

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-KSB  
Annual Report under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the fiscal year  
ended December 31, 1996

Commission File No. 0-7099

CECO ENVIRONMENTAL CORP.  
(Name of Small Business Issuer in Its Charter)

New York  
(State or Other Jurisdiction  
of Incorporation or Organization)

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

111 Elizabeth Street, Suite 600  
Toronto, Ontario CANADA  
(Address of Principal Executive Offices)

M5G 1P7  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (416) 593-6543

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.01 par value per share  
(Title of Class)

Check whether the issuer: (1) has filed all reports required to be  
filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or  
for such shorter period that the registrant was required to file such reports),  
and (2) has been subject to such filing requirements for the past 90 days.

Yes  No   
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Check if there is no disclosure of delinquent filers in response to  
Item 405 of Regulation S-B contained in this form, and no disclosure will be  
contained, to the best of registrant's knowledge, in definitive proxy or  
information statements incorporated by reference in Part III of this Form 10-KSB  
or any amendment to this Form 10-KSB. [ X ]

State issuer's revenues for its most recent fiscal year: \$9,847,697

Aggregate market value of voting stock held by non-affiliates of  
registrant (based on the last sale price on March 7, 1997): \$11,188,025



## PART I

### Item 1. Business

CECO Environmental Corp. ("CEC" or the "Company") was incorporated in New York State in 1966. The Company owns 4,641,730 shares of common stock CECO Filters, Inc. ("CECO"), representing 68.1% of CECO's outstanding common stock. The Company has no significant operations nor does it hold any significant assets other than CECO stock.

The Company's Schedule 13D on file with the Securities and Exchange Commission ("SEC") with respect to the CECO stock owned by the Company states that the Company intends to purchase additional shares of CECO common stock if such additional shares become available at a price which the Company considers reasonable. Such purchases, if made, would be made through private transactions, including exchanges of the Company's common stock for CECO common stock, or open market stock purchases of CECO common stock.

For a description of CECO's business and other information regarding CECO, see "CECO Filters, Inc." below.

### Recent Developments

The Company entered into a non-exclusive financial consulting arrangement with two consultants for a term of eighteen (18) months (April 1, 1995 through September 30, 1996) to assist the Company develop and evaluate financial and business opportunities and to introduce the Company to financial institutions in the investment community, such as securities analysts, portfolio managers and market makers, in order to expand the Company's contacts in that community. The Company agreed to issue to the consultants, in consideration for their services, 100,000 restricted shares of common stock and an option to purchase 1,000,000 shares of common stock of the Company at \$2.50 per share, which exercise price was reduced to \$2.25 per share for any portion of the option that is exercised prior to December 31, 1995. The option expired on April 30, 1996. The 100,000 restricted shares of common stock were issued to the consultants in 1995. In addition, the consultants exercised the option with respect to 400,000 shares at a price of \$2.25 per share during the 1995 fiscal year and 11,000 shares at a price of \$2.50 per share during the 1996 fiscal year. The shares subject to the option have been registered with the Securities and Exchange Commission.

### CECO Filters, Inc.

CECO Filters, Inc. ("CECO"), a Delaware corporation, is located in Conshohocken, Pennsylvania. Phillip DeZwirek, Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, and a controlling shareholder of the Company, is the Chairman of the Board of Directors of CECO. Mr. DeZwirek does not beneficially own any shares of capital stock of CECO other than through his beneficial ownership of shares of the Company.

CECO manufactures and sells industrial air filters known as fiber bed mist eliminators. The filters are used to trap, collect and remove solid soluble and liquid particulate matter suspended in an air or other gas stream whether generated in a point source emission or otherwise. The principal functions which can be performed by use of the filters are (a) the removal of damaging mists and particles (for example, in process operations that could cause downstream corrosion and damage to equipment), (b) the removal of pollutants and (c) the recovery of valuable materials for reuse. The filters are also used to collect fine insoluble particulates. CECO's filters are used by, among others, the printing, electronics and mining industries; metal refiners; manufacturers of various acids, vegetable and animal based cooking oils, textile products, alkalies, chlorine, paper, computers, automobiles, asphalt, pharmaceutical products and chromic acid; electric generating facilities including cogeneration facilities; and end users of pollution control products such as incinerators.

CECO's filters are typically cylindrical in shape. The cylinder consists of inner and outer cylindrical cages, with filter material placed in the gap between the cages (usually two inches wide). Prior to insertion in the filter, raw filter material is placed in cylindrical molds and heated in an oven. Finished filter material segments are compressed in the gap between the cages. CECO also manufactures small vessels for holding its filters.

CECO holds a US Patent for a device with the trade names of the N-SERT(R) and X-SERT(R) prefilter. This device is used to protect the filter's surface from becoming coated with insoluble solids. Field performance has demonstrated the effectiveness of this device. CECO also holds a patent for its N-ESTED(R) multiple-bed fiberbed TWIN-PAK(R) filter, which permits an increase in filter surface area of 60% or more, thus decreasing energy consumption and improving collection efficiency. The device also permits the user to increase the capacity of the emission generating source without an energy or major modification penalty.

The air filters typically are mounted vertically in a closed tank with an air inlet for dirty gas and an exhaust for clean flow. The air flow is directed in such a manner that it passes through the outside of the filter to the inside core, or vice versa. After being captured in the filter, liquid particulates drain from the filter and are collected for reuse or removed, as the case may be. Solid soluble particulates can be dissolved in water or other suitable solvents and drained from the filter. Insoluble particles can be removed only by gentle brushing or washing.

CECO's filters range in size from 2 to 20 feet in height and are typically either 16 or 24 inches in diameter. The cages used in CECO's filter assemblies may be stainless steel, carbon steel, titanium or fiberglass mesh. The filter material used in approximately 75% of CECO's filters is fiberglass, which may be purchased in various grades of fiber diameter and chemical resistance depending on the specific requirements of the customer. Filter material may also be made of polyester, polypropylene or ceramic materials. CECO's filters are manufactured with different levels of efficiency in the collectibility of particulates, depending on the requirements of the customer.

Eventually, the filter material contained in CECO's filters will become saturated with insoluble solids or corroded and require replacement. The life of the filter material will be primarily dependent on the nature of the particles collected and the filtration atmosphere. Filter life generally ranges from 3 months to 15 years. The filters can be returned to CECO for replacement of the filter material, or can be replaced on-site by the customer. CECO sells replacement filter material segments with the trade name of SITE-PAK(R) for on-site installation by the customer and compressor kits to be used in connection with on-site replacement.

A significant portion of CECO's business consists of the sale of replacement filter material segments for its filters and for filters made by other manufacturers. The replacement process for filters made by other manufacturers involves modification of the cages to permit the insertion of replacement segments. Once modification of the cage and replacement of filter material has been completed by CECO, subsequent replacement of the filter material can be made on-site by the customer.

During 1996, CECO began implementing the results of its new design strategies by utilizing standard components customized for specific customer needs. These unique designs are characterized by ease of use, flexibility in application and the ability to achieve complete product recycle when the customer's use is satisfied. This breakthrough will enable CECO to offer the same units or applications in widely disparate industries with the possibility to reuse the units once the original use is satisfied. It also allows CECO the flexibility to sell or rent the systems. The rental approach allows CECO to reuse the units after cleaning and repacking, resulting in a high return on capital employed.

CECO's filters generally range in price from \$500 to \$8000, depending on the materials used in the filter and the size of the filter.

In March 1992, CECO acquired substantially all of the assets (and certain specific liabilities) of Air Purator Corporation, a Massachusetts corporation, through a wholly-owned subsidiary, Air Purator Corporation (formerly called A.P. Acquisition Corp.), a Delaware corporation ("APC").

APC is engaged in the manufacture of patented specialty needled fiberglass fabrics. Some of the fabrics are coated to permit their use in certain highly corrosive applications. The fabrics are mainly used in a particulate collection device known as a pulse jet baghouse which is fabricated by a number of companies. Before APC's fabric is placed into the baghouse, the fabric will generally be sewn into a shape resembling a tube closed at one end, called a bag. The bag is then placed in an enclosed cylindrical apparatus known as a bag holder. APC mainly sells its fabrics to the bag fabricator. Other applications include the recovery of valuable materials such as carbon black. There are many domestic and foreign fabricators with which APC deals. Products are uniformly priced for all purchasers through a published price list. APC's flagship product line is known in the field under the Huyglas(R) trade name. Huyglas is patented and is mainly used for high temperature (up to 550oF) service.

During 1996, APC developed a new, felted fiberglass fabric designed to compete with DuPont's Nomex(R). A new, felted fiberglass fabric was developed by APC targeted to compete with DuPont Nomex(R) and other fabrics sold for dust collection in industrial applications. This product will allow CECO to compete for a larger share of the global market for filter fabric media and will add to our established position with the Huyglas(R) trade name.

APC is presently engaged in the development of additional products based on its patented technology. One of its sales personnel is designated as a "Product Champion" and is vigorously pursuing various applications outside of uses traditionally associated with such fabrics. Several new products are currently being tested, but APC is unable to predict whether these efforts will result in the successful development of marketable products.

On October 1, 1992, CECO created a wholly-owned subsidiary, Compliance Systems International, a Delaware corporation ("CSI"), to pursue domestic and foreign environmental service markets and the sale of certain specialty equipment.

CSI organized the Technology Council (the "Council"), a group of independent consultants that are available to CSI to assist on CSI's behalf, CSI's industrial and commercial clients with environmental control options including waste minimization. Members of the Council are consulted by CSI when a customer hires CSI to address a problem that CSI can not resolve and which falls within such Council member's particular expertise.

In early 1993, CSI obtained exclusive rights to engineer, market and sell the patented Catenary Grid Scrubber(R). This device is designed for use with heat and mass transfer operations and particulate control. CSI designs complete systems centered around these devices.

During the fourth quarter of 1996 CECO formed a new wholly owned subsidiary in Delaware called U.S. Facilities Management Company, Inc. ("USFM"). USFM provides facilities management and emission control systems, software and outsource monitoring and/or maintenance services to help customers achieve air quality and operational goals.

During 1996 and 1995, two customers each comprised more than 10% of CECO's consolidated net sales in each year. During 1994, one customer comprised more than 10% of CECO's consolidated net sales. Because the demand for CECO's filters, replacement segments, fabric material, scrubbers and consulting services is not constant but can fluctuate due to economic conditions, filter life and other factors beyond CECO's control, CECO is unable to predict the level of purchases by its largest customers, or any other customer, in the future.

In the year ended December 31, 1996, CECO and its subsidiaries continued to develop additional market areas, including storage facility and turbine lube oil vent emission control and their related odor control, new dry particulate emission control and combination scrubber - fiber bed filter systems. CECO is also exploring combining its Catenary Grid Scrubber with dry collection for wet/dry system use.

CECO is continuing to focus its efforts on specialty market areas, where it believes it has a competitive advantage over its larger competitors who generally have much greater resources than CECO. Accordingly, CECO has relied on its proprietary technology to establish itself in its existing markets. CECO has established relationships, on a commission basis, with independent sales representatives in five foreign countries and continues to seek additional qualified representatives.

CECO has not been materially impacted by existing government regulation, nor is CECO aware of any probable government regulation that would materially affect its operations. CECO's costs in complying with environmental laws has been negligible. During 1996 and 1995, CECO estimates that \$116,979 and \$17,484, respectively, has been expended on research and development programs. Such costs are generally included as factors in determining CECO's pricing procedures.

#### Suppliers

CECO purchases all of its chemical grade fiberglass as needed from Schuller Corporation, which CECO believes is the only domestic supplier of such fiberglass. However, there are foreign suppliers of chemical grade fiberglass, and, based on current conditions, CECO believes that it could obtain such material from foreign suppliers on acceptable terms. CECO believes that there is sufficient supply of raw materials for the other components of its filters and does not anticipate any shortages in the near future.

APC purchases its raw material from a variety of sources and does not anticipate any shortages in the near future. While CECO depends upon two suppliers for certain specialty items, including glass and chemicals, CECO believes it has a good relationship with such suppliers and does not anticipate any difficulty in continuing to receive such items on terms acceptable to CECO.

#### Backlog

As of December 31, 1996, CECO's backlog of orders was approximately \$3,700,000, as compared to approximately \$3,100,000 on December 31, 1995.

#### Competition and Marketing

Monsanto Corporation is dominant in the fiber bed mist eliminator industry. Monsanto's financial resources are far greater than CECO's, and Monsanto can undertake much more extensive marketing and advertising programs than CECO. Certain other competitors also have greater financial resources than CECO.

CECO competes by stressing its exclusive products, including SITE-PAK(R) segments that permit on-site filter media replacement capability and prefilters, its patented product that protects the surface of a fiber bed filter from becoming plugged with solids, and its patented multiple-bed

fiberbed filters that dramatically increase the surface area of a filter. Also, CECO believes that it is the only U.S. manufacturer of fiber bed mist eliminators whose filter material can be replaced on-site by a customer. CECO believes it is price competitive within the market for filters with similar efficiency.

Manufacturers of electrostatic precipitators and wet scrubbers may also be deemed to be in competition with CECO, because those devices are also effective in removing particulates from an air or another gas stream. While such devices may have higher operating costs than fiber bed mist eliminators, replacement of the component parts of such devices is rare as compared to fiber bed mist eliminators.

CECO's subsidiaries each face substantial competition. APC and CSI each face competition from other forms of environmental control and material recovery devices including scrubbers and electrostatic precipitators and from other filter fabric media that can also be fabricated into bags for baghouses. These fabrics and fibers include, Teflon(R), Goretex(R), woven fiberglass (both treated and non-treated), polyester, Ryton(R), Nomex(R) and several other fabrics.

CECO's marketing efforts have consisted of telemarketing and direct solicitation of orders from existing customers. CECO is also utilizing direct mail solicitation and selected advertising in trade journals and product guides and trade shows. CECO also utilizes sales representatives located in the United States, Canada and overseas and Special Sales Directors, each focused on specific industries.

#### Employees

As of March 17, 1997, the Company did not have any full-time employees. CECO and its subsidiaries had 47 full-time employees as of December 31, 1996. In addition, CECO utilizes the services of one full-time consultant. CECO's consultant, Mr. Lazarus Thomaides, has worked with air-cleaning and filtration equipment for over thirty years. He has been involved in the design and maintenance of fiber bed mist eliminator systems at CECO (and its predecessors) and with Clermont Engineering since 1974. Mr. Thomaides has a B.S. degree in chemical engineering from Syracuse University. None of CECO's employees is currently unionized and CECO considers its relationship with its employees to be satisfactory.

