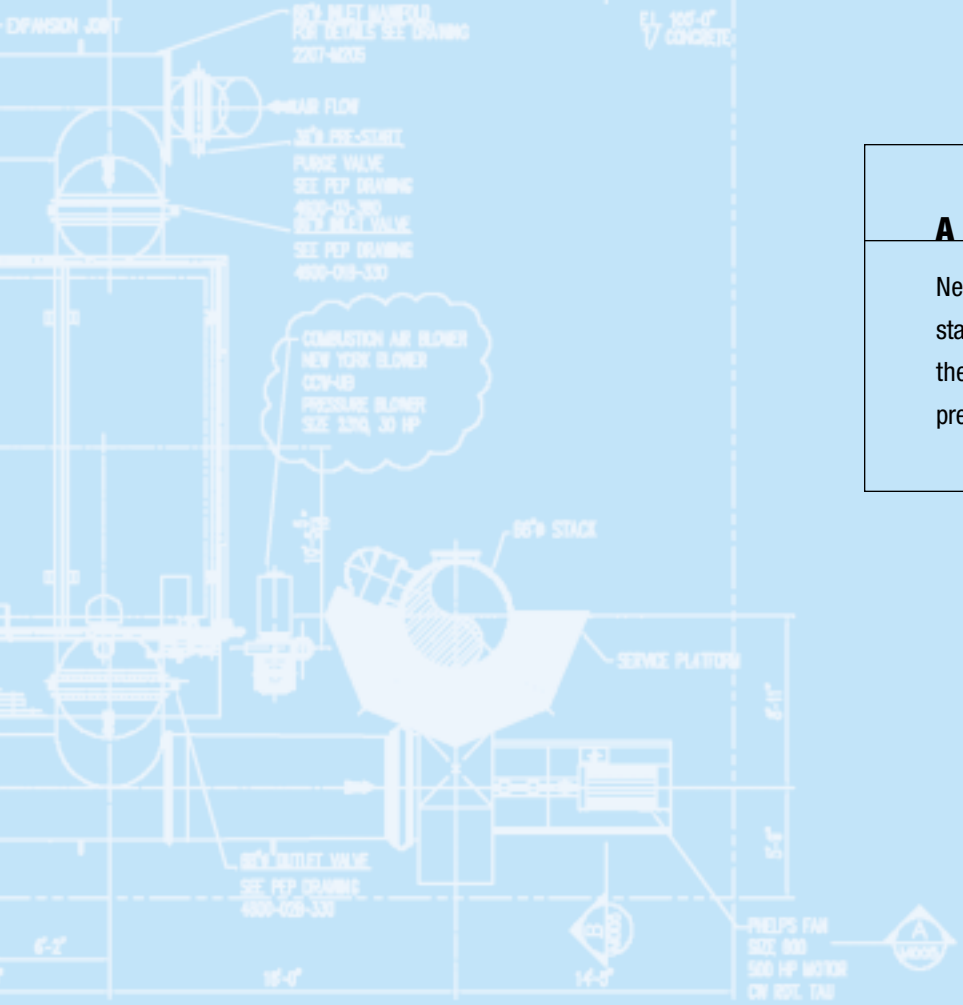
CECO

ENVIRONMENTAL

2002 ANNUAL REPORT



ABOUT THE COVER

Nestled in the middle of a Midwest cornfield stands an ethanol processing plant. With a CECO thermal oxidizer in place, noxious fumes are prevented from spoiling the pristine environment.

