indemnitees**") from and against any and all liability, loss and damage, including court costs and reasonable attorneys' fees and expenses, which Secured Party's Indemnitees, or any of them, may or might incur, suffer or sustain under or by reason of this Agreement and from and against any and all claims and demands whatsoever which may be asserted against Secured Party's Indemnitees, or any of them, by reason of any alleged or actual obligations or undertakings on Secured Party's part to perform or discharge any of the terms, covenants and agreements contained in this Agreement. If any of Secured Party's Indemnitees shall incur any such liability, loss or damage or by reason of this Agreement, or in the defense of any claims or demands, or otherwise, the amount thereof, including court costs, and reasonable attorneys' fees and expenses, shall be secured hereby, and the Pledging Parties, jointly and severally, shall, upon demand, immediately reimburse Secured Party's Indemnitees therefor, together with interest thereon at the Base Rate, from the date of demand until reimbursement is made.

11. Inaction of Secured Party. Secured Party shall not, in any way, be responsible for failure to do any or all of the things for which rights, interests, power or authority are herein granted and assigned to Secured Party, nor shall Secured Party be required to make an accounting for the benefit of the Pledging Parties, except for monies actually received by Secured Party in accordance with the terms hereof, each Pledging Party hereby expressly waiving, and releasing Secured Party from any and all such responsibility, liability and requirements.

12. Parity of Security. In the event of a default by Debtor under either of the Note or this Agreement, Secured Party may realize upon the security given under the this Agreement singly, successively or cumulatively, at such time and in such order as Secured Party may, in its sole discretion, elect.

13. Foreclosure or Other Judgments. No judgment or decree which may be entered on any Liabilities shall operate to abrogate or lessen the effect of this Agreement, but this Agreement shall continue in full force and effect until the full and final payment and discharge of any and all Liabilities, in whatever form the Liabilities may be, and of any and all costs and expenses incurred and sustained by virtue of the authority herein contained have been fully paid from the proceeds of the Collateral, or until such time as this Agreement may be voluntarily released. This Agreement shall also remain in full force and effect during the pendency of any foreclosure proceedings, both before and after sale, until the issuance of a deed pursuant to a foreclosure decree, unless the Liabilities are fully and finally paid and discharged.

14. No Waiver. No failure on the part of Secured Party to exercise, and no delay in exercising, any rights, powers, privileges, interests or remedies hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such rights, powers, privileges, interests or remedies by Secured Party preclude any other or further exercise thereof or the exercise of any other rights, powers, privileges, interests or remedies. All rights, powers and remedies hereunder are cumulative and not exclusive of any other rights, powers or remedies provided in the Note, this Agreement, or any of the Loan Documents, or at law or in equity, and each and all such rights, powers and remedies provided in the Note or this Agreement, or at law or in equity, and each and all such rights, powers and remedies may be pursued or exercised single, successively or cumulatively, at such time or times and in such order as Secured Party may, in its sole discretion, elect.

15. Release and Discharge. At the time when all Liabilities and all obligations of Debtor hereunder have been fully and finally paid and performed, this Agreement shall terminate and be of no further force and effect. After such termination, if requested by a Pledging Party, Secured Party shall execute and deliver to such Pledging Party for filing in each office in which any financing statement relative to its Collateral, or any part thereof, shall be filed, a termination statement under the Code and shall also execute and deliver to such Pledging Party a release of any and all of the Collateral for the purpose of releasing Secured Party's interest in the Collateral, all without recourse to or representation, warranty and covenant by Secured Party and at the cost and expense of such Pledging Party.

16. Further Assurances. Each Pledging Party agrees to perform such further acts and things and to execute and deliver to Secured Party such additional assignments, agreements, assurances, certificates, opinions and other documents and instruments as Secured Party may reasonably require or deem advisable to carry into effect the purposes of this Agreement, or to better assure, perfect, protect, preserve and confirm unto Secured Party its rights, powers, privileges, interest and remedies under this Agreement provided such additional assignments, agreements, assurances, certificates, opinions or other documents or instruments which are consistent with the terms hereof and of the other Loan Documents and do not impose additional liabilities or obligations on the Debtor.