#### Key Employee

CECO's operations to date have been largely dependent on the efforts of its President, Dr. Steven I. Taub. The loss to CECO of Dr. Taub would have a material adverse effect upon the operations of CECO. CECO has obtained key man life insurance in face amount of \$3 million on the life of Dr. Taub in an effort to reduce, to the extent possible, the immediate adverse economic impact to its business that would occur if it were to lose the services of Dr. Taub.



## Product Liability Insurance

As of October, 1989 CECO obtained product liability insurance covering its products. The policy excludes environmental liability.

## Patents

CECO currently holds one US patent for its N-SERT(R) and X-SERT(R) prefilters. CECO also holds a patent on its N-ESTED(R) multiple bed fiberbed filter. APC holds two patents on the Huyglas material and CSI holds an exclusive world-wide license to the patent on the Catenary Grid Scrubber and the Narrow Gap Venturi Scrubber. There is no assurance that measurable revenues will accrue to CECO or its subsidiaries as a result of their patents or licenses. However, the prefilters, multiple bed units and Huyglas material have contributed to CECO's performance during 1996.

## DEVELOPMENT OF CECO

CECO was incorporated on July 25, 1985. CECO commenced operations in August 1985 when it acquired substantially all of the fixed and intangible assets and the business (but did not assume any liabilities, except with respect to bona fide purchase orders) of CECO Filters, Inc., a Pennsylvania corporation ("CECO-PA"), which was not affiliated with CECO or its founders.

Prior to the sale of its assets to CECO, CECO-PA was also engaged in the manufacture and sale of fiber bed mist eliminators, and many customers of CECO-PA have remained customers of CECO. CECO-PA and its predecessors were engaged in the business of manufacturing fiber bed mist eliminators for over ten years prior to the sale of certain of CECO-PA's assets to CECO in August 1985. CECO believes that neither CECO-PA nor its immediate predecessor is currently engaged in the manufacture or sale of fiber bed mist eliminators. In connection with the sale of the business of CECO-PA, CECO-PA and its principal shareholder covenanted not to compete with the business of CECO, however, that covenant not to compete expired in August 1988.

## Acquisition of Assets

Pursuant to an Agreement of Purchase and Sale of Assets dated as of March 10, 1992, CECO, through a wholly-owned subsidiary formed specifically for the purpose of effectuating the acquisition, purchased substantially all of the assets (and assumed certain specific liabilities) of Air Purator Corporation, a Massachusetts corporation specializing in the manufacture of a coated needled fiberglass fabric, used in air pollution control devices and other applications. The total purchase price was \$482,826 of which \$382,826 was paid by cash and the rest by a two-year promissory note in the principal amount of \$100,000 with interest thereon at a rate of

10% per annum. In December 1992, CECO redeemed the note in exchange for 66,667 shares of CECO common stock. APC is a Delaware corporation and is qualified to do business in Massachusetts.

For over 10 years prior to the transaction with APC, Air Purator Corporation was engaged in the manufacture and sale of specialty needled fabric material with the Huyglas trade name.

#### Creation of Subsidiaries

Effective October 1, 1992, CECO formed a wholly-owned subsidiary, Compliance Systems International, Inc., a Delaware corporation to pursue domestic and foreign environmental service markets. CECO's initial investment in CSI consisted only of short term working capital loans. CSI is based in San Diego and is qualified to do business in the State of California under the name CECO Systems International, Inc. CSI also has an office located at CECO's headquarters.

CSI acquired the exclusive patent rights to the Catenary Grid Scrubber from Mr. Kenneth Schiffner, its inventor who is also a CSI employee. These rights pertain to all market areas. Prior to this, the Catenary Grid Scrubber was engineered, marketed and sold by the Otto York Company, a subsidiary of Raytheon Corporation.

CECO believes that neither Air Purator Corporation nor Otto York Company is engaged in the manufacture of similar devices or products to those it acquired from them.

During the fourth quarter of 1996 CECO formed a new wholly owned subsidiary in Delaware called U.S. Facilities Management Company, Inc. ("USFM"). USFM provides facilities management and emission control systems, software and outsource monitoring and/or maintenance services to help customers achieve air quality and operational goals.

#### Investment by CECO in the Company

On May 26, 1993, CECO purchased 100,000 shares of newly issued Common Stock of the Company for \$2.80 per share or \$280,000 in the aggregate. The market price for the Company's Common Stock closed at \$4.00 per share at that date. The purchase price was paid for with \$160,000 in cash, with the balance due on demand, without interest. The balance was paid in full during the first quarter of 1994. On the date of purchase the Company owned 52.1% of CECO's common stock. As of December 31, 1996, CECO distributed 17,800 shares of such Common Stock of the Company to certain of CECO's key employees in lieu of cash bonuses. Such CECO employees are restricted from selling such Common Stock for one year from the date of distribution.

## Item 2. Properties

The Company maintains its offices in Toronto, Ontario at premises made available to them at no charge by Phillip DeZwirek, the Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors and a controlling shareholder of the Company.

On July 3, 1991, CECO entered into an agreement to purchase a plant facility in Conshohocken, Pennsylvania. The closing for such acquisition occurred on October 28, 1991. The cost of this facility, which includes real property and manufacturing equipment, was \$1,500,000. A tax free industrial development bond in the amount of \$1,200,000 issued by the Pennsylvania Economic Development Funding Authority (PEDFA) funded substantially the entire purchase price. The balance was funded on an interim basis from CECO's existing line of credit and existing cash. CECO received further funding from the Pennsylvania Industrial Development Authority (PIDA) in the form of a \$405,000 loan at 3% for 15 years, the proceeds of which replaced CECO's short-term borrowings under its line of credit. The property was encumbered by a first mortgage to PEDFA and a second mortgage to PIDA, respectively. On February 25, 1993 CECO refinanced its mortgage and replaced the PEDFA mortgage with a fourteen year commercial mortgage from CoreStates Bank at 8% through March 1, 1998 and thereafter at 3/4% over the Bank's prime rate.

As part of the acquisition of APC, CECO entered into a one year renewable lease with BTR North America, Inc. for the premises formerly occupied by APC in Taunton, Massachusetts consisting of approximately 10,000 square feet at a rental of \$47,500 for the year. On March 1, 1994, CECO exercised its option to renew the lease and acquired an additional 1,500 square feet which has raised the annual rental to \$54,625. This lease expires on February 28 of each year and is renewable yearly upon mutual consent and APC continues to lease the premises as a tenant-at-will. APC is currently negotiating with the landlord for a lease and anticipates entering into a new lease on similar terms to its prior lease shortly.

Until December 31, 1994, CECO was also party to a one year renewable lease dated October 1, 1992 for approximately 475 square feet at an annual rental of \$4,800.00 for office space in California used by CSI. In January 1995, CECO moved into larger quarters in the same building and now occupies 1,418 square feet at an annual rental of \$13,783.

## Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of their property is subject.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Annual Period Report on Form 10-KSB.

PART II

Item 5. Market of the Registrant's Common Stock and Related Stockholder Matters.

(a) The Company's common stock is traded in the over-the-counter market and is quoted in the NASDAQ automated quotation system under the symbol CECE. The following table sets forth the range of bid prices for the common stock of the Company as reported in the NASDAQ system during the periods indicated, and represents prices between broker-dealers, which do not include retail mark-ups and mark-downs, or any commissions to the broker-dealers. The bid prices do not reflect prices in actual transactions.

|   | CEC Common Stock - Bids |          |             | CEC Common Stock - Bids |          |
|---|-------------------------|----------|-------------|-------------------------|----------|
|   | High                    | Low      |             | High                    | Low      |
| 1995                                    | ----                    | ---      | 1996        | ----                    | ---      |
| - - - - -                               |                         |          | -----       |                         |          |
| 1st Quarter                             | \$2.50                  | \$1.75   | 1st Quarter | \$4.00                  | \$2.625  |
| 2nd Quarter                             | \$4.50                  | \$2.50   | 2nd Quarter | \$3.50                  | \$2.50   |
| 3rd Quarter                             | \$5.626                 | \$3.875  | 3rd Quarter | \$3.125                 | \$1.6875 |
| 4th Quarter                             | \$4.438                 | \$2.938  | 4th Quarter | \$2.9375                | \$1.75   |
| 1997                                    |                         |          |             |                         |          |
| 1st Quarter<br>(through March 10, 1997) | \$3.125                 | \$1.9375 |             |                         |          |

(b) The approximate number of beneficial holders of common stock of the Company as of March 10, 1997 was 885.

(c) The Company has paid no dividends during the fiscal year ended December 31, 1995 or the fiscal year ended December 31, 1996. The Company does not expect to pay dividends in the foreseeable future.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Financial Condition, Liquidity and Capital Resources

The Company's consolidated cash position decreased from \$1,043,011 on December 31, 1995 to \$412,174 on December 31, 1996. This net decrease of \$630,837 is attributable principally to the use of cash of \$1,015,520 for the net increase in marketable securities, increase in cash from other operating activities of \$1,125,678, use of cash of \$118,408 for the acquisitions of property and intangible assets and the use of cash in financing activities by CECO, principally to repay short term and long term debt of \$650,087. The investments in marketable securities, which earned interest income of \$82,763 in 1996, are primarily in high yield bonds of major U.S. corporations.

CECO's expenditures for property and equipment amounted to \$78,720 for the year ended December 31, 1996. Such expenditures were primarily for computer hardware and software upgrades, manufacturing equipment upgrades and building renovations by CECO. CECO intends to continue to invest in fixed assets to support continued growth.

The Company's current ratio improved from 1.65 on December 31, 1995 to 2.1 on December 31, 1996, primarily as the result of the Company's significant increase in cash flows, including cash invested in marketable securities.

CECO maintains a \$1,250,000 line of credit with a commercial bank, of which \$400,000 was outstanding as of December 31, 1996. This credit facility is available for working capital needs, investment activities and other general corporate needs.

Management believes that CECO's expected revenues from operations, supplemented by the available line of credit, will be sufficient to provide adequate cash to fund CECO's anticipated working capital and other cash needs during 1997.

The Company and CECO entered into a five year written management and consulting agreement, dated January 1, 1994, which became effective on July 1, 1994, pursuant to which and financial consulting services to CECO for a monthly fee of \$20,000 until the agreement expires in December 1998. Such revenue should be sufficient to cover the Company's general and administrative expenses.

The Company believes its consulting agreement with CECO and interest income from its investments in marketable securities should provide sufficient revenue to meet its general and administrative expenses.

## Results of Operations - The Company

The Company's consolidated statement of operations for the years ended December 31, 1996 and 1995 reflect the operations of the Company consolidated with the operations of CECO. During 1996, the Company earned consulting fees from CECO (\$240,000), earned investment income from marketable securities (\$82,763) and continued to incur general and administrative expenses (\$208,018). As of December 31, 1996 the Company owned approximately 68% of the outstanding Stock of CECO. Minority interest on the consolidated statement of operations has been presented as a reduction in income.

The Company's consolidated net sales, including CECO's consolidated net sales, were \$9,847,697 for the year ended December 31, 1996 and \$8,435,309 for the year ended December 31, 1995, an increase of 16.7%. During the year ended December 31, 1996, all of the Company's consolidated net sales were attributable to the operations of CECO.

The Company incurred general and administrative expenses which were \$208,018 for the year ended December 31, 1996 and \$163,032 for the year ended December 31, 1995, excluding those expenses incurred by CECO that are reflected on the Company's consolidated statement of operations. Those expenses included accounting and legal fees, and fees relating to acquisition consulting and shareholder relations.

The Company received \$240,000 for each of the years ended December 31, 1996 and 1995 for management and financial consulting services provided to CECO. This amount is not reflected in the consolidated results of operations since it is eliminated in consolidation.

Except as set forth above, the Company has no other income (loss), revenues or expenses other than as a result of its investment in CECO and investment in marketable securities. Except as described above, the Company does not engage in operations other than through its operating subsidiary CECO. See discussion of CECO herein.

## Results of Operations - CECO

### 1996 as Compared to 1995

CECO's consolidated net sales increased by \$1,412,388 or 16.7% from \$8,435,309 in 1995 compared to \$9,847,697 in 1996. Net income increased in 1996 from a loss of \$71,241 or (\$0.01) per share to \$401,025 or \$0.07 per share in 1996, an improvement of \$472,266. This dramatic improvement in financial performance can be attributed to:

o Continuation of CECO's target market strategy which allowed CECO to improve gross profit margins by attaining higher value for the products and services CECO provides. (See description of target market strategy in section titled "1995 as compared to 1994".)

o Repositioning CECO in the marketplace to enhance how CECO is viewed by customers, competitors, employees, and shareholders. CECO is making good progress in identifying market segments that fit criteria for delivering exceptional value to both our customers and shareholders.

o Redirection of CECO's design strategies to utilize standard components customized for specific customer needs. This specialized standardization approach helped shape much of our new developments in 1996, and will become the cornerstone for improving competitiveness and profit margins over the next several years.

o A new subsidiary was formed to implement CECO'S facilities management strategy. Investment in this new activity was nearly \$200,000. Market potential of this service-oriented business could greatly exceed that of the existing businesses and will be discussed subsequently.

o Research and development expenditures in 1996 were increased from \$17,484 in 1995 to \$116,979 in 1996 and resulted in the following developments:

Two patent applications directed toward enhancing CECO's customized standardization (CS) strategy. These unique designs are characterized by ease of use, flexibility in application and the ability to achieve complete product recycle when the customer's use is satisfied. This breakthrough will enable CECO to offer the same units or applications in widely disparate industries with the possibility to reuse the units once the original use is satisfied. It also allows CECO the flexibility to sell or rent the systems. The rental approach allows CECO to reuse the units after cleaning and repacking, resulting in a high return on capital employed.

A new, felted fiberglass fabric was developed by CECO's APC subsidiary, targeted to compete with DuPont Nomex(R) and other fabrics sold for dust collection in industrial applications. This product will allow CECO to compete for a larger share of the global market for filter fabric media and will add to our established position with the Huyglas(R) trade name. Although marketing will be a challenge, CECO's management is excited about CECO's prospects.

Nomex(R) is a registered trademark of E.I. DuPont.

Huyglas(R) is a registered trademark of Air Purator Corp., a subsidiary of CECO.

CECO's order backlog as of December 31, 1996 was approximately \$3.7 million as compared to \$3.1 million as of December 31, 1995. There can be no assurance that order backlog will be replicated, or increase, from quarter to quarter.