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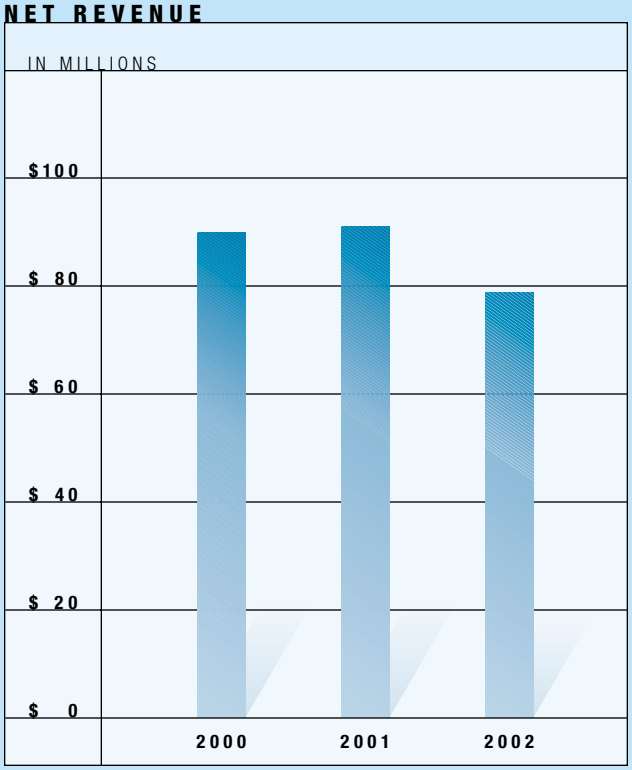
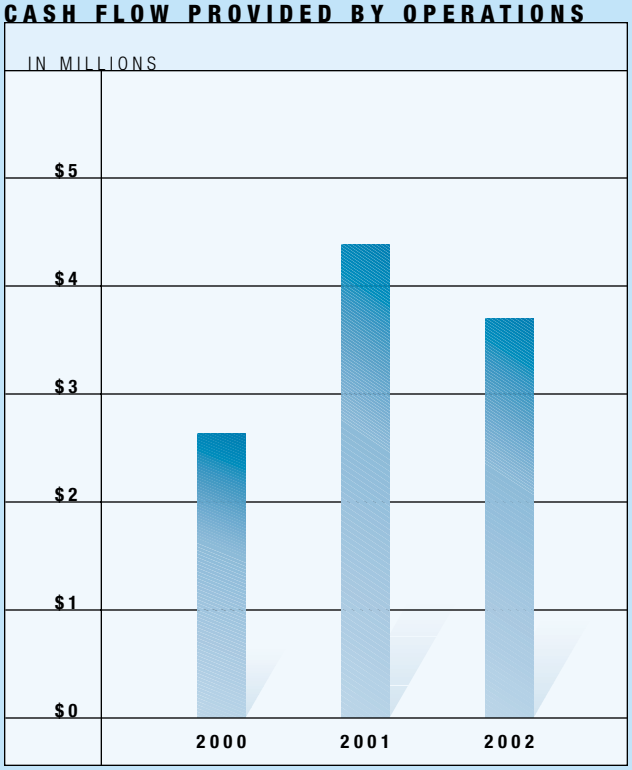
FINANCIAL SUMMARY

IN THOUSANDS	2002	2001	2000
Net revenue	**$78,877**	$90,994	$89,817
Operating income	**2,201**	3,013	2,049
Net income (loss)	**(123)**	(264)	(690)
Cash provided by operations	**3,701**	4,382	2,630
Backlog	**$14,600**	$18,600	$12,100

NET REVENUE



CASH FLOW PROVIDED BY OPERATIONS



DEAR FELLOW SHAREHOLDERS:

Fiscal year 2002 was unquestionably a challenging year for everyone, including CECO. The business climate is, at the very least, a difficult economic environment for most and especially difficult for those companies who supply the capital goods market.

2002 HIGHLIGHTS

During 2002, CECO responded to the arduous economic environment by making the necessary spending cuts and organizational changes, while still continuing to focus on the unique needs of our customers. We increased our sales efforts in niche markets—where we know that we can add value and capitalize on new revenue opportunities. In connection with these efforts, CECO was awarded a number of key contracts, three of which are outlined below:

NOTABLE CONTRACT AWARDS

- $7,000,000 contract (this is a record order in CECO's history) from a major automobile manufacturer to design, fabricate and install coolant mist collection systems for a facility located in the Southeastern United States.
- $3,800,000 contract to design, fabricate and install a phosphate/e-coat system for an automotive facility located in the Southern United States.
- Orders totaling $2,100,000 from a contract with a rockwool insulation manufacturer for industrial ventilation ductwork and a regenerative thermal oxidizer to destroy volatile organic compound contaminants.