17. **Subordination.** This Agreement, and the security interests and other liens and rights granted herein, are subordinate to a senior credit facility of Debtor and the Pledging Parties in favor of Fifth Third Bank (“**Senior Lender**”), as lender, pursuant to the terms of that certain Subordination Agreement dated the date hereof between Secured Party and Senior Lender (the “**Subordination Agreement**”).

18. **Definitions.** For purposes of this Section 18, capitalized terms used but not specifically defined in this Agreement shall have the meanings ascribed to them in the Code. As used herein, the following terms shall have the meanings set forth below:

- (a) “**Accounts**” shall mean and include: (i) any and all rights to the payment of money or other forms of consideration of any kind now or hereafter owing or to be owing to the Debtor (whether classified under the UCC as Accounts, Chattel Paper, Electronic Chattel Paper, General Intangibles, or otherwise) including, but not limited to, accounts receivable, letters of credit and the right to receive payment thereunder, chattel paper, tax refunds, insurance proceeds, contract rights, notes, drafts, instruments, documents, acceptances, and any other debts, obligations and liabilities in whatever form now or hereafter owing to the Debtor, all guarantees, security and liens which secure payment of any of the foregoing, all the Debtor’s rights to goods, now owned or hereafter acquired by the Debtor, sold (delivered, undelivered, in transit or returned) which may be represented thereby; and (ii) all proceeds of any of the foregoing.
- (b) “**Collateral**” shall mean all of each Pledging Party’s personal property, including, without limitation, Accounts, Instruments, Documents, contract rights, General Intangibles, Chattel Paper, Inventory, Instruments, Equipment, Goods, Fixtures, Commercial Tort Claims, Investment Property, Letter-of-Credit Rights, Letters of Credit, leasehold improvements, accounts receivable, documents of title, policies and certificates of insurance, all insurance proceeds, securities, cash, money, Deposit Accounts, Payment Intangibles, trademarks, trade names, patents, copyrights, applications for trademarks, patents and copyrights, and other intellectual property rights, and all other tangible and intangible property owned by the Debtor, and books and records relating to the foregoing and all the products and proceeds of the foregoing.
- (c) “**Subsidiaries**” means CECO Group Inc., CECO Filters, Inc., New Busch Co., Inc., The Kirk & Blum Manufacturing Company, kbd/Technic, Inc., CECO Aire, Inc., CECO Abatement Systems, Inc., H.M. White, Inc., Effox Inc., GMD Environmental Technologies, Inc., FM, LLC, CECO Mexico Holdings LLC, and Fisher-Klosterman, Inc.

19. **Notices.** Any and all notices given in connection with this Agreement shall be deemed adequately given only if given as set forth in the Note.

20. Miscellaneous. It is further understood and agreed that:

- (a) Time is of the essence with respect to each and every covenant, agreement and obligation of the Pledging Parties under this Agreement;
- (b) This Agreement, and all the terms, covenants agreements and conditions hereof, shall extend to, be binding upon and enforceable against each Pledging Party and its successors and assigns, but the privileges and benefits herein accruing to each Pledging Party shall extend and inure only to such of its successors and assigns as may be permitted pursuant to this Agreement. All liabilities and obligations of Pledging Parties hereunder are, and shall be, at all times, joint and several;
- (c) This Agreement, and all the terms, covenants, agreements and conditions hereof, shall extend to and inure to the benefit of Secured Party, its successors and assigns;
- (d) The representations, warranties and covenants made by Pledging Parties under this Agreement are, and shall be deemed to be, of continuing force and effect until all the Liabilities have been fully and finally paid and performed;
- (e) Each Pledging Party agrees jointly and severally to pay, on demand of Secured Party, all reasonable costs and expenses paid, sustained or incurred by Secured Party, including without limitation, court costs and reasonable attorneys' fees and expenses, in connection with the enforcement of this Agreement;
- (f) The singular shall include the plural, and the plural the singular, and pronouns of any gender shall include the other gender, wherever required by the context hereof;
- (g) Except as otherwise specifically provided herein, Secured Party has the right, whenever its consent or approval is required hereunder, to withhold, or to refuse to grant, such consent or approval, which right is exercisable by Secured Party in its absolute discretion;
- (h) The paragraph headings of this Agreement are for convenience only and are not intended to alter, limit or enlarge in any way the scope or meaning of the language hereof; and
- (i) **EACH PLEDGING PARTY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF EITHER PARTY. DEBTOR HEREBY EXPRESSLY ACKNOWLEDGES THIS WAIVER IS A MATERIAL, INDUCEMENT FOR SECURED PARTY TO ACCEPT THIS AGREEMENT AND TO MAKE THE LOAN SECURED HEREBY AND BY THE OTHER LOAN DOCUMENTS.**

**IN WITNESS WHEREOF**, the Debtor has hereto set its hand and seal to this Agreement as of the date first above written, pursuant to proper authority duly granted.