During 1996 and 1995, CECO had two customers in each year representing 14% and 10% and 15% and 10% respectively, of consolidated net sales. CECO is continuing its strategy to target more accounts with large dollar volume order potential. There can be no assurance that CECO will be successful in its attempts to increase order size or its market breadth.

CECO's cost of sales as a percentage of sales decreased by 3.4% in 1996 from 56.1% in 1995 compared to 52.7% in 1996. The decrease was due primarily to decreased raw material costs.

Selling and administrative expenses increased by \$265,899 from \$3,050,817 in 1995 to \$3,316,716 in 1996. Approximately \$200,000 of such increase was attributed to CECO's investment in the facilities management strategy described previously. CECO's selling and administrative expenses decreased by 2.5%, as a percentage of sales, from 36.2% in 1995 to 33.7% in 1996. A substantial portion of the selling and administrative expenses are fixed in nature.

CECO's depreciation and amortization expense decreased slightly from \$356,634 in 1995 to \$341,599 in 1996 primarily due to a decrease in equipment acquisitions in 1996.

CECO's interest expense decreased from \$175,028 in 1995 to \$154,837 in 1996, principally due to decreased borrowing from CECO's line of credit in 1996.

#### 1995 as Compared to 1994

CECO's consolidated net sales decreased by \$1,812,132, or 17.7% from \$10,247,441 in 1994 compared to \$8,435,309 in 1995. The significant factors attributable to this decrease were the result of the following:

In early 1995 CECO began to implement its target market approach. The purpose of this approach was to focus CECO's efforts on opportunities in markets that CECO judged ready for its specialized systems and services and to begin to take control of its customer base by relying less heavily on distributors uncommitted to CECO's future.

Prior to 1995, CECO directed its sales efforts in a multitude of markets. Due to several factors, including the long service life of its products and limited sales and marketing resources, significant penetration into all the industries CECO's systems served began to limit its potential. This became the case even though CECO enjoyed substantial customer response and loyalty.

Recognizing that CECO's core competency was its knowledge about how to solve difficult problems, it began to focus its resources in market segments that had the following characteristics: a) a definite need, b) necessary financial resources, and c) identifiably similar problems that could be solved with reasonably standard approaches. The plan,

when implemented, would clearly permit CECO to become the recognized solution provider to a multiplicity of customers with nearly identical needs. The logic is that this could simplify CECO's business and allow it to provide accepted solutions to problems without reinventing them for each customer. This specialized standardization is one of the needed ingredients for successful plan implementation.

Another key ingredient is people that are familiar with the selected target market segments and their needs. CECO re-engineered its staff to better serve the selected market areas. This effort was nearly complete at the end of 1995. Along with this, more engineering talent was brought into CECO to meet its commitments.

During the transition period CECO's sales decreased but overall profitability, based on 1993 results, increased. For example in 1993 CECO's sales were \$8,634,452 compared to 1995 sales of \$8,435,309 and 1993's loss from operations was \$710 compared to 1995's operating income of \$52,595. Although sales decreased by nearly \$200,000, income rose by over \$53,000.

CECO's order backlog as of March 15, 1996 was approximately \$3.8 million, which was about \$2.2 million higher than its order backlog as of March 15, 1995. This increase in backlog was a result of structuring and defining specific target markets and having separate Sales Directors managing these target markets. There can be no assurance that order backlog will be replicated, or increase, from quarter to quarter. The success of CECO's business depends on a multitude of factors that are out of CECO's control. CECO's operating results can be significantly impacted by the introduction of new products, new manufacturing technologies, rapid changes in the demand for its products, decreases in the average selling price over the life of a product as competition increases, and CECO's dependence on the efforts of distributors to sell a significant portion of its products.

CECO's market scope is international. Most overseas orders are received from developed countries with some from third world countries. CECO is represented by agents in five countries in addition to the United States. Orders from overseas sources increased in 1995 from 1994. Although environmental control is important to developing countries, economic needs must continue to be met and therefore, environmental needs are sometimes placed second to economic growth. We believe that CECO will continue to be a victim of this decision making process for many years, thereby making it difficult to reasonably predict overseas growth rates for our products.

CECO had two customers representing 15% and 10% of sales respectively in 1995 compared to one customer representing 15% of sales in 1994.

CECO's cost of sales as a percentage of sales was relatively stable at 56.1% in 1995 compared to 55.9% in 1994. During 1995, permanent direct and indirect labor decreased by 16.1% (from \$823,151 in 1994 to \$690,990 in 1995) while sales decreased by 17.7% from 1994 to 1995.

CECO's selling and administrative expenses decreased from \$3,190,216 in 1994 to \$3,050,817 in 1995. A substantial portion of the selling and administrative expenses are fixed in nature. The largest variable expense in this category is sales commissions which amounted to approximately 3% of net sales in each year.

CECO entered into a management and consulting agreement with the Company as of January 1, 1994, and which became effective July 1, 1994. The Company owned approximately 63% of CECO's common stock as of December 31, 1995. The terms of the agreement require monthly fees of \$40,000 from July 1994 through December 1994 and \$20,000 per month from January 1995 through December 1998 in exchange for management and financial consulting services involving corporate policies; marketing; strategic and financial planning; and mergers, acquisitions and related matters.

CECO's depreciation and amortization expense increased by \$24,444 from \$332,190 in 1994 to \$356,634 in 1995 principally due to the addition of equipment in 1995.

CECO's interest expense increased slightly from \$173,034 in 1994 to \$175,028 in 1995.

Item 7. Financial Statements

The Company's Consolidated Financial Statements of CECO Environmental Corp. and Subsidiaries for Years Ended December 31, 1996 and 1995, and other data are presented on the following pages:

|  |    |
|--|----|
| Cover Page   | 21 |
| Independent Auditor's Report<br>(Margolis & Company P.C.)  | 22 |
| Consolidated Balance Sheet   | 23 |
| Consolidated Statement of Operations   | 24 |
| Consolidated Statement of Shareholders'<br>Equity  | 25 |
| Consolidated Statement of Cash Flows   | 26 |
| Supplemental Disclosures of Cash<br>Flow Information   | 27 |
| Supplemental Disclosures of Non-Cash<br>Investing and Financing Activities                       | 27 |
| Notes to Consolidated Financial Statements<br>for the Years Ended December 31, 1996,<br>and 1995 | 28 |

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 1996 AND 1995

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders  
CECO Environmental Corp. and Subsidiaries  
Toronto, Ontario Canada

We have audited the accompanying consolidated balance sheet of CECO Environmental Corp. and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CECO Environmental Corp. and Subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Margolis & Company P.C.  
Certified Public Accountants

Bala Cynwyd, PA  
January 21, 1997

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

|   | DECEMBER 31, |              |
|---|--------------|--------------|
|   | 1996         | 1995         |
|   | ----         | ----         |
| ASSETS  |              |              |
| Current assets:   |              |              |
| Cash  | \$ 412,174   | \$ 1,043,011 |
| Marketable securities - trading   | 1,015,521    | --           |
| Accounts receivable   | 2,077,045    | 1,856,541    |
| Inventories   | 565,371      | 654,826      |
| Prepaid expenses and other current assets   | 45,464       | 56,736       |
| Deferred income taxes   | 58,735       | 20,889       |
|   | -----        | -----        |
| Total current assets  | 4,174,310    | 3,632,003    |
| Property and equipment, net   | 1,806,126    | 2,019,631    |
| Intangible assets, at cost, net   | 36,031       | 45,717       |
| Goodwill, net of accumulated amortization of \$253,622<br>and \$178,233, respectively                                   | 3,184,810    | 2,872,825    |
| Deferred charges  | --           | 75,000       |
|   | -----        | -----        |
| Total assets  | \$ 9,201,277 | \$ 8,645,176 |
|   | =====        | =====        |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |              |              |
| Current liabilities:  |              |              |
| Short-term obligations  | \$ 400,000   | \$ 850,000   |
| Current portion of long-term debt   | 83,100       | 173,393      |
| Current portion of capital lease obligation   | 6,043        | 4,838        |
| Accounts payable and accrued expenses   | 1,220,595    | 1,166,006    |
| Income taxes payable  | 276,976      | 10,745       |
|   | -----        | -----        |
| Total current liabilities   | 1,986,714    | 2,204,982    |
| Long-term debt, less current portion  | 1,132,869    | 1,238,795    |
| Capital lease obligation, less current portion  | 9,882        | 14,955       |
| Deferred income taxes   | --           | 19,888       |
|   | -----        | -----        |
| Total liabilities   | 3,129,465    | 3,478,620    |
|   | -----        | -----        |
| Minority interest   | 964,203      | 824,905      |
|   | -----        | -----        |
| Shareholders' equity:   |              |              |
| Preferred stock, \$.01 par value; 10,000,000 shares<br>authorized, none issued  | --           | --           |
| Common stock, \$.01 par value; 100,000,000<br>shares authorized, 7,338,548 and 6,956,348<br>shares issued, respectively | 73,385       | 69,563       |
| Capital in excess of par value  | 8,178,998    | 7,767,945    |
| Accumulated deficit   | (2,796,105)  | (3,097,188)  |
|   | -----        | -----        |
| Less treasury stock, at cost  | 5,456,278    | 4,740,320    |
|   | ( 348,669)   | ( 398,669)   |
|   | -----        | -----        |
| Net shareholders' equity  | 5,107,609    | 4,341,651    |
|   | -----        | -----        |
| Total liabilities and shareholders' equity  | \$ 9,201,277 | \$ 8,645,176 |
|   | =====        | =====        |

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

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF OPERATIONS

|  | YEAR ENDED<br>DECEMBER 31, |             |
|--|----------------------------|-------------|
|  | 1996                       | 1995        |
| Net sales  | \$9,847,697                | \$8,435,309 |
| Costs and expenses:  |                            |             |
| Cost of sales  | 5,187,732                  | 4,735,263   |
| Selling and administrative   | 3,524,734                  | 3,213,849   |
| Depreciation and amortization  | 416,988                    | 429,660     |
|  | 9,129,454                  | 8,378,772   |
| Income from operations   | 718,243                    | 56,537      |
| Investment income  | 82,763                     | -           |
| Interest expense   | ( 154,837)                 | ( 183,828)  |
| Income (loss) before income taxes (credit)<br>and minority interest  | 646,169                    | ( 127,291)  |
| Income taxes (credit)  | 205,788                    | ( 51,192)   |
| Income (loss) before minority interest                               | 440,381                    | ( 76,099)   |
| Minority interest in net (income) loss of<br>consolidated subsidiary | ( 139,298)                 | 27,362      |
| Net income (loss)  | \$ 301,083                 | (\$ 48,737) |
| Net income (loss) per share, primary and fully diluted               | \$ .04                     | (\$ .01)    |
| Weighted average number of common shares outstanding                 | 7,001,036                  | 6,437,345   |

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



CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

-----

|   | COMMON<br>STOCK<br>----- | CAPITAL IN<br>EXCESS OF<br>PAR VALUE<br>----- | ACCUMULATED<br>DEFICIT<br>----- | TREASURY<br>STOCK<br>----- |
|---|--------------------------|---|---------------------------------|----------------------------|
| Balance, December 31, 1994  | \$62,291                 | \$6,483,142                                   | (\$3,048,451)                   | (\$398,669)                |
| Net loss for year ended<br>December 31, 1995  |                          |   | ( 48,737)                       |                            |
| Acquisition of 3.3% of CECO Filters, Inc.<br>common stock through issuance of<br>227,200 shares of common stock | 2,272                    | 239,803                                       |                                 |                            |
| Issuance of 100,000 shares of common<br>stock (and stock options) in lieu<br>of consulting services             | 1,000                    | 149,000                                       |                                 |                            |
| Exercise of stock options   | 4,000<br>-----           | 896,000<br>-----                              | -----                           | -----                      |
| Balance, December 31, 1995  | 69,563                   | 7,767,945                                     | ( 3,097,188)                    | ( 398,669)                 |
| Net income for year ended<br>December 31, 1996  |                          |   | 301,083                         |                            |
| Acquisition of 5.1% of CECO Filters, Inc.<br>common stock through issuance of<br>371,200 shares of common stock | 3,712                    | 383,663                                       |                                 |                            |
| Exercise of stock options   | 110<br>-----             | 27,390<br>-----                               | -----                           | -----                      |
| Balance, December 31, 1996  | \$73,385<br>=====        | \$8,178,998<br>=====                          | (\$2,796,105)<br>=====          | (\$398,669)<br>=====       |

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

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

|  | YEAR ENDED<br>DECEMBER 31, |             |
|--|----------------------------|-------------|
|  | 1996                       | 1995        |
|  | ----                       | ----        |
| INCREASE (DECREASE) IN CASH  |                            |             |
| Cash flows from operating activities:  |                            |             |
| Net income (loss)  | 301,083                    | (\$ 48,737) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:         |                            |             |
| Non-cash consulting fees   | 75,000                     | 75,000      |
| Distribution of 17,800 shares of CECO Environmental Corp. common stock as employee bonuses in lieu of cash | 50,000                     | -           |
| Depreciation and amortization  | 341,599                    | 356,634     |
| Goodwill amortization  | 75,389                     | 73,026      |
| Deferred income taxes  | ( 57,734)                  | ( 60,356)   |
| Minority interest  | 139,298                    | ( 27,362)   |
| (Increase) decrease in operating assets:   |                            |             |
| Accounts receivable  | ( 220,504)                 | ( 340,301)  |
| Inventories  | 89,455                     | ( 249,818)  |
| Prepaid expenses and other current assets  | 11,272                     | ( 5,612)    |
| Purchase of marketable securities  | ( 1,615,959)               | -           |
| Proceeds from sale of marketable securities  | 600,439                    | -           |
| Increase (decrease) in operating liabilities:  |                            |             |
| Accounts payable and accrued expenses  | 54,589                     | 245,115     |
| Income taxes payable   | 266,231                    | ( 78,623)   |
|  | -----                      | -----       |
| Net cash provided by (used in) operating activities  | 110,158                    | ( 61,034)   |
|  | -----                      | -----       |
| Cash flows from investing activities:  |                            |             |
| Acquisitions of property and equipment   | ( 78,720)                  | ( 168,059)  |
| Acquisitions of intangible assets  | ( 39,688)                  | ( 16,870)   |
|  | -----                      | -----       |
| Net cash (used in) investing activities  | ( 118,408)                 | ( 184,929)  |
|  | -----                      | -----       |

CONTINUED ON NEXT PAGE

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

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED

|  | YEAR ENDED<br>DECEMBER 31, |             |
|--|----------------------------|-------------|
|  | 1996                       | 1995        |
|  | ----                       | ----        |
| Cash flows from financing activities:                  |                            |             |
| Proceeds from issuance of common stock                 | \$ -                       | \$ 900,000  |
| Proceeds from exercise of stock options                | 27,500                     | -           |
| Net borrowings (repayments),<br>short-term obligations | ( 450,000)                 | 600,000     |
| Repayments of long-term debt                           | ( 200,087)                 | (174,270)   |
| Net repayment of officer's loan                        | -                          | (366,641)   |
|  | -----                      | -----       |
| Net cash provided by (used in)<br>financing activities | ( 622,587)                 | 959,089     |
|  | -----                      | -----       |
| Net increase (decrease) in cash                        | ( 630,837)                 | 713,126     |
| Cash at beginning of year                              | 1,043,011                  | 329,885     |
|  | -----                      | -----       |
| Cash at end of year                                    | \$ 412,174                 | \$1,043,011 |
|  | =====                      | =====       |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

|                                |            |            |
|--------------------------------|------------|------------|
| Cash paid during the year for: |            |            |
| Interest                       | \$ 158,430 | \$ 171,435 |
|                                | -----      | -----      |
| Income taxes                   | \$ 23,861  | \$ 106,002 |
|                                | -----      | -----      |

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES

The Company exchanged 371,200 and 227,200 shares of its common stock for 371,200 and 227,200 shares of CECO Filters, Inc. common stock with unrelated third parties in 1996 and 1995, respectively.