As we listed in our 2001 Annual Report, several key initiatives were slated for 2002. We are pleased to announce that these have been accomplished as follows:

- We reduced the cost of our overhead structure through initiatives implemented during the year. We anticipate these reductions to yield annualized savings of $2 million.
- We completed the divestiture of two non-strategic operations in 2002.
- We received numerous significant contracts as a result of our solutions-based strategy including the awards previously mentioned.
- We gained further efficiencies from the utilization of our design staff by placing resource management under a single manager.
- We improved the utilization of our manufacturing space by realigning the responsibility for material flow to a single manager.
- We centralized additional accounting functions into our Cincinnati offices.

We began 2002 with a strong backlog and a relatively good order flow. However, during the second quarter, as orders began to slow, we implemented the first of two cost reduction programs. The two programs are expected to reduce costs by $2 million on an annualized basis. We began realizing the financial benefits of the first initiative late in the second quarter. In September the second cost reduction program was rolled-out and we began to see the positive impact of this initiative in the fourth quarter.

OPERATING RESULTS SUMMARY

- Fiscal year 2002 revenue was $78.9 million, a $12.1 million decrease from fiscal year 2001 revenue. The main factors for the decline were the weakness in the industrial segment of the economy, the sale of Busch Martec and Air Purator, and abandonment of our expansion into specialty piping in 2001.
- $75 million of new orders were booked in 2002 with a backlog of $14.6 million at December 31, 2002.
- Gross profit generated in 2002 was $15.9 million. Gross margin was 20.2%—which was consistent with 2001.
- Operating profit was $2.2 million.
- Cash flow provided by operations was $3.7 million.
- Interest expense (net of other income) was $2.5 million.
- Net loss in 2002 was ($123,000) or ($0.01) per share compared to a net loss of ($264,000) or ($0.03) per share in 2001.

OUTLOOK FOR 2003

We wanted to share with you the news of two noteworthy events that have already occurred in 2003. During February and April of 2003, we entered into agreements to sell our properties in Cincinnati, Ohio and Conshohocken, Pennsylvania. After the sale of each is successfully completed, our current debt should be substantially reduced. These agreements provide the buyer with cancellation rights until closing. In addition, we have agreed to keep the terms of these contracts confidential until closing. In the meantime, we are actively evaluating the optimal configuration and square footage of replacement manufacturing space.

There are also telling signs that we can expect to see some pickup in orders. We have already experienced an increase in the number of customer inquiries and the number of outgoing quotes. However, we need to be cautious about this as a leading indicator. First and foremost we need to "win" the order. Second, there will be a lag time between receipt of the order and eventual recognition of the revenue. If this trend continues, increased revenue should be reflected in the second half of 2003.

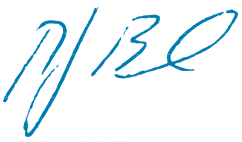
CLOSING

Although we can't foretell when the economy will recover, we have laid the building blocks to deliver stronger earnings in 2003. We have a leaner overhead structure and a talented pool of employees with extensive industry expertise. We will continue to reduce our debt level, and aggressively search for further cost reduction opportunities. With our platform for growth firmly in place, we look forward to a solid year ahead in 2003.

One additional note. As you continue to read through our annual report, please take note of the six customer case studies. We are proud to share with you specific examples of how CECO has provided solutions to our customers with real measurable results.