**PLEDGING PARTIES:**

**CECO ENVIRONMENTAL CORP.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, CFO

**CECO GROUP INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, CFO

**CECO FILTERS, INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Secretary

**NEW BUSCH CO., INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Secretary

**THE KIRK & BLUM MANUFACTURING  
COMPANY**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Secretary

**kbd/TECHNIC, INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Secretary

**CECOAIRE, INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Secretary

**CECO ABATEMENT SYSTEMS, INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Secretary

**H.M. WHITE, INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Treasurer

**EFFOX INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Secretary

**GMD ENVIRONMENTAL TECHNOLOGIES, INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Treasurer

**FM, LLC**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Treasurer

**CECO MEXICO HOLDINGS LLC**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Treasurer

**FISHER-KLOSTERMAN, INC.**

By: /s/ Dennis W. Blazer  
Dennis W. Blazer, Secretary

**SECURED PARTY:**

**ICARUS INVESTMENT CORPORATION**

By: /s/ Phillip DeZwirek

Its: /s/ President

## REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this “**Agreement**”), dated as of August 14, 2008 (the “**Effective Date**”), is made by and between **CECO ENVIRONMENTAL CORP.** (the “**Company**”) and **ICARUS INVESTMENT CORP.**, an Ontario corporation (the “**Shareholder**”).

WHEREAS, pursuant to that certain Subordinated Convertible Promissory Note made by the Company for the benefit of Shareholder dated the date hereof (the “**Note**”), the Shareholder has a right to convert the outstanding principal and/or interest into common stock of the Company (the “**Convertible Shares**”); and

WHEREAS, as a condition to Shareholder lending the funds under the Note, the Company and the Shareholder have entered into this Agreement to provide certain securities registration rights to the Shareholder.

NOW, THEREFORE, in consideration of the premises, the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. As used in this Agreement:

“**Affiliate**” shall mean any entity controlling, controlled by or under common control with another entity. For the purposes of this definition, “**control**” shall have the meaning presently specified for that word in Rule 405 promulgated by the SEC under the Securities Act.

“**Company**” shall have the meaning set forth in the preamble hereto.

“**Person**” means an individual, a corporation, a partnership, a trust, a limited liability company, an unincorporated organization or a governmental organization or any agency or political subdivision thereof.

“**Public Offering**” shall mean a public offering of Convertible Shares pursuant to an effective Registration Statement.

“**Prospectus**” shall mean any prospectus that is a part of a Registration Statement, together with all amendments or supplements thereto.

“**Registrable Stock**” shall mean the shares of common stock issued or issuable upon conversion of the Note; provided, however, that Registrable Stock shall not be deemed to include (i) any shares after such shares have been registered under the Securities Act and sold pursuant to a registration of such securities, (ii) any shares sold pursuant to any other exemption from registration under the Securities Act to a Person who is free to resell such shares without registration under the Securities Act, or (iii) any shares that are sold in a transaction in which rights under this Agreement are not assigned.

“**Registration Statement**” shall mean any registration statement filed with the SEC in accordance with the Securities Act, together with all amendments or supplements thereto.

“SEC” shall mean the United States Securities and Exchange Commission or any successor to the functions of such agency.

“Securities Act” shall mean the Securities Act of 1933, as amended prior to or after the date of this Agreement or any federal statute or statutes which shall be enacted to take the place of such act, together with all rules and regulations promulgated thereunder.

## 2. Legend on Convertible Shares.

(A) A copy of this Agreement shall be filed with the Secretary of the Company and kept with the records of the Company.