During 1995, CECO Filters, Inc. acquired \$19,793 of equipment under a capital lease.

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

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

---

1. Nature of Business and Summary of Significant Accounting Policies

Nature of business - The principal business of the Company's subsidiary is the manufacture and sale, primarily in the United States, of fiber bed mist eliminators to the chemical, printing, plating, power generation, food processing, waste incineration and textile industries.

Principles of consolidation - The consolidated financial statements include the accounts of CECO Environmental Corp. (the "Company"), and CECO Filters, Inc. ("CFI"), a 68.1% owned subsidiary. The Company acquired its majority ownership in CFI in April 1993 (see Note 2). All intercompany balances and transactions have been eliminated.

Use of estimates - The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments in marketable securities - The Company's investments in marketable securities comprise corporate debt securities, all classified as trading securities, which are carried at their fair value based on the quoted market prices of those investments at December 31, 1996. Accordingly, net realized and unrealized gains and losses on trading securities are included in net income. Investment income for 1996 consisted principally of interest income.

Inventories and revenue recognition - Inventories are valued at cost using the first-in, first-out (FIFO) method which does not exceed market. Revenue is recognized upon shipment of completed products.

Property and equipment - Property and equipment are recorded at cost. Expenditures for repairs and maintenance are charged to income as incurred. Depreciation, for financial reporting purposes, is computed on the straight-line method based on the estimated useful lives of the assets.

Intangible assets - Goodwill is being amortized on a straight-line basis over 40 years. The Company's policy is to continually monitor the recoverability of goodwill using a fair value approach. Intangible assets are being amortized on a straight-line basis over their estimated useful lives, which range from 5 to 17 years.

Advertising costs - Advertising costs are charged to operations in the year incurred and totaled \$130,762 in 1996 and \$139,307 in 1995.

Research and development - Research and development costs are charged to expense as incurred. The amounts charged were \$116,979 and \$17,484 for 1996 and 1995, respectively.

Per share data - Per share data is computed using the weighted average number of shares outstanding during each period. The number of outstanding shares has been reduced by 137,920 shares of acquired treasury stock as of December 31, 1996 and 1995, respectively.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

---

1. Nature of Business and Summary of Significant Accounting Policies - Continued

Reclassifications - Certain reclassifications have been made to the 1995 financial statements to conform with the 1996 presentation.

Stock-based compensation - In October, 1996, the Financial Accounting Standards Board adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock- Based Compensation" (SFAS 123). SFAS 123 permits companies to choose between a "fair value based method of accounting" for employee stock options or to continue to measure compensation cost for employee stock compensation plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). The Company has chosen to continue to use the APB 25 method. Under such method, compensation is measured by the quoted market price of the stock at the measurement date less the amount, if any, that the employee is required to pay. The measurement date is the first date on which the number of shares that an individual employee is entitled to receive and the option or purchase price, if any, are known. The Company did not incur any compensation expense related to CFI's stock option plan or the Company's warrants during 1996 and 1995.

Entities electing to remain with this method must make pro forma disclosures of net income (loss) and earnings (loss) per share as if the fair value based method of accounting defined in SFAS 123 had been applied to all awards granted in fiscal years beginning after December 15, 1994. Had compensation cost for CFI's stock option plan and the warrants issued by the Company been determined based on the fair value at the grant dates for awards under those arrangements consistent with the method of SFAS 123, the Company's 1996 net income and earnings per share would have been reduced to \$38,583 and \$.01, respectively. The effect on net loss for 1995 for options granted under CFI's stock option plan would have been de minimis.

2. Investment in CFI/Goodwill

Pursuant to a Stock Exchange Agreement dated May 30, 1992, between the Company and IntroTech Investments, Inc. ("IntroTech"), a privately-held Ontario corporation, the Company exchanged 1,666,666 newly issued shares of its common stock for 1,666,666 shares of CFI common stock owned by IntroTech. CFI is a publicly-held Delaware corporation. The 1,666,666 shares of CFI common stock acquired by the Company are restricted. Those shares represented 24.51% of the outstanding shares of common stock of CFI.

During March 1993, the Company acquired 858,564 additional shares of CFI's common stock in exchange for newly issued shares of its own common stock, bringing the Company's holdings to 37.1% of CFI's common stock. Between April 1993 and December 1994, the Company acquired 1,518,100 more shares of CFI's common stock of which 1,497,000 shares were exchanged for newly issued shares of the Company's common stock and 21,100 shares were acquired for cash on the open market. During 1995 and 1996, respectively, the Company acquired 227,200 and 371,200 more shares of CFI's common stock in exchange for newly issued shares of the Company's common stock.

The Company included CFI and its wholly-owned subsidiaries in its consolidated financial statements as of April 1993 when the Company's ownership of CFI's common stock exceeded 50%.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

3. Financial Instruments

Fair value of financial instruments:

The fair values of cash and short-term obligations are assumed to be equal to their reported carrying amounts based on their close proximity to maturity. The fair values of other financial instruments are as follows:

|                       | 1996               |               | 1995               |               |
|-----------------------|--------------------|---------------|--------------------|---------------|
|                       | CARRYING<br>AMOUNT | FAIR<br>VALUE | CARRYING<br>AMOUNT | FAIR<br>VALUE |
|                       | -----              | -----         | -----              | -----         |
| Marketable securities | \$1,015,521        | \$1,015,521   | \$ -               | \$ -          |
| Long-term debt        | 1,412,188          | 1,392,349     | 1,215,969          | 1,140,611     |

Valuations for marketable securities are determined based on quoted market prices and valuations for long-term debt are determined based on future payments discounted at current interest rates for similar obligations.

Concentrations of credit risk:

Financial instruments that potentially subject the Company to credit risk consist principally of cash and accounts receivable. The Company performs periodic evaluations of the financial institutions in which its cash is invested. The Company performs ongoing credit evaluations of its customers' financial condition, and generally requires no collateral from its customers.

4. Inventories

Inventories consisted of the following at December 31:

|                | 1996      | 1995      |
|----------------|-----------|-----------|
|                | -----     | -----     |
| Raw material   | \$410,949 | \$514,489 |
| Finished goods | 154,422   | 140,337   |
|                | -----     | -----     |
|                | \$565,371 | \$654,826 |
|                | =====     | =====     |

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

5. Property and Equipment

Property and equipment consisted of the following at December 31:

|                               | 1996<br>----- | 1995<br>----- |
|-------------------------------|---------------|---------------|
| Land                          | \$ 137,342    | \$ 137,342    |
| Building                      | 1,670,631     | 1,662,908     |
| Machinery and equipment       | 1,551,694     | 1,488,539     |
|                               | -----         | -----         |
|                               | 3,359,667     | 3,288,789     |
| Less accumulated depreciation | 1,553,541     | 1,269,158     |
|                               | -----         | -----         |
|                               | \$1,806,126   | \$2,019,631   |
|                               | =====         | =====         |

Depreciation expense was \$331,913 and \$306,338 for 1996 and 1995, respectively. Machinery and equipment at December 31, 1996 and 1995 included equipment acquired under a capital lease with a cost of \$19,793 and accumulated depreciation of \$7,918 and \$3,959, respectively.

6. Intangible Assets

Intangible assets consisted of the following at December 31:

|                               | 1996<br>----- | 1995<br>----- |
|-------------------------------|---------------|---------------|
| Customer lists                | \$ 81,500     | \$ 81,500     |
| Non-compete agreement 62,500  | 62,500        |               |
| Patents                       | 77,406        | 77,406        |
|                               | -----         | -----         |
|                               | 221,406       | 221,406       |
| Less accumulated amortization | 185,375       | 175,689       |
|                               | -----         | -----         |
|                               | \$ 36,031     | \$ 45,717     |
|                               | =====         | =====         |

7. Debt

Short-term obligations

|  | 1996<br>----- | 1995<br>----- |
|--|---------------|---------------|
| Note payable, bank, under line of credit.<br>CFI has a line of credit with a bank<br>permitting borrowings of up to<br>\$1,250,000 with interest at the prime<br>rate plus 1/4% (effective rate of 8.5%<br>and 8.75% at December 31, 1996 and 1995,<br>respectively). In addition to<br>outstanding borrowings at December 31,<br>1996, there was also a \$150,000 standby<br>letter of credit to the Pennsylvania<br>Industrial Development Authority which<br>was outstanding. | \$400,000     | \$850,000     |
|  | =====         | =====         |

CFI is required to maintain compensating cash balances of 5% of the total line of credit offered, or is subject to additional fees.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

7. Debt - Continued

Long-term debt

|  | 1996        | 1995        |
|--|-------------|-------------|
|  | -----       | -----       |
| Mortgage note payable, bank, monthly installments of \$10,149, including interest at 8% per annum through March 1, 1998 at which time the interest rate will be adjusted to a per annum rate equal to 3/4% in excess of the prime rate. Remaining principal will be repaid in 110 equal monthly installments beginning April 1, 1998, plus interest. | \$ 907,928  | \$953,818   |
| Pennsylvania Industrial Development Authority, payable in equal monthly installments of \$2,797 including interest at 3% per annum, through May, 2007, collateralized by a second mortgage on land and building.   | 296,420     | 324,102     |
| Bank note, payable in equal monthly installments of \$7,000 plus interest at 3/4% in excess of the prime rate, (effective rate of 9.25% at December 31, 1995) through March, 1996, at which time the remaining principal balance of \$84,000 will be due   | -           | 105,000     |
| Delaware Valley Industrial Resource Center, payable in equal monthly installments of \$834 through January, 1996. Non-interest bearing.  | -           | 834         |
| Delaware Valley Industrial Resource Center, payable in equal monthly installments of \$489 including interest at 3% per annum, through February, 1997  | 974         | 6,715       |
| Delaware Valley Industrial Resource Center, payable in equal monthly installments of \$273 including interest at 3% per annum, through May, 1997   | 1,355       | 4,540       |
| Delaware Valley Industrial Resource Center, payable in equal monthly installments of \$131 including interest at 3% per annum, through April, 1997   | 521         | 2,053       |
|  | -----       | -----       |
| Totals (carried forward)   | \$1,207,198 | \$1,397,062 |
|  | -----       | -----       |



CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

7. Debt - Continued

|   | 1996        | 1995        |
|---|-------------|-------------|
|   | -----       | -----       |
| Totals (carried forward)  | \$1,207,198 | \$1,397,062 |
| Delaware Valley Industrial Resource Center, payable<br>in equal monthly installments of \$560 including<br>interest at 3% per annum, through March, 1998. | 8,771       | 15,126      |
|   | -----       | -----       |
|   | 1,215,969   | 1,412,188   |
| Less current portion  | 83,100      | 173,393     |
|   | -----       | -----       |
|   | \$1,132,869 | \$1,238,795 |
|   | =====       | =====       |

Maturities of all long-term debt over the next five years are estimated as follows:

|      |          |
|------|----------|
| 1997 | \$83,100 |
| 1998 | 79,472   |
| 1999 | 84,513   |
| 2000 | 91,762   |
| 2001 | 98,994   |

CFI's property and equipment, accounts receivable, and inventory serve as collateral for its bank debt. The bank debt is also subject to financial covenants which require CFI to limit its leverage and maintain a minimum cash flow coverage.

8. Capital Lease Obligation

CFI acquired equipment under the provisions of a long-term lease. Future minimum lease payments under the capital lease are as follows:

|  |          |
|--|----------|
| 1997   | \$ 6,953 |
| 1998   | 6,953    |
| 1999   | 3,478    |
|  | -----    |
|  | 17,384   |
| Less amount representing interest                      | 1,459    |
|  | -----    |
| Present value of net minimum<br>capital lease payments | 15,925   |
|  | -----    |
| Less current portion                                   | 6,043    |
| Long-term portion                                      | \$ 9,882 |
|  | =====    |

9. Shareholders' Equity

Stock Option Plan

CFI maintains a stock option plan for its employees. Under the plan, options to purchase 500,000 shares of CFI's common stock may be granted at not less than 100% of the market price of the shares on the date of grant. Options are generally exercisable one year from the date of grant and expire between five and ten years of the date of grant.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

9. Shareholders' Equity - Continued

The status of the stock option plan for CECO Filters, Inc., the Company's subsidiary, is as follows:

|                                    | 1996      |  | 1995     |  |
|------------------------------------|-----------|--|----------|--|
|                                    | SHARES    | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE | SHARES   | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE |
| Outstanding at beginning of year   | 369,100   | \$1.14                                   | 274,800  | \$1.17                                   |
| Granted                            | 80,900    | 1.04                                     | 100,500  | 1.07                                     |
| Forfeited                          | ( 41,400) | .97                                      | ( 6,200) | 1.00                                     |
| Outstanding at end of year         | 408,600   | 1.14                                     | 369,100  | 1.14                                     |
| Options exercisable at year end    | 327,700   |  | 268,600  |  |
| Available for grant at end of year | 6,850     |  | 87,750   |  |

Warrants to Purchase Common Stock

In November 1996, the Company's Board of Directors authorized the issuance of warrants to purchase 750,000 shares of the Company's Common Stock to the Chief Executive Officer. The warrants carry an exercise price of \$1.75 per share and expire on November 7, 2006.