Respectfully submitted,

Phillip DeZwirek
Chairman and Chief Executive Officer



Richard J. Blum
President

OUR CECO FAMILY

BRAND	INDUSTRIES SERVED	TYPICAL APPLICATIONS
KIRK & BLUM	► Aerospace ► Automotive ► Food ► Foundry ► Glass ► Primary Metals ► Printing	► Collection: ▪ Dust ▪ Oil Mist ▪ Fume Exhaust ► Exhaust/Make-up Air ► Paint/Finishing Booths ► Pneumatic Conveying
CECO Filters	► Asphalt ► Chemical ► Fertilizer ► Metals ► Semiconductors	► Acid/Caustic Mist ► Storage Tank Emissions ► Lubricant Emissions ► Nitric Acid ► Platinum Recovery ► Wet Bench Acid Mist
KBD TECHNIC	► Automotive ► Food ► Furniture ► Glass ► Metals ► Plastics ► Smelters	► Emissions Testing and Compliance ► Systems Analysis ► Industrial Ventilation: ▪ Engineering ▪ Design
BUSCH INTERNATIONAL	► Aluminum ► Chemical ► Paper ► Power ► Steel	► Rolling Mill Oil Mist Collection ► Heavy Gauge Strip and Coil: ▪ Coolers ▪ Dryers
CECO Abatement	► Chemical Processing ► Ethanol ► Paint Booth Emissions ► Wastewater Treatment ► Wood Products	► High Efficiency Destruction: ▪ Volatile Organic Compounds ▪ Fumes ▪ Industrial Odors
KB DUCT	► Chemical ► Food ► Furniture ► Metals ► Pharmaceutical	► Capture in Moderately Abrasive Environments: ▪ Dust Particles ▪ Fumes ▪ Oil Mist

PRIMARY GEOGRAPHIC MARKETS SERVED	ENGINEERED PRODUCTS/ SERVICES	
► United States ► Canada ► Mexico	► Turnkey Design, Build, Install: ▪ Dust Collectors ▪ Oil Mist Collectors ▪ Chip Conveyance Systems ► Acoustical Enclosures ► Custom Sheet Metal Fabrication	
► United States ► Canada ► Europe ► Asia	► Fiber-Bed Filter Mist Collectors ► Catenary Grid and Narrow Gap Venturi Scrubbers ► Replacement Filters ► Repack Services	
► United States	► Air Flow and Contaminant Engineering and Design ► Ventilation System Testing and Balancing ► Emission Testing for Regulatory Compliance	
► United States ► Mexico ► South America ► Europe ► Asia	► Heavy Duty Air Handling and Conditioning ► Fume Exhaust Systems ► Air-Curtain Hoods ► JET★STAR™ Strip/Coil Coolers and Dryers	
► United States ► Asia	► Regenerative Thermal Oxidation ► Catalytic and Thermal Oxidation ► Selective and Regenerative Catalytic Reduction	 
► United States ► Canada	► Clamp-Together Componentized Ducting Systems	

CECO SOLUTIONS *at work*

ROCKWOOL MANUFACTURER

THE SITUATION:

Located in the Midwest, a producer of rockwool insulation used in the building industry, was required to comply with new standards issued under the Clean Air Act. These standards are the best available pollution control technologies to abate identified air pollutants such as particulate emissions and volatile organic compound (VOC) emissions. As part of the company's manufacturing process, various particulate emissions and VOC emissions were produced. Initially, we provided this manufacturer with an engineering study, facility assessment and recommendations for regulatory compliance.

THE SOLUTION:

A complete turnkey solution was designed, built and installed including:

- 50,000 cubic feet per minute pulse jet bag house for the facility's cupola melt operation,
- 19,000 standard cubic feet per minute regenerative thermal oxidizer for a curing oven and,
- Associated ductwork arrangement.

THE RESULT:

Compliance testing of the applicable regulations has shown that both systems meet environmental requirements and our customer's expectations. The success of this project has spawned additional opportunities throughout the United States. As a result we plan to install "KB Pacs", a continuous monitoring system, during 2003.