(B) Each certificate representing Convertible Shares acquired by any Shareholder pursuant to the Note shall bear legends substantially in the following forms:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. THE SECURITIES MAY NOT BE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS OR IN TRANSACTION OUTSIDE THE UNITED STATES NOT SUBJECT TO THE SECURITIES ACT.

(C) In the event that any such Convertible Shares are transferred in a Public Offering, the Company shall promptly upon request, deliver a replacement certificate not containing the legend set forth in Section 2(B) in connection with such transfer.

(D) Upon the delivery to the Company of a legal opinion reasonably satisfactory to the Company to the effect that the legend set forth in Section 2(B) is no longer required by the Securities Act and any applicable state securities law, the Company shall promptly upon request deliver a replacement certificate not containing the legend in exchange for the legended certificate.

## 3. Piggyback Registration Rights.

(A) If at any time from the Effective Date and prior to 5 years after the Effective Date, the Company proposes to register shares of Common Stock under the Securities Act for distribution for its account pursuant to a primary underwritten offering (other than a registration statement on Form S-8 or Form S-4 or any successor forms to such Forms) and the Company may register such offering on a form that would also permit the registration of the Registrable Stock, the Company shall, each such time, promptly give the Shareholder written notice of such determination. Upon the written request of the Shareholder given within fifteen (15) days following such notice by the Company, subject to Section 3(B), the Company shall use its reasonable best efforts to cause to be registered under the Act (and any related qualification or registration under blue sky laws) and included within any underwriting involved therein, all of the Registrable Stock that the Shareholder has requested be registered. Such written request may specify all or

a part of the Shareholder's Registrable Stock. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 3 prior to the effectiveness of such registration whether or not the Shareholder has elected to include securities in such registration.

(B) If lead underwriters of an underwritten primary registration advise the Company that, in their good faith judgment, the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without materially and adversely affecting the marketability of the offering, then the Company will include in the Registration Statement relating to such registration (i) first, the securities the Company proposes to sell, and (ii) second, the Registrable Stock requested to be included in such registration by the Stockholder(s) and any other stockholders of the Company ("**Other Security Holders**") reduced on a *pro rata* basis, based on the amount of Convertible Shares owned by the requesting Stockholder(s) and, if applicable, the securities owned by each such Other Security Holders.

#### 4. Registration Procedures.

(A) In connection with any registration under Section 3 hereof, the Company covenants and agrees that it will:

(i) furnish to the Shareholder such number of copies of such Registration Statement, each amendment and supplement thereto, the Prospectus included in the Registration Statement (including each preliminary Prospectus), and such other documents, as the Shareholder may reasonably request in order to facilitate the public sale or other disposition of the securities owned by the Shareholder;

(ii) to the extent an exemption from registration or qualification does not exist, use reasonable best efforts to register or qualify the Convertible Shares covered by such Registration Statement under such other securities or blue sky laws of such jurisdictions as the Shareholder shall reasonably request, and do any and all other acts and things which may be necessary under such securities or blue sky laws to enable the Shareholder to consummate the public sale or other disposition in such jurisdiction of the Convertible Shares owned by the Shareholder covered by such Registration Statement; provided, however, that the Company shall not be required to (i) qualify to do business as a foreign corporation in any jurisdiction wherein it would not otherwise be required to qualify but for this subparagraph or (ii) subject itself to general service of process or taxation in any such jurisdiction.

(iii) use its reasonable best efforts to cause all such Convertible Shares covered by such Registration Statement to be listed on each securities exchange or national market system on which securities of the same class are then listed;

(iv) provide a transfer agent and registrar for Registrable Stock not later than the effective date of such Registration Statement; and

(v) comply with all applicable rules and regulations of the SEC, and make available to its security holders an earnings statement satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act) (i) commencing at the end of any fiscal quarter in which Convertible Shares are sold to underwriters in an underwritten offering or (ii) if not sold to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company after the effective date of a Registration Statement, which earnings statement shall cover said 12-month period.

(B) The Stockholder agrees that, upon receipt of written notice from the Company of a happening of any event or the existence of any facts that make any statement made in a Registration Statement or prospectus untrue in any material respect or that require the making of any changes in a Registration Statement or prospectus so that it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made (in the case of any prospectus), not misleading, the Stockholders will forthwith discontinue disposition of such Convertible Shares covered by such Registration Statement until they are advised in writing by the Company that the use of the applicable prospectus may be resumed, and have received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such prospectus, and, if so directed by the Company, such Stockholders will deliver to the Company all copies of the prospectus covering such Convertible Shares current at the time of receipt of such notice.

