
MFRI, Inc.
Compensation Committee Charter

Purposes: The Compensation Committee shall:

- Assist the Board in overseeing the Company's compensation, equity plans and benefits strategies.
- Determine appropriate compensation for the Chairman/CEO and review the compensation of the President/COO, who together are considered *Tier I Executive Officers*, and recommend approval to the Board.
- Review the compensation of the Company's Corporate Executive Officers (other than the Chairman/CEO and President/COO) and Divisional Presidents, who together are considered *Tier II Executive Officers*, and recommend approval to the Board
- Recommend Board of Director compensation.
- Review and approve with Executive Officers the Compensation Discussion and Analysis (the CD&A) to be included in the company's proxy statement or Form 10-K.

In discharging its role, the Compensation Committee is empowered to investigate any compensation matter brought to its attention with access to all records and personnel of the Company. The Compensation Committee has the authority to retain and terminate outside counsel (which may be the Company's regular outside counsel or another counsel), compensation consultants or other experts, and will receive adequate funding from the Company to engage such advisors. The Compensation Committee shall have sole authority to retain, compensate, terminate, and oversee the compensation consultants they retain and who shall report to the Compensation Committee.

Composition of the Compensation Committee:

The Compensation Committee will consist of at least three directors, all of whom meet any applicable independence requirements and definitions established by NASDAQ, the U.S. Securities and Exchange Commission, and the Internal Revenue Code and shall qualify as a "non-employee director" under Rule 16b-3 promulgated by the U.S. Securities and Exchange Commission. The Board will appoint and replace the members of the Compensation Committee who will serve at the pleasure of the Board and will appoint a Chair and a Vice-Chair of the Compensation Committee. The Chair (or in his or her absence, the Vice-Chair) will preside at all Compensation Committee meetings, establish, in consultation with appropriate members of the Compensation Committee, the proposed agenda for each Compensation Committee meeting, and report to the Board a summary of actions taken at each Compensation Committee meeting. The Compensation Committee shall establish its own rules of procedure. A quorum shall consist of a

majority of the members of the Compensation Committee, and action taken by a majority of those members at a meeting at which a quorum is present shall be the act of the Compensation Committee.

Meetings of the Compensation Committee:

The Compensation Committee shall meet as often as it deems necessary or appropriate in its judgment, but not less frequently than twice annually; participation at meetings may be by means of conference, telephone or similar communications equipment by means of which all participants can hear each other. The Chair of the Compensation Committee may call a special meeting at any time. In lieu of a meeting, the Compensation Committee may request that members act by unanimous written consent. The Compensation Committee may request that non- Compensation Committee members of the Board, Executive Officers or retained advisors be present at meetings of the Compensation Committee.

The Compensation Committee shall meet at least annually with the Chairman/CEO, and any other Executive Officers that the Board or Compensation Committee deem appropriate, to discuss and review the performance criteria and compensation levels of Executive Officers.

Compensation Committee Duties and Responsibilities

A. Executive Compensation Strategy: Periodically review and approve the Company's executive compensation and benefit strategy and principles to ensure that they are aligned with the Company's business strategy and objectives, shareholder interests, desired behaviors and corporate culture; and annually assure that actual implemented plans are consistent with Compensation strategy.

B. Executive Compensation & Equity Based Compensation Plans: Review, approve and oversee the adoption of, and changes to, all of the Company's executive compensation and its equity based compensation plans, including both annual and long term incentive plans. Periodically assess the effectiveness of the Company's executive compensation and its equity based compensation plans.

C. Establish Equity Ownership guidelines: Recommend to the Board guidelines for Equity ownership for Tier I/Tier II Executives and Independent Board members.

D. Chairman/CEO Compensation: Annually review goals and objectives relevant to the compensation of the Chairman/CEO, evaluating performance in light of those goals and objectives, and recommend individual elements of total compensation based on this evaluation to the Board. In determining the long-term incentive component of compensation, the Compensation Committee may consider such factors as it considers relevant including, but not limited to, the Company's performance versus expected results, shareholder return, the value of similar incentives awards to chief executive officers at comparable companies, and awards earned in past years.

E. Executive Officers: Oversee the compensation of the Company's President/COO and Tier II Executive Officers. In this oversight role, the Compensation Committee will review, and if appropriate approve, the recommendations made by the CEO of the individual elements of total compensation paid to the Executive Officers.

F. Review and approve other Executive Officer Compensation and Benefits: Review and approve all other forms of Executive Officer compensation including perquisites, deferred compensation arrangements, change-in-control provisions, severance arrangements, Executive Officer employment agreements or any special arrangement which is not commonly available to other employees of the corporation.

G. Consideration of Competitive Compensation Data: The Compensation Committee shall review and consider competitive compensation data in making and approving Tier I and II Executive Officer Compensation decisions. In discharging its role, the Compensation Committee shall have access to the senior Human Resources Executive Officer of the Company.

H. Reports to The Board of Directors: Regularly report on Compensation Committee activities to the full Board.

I. Risk Review: Review and report on risks arising from the Company's compensation policies and practices for employees as required by the rules and regulations of the U.S. Securities and Exchange Commission.

J. Executive session: The Compensation Committee may meet in executive session with any retained outside consultants and/or management as it deems appropriate.

K. Administrative Responsibilities

Oversee and approve an annual Report of the Compensation Committee for inclusion in the Company's annual proxy statement in accordance with applicable Securities and Exchange Commission rules and guidelines.

Prepare and recommend to the Board a Compensation Committee charter, periodically reviewing and reassessing the adequacy of the charter, and as appropriate recommending changes.

Oversee the annual performance evaluation of the Compensation Committee including a comparison of the performance of the Compensation Committee with the requirements of this charter.

L. Plan Administration: The senior Human Resources Executive Officer is authorized to operate, manage and administer all executive compensation, equity based compensation plans and benefit plans, but not to do any of the following: grant waivers of plan terms, conditions, restrictions and limitations; accelerate vesting or exercise of an award; establish new kinds of awards; establish or modify performance goals; or certify the attainment of performance goals.

The Compensation Committee will perform any other activities consistent with this Charter, the Corporation's bylaws, applicable law and as the Board deems necessary or appropriate.

Approved by The Board of Directors on May 7, 2010

Addendum

Guidelines for Equity ownership for Tier I/Tier II Executive Officers & Independent Board of Directors

Equity ownership is expected and highly encouraged by all Executive Officers and Independent Board Members. Ownership can take the form of direct ownership, family trusts, deferred company stock unit programs, or in any other manner commonly acceptable to the Company.

The following are suggested levels of equity ownership, where equity value per share shall be determined by purchase price at the time of acquisition placed into or owned by an executive's account(s) or actual market value, whichever is greater:

Chairman/CEO: 3X Annual Base Salary

President/COO: 2X Annual Base Salary

Tier II Operating Company Presidents and CFO: 1.5X Annual Base Salary

Tier II Other Executive Officers: 1X Annual Base Salary

Independent Board of Directors: 3X Annual Cash Retainer

The Executive Officers and Independent Directors in all cases shall have 5 years from the later of May 7, 2010 or the date of first election as an Executive Officer or Independent Director to achieve these recommended levels of equity ownership.

- It is recommended that each Executive Officer invest a minimum of 20% of their Incentive compensation in MFRI equity until his or her goal under these guidelines is met.
- It is recommended that each Independent Director invest 50% of his or her cash retainer in MFRI equity until his or her goal under these guidelines is met.