SPECIALTY STEEL MANUFACTURER

THE SITUATION:

A premier automotive grade galvanized steel manufacturer, located in the United States, contacted us to upgrade and increase the capacity of the cooling system for their galvanizing line. Often when galvanized steel manufacturers strive to increase production, they can be constrained by the amount of cooling capacity. This cooling process is critical in the production of ultra high quality galvanized steel, which is used to manufacture automotive outer body panels. If the cooling rate is not uniform, or if the supply air causes "strip flutter", then the product will be defective. Since adding tower height is rarely a cost effective option, they must find a way to improve cooling efficiency.

THE SOLUTION:

The recommended solution was new cooling equipment that used our patented Jet★Star™ strip-cooling technology—which has proven to be among the most efficient air-cooling systems available for the production of galvanized steel. Jet★Star™ technology provides increased cooling rates, improved uniformity, and enhanced strip stability.

THE RESULT:

Completed on time and within budget, new cooling equipment was integrated into the hot dipped galvanized steel process. As a result, cooling capacity and rates increased, and strip stability was enhanced. Recently, an additional order was placed with us for a Phase II upgrade at the customer's facility.

Jet Star is a registered trademark of New Busch Co., Inc.

CECO SOLUTIONS *at work*

NON-WOVEN TEXTILE MANUFACTURER

THE SITUATION:

A large non-woven textile manufacturer, located in the Southeastern United States, was directed by state authorities to comply with environmental air quality standards. Regulators mandated that the emission of visible smoke fumes be controlled and limited. Lubricants used in the manufacturing process were identified as the primary cause of the smoke fumes. As calendar rolls pressed fabrics together, lubricants were heated to such an extent that visible smoke emissions were created. In addition, oily emissions led to the contamination of the rolls of non-woven fabric. As a result, the company's objectives were to keep the rolls of fabric clean and the manufacturing process running, and to comply with the environmental standards.

THE SOLUTION:

Our recommendation involved a turnkey solution; install proprietary hooding over the rolling process to prevent contamination from the emissions and collect the emissions with CMC style mist collectors. This solution utilized technologies from CECO Filters, Busch International, and specialized project management from Kirk & Blum. Our customer purchased three mist and smoke eliminator systems designed to handle up to 12,000 CFM (cubic feet per minute) of airflow and two systems designed to handle 16,000 CFM.

THE RESULT:

The smoke eliminator systems have been operational for over nine months and the company has experienced limited downtime in their manufacturing process. Emissions have been fully compliant with the appropriate environmental regulations. Contamination from the lubricants onto the non-woven fabrics has been eliminated. Having met the stated objectives, our customer was satisfied with the results of our cost-effective solution.

MANUFACTURER OF HEAVY DUTY TRUCK ENGINE PARTS

THE SITUATION:

A Midwest machining division for engine parts of a large international truck producer required an industrial ventilation system for oil mist collection to improve air quality within the factory. This was needed because they had recently installed a machine line for a new generation of heavy-duty engines. In addition, they sought a firmly established supplier to be their provider.

THE SOLUTION:

By understanding our customer's needs and objectives, we recommended a modular multi-compartment oil mist collector. The main features of this system provided off-line cleaning and maintenance yet still allowed for continuous operation. This design was based on a similar oil mist collection system at a sister facility in the Southern United States.

THE RESULT:

Nearly complete, this project is on schedule and on track for job profitability. This effort exemplifies our strong project management capabilities, such as attaining project milestones and realizing job profitability. As a result, our customer has shared with us their high comfort and satisfaction levels, and is considering us for a similar opportunity at one of their other facilities.

CECO SOLUTIONS *at work*

CAST IRON PIPE PRODUCER

THE SITUATION:

A major iron pipe foundry, located in a heavily populated urban setting, introduced a proprietary coating process to their soil pipe product line. Tar coated cast iron pipe is used in soil pipe installations to transport water and sewage because it is rugged and known for its excellent performance and long life. Although this coating provided exceptional resistance to highly corrosive fluids typically found in industrial waste streams, it also produced asphalt smoke emissions that required specialized ventilation and abatement. Since asphalt smoke leaves a viscose residue that is not easily filtered out of the gas stream, the foundry needed to install an improved ventilation system to remove the emissions.