10. Sales to Major Customers

During 1996 and 1995, CFI had two customers in each year representing 14% and 10%, and 15% and 10%, respectively, of consolidated net sales.

11. Employee Benefit Plans

CFI has a 401(k) Savings and Retirement Plan which covers substantially all employees. Under the terms of the Plan, employees can contribute between 1% and 15% of their annual compensation to the Plan. CFI matches 50% of the first 3% of employee contributions and December 31, 1996 and 1995 was \$34,505 and \$28,216, respectively.

CFI also has a profit-sharing plan which covers substantially all employees. There were no contributions to the Plan for 1996 or 1995.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

12. Rent

CFI leases certain facilities on a year-to-year basis. CFI also has future annual minimum rental commitments under a noncancelable operating lease as follows:

|      |          |
|------|----------|
| 1997 | \$36,596 |
| 1998 | 7,177    |

Total rent expense under all operating leases for 1996 and 1995 was \$88,515 and \$66,363, respectively.

13. Income Taxes

Income taxes (benefit) consisted of the following at December 31:

|          | 1996      | 1995       |
|----------|-----------|------------|
|          | -----     | -----      |
| Current: |           |            |
| Federal  | \$179,030 | (\$37,802) |
| State    | 84,492    | 24,282     |
|          | -----     | -----      |
| Deferred | 263,522   | ( 13,520)  |
|          | ( 57,734) | ( 37,672)  |
|          | -----     | -----      |
|          | \$205,788 | (\$51,192) |
|          | =====     | =====      |

The provision (benefit) for income taxes differs from the statutory rate due to the following for the year ended December 31:

|   | 1996      | 1995       |
|---|-----------|------------|
|   | -----     | -----      |
| Tax (benefit) at statutory rate             | \$219,697 | (\$43,279) |
| Increase (decrease) in tax resulting from:  |           |            |
| Net operating loss deduction                | ( 39,013) | ( 26,169)  |
| Surtax exemption                            | 10,629    |            |
| State tax, net of federal benefit           | 55,765    | 16,026     |
| Change in tax versus book basis of assets   | ( 57,734) | ( 37,672)  |
| Permanent differences, principally goodwill | 32,114    | 35,803     |
| (Over) accrual of prior years' taxes        | ( 9,198)  | ( 6,331)   |
| Other                                       | 4,157     | ( 199)     |
|   | -----     | -----      |
|   | \$205,788 | (\$51,192) |
|   | =====     | =====      |

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

13. Income Taxes - Continued

Deferred income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax liability consisted of the following at December 31:

|  | 1996      | 1995       |
|--|-----------|------------|
|  | -----     | -----      |
| Deferred tax asset:                                    |           |            |
| Inventory capitalization                               | \$ 17,414 | \$ 20,889  |
| Depreciation   | 21,321    | -          |
| Employee bonuses - restricted<br>stock in lieu of cash | 20,000    | -          |
| Net operating loss carryforwards                       | 92,000    | 135,000    |
| Less valuation allowance                               | ( 92,000) | ( 135,000) |
|  | -----     | -----      |
|  | 58,735    | 20,889     |
| Deferred tax liability:                                |           |            |
| Accelerated depreciation                               | -         | 19,888     |
|  | -----     | -----      |
| Net deferred tax liability                             | \$58,735  | \$ 1,001   |
|  | =====     | =====      |

The Company has federal net operating loss carryforwards of approximately \$231,000 which expire as follows:

| DECEMBER 31, |           |
|--------------|-----------|
| -----        |           |
| 2006         | \$ 36,000 |
| 2008         | 195,000   |

The change in valuation allowance reflects current utilization of net operating loss carryforwards. A valuation allowance is provided since the utilization of tax benefits of net operating loss carryforwards is not assured.

CECO Environmental Corp. and CFI each file separate federal income tax returns since the Company's ownership interest in CFI is not sufficient to allow for a consolidated federal income tax return. In addition, the federal net operating loss carryforwards are not available to offset taxable income of CFI.

14. Related Party Transactions

Effective January 1, 1995, the Company entered into a consulting agreement with CFI. The terms of the agreement require monthly fees by CFI of \$20,000 through December, 1998 in exchange for management and financial consulting services involving corporate policies; marketing; strategic and financial planning; and mergers, acquisitions and related matters. CFI paid the Company \$240,000 during each of the years ended December 31, 1996 and 1995. These fees have been eliminated in consolidation.

CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

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15. Consulting Agreement

The Company entered into an eighteen-month consulting agreement with an unrelated third party, effective April 1, 1995, to provide financial consulting services to the Company which will, among other things, help the Company to broaden its stock market appeal. As compensation, the consultant received an option to purchase 1,000,000 shares of the Company's common stock at \$2.50 per share, such option expiring April 30, 1996. Options exercised on or prior to December 31, 1995 were exercisable at \$2.25 per share. In addition, the Company issued 100,000 shares of its common stock to the consultant.

The value of the options and shares issued, as determined by an unrelated third party, was \$150,000, such amount being deferred and amortized over the eighteen-month period of the consulting agreement. Amortization of \$75,000 was recorded during each year.

During the years ended December 31, 1996 and 1995, the consultant exercised options to acquire 11,000 and 400,000 shares, respectively, of the Company's common stock.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has had no changes in or disagreements with its independent accountants during the Company's two most recent fiscal years.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following are the directors and executive officers of the Company. The terms of all directors expire at the next annual meeting of shareholders and upon election of their successors. The terms of all officers expire at the next annual meeting of the board of directors and upon the election of the successors of such officers.

| Name                 | Age | Position  |
|----------------------|-----|---|
| - - - - -            | --- | -----   |
| Phillip DeZwirek     | 59  | Chairman of the Board of Directors; Chief Executive Officer and Chief Financial Officer |
| Jason Louis DeZwirek | 26  | Director  |
| Josephine Grivas     | 57  | Director and Secretary  |

The business backgrounds during the past five years of the Company's directors and officers are as follows:

Phillip DeZwirek became a director, the Chairman of the Board and the Chief Executive Officer of the Company in August 1979. Mr. DeZwirek's principal occupations during the past five years have been as President (since May 1982 until 1993) and Chairman of the Board of Digital Fusion Multimedia Corp. (formerly Akers Medical Technologies Limited and herein called "Digital Fusion") of Toronto Canada; Chairman of the Board and Vice President of CECO Filters, Inc., a Delaware corporation (since 1985); President of Can-Med (since 1990); and President and a director of Technapower (since August 1988). Mr. DeZwirek has also been involved in private investment activities for the past five years. Digital Fusion's common stock is traded over-the-counter on the NASDAQ Bulletin Board. CECO's common stock is listed on the Philadelphia Stock Exchange. CECO is a manufacturer and distributor of filters used to trap, collect and remove solid soluble and liquid particulate matter suspended in an air or other gas streams. Technapower has no operations, but owns 75% of an operating subsidiary, Electronics. See Item 1 - Business.

Jason Louis DeZwirek, the son of Phillip DeZwirek, became a director of the Company in February, 1994, following the resignation of the then third director. Mr. DeZwirek's principal occupation since 1993 has been as the President of Digital Fusion, a company that adapts books and movies to the CD Rom medium. From 1992 until 1993, Mr. DeZwirek was the Chief Financial Officer of Missing Treasurers Productions, a television production company. From 1988 to 1992, Mr. DeZwirek was a student at Concordia University in Montreal, Quebec where he received a B.A. in philosophy.

Josephine Grivas has been a director of the Company since February, 1991 and its Secretary since October, 1992. Ms. Grivas has been an administrative assistant for Phillip DeZwirek, Icarus Investment Corp. and other entities he controls since 1975. Ms. Grivas also is the Secretary and Treasurer and a director of Can-Med.

During the fiscal year ended December 31, 1993, the Board held no meetings. During and since the end of such period, action has been taken by unanimous written consent of the Board of Directors.

Compliance with Section 16(a) of the Exchange Act. The Company is not aware of any persons who beneficially own or owned more than 10 percent of the outstanding common stock of the Company or any officer, director or other person subject to the requirements of Section 16 of the Securities Exchange Act of 1934 who, during the period covered by this Annual Report on Form 10-KSB, failed to file, or failed to file on a timely basis, any reports or forms required to be filed under said Section 16 or the rules and regulations promulgated thereunder.

#### Item 10. Executive Compensation

Except for the grant of the Warrants described below, neither the Company nor any of its subsidiaries paid, set aside or accrued any salary or other remuneration or bonus, or any amount pursuant to a profit-sharing, pension, retirement, deferred compensation or other similar plan, during its last fiscal year, to or for any of the Company's executive officers or directors.

Except for the grant of the Warrants described below, the directors of the Company received no consideration for serving in their capacity as directors of the Company. The Company has no annuity, pension or retirement plans.

#### Warrants

On November 7, 1996, in consideration for Philip DeZwirek's valuable service to the Company as an employee, officer and director, all posts which he has held without consideration, the Company granted Mr. DeZwirek warrants (the "Warrants") to purchase up to 750,000 shares of the Company's common stock ("Warrant Shares"). The Warrants are exercisable at any time between November 7, 1996 and November 7, 2006 inclusive at a price of \$1.75, the closing price of the Company's common stock on November 7, 1996. The Warrants are

transferable and grant the holders thereof "piggyback registration rights", i.e. the right to participate in any registration of securities by the Company other than a registration statement in connection with a merger or pursuant to registration statements on Forms S-4 or S-8. Additionally, the holders of a majority of the Warrant Shares not previously resold and the Warrants convertible into Warrant Shares have the right on two occasions to have the Company prepare and file with the Securities and Exchange Commission a registration statement and such other documents as may be necessary for such holders to have a public offering of Warrant Shares previously issued or to be issued upon the effectiveness of such registration statement. The Company is however required to pay the expenses of only one of such registrations. The right to demand such registrations expires on November 7, 2006 or upon the happening of certain other conditions.

#### Compensation

During the fiscal year ended December 31, 1996 the Company granted no stock options other than the Warrants. The Company does not have any stock options currently outstanding other than the Warrants.

The following table summarizes the total compensation of Phillip DeZwirek, the Chief Executive Officer of the Company, for 1996 and the two previous years. There were no other executive officers of the Company who received compensation in excess of \$100,000 in 1996.



SUMMARY COMPENSATION TABLE FOR THE COMPANY:

| Name/<br>Principal Position                                      | Annual Compensation<br>Year | Salary   | Long Term Compensation<br>Options (#) |
|--|-----------------------------|----------|---------------------------------------|
| Phillip DeZwirek (1)<br>President and<br>Chief Executive Officer | 1996                        | \$42,500 | 750,000                               |
|  | 1995                        | \$37,500 | -                                     |
|  | 1994                        | -        | -                                     |

The following tables set forth information with respect to Mr. DeZwirek concerning exercise of options on stock of the Company during the last fiscal year and unexercised options on stock of the Company held as of the end of the fiscal year.

OPTION/SAR GRANTS BY THE COMPANY  
FOR THE YEAR ENDED DECEMBER 31, 1996:

| Name                 | Number of<br>Securities<br>Underlying<br>Options<br>Granted (#) | % of Total<br>Options/SARs<br>Granted to<br>Employees in<br>Fiscal Year | Exercise<br>or Base<br>(\$/SH) | Expiration<br>Date |
|----------------------|---|---|--------------------------------|--------------------|
| Phillip DeZwirek (1) | 750,000   | 100%  | \$1.75                         | November 7, 2006   |

AGGREGATED OPTION/SAR ON THE COMPANY  
EXERCISES FOR THE YEAR ENDED DECEMBER 31, 1996  
AND OPTION/SAR VALUES ON THE COMPANY AS OF DECEMBER 31, 1996:

| Name               | Shares<br>Acquired<br>on<br>Exercise<br>(#) | Value<br>Realized<br>(\$) | Number of Securities<br>Underlying Unexercised<br>Options/SARs<br>at 12/31/96<br>Exercisable | Value of Unexercised<br>In-the-Money<br>Options/SARs<br>at 12/31/96<br>Exercisable |
|--------------------|---|---------------------------|--|--|
| Phillip DeZwirek 1 | 0   | 0                         | 750,000  | \$187,500  |

(1) Represents the Warrants issued to Phillip DeZwirek on November 7, 1996.

The following table summarizes the total compensation of the Chief Executive Officer of CECO Filters, Inc. for 1996 and the two previous years (the "Named Executive Officer"). There were no other executive officers of CECO Filters, Inc. who received compensation in excess of \$100,000 for 1996.

SUMMARY COMPENSATION TABLE FOR CECO FILTERS, INC.:

| Name/<br>Principal Position  | Annual Compensation<br>Year | Salary    | Other(1) | Long Term Compensation<br>Options (#) |
|--|-----------------------------|-----------|----------|---------------------------------------|
| Steven I. Taub, Ph.D./<br>President and<br>Chief Executive Officer | 1996                        | \$200,000 | \$35,800 | 30,000                                |
|  | 1995                        | \$200,000 | \$36,200 | 75,000                                |
|  | 1994                        | \$200,000 | \$20,399 | 75,000                                |

The following tables set forth information with respect to the Named Executive Officer concerning exercise of options on stock of CECO during the last fiscal year and unexercised options on stock of CECO held as of the end of the fiscal year.

OPTION/SAR GRANTS BY CECO FILTERS, INC.  
FOR THE YEAR ENDED DECEMBER 31, 1996:

| Name                  | Number of<br>Securities<br>Underlying<br>Options/SARs<br>Granted (#) | % of Total<br>Options/SARs<br>Granted to<br>Employees in<br>Fiscal Year | Exercise<br>or Base<br>(\$/SH) | Expiration<br>Date |
|-----------------------|--|---|--------------------------------|--------------------|
| Steven I. Taub, Ph.D. | 30,000(2)  | 37.08%  | \$1.10                         | December 31, 2001  |

AGGREGATED OPTION/SAR ON CECO FILTERS, INC.  
EXERCISES FOR THE YEAR ENDED DECEMBER 31, 1996  
AND OPTION/SAR VALUES ON CECO FILTERS, INC. AS OF DECEMBER 31, 1996:

| Name                  | Shares<br>Acquired<br>on<br>Exercise |                           | Number of Securities<br>Underlying Unexercised<br>Options/SARs<br>at 12/31/96 |               | Value of Unexercised<br>In-the-Money<br>Options/SARs<br>at 12/31/96 |               |
|-----------------------|--------------------------------------|---------------------------|---|---------------|---|---------------|
|                       | (#)                                  | Value<br>Realized<br>(\$) | Exercisable   | Unexercisable | Exercisable   | Unexercisable |
| Steven I. Taub, Ph.D. | 0                                    | 0                         | 295,000   | 30,000        | \$5,625   | 0             |

(1) Includes \$7,000 as a car allowance and the balance as an IRA contribution and insurance premiums.