(C) The Stockholder agrees that it will keep confidential any material non-public information concerning the Company or its securities that it obtains in connection with a Registration Statement, and that it will not purchase or sell securities of the Company on the basis of any such information or communicate such information to any Person under circumstances in which it is reasonably foreseeable that such Person is likely to purchase or sell securities of the Company on the basis of any such information; provided, however, nothing in this Section 4(C) shall prevent the Stockholder from disposing of Registrable Stock in the manner contemplated by this Agreement.

5. Stockholder Holdback. If the Company registers shares of Common Stock in connection with an underwritten public offering by the Company, the Stockholder, if so required by the lead underwriters of such underwritten offering, agrees not to effect any public sale or distribution of any of the Convertible Shares, including any sale pursuant to Rule 144 promulgated under the Securities Act (other than as a part of such underwritten public offering), without the consent of the Company or such lead underwriters during the period commencing on a date specified by the lead underwriters, such date not to exceed 10 days prior to the effective date of such Registration Statement, and ending on the earlier of (i) 90 days after the pricing of such offering, unless the lead underwriters for such offering otherwise agree, and (ii) the abandonment of such offering.

6. Information. Shareholder hereby agrees (a) to cooperate with the Company and to promptly provide such information and assistance as the Company may reasonably request and as may be reasonably necessary to complete any Registration Statement or other required filing pursuant to this Agreement and (b) to the extent required by the Securities Act, to deliver or cause delivery of the

prospectus contained in any Registration Statement, and any amendment or supplement thereto, to any purchaser from such Stockholder of the Convertible Shares covered by the Registration Statement. It shall be a condition precedent to the inclusion of the Registrable Stock of any Stockholders in a Registration Statement effected pursuant to this Agreement that such Stockholder shall execute such indemnities, underwriting agreements, lockups and other documents as the Company or the managing underwriter shall reasonably request in order to satisfy the requirements applicable to such Registration Statement.

7. Expenses. The Company shall pay all costs (excluding fees and expenses of Shareholder(s)' counsel and any underwriting or selling commissions or transfer taxes with respect to the disposition, sale, or transfer of the Registrable Stock), fees and expenses in connection with all Registration Statements filed pursuant to Section 3 hereof including, without limitation, the Company's legal and accounting fees, printing expenses, blue sky fees and expenses.

8. Indemnification.

(A) In the event of any Public Offering of any Registrable Stock under the Securities Act pursuant to this Agreement, the Company agrees, to the extent permitted by law, to indemnify and hold harmless each seller of Registrable Stock, and each Affiliate of such seller, against any losses, claims, damages or liabilities (except as limited by Section 8(D)), joint or several, arising out of or based upon:

(i) any alleged untrue statement of any material fact contained, on the effective date thereof, in any Registration Statement under which such Registrable Stock was registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any summary prospectus contained therein, or any amendment or supplement thereto, or

(ii) any alleged omission to state in any such document a material fact required to be stated therein or necessary to make the statements therein not misleading,

except insofar as any such loss, claim, damage or liability is:

(i) caused by or contained in any information furnished in writing to the Company by such seller or any such Affiliate expressly for use in connection with such Registration Statement, or

(ii) caused by such seller's failure to deliver a copy of the Registration Statement or prospectus or any amendment or supplement thereto as required by the Securities Act or the rules or regulations thereunder, or

(iii) caused by the failure to discontinue (i) disposition of any Registrable Stock under a Registration Statement or (ii) use of a prospectus or preliminary prospectus or any amendment or supplement by such seller after receipt of notice from the Company that it should no longer be used; or

(iv) arise out of or are based upon offers or sales effected by the Stockholder “by means of” (as defined in Securities Act Rule 159A) a “free writing prospectus” (as defined in Securities Act Rule 405) that was not authorized in writing by the Company.