THE SOLUTION:

Our recommendation was a design-build-install solution that included our patented fiber-bed filters. The complexity of this project required multiple components to be designed and constructed from several locations and integrated into the foundry's process line. Our fiber-bed filtration technology was selected as the mode of abatement because of the extremely high efficiency of this filter media for this type of environment.

THE RESULT:

Engineers and craftsmen from several locations, worked together seamlessly to fabricate hoods, ductwork, four large housings, and candle-style fiber-bed filters. The result was a highly effective filtration of smoke emissions from the foundry and protection of the surrounding urban environment. Overall, this was a successful project in terms of customer satisfaction, project management and project profitability.

INTERNATIONAL ALUMINUM PRODUCER

THE SITUATION:

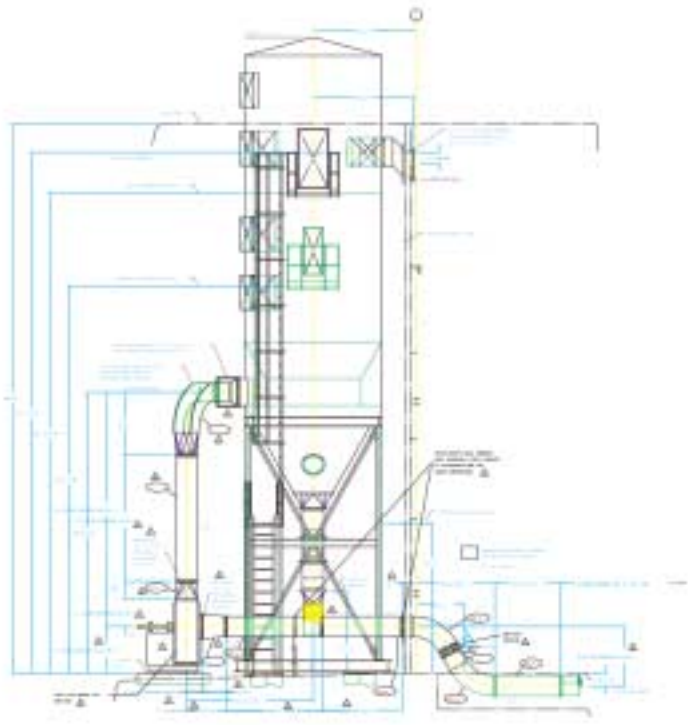
Located in the Midwest, an aluminum producer needed to collect scrap aluminum chips to melt and reuse in its forming process. Prior to forming aluminum into the required shape, an ingot is run through a milling machine known as a scalper. This scalper peels away the surface to expose the higher quality metal underneath and to generate uniformity in the shape and contour. As a result, this process generates a tremendous amount of aluminum chips that require collection for reuse. Accidental commingling of varied materials degrades their value and impedes secondary processing.

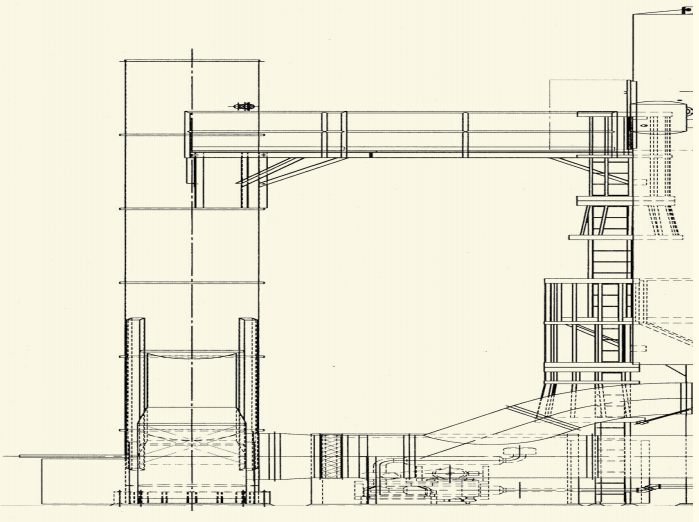
THE SOLUTION:

System design and air volumes were critical to segregating and transporting these chips to the proper collection point. Due to our significant experience and expertise in designing and developing similar systems that required chip removal from a large scalping operation, we were able to offer a cost-effective solution. We designed, built and installed a scalping trim collection system to pneumatically draw chips away from the milling process and to collect them in a central point for remelting and subsequent reuse.