(2) Not exercisable for one year from date of grant.

Dr. Taub is presently negotiating a new employment agreement with CECO. Dr. Taub's previous employment agreement with CECO expired in 1990 and Dr. Taub has worked in the interim without an agreement.

Item 11. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Beneficial Owners

The following table sets forth the name and address of each beneficial owner of more than five percent (5%) of the Company's common stock known to the Company, the number of shares

of common stock of the Company beneficially owned as of February 18, 1997, and the percent of the class so owned by each such person.

| Name of<br>Beneficial Owner<br>-----   | No. of Shares<br>of Common Stock<br>Beneficially Owned<br>----- | % of Total CEC<br>Common Shares<br>Outstanding (1)<br>----- |
|--|---|---|
| Icarus Investment Corp.(2)<br>111 Elizabeth St., Suite 600<br>Toronto, Ontario M5G 1P7     | 1,334,360   | 18.5%   |
| Phillip DeZwirek(2,3,4)<br>111 Elizabeth St., Suite 600<br>Toronto, Ontario M5G 1P7        | 2,089,857   | 29.3%   |
| IntroTech Investments, Inc.(5)<br>195 Hillside Avenue East<br>Toronto, Ontario M5S 1T4     | 1,598,666   | 22.2%   |
| Jason Louis DeZwirek(2,5)<br>195 Hillside Avenue East<br>Toronto, Ontario M5S 1T4<br>----- | 2,933,026   | 40.7%   |

(1) Based upon 7,200,628 shares of common stock of the Company outstanding as of February 18, 1997.

(2) Icarus Investment Corp. ("Icarus") is owned 50% by Phillip DeZwirek and 50% by Jason Louis DeZwirek. Ownership of the shares of common stock of CEC owned by Icarus Investment Corp. also are attributed to both Messrs. Phillip DeZwirek and Jason Louis DeZwirek. With respect to the shares owned by Icarus, Icarus has sole dispositive and voting power and Phillip DeZwirek and Jason Louis DeZwirek are deemed to have shared voting and shared dispositive power.

(3) Phillip DeZwirek is the Chief Executive Officer, Chief Financial Officer and Chairman of the Board of Directors of CEC.

(4) Includes 750,000 shares of the Company's common stock that Phillip DeZwirek can purchase on or prior to November 7, 2006 from the Company at a price of \$1.75 per share pursuant to Warrants granted to Mr. DeZwirek by the Company on November 7, 1996.

(5) IntroTech Investments, Inc. ("IntroTech") is owned 100% by Jason Louis DeZwirek. Ownership of the shares of common stock of the Company owned by IntroTech also are attributed to Jason Louis DeZwirek. IntroTech and Jason Louis DeZwirek are each deemed to have sole dispositive and sole voting power with respect to such shares.

(b) Security Ownership of Management

As of February 18, 1997, the present directors and executive officers of the Company are the beneficial owners of the numbers of shares of common stock of the Company set forth below:

| Name of Beneficial Owner and Position Held   | Number of Shares of Common Stock Beneficially Owned | % of Total CEC Common Shares Outstanding (1) |
|--|---|--|
| Phillip DeZwirek<br>Chief Financial Officer, Chief Executive Officer, Chairman of the Board of Directors | 2,089,857(2)  | 29.3%  |
| Jason Louis DeZwirek<br>Director   | 2,933,026(3)  | 40.7%  |
| Josephine Grivas<br>Director, Secretary  | ---   | ---  |
| Officers and Directors as a group (3 persons)  | 3,688,523   | 46.4%  |

(c) Changes in Control

The Company is not aware of any current arrangement(s) that may result in a change in control of the Company.

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- (1) See Note 1 to the foregoing table.
  - (2) See Notes 2, 3 and 4 to the foregoing table.
  - (3) See Notes 2 and 5 to the foregoing table.

Item 12. Certain Relationships and Related Transactions

Since January 1, 1995, the following transactions have occurred in which persons who, at the time of such transactions, were directors, officers or owners of more than 5% of the Company's common stock, had a direct or indirect material interest.

Phillip DeZwirek, from time to time, has advanced funds to the Company in order to provide it with working capital and in order to enable it to meet certain expenses. As of December 31, 1994, the Company owed Mr. DeZwirek an aggregate of \$366,641 (including interest) on account of such advances. During the fiscal year ended December 31, 1995, Mr. DeZwirek advanced no additional funds to the Company and was repaid all amounts due him by the Company. All of such advances while outstanding to the Company accrued interest at the rate of 6%. (See: Management's Discussion and Analysis on Plan of Operation and Notes to Consolidated Financial Statements.)

The Company and CECO have entered into a five (5) year written management and consulting agreement pursuant to which the Company provides management and financial consulting services to CECO. The Company advises CECO on corporate policies, strategic and financial planning, mergers and acquisitions, financing, long-term financial goals and growth plans and related matters. This agreement was made as of January 1, 1994 and became effective as of July 1, 1994. Pursuant to this agreement CECO paid the Company management and financial consulting fees of \$40,000 per month from July 1, 1994 through December 31, 1994 (\$240,000 total), and paid \$20,000 per month (\$240,000 total) for the 1995 and 1996 fiscal years. The contract requires monthly contract fees of \$20,000 through the end of its term. The consulting agreement with CECO terminates on December 31, 1998, and may be terminated earlier upon the bankruptcy or liquidation of CECO or the Company, by the non-bankrupt party. The consulting agreement may also be terminated upon the sale of substantially all of the assets of CECO or the merger of CECO into another company, in which event the Company is entitled to receive a severance fee of \$240,000.

Item 13. Exhibits, Lists and Reports on Form 8-K

- (a) Exhibits
  - 3(i) Articles of Incorporation (Incorporated by reference from Form 10-KSB dated December 31, 1993 of the Company)
  - 3(ii) Bylaws (Incorporated by reference from Form 10-KSB dated December 31, 1993 of the Company)

- 4.1 Form of Warrant to be issued to broker-dealers and dealers in securities (Incorporated by reference from CECO's Registration Statement on Form S-18 declared effective on August 12, 1987)
- 4.2 1987 CECO Filters, Inc. Key Employees and Key Personnel Stock Option Plan (Incorporated by reference from CECO's Registration Statement on Form S-18 declared effective on August 12, 1987)
- 4.3 CECO Filters, Inc. Savings and Retirement Plan (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1990)
- 10.13 Stock Purchase Agreement dated as of March 27, 1991 between CECO and Michael Edge (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1990)
- 10.14 Agreement of Sale dated July 2, 1991 between CECO and Bassett Properties, Inc. (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.14.1 Addendum to Agreement of Sale dated July 14, 1991 (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.14.2 Second Addendum to Agreement of Sale dated July 23, 1991 (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.15 Loan Agreement dated September 1, 1991 between CECO and Philadelphia Economic Development Financing Authority (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.16 Reimbursement Agreement dated September 1, 1991 between CECO and Philadelphia National Bank (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.17 Mortgage dated October 28, 1991 by CECO and the Montgomery County Industrial Development Corporation ("MCIDC") (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)



- 10.18 Mortgage dated October 28, 1991 by CECO and MCIDC (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.19 Installment Sale Agreement dated October 28, 1991 between CECO and MCIDC (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.20 Acquisition Agreement dated October 28, 1991 between CECO and MCIDC (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.21 Lease dated as of March 10, 1992 between CECO and BTR North America, Inc. (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.22 Agreement of Purchase and Sale of Assets dated as of March 10, 1992 by and among A.P. Acquisition Corp., CECO, Air Purator Corporation and Vericon Corporation (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1991)
- 10.23 Stock Purchase Agreement dated as of December 23, 1991, between CECO, Steven I. Taub, Introtech Investments, Inc. and Trio Growth Trust (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1992)
- 10.24 Promissory Note from Steven I. Taub to CECO in the amount of \$83,334 (Incorporated by reference from CECO's Annual Report on Form 10-K for the fiscal year ended December 31, 1992)
- 10.25 Commercial Promissory Note dated February 25, 1993 between CECO and Corestates Bank, N.A. (Incorporated by reference from CECO's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1993)
- 10.26 Commercial-Industrial Mortgage dated February 25, 1993 between CECO and Corestates Bank, N.A. (Incorporated by reference from CECO's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1993)
- 10.27 Stock Sale Agreement, dated June 18, 1992, between Registrant and Phillip DeZwirek relating to Can-Med Technology, Inc. stock (Incorporated by reference from Form 8-K dated June 18, 1993 of the Company)

- 10.28 Stock Sale Agreement, dated June 18, 1993, between Registrant and Phillip DeZwirek relating to API Electronics, Inc. stock (Incorporated by reference from Form 8-K dated June 18, 1993 of the Company)
- 10.29 Consulting Agreement dated as of January 1, 1994 and effective as of July 1, 1994 between the Company and CECO (Incorporated by reference to Form 10-QSB dated September 30, 1994 of the Company)
- 10.30 Consulting Agreement, dated as of April 1, 1995 between the Company and Pioneer Capital Consulting Corp. (Incorporated by reference from the Company's Quarterly Report on 10-QSB for the quarter ended March 31, 1995)
- 10.31 Consulting Agreement among the Company, Robert A. Lerman and John F. Ferraro, dated as of April 1, 1995, which agreement replaced Exhibit 10.30. (Incorporated by reference from the Company's Registration Statement on Form S-8 dated August 29, 1995)
- 10.32 Warrant Agreement dated as of November 7, 1996 between the Company and Phillip DeZwirek.
- 21 Subsidiaries of the Company (Incorporated by reference from Form 10-KSB dated December 31, 1996 of CECO)
- 27 Financial Data Schedule.

(b) Reports on Form 8-K

The Company filed a report on Form 8-K during the fiscal quarter ended December 31, 1996. This report, dated December 3, 1996, reported that the Company had exchanged 138,800 shares of CECO common stock for 138,800 shares of the Company's newly issued common stock in a transaction exemption from registration under the Securities Act of 1933 pursuant to Regulation S.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Phillip DeZwirek  
-----  
Phillip DeZwirek,  
Chief Executive Officer  
Chief Financial Officer

Dated: March 19, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Principal Executive, Financial  
and Accounting Officer

/s/ Phillip DeZwirek March 19, 1997  
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Phillip DeZwirek, Chairman of the  
Board and Director,  
Principal Executive, Financial  
and Accounting Officer

/s/ Jason Louis DeZwirek March 19, 1997  
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Jason Louis DeZwirek, Director

/s/ Josephine Grivas March 19, 1997  
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Joseph Grivas, Director

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH  
REPORTS FILED PURSUANT TO SECTION 15(d) OF  
THE EXCHANGE ACT BY NON-REPORTING ISSUERS

The Company has not furnished to its security holders an annual report or proxy materials since the filing of its immediately prior report on Form 10-KSB.

EXHIBITS

CECO ENVIRONMENTAL CORP.

AND

PHILLIP DeZWIREK

WARRANT AGREEMENT

Dated as of November 7, 1996

WARRANT AGREEMENT (the "Agreement") dated as of November 7, 1996 between CECO Environmental Corp., a New York corporation (the "Company"), Phillip DeZwirek (hereinafter referred to as a "Holder" or "DeZwirek").

W I T N E S S E T H :

WHEREAS, DeZwirek is an employee, officer and director of the Company; and

WHEREAS, DeZwirek has, and continues to provide valuable services to the Company; and

WHEREAS, the Company desires to grant to DeZwirek, and DeZwirek desires to accept from the Company, warrant certificates giving DeZwirek the right to purchase shares of the Company's Common Stock.

NOW, THEREFORE, in consideration of the premises, the payment by DeZwirek to the Company of an aggregate of ten dollars (\$10.00), the agreements herein set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Grant. DeZwirek is granted the right to purchase, from the Company, at any time from November 7, 1996 until 5:30 p.m., New York time, on November 7, 2006 (the "Expiration Date"), at which time the Warrants expire, up to an aggregate of 750,000 shares (subject to adjustment as provided in Section 8 hereof) of common stock, par value \$.01 per share, of the Company ("Common Stock") at an initial exercise price (subject to adjustment as provided in Section 11 hereof) of \$1.75 per share (the "Exercise Price").

2. Warrant Certificates. The warrant certificates (the "Warrant Certificates") delivered and to be delivered pursuant to this Agreement shall be in the form set forth in Exhibit A, attached hereto and made a part hereof, with such appropriate insertions, omissions, substitutions, and other variations as required or permitted by this Agreement.

3. Registration of Warrant. The Warrants shall be numbered and shall be registered on the books of the Company when issued.

4. Exercise of Warrant.

4.1 Method of Exercise. The Warrants initially are exercisable at the product of (i) the Exercise Price multiplied by (ii) the number of shares of Common Stock purchased (subject to adjustment as provided in Section 11 hereof), as set forth in Section 8 hereof payable by certified or official bank check in United States dollars. The product of the number of Warrants exercised at any one time multiplied by the Exercise Price shall be referred to as the "Purchase Price." Upon surrender of a Warrant Certificate with the annexed Form of Election to Purchase duly executed, together with payment of the Purchase Price for the shares of Common Stock purchased at the Company's principal offices located at 111 Elizabeth Street, Suite 600, Toronto, Ontario, Canada, the registered holder of a Warrant Certificate ("Holder" or "Holders") shall be entitled to receive a certificate or certificates for the shares of Common Stock so purchased. The purchase rights represented by each Warrant Certificate are exercisable at the option of the Holder thereof, in whole or in part (but not as to fractional shares of the Common Stock). In the case of the purchase of less than all the shares of Common Stock purchasable under any Warrant Certificate, the Company shall cancel said Warrant Certificate



upon the surrender thereof and shall execute and deliver a new Warrant Certificate of like tenor for the balance of the shares of Common Stock purchasable thereunder.