In connection with an underwritten offering, the Company will indemnify such underwriters, their officers and directors and each Person who controls (within the meaning of the Securities Act) such underwriters to the same extent as provided above with respect to the sellers of Registrable Stock (and with the same exception with respect to information furnished or omitted by such underwriter or controlling person thereof). The Company shall reimburse each Person indemnified pursuant to this Section 8(A) in connection with investigating or defending any loss, claim, damage, liability or action indemnified against. The reimbursements required by this Section 8(A) shall be made by periodic payments during the course of the investigation or defense, as and when bills are received or expenses incurred. The indemnities provided pursuant to this Section 8(A) shall remain in force and effect regardless of any investigation made by or on behalf of the indemnified party and shall survive transfer of Registrable Stock by a seller.

(B) In the event of any Public Offering of any Registrable Stock under the Securities Act pursuant to this Agreement, each Stockholder agrees to furnish to the Company in writing such information and affidavits as the Company reasonably requests for use in connection with any Registration Statement or prospectus in connection with the registration or any amendment or supplement thereto or as may be required by law for use in connection with any such Registration Statement or prospectus and all information required to be disclosed in order to make the information previously furnished to the Company by the Stockholder not materially misleading or necessary to cause such Registration Statement not to omit a material fact with respect to the Stockholder in order to make the statements therein not misleading.

(C) To the extent permitted by law, and subject to the limitation set forth in the last sentence of this Section (C), each Stockholder which is a seller of Registrable Stock under a Registration Statement pursuant to this Agreement agrees severally and not jointly to indemnify and hold harmless the Company, its directors, officers, employees and agents, each other seller of securities under such Registration Statement, each Affiliate of each such other seller, and each Affiliate of the Company, against:

(i) any losses, claims, damages or liabilities (except as limited by Section 8(D)), joint or several, arising out of or based upon:

(a) any alleged untrue statement of any material fact contained, on the effective date thereof, in any Registration Statement under which such Registrable Stock was registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any summary prospectus contained therein, or any amendment or supplement thereto, or

(b) any alleged omission to state in any such document a material fact required to be stated therein or necessary to make the statements therein not misleading, but only insofar as any such loss, claim, damage or liability is caused by or

contained in any information furnished in writing to the Company by the indemnifying seller expressly for use in connection with (Y) such Registration Statement or preliminary prospectus or any amendment or supplement thereto or (Z) a Public Offering; and

(ii) any losses, claims, damages or liabilities, joint or several, arising out of or based upon:

(a) any failure by such seller to deliver a copy of the Registration Statement or prospectus or any amendment or supplement thereto as required by the Securities Act or the rules or regulations thereunder, or

(b) any failure by such seller to stop using the Registration Statement or prospectus or any amendment or supplement thereto after receipt of written notice from the Company to stop, or

(c) offers or sales effected by the Stockholder “by means of” (as defined in Securities Act Rule 159A) a “free writing prospectus” (as defined in Securities Act Rule 405) that was not authorized in writing by the Company.

In connection with an underwritten offering, each seller will indemnify such underwriters, their officers and directors and each Person who controls (within the meaning of the Securities Act) such underwriters to the same extent as provided above with respect to the Company and other sellers. Each seller shall reimburse each Person indemnified pursuant to this Section 8(C) in connection with investigating or defending any loss, claim, damage, liability or action indemnified against. The reimbursements required by this Section 8(C) shall be made by periodic payments during the course of the investigation or defense, as and when bills are received or expenses incurred. The indemnities provided pursuant to this Section 8(C) shall remain in force and effect regardless of any investigation made by or on behalf of the indemnified party and shall survive transfer of Registrable Stock by an indemnifying seller, and transfer of other securities by any other indemnified seller. Notwithstanding any contrary provision of this Agreement, however, the liability under this Section 8 of each Stockholder which is a seller of Registrable Stock shall be limited in the aggregate, to an amount not to exceed the amount of proceeds to the indemnifying seller from the sale of the Registrable Stock sold by the indemnifying seller, except in the case of fraud or willful misconduct.