THE RESULT:

The scalping trim collection system was built on time and within budget. Our customer was able to reuse 99% of the aluminum chips while at the same time, maintain process integrity, control costs and ensure the purity of materials in secondary processing.





DIRECTORS AND OFFICERS

DIRECTORS

Phillip DeZwirek
Chairman of the Board and Chief Executive Officer

Richard J. Blum
President

Jason Louis DeZwirek
Secretary and President of kaboose.com, Inc.

Josephine Grivas
Retired

Donald A. Wright
Principal, The Phillips Group

Melvin F. Lazar, CPA
Founder, Lazar Levine & Felix LLP

EXECUTIVE OFFICERS

Phillip DeZwirek
Chief Executive Officer

Richard J. Blum
President

David D. Blum
Senior Vice President and
President, The Kirk & Blum Manufacturing Company

Marshall J. Morris
Vice President Finance & Administration,
Chief Financial Officer and Assistant Secretary

Jason Louis DeZwirek
Secretary

OPERATING MANAGEMENT

THE KIRK & BLUM MANUFACTURING CO.

Leonard J. Bertoli
Vice President, Cincinnati Division

Lawrence J. Blum
Vice President, Component Parts Division

Timothy D. Schneider
Vice President, Indianapolis Division

George L. Nelson
Vice President, Defiance Division

William D. Wells
Vice President, Lexington Division

Daniel M. Smith
Manager, Louisville Division

Thomas H. Kroeger
Vice President, Tennessee Division

Paul W. Gillespie
Vice President, Greensboro Division

Stephen A. McDaniel
Vice President, K&B Duct Division

KBD/TECHNIC, INC.

Gerry A. Lanham
President and General Manager

CECO ABATEMENT SYSTEMS, INC.

Robert A. Cloud
Vice President and General Manager

CECO FILTERS, INC.

Michael J. Meyer
President and General Manager

NEW BUSCH CO., INC.

William W. Frank
President and General Manager

LEGAL COUNSEL

Sugar, Friedberg & Felsenthal
Chicago, Illinois

REGISTRAR & TRANSFER AGENT

American Stock Exchange & Trust Company
New York, New York

STOCK MARKET

CECO Environmental Corp.'s Common Stock is publicly traded and quoted on the NASDAQ system under the symbol CECE.

FORM 10-K

The CECO Environmental Corp. Form 10-K for 2002 is available upon written request to Investor Relations, CECO Environmental Corp., 3120 Forrer Street, Cincinnati, Ohio 45209.

INVESTOR RELATIONS

Contact Mr. Phillip DeZwirek, Chairman and CEO at 505 University Avenue, Suite 1400, Toronto, Ontario M5G 1X3, call toll free 800/606-CECO (2326) or visit our web site at www.cecoenviro.com, or send an e-mail to investors@cecoenviro.com.

ANNUAL MEETING

The CECO Environmental Corp. Annual Meeting will be held on June 11, 2003 at 11:30 a.m. at the Clarion Hotel, 5901 Pfeiffer Road, Cincinnati, Ohio 45242.

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SALES AND OPERATING LOCATIONS

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Defiance, Ohio
Lexington, Kentucky
Louisville, Kentucky
Indianapolis, Indiana
Greensboro, North Carolina
Columbia, Tennessee

KBD/TECHNIC, INC.

Cincinnati, Ohio

NEW BUSCH CO., INC.

Pittsburgh, Pennsylvania

CECO ABATEMENT SYSTEMS, INC.

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CECO FILTERS, INC.

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