5. Issuance of Certificates. Upon the exercise of the Warrants, the issuance of certificates for shares of Common Stock shall be made forthwith (and in any event within five (5) business days thereafter) without charge to the Holder thereof including, without limitation, any tax which may be payable in respect of the issuance thereof, and such certificates shall (subject to the provisions of Sections 7 and 9 hereof) be issued in the name of, or in such names as may be directed by, the Holder thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificates in a name other than that of the Holder and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

The Warrant Certificates and the certificates representing the shares of Common Stock, or other securities, property or rights issued upon exercise of the Warrants shall be executed on behalf of the Company by the manual or facsimile signature of the then present President or any Vice President of the Company under its corporate seal reproduced thereon, attested to by the manual or facsimile signature of the then present Secretary or any Assistant Secretary of the Company. Warrant Certificates shall be dated the date of execution by the Company upon initial issuance, division, exchange, substitution or transfer.

6. Transfer of Warrant. The Warrants shall be transferable only on the books of the Company maintained at its principal office, where its principal office may then be located, upon delivery thereof duly endorsed by the Holder or by its duly authorized attorney or representative accompanied by proper evidence of succession, assignment or authority to transfer. Upon any registration transfer, the Company shall execute and deliver new Warrants to the person entitled thereto.

7. Restriction On Transfer of Warrants. The Holder of a Warrant Certificate, by its acceptance thereof, covenants and agrees that the Warrants are being acquired as an investment and not with a view to the distribution thereof.

8. Exercise Price and Number of Securities. Except as otherwise provided in Section 10 hereof, each of the Warrants are exercisable to purchase one share of Common Stock at an initial exercise price equal to the Exercise Price. The Exercise Price and the number of shares of Common Stock for which the Warrant may be exercised shall be the price and the number of shares of Common Stock which shall result from time to time from any and all adjustments in accordance with the provisions of Section 11 hereof.

9. Registration Rights.

9.1 Registration Under the Securities Act of 1933. Each Warrant Certificate and each certificate representing the shares of Common Stock, and any of the other securities issuable upon exercise of the Warrants and the securities underlying the securities issuable upon exercise of the Warrants (collectively, the "Warrant Shares") shall bear the following legend, unless (i) such Warrants or Warrant Shares are distributed to the public or sold for distribution

to the public pursuant to this Section 9 or otherwise pursuant to a registration statement filed under the Securities Act of 1933, as amended (the "Act"), (ii) such Warrants or Warrant Shares are subject to a currently effective registration statement under the Act; or (iii) the Company has received an opinion of counsel, in form and substance reasonably satisfactory to counsel for the Company, that such legend is unnecessary for any such certificate:

THE WARRANTS REPRESENTED BY THIS CERTIFICATE AND THE OTHER SECURITIES ISSUABLE UPON EXERCISE THEREOF MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, (ii) TO THE EXTENT APPLICABLE, RULE 144 UNDER SUCH ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) AN OPINION OF COUNSEL, IF SUCH OPINION SHALL BE REASONABLY SATISFACTORY TO COUNSEL FOR THE ISSUER, THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE.

THE TRANSFER OR EXCHANGE OF THE WARRANTS OR OTHER SECURITIES REPRESENTED BY THE CERTIFICATE IS RESTRICTED IN ACCORDANCE WITH THE WARRANT AGREEMENT REFERRED TO HEREIN.

9.2 Piggyback Registration. If, at any time commencing on the date of this Agreement, and expiring on the Expiration Date, the Company proposes to register any of its securities, not registered on the date hereof, under the Act (other than in connection with a merger or pursuant to Form S-4 or Form S-8) it will give written notice by registered mail, at least thirty (30) days prior to the filing of each such registration statement, to the Holders of the Warrants and/or the Warrant Shares of its intention to do so. If any of the Holders of the Warrants and/or Warrant Shares notify the Company within twenty (20) days after mailing of any such notice of its or their desire to include any such securities in such proposed registration

statement, the Company shall afford such Holders of the Warrants and/or Warrant Shares the opportunity to have any such Warrant Shares registered under such registration statement. In the event that the managing underwriter for said offering advises the Company in writing that in the underwriter's opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without causing a diminution in the offering price or otherwise adversely affecting the offering, the Company will include in such registration (a) first, the securities the Company proposes to sell, (b) second, the securities held by the entities that made the demand for registration, (c) third, the Warrants and/or Warrant Shares requested to be included in such registration which in the opinion of such underwriter can be sold, pro rata among the Holders of Warrants and/or Warrant Shares on the basis of the number of Warrants and/or Warrant Shares requested to be registered by such Holders, and (d) fourth, other securities requested to be included in such registration.

Notwithstanding the provisions of this Section 9.2, the Company shall have the right at any time after it shall have given written notice pursuant to this Section 9.2 (irrespective of whether a written request for inclusion of any such securities shall have been made) to elect not to file any such proposed registration statement or to withdraw the same after the filing but prior to the effective date thereof.

9.3 Demand Registration.

(a) At any time commencing January 1, 1997 and expiring on the Expiration Date, the Holders of the Warrants and/or Warrant Shares representing a "Majority" (as hereinafter defined) of the Warrants and/or Warrant Shares shall have the right on one

occasion (which right is in addition to the registration rights under Section 9.2 hereof), exercisable by written notice to the Company, to have the Company prepare and file with the Securities and Exchange Commission (the "Commission"), a registration statement and such other documents, including a prospectus, as may be necessary in the opinion of both counsel for the Company and counsel for the Holders, in order to comply with the provisions of the Act, so as to permit a public offering and sale by such Holders and any other Holders of the Warrants and/or Warrant Shares who notify the Company within fifteen (15) days after the Company mails notice of such request pursuant to Section 9.3(b) hereof (collectively, the "Requesting Holders") of their respective Warrant Shares so as to allow the unrestricted sale of the Warrant Shares to the public from time to time until the earlier of the following: (i) the Expiration Date, or (ii) the date on which all of the Warrant Shares requested to be registered by the Requesting Holders have been sold (the "Registration Period").

(b) The Company covenants and agrees to give written notice of any registration request under this Section 9.3 by any Holder or Holders representing a Majority of the Warrants and/or Warrant Shares to all other registered Holders of the Warrants and the Warrant Shares within ten (10) days from the date of the receipt of any such registration request.

(c) In addition to the registration rights under Section 9.2 and subsection (a) of this Section 9.3, at any time commencing January 1, 1997 and expiring on the Expiration Date, the Holders of Warrants and/or Warrant Shares shall have the right on one occasion, exercisable by written request to the Company, to have the Company prepare and file with the Commission a registration statement so as to permit a public offering and sale by such Holders

of their respective Warrant Shares from time to time until the first to occur of the following: (i) the expiration of this Agreement, or (ii) all of the Warrant Shares requested to be registered by such Holders have been sold; provided, however, that the provisions of Section 9.4(b) hereof shall not apply to any such registration request and registration and all costs incident thereto shall be at the expense of the Holder or Holders making such request.

9.4 Covenants of the Company With Respect to Registration. In connection with any registration under Section 9.2 or 9.3 hereof, the Company covenants and agrees as follows:

(a) The Company shall use its best efforts to file a registration statement within ninety (90) days of receipt of any demand therefor, and to have any registration statements declared effective at the earliest possible time, and shall furnish each Holder desiring to sell Warrant Shares such number of prospectuses as shall reasonably be requested. The Company shall also file such applications and other documents as may be necessary to permit the sale of the Warrant Shares to the public during the Registration Period in those states to which the Company and the holders of the Warrants and/or Warrant Shares shall mutually agree.

(b) The Company shall pay all costs (excluding fees and expenses of Holder(s)' counsel and any underwriting or selling commissions), fees and expenses in connection with all registration statements filed pursuant to Sections 9.2 and 9.3(a) hereof including, without limitation, the Company's legal and accounting fees, printing expenses, blue sky fees and expenses. The Holder(s) will pay all costs, fees and expenses in connection with the registration statement filed pursuant to Section 9.3(c).

(c) The Company will take all necessary action which may be required in qualifying or registering the Warrant Shares included in a registration statement for offering and sale under the securities or blue sky laws of such states as reasonably are requested by the Holder(s), provided that the Company shall not be obligated to execute or file any general consent to service of process or to qualify as a foreign corporation to do business under the laws of any such jurisdiction.

(d) The Company shall indemnify the Holder(s) of the Warrant Shares to be sold pursuant to any registration statement and each person, if any, who controls such Holder(s) within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), against all loss, claim, damage, expense or liability (including all expenses reasonably incurred in investigating, preparing or defending against any claim whatsoever) to which any of them may become subject under the Act, the Exchange Act or otherwise, arising from such registration statement.

(e) In order to provide for just and equitable contribution under the Act in any case in which (i) any Holder of the Warrant Shares or controlling person thereof makes a claim for indemnification but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that the express provisions of Section 9.4(d) hereof provide for indemnification in such case or (ii) contribution under the Act may be required on the part of any Holder of the Warrant Shares, or controlling person thereof, then the Company, any such Holder of the Warrant Shares, or controlling person thereof shall contribute to the aggregate

losses, claims, damages or liabilities to which they may be subject (which shall, for all purposes of this Agreement, include, but not be limited to, all costs of defense and investigation and all attorneys fees), in either such case (after contribution from others) on the basis of relative fault as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or a Holder of Warrant Shares, or controlling person thereof on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and such Holders of such securities and such controlling persons agree that it would not be just and equitable if contribution pursuant to this Section 9.4(e) were determined by pro rata allocation or by any other method which does not take account of the equitable considerations referred to in this Section 9.4(e). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this Section 9.4(e) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(f) The Holder(s) of the Warrant Shares to be sold pursuant to a registration statement, and their successors and assigns, shall severally, and not jointly, indemnify the Company, its officers and directors and each person, if any, who controls the



Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against any loss, claim, damage or expense or liability (including all expenses reasonably incurred in investigating, preparing or defending against any claim whatsoever) to which they may become subject under the Act, the Exchange Act or otherwise, arising from information furnished in writing, by or on behalf of such Holders, or their successors or assigns, for specific inclusion in such registration statement.

(g) Nothing contained in this Agreement shall be construed as requiring the Holder(s) to exercise their Warrants prior to the initial filing of any registration statement or the effectiveness thereof.

(h) The Company shall not permit the inclusion of any securities other than the Warrant Shares to be included in any registration statement filed pursuant to Section 9.3 hereof, or permit any other registration statement (other than a registration statement on Form S-4 or S-8) to be or remain effective during a one hundred and eighty (180) day period following the effective date of a registration statement filed pursuant to Section 9.3 hereof, without the prior written consent of the Holder(s) of the Warrants and Warrant Shares representing a Majority of such securities or as otherwise required by the terms of any existing registration rights granted prior to the date of this Agreement by the Company to the holders of any of the Company's securities.

(i) The Company shall furnish to each Holder participating in the offering and to each underwriter, if any, a signed counterpart, addressed to such Holder or underwriter, of (i) an opinion of counsel to the Company, dated the effective date of such registration

statement (and, if such registration includes an underwritten public offering, an opinion dated the date of the closing under the underwriting agreement), and (ii) a "cold comfort" letter dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, a "cold comfort" letter dated the date of the closing under the underwriting agreement) signed by the independent public accountants who have issued a report on the Company's financial statements included in such registration statement, in each case covering substantially the same matters with respect to such registration statement (and the prospectus included therein) and, in the case of such accountants' letter, with respect to events subsequent to the date of such financial statements, as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to underwriters in underwritten public offerings of securities.

(j) The Company shall as soon as practicable after the effective date of the registration statement, and in any event within 15 months thereafter, make "generally available to its security holders" (within the meaning of Rule 158 under the Act) an earnings statement (which need not be audited) complying with Section 11(a) of the Act and covering a period of at least 12 consecutive months beginning after the effective date of the registration statement.

(k) The Company shall enter into an underwriting agreement with the managing underwriters selected for such underwriting by Holders holding a Majority of the Warrant Shares requested to be included in such underwriting. Such agreement shall be satisfactory in form and substance to the Company, each Holder and such managing underwriters, and shall contain such representations, warranties and covenants by the Company

and such other terms as are customarily contained in agreements of that type used by the managing underwriter. The Holder(s) shall be parties to any underwriting agreement relating to an underwritten sale of their Warrant Shares and may, at their option, require that any or all of the representations, warranties and covenants of the Company to or for the benefit of such underwriters shall also be made to and for the benefit of such Holder(s). Such Holder(s) shall not be required to make any representations or warranties to or agreements with the Company or the underwriters except as they may relate to such Holder(s) and their intended methods of distribution.

(1) For purposes of this Agreement, the term "Majority" in reference to the Warrants or Warrant Shares, shall mean in excess of fifty percent (50%) of the then outstanding Warrants or Warrant Shares that (i) are not held by the Company, or (ii) have not been resold to the public pursuant to a registration statement filed with the Commission under the Act or Rule 144 promulgated under the Act.

10. Obligations of Holders. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 9 hereof that each of the selling Holders shall:

(a) Furnish to the Company such information regarding themselves, the Warrant Shares held by them, the intended method of sale or other disposition of such securities, the identity of and compensation to be paid to any underwriters proposed to be employed in connection with such sale or other disposition, and such other information as may reasonably be required to effect the registration of their Warrant Shares.

(b) Notify the Company, at any time when a prospectus relating to the Warrant Shares covered by a registration statement is required to be delivered under the Act, of the happening of any event with respect to such selling Holder as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

11. Adjustments to Exercise Price and Number of Securities. The Exercise Price in effect at any time and the number and kind of securities purchasable upon the exercise of the Warrants or the securities underlying the Warrants shall be subject to adjustment from time to time upon the happening of certain events as follows:

11.1 Dividend, Subdivision and Combination. In case the Company shall (i) declare a dividend or make a distribution on its outstanding shares of Common Stock in shares of Common Stock, (ii) subdivide or reclassify its outstanding shares of Common Stock into a greater number of shares, or (iii) combine or reclassify its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect at the time of the record date for such dividend or distribution or of the effective date of such subdivision, combination or reclassification shall be adjusted so that it shall equal the price determined by multiplying the Exercise Price by a fraction, the denominator of which shall be the number of shares of Common Stock outstanding after giving effect to such action, and the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such action. Such adjustment shall be made successively whenever any event listed above shall occur.

11.2 Adjustment in Number of Securities. Upon each adjustment of the Exercise Price pursuant to the provisions of this Section 11, the number of Warrant Shares issuable upon the exercise at the adjusted Exercise Price of each Warrant shall be adjusted to the nearest number of whole shares of Common Stock determined by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of the applicable Warrant Shares issuable upon exercise of the Warrants immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

11.3 Definition of Common Stock. For the purpose of this Agreement, the term "Common Stock" shall mean (i) the class of stock designated as Common Stock in the Articles of Incorporation of the Company as of the date hereof, or (ii) any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value.