(D) In the event the Company or any Stockholder receives a complaint, claim or other notice of any loss, claim or damage, liability or action, giving rise to claim for indemnification under this Section 8, the Person claiming indemnification shall promptly notify the Person against whom indemnification is sought of such complaint, notice, claim or action, and such indemnifying Person shall have the right to investigate and defend any such loss, claim, damage, liability or action. The Person claiming indemnification shall have the right to employ separate counsel in any such action and to participate in the defense thereof but the fees and expenses of such counsel shall not be at the expense of the Person against whom indemnification is sought (unless the Person claiming indemnification reasonably believes (with written advice of counsel) that the ability of the counsel defending such action to defend

such Person's interests therein is affected adversely and materially by a conflict of interest) and the indemnifying Person shall not be obligated to indemnify any Person for any settlement of any claim or action effected without the indemnifying Person's consent, which consent will not be unreasonably withheld.

9. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

10. Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11. Notices. All requests, notices and other communications provided for hereunder shall be in writing and delivered by hand or by first-class or certified mail postage prepaid, or by facsimile, to the following addresses, or such other addresses as shall be given by notice delivered hereunder, and shall be deemed to have been received on the day of personal delivery or by facsimile or within three (3) business days after such mailing:

If to the Shareholder, to:

Icarus Investment Corp.  
Yonge-Eglinton Centre  
2300 Yonge Street,  
P.O. Box 2408  
Suite 1710  
Toronto, ON  
Canada, M4P 1E4

If to the Company, to:

CECO Environmental Corp.  
Attention: Dennis Blazer  
3120 Forrer Street  
Cincinnati, OH 45209  
Fax no.: (513) 458-2644

or, as to the Shareholder or the Company, to such other persons or at such other addresses as shall be furnished by any such party by like notice to the other parties.

12. Termination. All rights under this Agreement shall terminate as to any holder at such time as such holder is free to sell all shares of Registrable Stock held by such holder pursuant to Rule 144 under the Securities Act free from any volume restrictions or manner of sale restrictions under Rule 144 or a comparable exemption from registration that enables the holder to sell all shares of Registrable Stock held by such holder without registration under the Securities Act and without legal restriction as to the volume or to manner of sale or otherwise.

13. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same document.

14. Entire Agreement. This Agreement constitutes the entire agreement by and among the parties hereto with respect to the subject matter hereof.

15. Amendments. This Agreement may be amended, modified or supplemented only by a written instrument executed by the Company and the Shareholder; provided, however, that if any underwriter engaged by the Company in selling the Company's securities pursuant to the Company's initial public offering requests an amendment to this Agreement, the parties agree to negotiate in good faith to reasonably modify this Agreement to accommodate such request.

16. Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Agreement may be assigned only (a) by a Holder to an Affiliate or (b) to a party who acquires at least 500,000 shares of Registrable Stock (if the Note has not been converted, calculated by determining the number of shares of Common Stock into which the holder of the Note can convert the outstanding amount of such Note, including interest and principal); provided, however, (i) the transferor shall, within ten (10) days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned and (ii) such transferee shall agree to become a party to and be subject to all restrictions set forth in this Agreement.

17. Governing Law, Waiver of Jury Trial. This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio applicable to contracts made and to be performed in that state. EACH PARTY HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDINGS INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

*[Signature page follows.]*

IN WITNESS WHEREOF, each of the parties hereto has executed this Registration Rights Agreement as of the day and year first written above.

**CECO ENVIRONMENTAL CORP.**

By: /s/ Dennis W. Blazer

Name: \_\_\_\_\_

Dennis W. Blazer  
Chief Financial Officer

**ICARUS INVESTMENT CORP.**

By: /s/ Phillip DeZwirek

Its: /s/ President

Certification of Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Phillip DeZwirek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CECO Environmental Corp. (the "Company")
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Phillip DeZwirek  
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Phillip DeZwirek  
Chairman of the Board and  
Chief Executive Officer  
November 10, 2008

Certification of Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dennis W. Blazer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CECO Environmental Corp. (the "Company")
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Dennis W. Blazer

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Dennis W. Blazer

V.P. – Finance and Administration and  
Chief Financial Officer

November 10, 2008

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CECO Environmental Corp. (the "Company") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip DeZwirek, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Phillip DeZwirek

\_\_\_\_\_  
Phillip DeZwirek

Chairman of the Board and  
Chief Executive Officer

November 10, 2008

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CECO Environmental Corp. (the "Company") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis W. Blazer, V.P. – Finance and Administration and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dennis W. Blazer

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Dennis W. Blazer

V.P. – Finance and Administration and  
Chief Financial Officer

November 10, 2008