11.4 Merger or Consolidation. In case of any consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation or merger which does not result in any reclassification or change of the outstanding Common Stock), the corporation formed by such consolidation or merger shall execute and deliver to each Holder a supplemental warrant agreement providing that the Holder of each Warrant then outstanding shall have the right thereafter (until the Expiration Date) to receive, upon exercise of such Warrant, the kind and amount of shares of stock and other securities and property receivable upon such consolidation or merger to which the Holder would have been entitled if the Holder had exercised such Warrant immediately prior to such consolidation, merger, sale or transfer. Such

supplemental warrant agreement shall provide for adjustments which shall be identical to the adjustments provided in this Section 11. The above provision of this subsection shall similarly apply to successive consolidations or mergers.

11.5 No Adjustment of the Exercise Price in Certain Cases. No adjustment of the Exercise Price shall be made:

(a) Upon the issuance or sale of the Warrants or the Warrant Shares;

(b) Upon the issuance or sale of Common Stock (or any other security convertible, exercisable, or exchangeable into shares of Common Stock) upon the direct or indirect conversion, exercise, or exchange of any options, rights, warrants, or other securities or indebtedness of the Company outstanding as of the date of this Agreement or granted pursuant to any stock option plan of the Company in existence as of the date of this Agreement, pursuant to the terms thereof or issued pursuant to any stock purchase plan in existence as of the date of this Agreement, pursuant to the terms thereof; or

(c) If the amount of said adjustment shall be less than ten cents (\$.10) per share, provided, however, that in such case any adjustment that would otherwise be required then to be made shall be carried forward and shall be made at the time of and together with the next subsequent adjustment which, together with any adjustment so carried forward, shall amount to at least ten cents (\$.10) per share.

12. Exchange and Replacement of Warrant Certificates. Each Warrant Certificate is exchangeable, without expense, upon the surrender thereof by the registered Holder at the principal executive office of the Company for a new Warrant Certificate of like tenor and date representing in the aggregate the Holder's right to purchase the same number of Warrant Shares in such denominations as shall be designated in such Warrant Certificate at the time of such surrender.

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Warrant Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it and reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of the Warrant Certificate, if mutilated, the Company will make and deliver a new Warrant Certificate of like tenor, in lieu thereof.

13. Elimination of Fractional Interests. The Company shall not be required to issue certificates representing fractions of shares of Common Stock or other securities upon the exercise of the Warrants, nor shall it be required to issue scrip or pay cash in lieu of fractional interests, it being the intent of the parties that all fractional interests shall be eliminated by rounding any fraction up to the nearest whole number of shares of Common Stock or other securities, properties or rights.

14. Reservation and Listing of Securities. The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon the exercise of the Warrants, such number of shares of Common Stock or other securities,

properties or rights as shall be issuable upon the exercise thereof or the exercise or conversion of any other exercisable or convertible securities underlying the Warrants. Every transfer agent and warrant agent (collectively "Transfer Agent") for the Common Stock and other securities of the Company issuable upon the exercise of the Warrants will be irrevocably authorized and directed at all times to reserve such number of authorized shares of Common Stock and other securities as shall be requisite for such purpose. The Company will keep a copy of this Agreement on file with every Transfer Agent for the Common Stock and other securities of the Company issuable upon the exercise of the Warrants. The Company will supply every such Transfer Agent with duly executed stock and other certificates, as appropriate, for such purpose. The Company covenants and agrees that, upon each exercise of the Warrants and payment of the Purchase Price, all shares of Common Stock and other securities issuable upon such exercise shall be duly and validly issued, fully paid, non-assessable and not subject to the preemptive rights of any stockholder. As long as the Warrants shall be outstanding, the Company shall use its best efforts to cause all shares of Common Stock and other securities issuable upon the exercise of the Warrants and the securities underlying the securities issuable upon exercise of the Warrants to be listed (subject to official notice of issuance) on all securities exchanges or securities associations on which the Common Stock issued to the public in connection herewith may then be listed and/or quoted.

15. Notices to Warrant Holders. Nothing contained in this Agreement shall be construed as conferring upon the Holder(s) of the Warrants the right to vote or to consent or to receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the



Company. If, however, at any time prior to the expiration of the Warrants and their exercise, any of the following events shall occur:

(a) the Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

(b) the Company shall offer to all the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

(c) a dissolution, liquidation or winding up of the Company (other than in connection with a consolidation or merger) or a sale of all or substantially all of its property, assets and business as an entirety shall be proposed; then in any one or more of said events, the Company shall give written notice to the registered holders of the Warrants of such event at least fifteen (15) days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such proposed dissolution, liquidation, winding up or sale. Such notice shall specify such record date or the date of closing the transfer books, as the case may be. Failure to give such notice or any defect therein shall not affect the validity of any action taken in connection with the declaration or payment of any

such dividend, or the issuance of any convertible or exchangeable securities, or subscription rights, options or warrants, or any proposed dissolution, liquidation, winding up or sale.

16. Notices. All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been duly made and sent when delivered, or mailed by registered or certified mail, return receipt requested:

(a) if to the registered Holder of the Warrants, to the address of such Holder as shown on the books of the Company; or

(b) if to the Company, to the address set forth in Section 4 hereof or to such other address as the Company may designate by notice to the Holders.

17. Supplements; Amendments; Entire Agreement. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and may not be modified or amended except by a writing duly signed by the party against whom enforcement of the modification or amendment is sought. The Company and DeZwirek may from time to time supplement or amend this Agreement without the approval of any Holders of Warrant Certificates (other than DeZwirek) in order to cure any ambiguity, to correct or supplement any provision contained herein which may be defective or inconsistent with any provisions herein, or to make any other provisions in regard to matters or questions arising hereunder which the Company and DeZwirek may deem necessary or desirable and which the Company and DeZwirek deem shall not adversely affect the interests of the Holders of Warrant Certificates.

18. Successors. All of the covenants and provisions of this Agreement shall be binding upon and inure to the benefit of the Company, the Holder(s) and their respective successors and assigns hereunder.

19. Survival of Representations and Warranties. All statements in any schedule, exhibit or certificate or other instrument delivered by or on behalf of the parties hereto, or in connection with the transactions contemplated by this Agreement, shall be deemed to be representations and warranties hereunder. Notwithstanding any investigations made by or on behalf of the parties to this Agreement, all representations, warranties and agreements made by the parties to this Agreement or pursuant hereto shall survive.

20. Governing Law; Submission to Jurisdiction. This Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Illinois and for all purposes shall be construed in accordance with the laws of said State without giving effect to the rules of said State governing the conflicts of laws.

21. Severability. If any provision of this Agreement shall be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision of this Agreement.

22. Captions. The caption headings of the Sections of this Agreement are for convenience of reference only and are not intended, nor should they be construed as, a part of this Agreement and shall be given no substantive effect.

23. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company and DeZwirek and any other registered Holder(s) of the Warrant Certificates or Warrant Shares any legal or equitable right, remedy or claim under this Agreement; and this Agreement shall be for the sole and exclusive benefit of the Company and DeZwirek and any other Holder(s) of the Warrant Certificates or Warrant Shares.

24. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written.

ATTEST: CECO ENVIRONMENTAL

/s/ Josephine Grivas  
-----  
Josephine Grivas, Secretary

By: /s/ Phillip DeZwirek  
-----  
President

/s/ Phillip DeZwirek  
-----  
Phillip DeZwirek

EXHIBIT A

[FORM OF WARRANT CERTIFICATE]

THE WARRANTS REPRESENTED BY THIS CERTIFICATE AND THE OTHER SECURITIES ISSUABLE UPON EXERCISE THEREOF MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, (ii) TO THE EXTENT APPLICABLE, RULE 144 UNDER SUCH ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) AN OPINION OF COUNSEL, IF SUCH OPINION SHALL BE REASONABLY SATISFACTORY TO COUNSEL FOR THE ISSUER, THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE.

THE TRANSFER OR EXCHANGE OF THE WARRANTS OR OTHER SECURITIES REPRESENTED BY THIS CERTIFICATE IS RESTRICTED IN ACCORDANCE WITH THE WARRANT AGREEMENT REFERRED TO HEREIN.

EXERCISABLE ON OR BEFORE  
5:30 P.M., NEW YORK TIME, NOVEMBER 7, 2006

Warrant No.

WARRANT CERTIFICATE

This Warrant Certificate certifies that \_\_\_\_\_, or registered assigns, is the registered holder of Warrants to purchase initially, at any time from November 7, 1996 until 5:30 p.m., New York time, on November 7, 2006 ("Expiration Date"), up to \_\_\_\_\_ shares, of fully-paid and non-assessable common stock, \$.01 par value ("Common Stock") of CECO Environmental Corp., a New York corporation (the "Company"), at the initial exercise price, subject to adjustment in certain events of (\$1.75) per share upon surrender of this Warrant Certificate and payment of the CS Exercise Price at the principal executive office of the Company, but subject to the conditions set forth herein. Payment of the Exercise Price shall be made by certified or official bank check in United States dollars payable to the order of the Company.

No Warrant may be exercised after 5:30 p.m., New York time, on the Expiration Date, at which time all Warrants evidenced hereby, unless exercised prior thereto, shall thereafter expire and shall be void.

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants issued pursuant to the Warrant Agreement, which Warrant Agreement is hereby

EXH A-1

incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrants.

The Warrant Agreement provides that upon the occurrence of certain events the Exercise Price and the type and/or number of the Company's securities issuable thereupon may, subject to certain conditions, be adjusted. In such event, the Company will, at the request of the holder, issue a new Warrant Certificate evidencing the adjustment in the Exercise Price and the number and/or type of securities issuable upon the exercise of the Warrants; provided, however, that the failure of the Company to issue such new Warrant Certificates shall not in any way change, alter, or otherwise impair, the rights of the holder as set forth in the Warrant Agreement.

Upon due presentment for registration of transfer of this Warrant Certificate at the principal executive office of the Company, a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided herein and in the Warrant Agreement, without any charge except for any tax or other governmental charge imposed in connection with such transfer.

Upon the exercise of less than all of the Warrants evidenced by this Certificate, the Company shall forthwith issue to the holder hereof a new Warrant Certificate representing such numbered of unexercised Warrants.

The Company may deem and treat the registered holder(s) hereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, and of any distribution to the holder(s) hereof, and for all other purposes, and the Company shall not be affected by any notice to the contrary.

All terms used in this Warrant Certificate which are defined in the Warrant Agreement shall have the meanings assigned to them in the Warrant Agreement.

This Warrant Certificate does not entitle any Warrant holder to any of the rights of a shareholder of the Company.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed under its corporate seal.

Dated as of \_\_\_\_\_, 199\_\_.

ATTEST: CECO ENVIRONMENTAL CORP.

-----  
Secretary

By: \_\_\_\_\_ [SEAL]  
-----  
Name: \_\_\_\_\_  
-----  
Title: \_\_\_\_\_  
-----

EXH A-3

[FORM OF ELECTION TO PURCHASE PURSUANT TO SECTION 4.1 OF THE  
WARRANT AGREEMENT]

The undersigned hereby irrevocably elects to exercise the right, represented by Warrant Certificate No. \_\_\_\_\_, to purchase \_\_\_\_\_ shares of Common Stock (as defined in the Warrant Agreement described below) and herewith tenders in payment for such securities a certified or official bank check payable in United States dollars to the order of CECO Environmental Corp., a New York corporation (the "Company") in the amount of \$\_\_\_\_\_, all in accordance with the terms of Section 4.1 of the Warrant Agreement dated as of November 7, 1996 among the Company and Phillip DeZwirek. The undersigned requests that a certificate for such securities be registered in the name of \_\_\_\_\_, whose address is \_\_\_\_\_ and that such certificate be delivered to \_\_\_\_\_, whose address is \_\_\_\_\_, and if said number of shares of Common Stock shall not be all the shares of Common Stock purchasable hereunder, that a new Warrant Certificate for the balance of the shares of Common Stock purchasable under the within Warrant Certificate be registered in the name of the undersigned warrant holder or his assignee as below indicated and delivered to the address stated below.

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_  
(Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

Address: \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
(Insert Social Security or Other Identifying Number of Holder)

Signature Guaranteed: \_\_\_\_\_  
(Signature must be guaranteed by a bank, savings and loan association, stockbroker, or credit union with membership in an approved signature guaranty Medallion Program pursuant to Securities Exchange Act Rule 17Ad-15.)



[FORM OF ASSIGNMENT]

(To be executed by the registered holder if such holder desires to transfer the Warrant Certificate.)

FOR VALUE RECEIVED \_\_\_\_\_ hereby sells, assigns and transfers unto [NAME OF TRANSFEREE] Warrant Certificate No. \_\_\_\_\_, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney, to transfer the within Warrant Certificate on the books of the within-named Company, with full power of substitution.

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_  
(Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

Address: \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
(Insert Social Security or Other Identifying Number of Holder)

Signature Guaranteed: \_\_\_\_\_  
(Signature must be guaranteed by a bank, savings and loan association, stockbroker, or credit union with membership in an approved signature guaranty Medallion Program pursuant to

## CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES

APPENDIX A TO ITEM 601(c) OF REGULATION S-B  
 THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE  
 FINANCIAL STATEMENTS OF CECO ENVIRONMENTAL CORP. AND SUBSIDIARIES AS OF AND FOR  
 THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE  
 TO SUCH FINANCIAL STATEMENTS.

| YEAR      |             |           |
|-----------|-------------|-----------|
|           | DEC-31-1996 |           |
|           | DEC-31-1996 |           |
|           |             | 412,174   |
|           |             | 1,015,521 |
|           |             | 2,077,045 |
|           |             | 0         |
|           |             | 565,371   |
|           |             | 4,174,310 |
|           |             | 3,359,667 |
|           |             | 1,553,541 |
|           |             | 9,201,277 |
|           | 1,986,714   |           |
|           |             | 1,215,969 |
|           | 0           |           |
|           |             | 0         |
|           |             | 73,385    |
|           |             | 5,034,224 |
| 9,201,277 |             |           |
|           |             | 9,847,697 |
|           | 9,847,697   |           |
|           |             | 5,187,732 |
|           |             | 9,129,454 |
|           |             | 154,837   |
|           |             | 0         |
|           | 154,837     |           |
|           |             | 646,169   |
|           |             | 205,788   |
| 440,381   |             |           |
|           |             | 0         |
|           | 0           |           |
|           |             | 0         |
|           |             | 301,083   |
|           |             | .04       |
|           |             | .04       |