

As approved by Board on 5/7/10

MFRI, Inc.  
Nominating and Corporate Governance Committee Charter and  
Board of Directors Governance Guidelines

The Board of Directors, acting on the recommendation of its Nominating and Corporate Governance Committee, has developed and adopted these Governance Guidelines. They establish a common set of expectations to assist the Board and its committees in fulfilling their responsibilities to the Company's stockholders. In recognition of the continuing evolution of corporate governance best practices, these Governance Guidelines will be periodically reviewed and, if appropriate, revised by the Board.

Board Role & Responsibilities

The business and affairs of the Company are managed by or under the direction of the Board in accordance with Delaware law. The role of the Board is to oversee the effectiveness of management's policies and decisions, including the execution of its strategies, towards the goal of maximizing the Company's long-term value for the benefit of its stockholders.

Certain specific functions of the Board are set forth below:

**Maximize Shareholder Return**

Representing the interests of the Company's stockholders by working to maximize the Company's long-term value.

**Strategic Planning**

Reviewing and approving management's strategic and business plans, and monitoring performance against the plans.

**CEO Selection, Evaluation and Succession**

Selecting, evaluating and compensating the CEO and overseeing the CEO succession planning process.

**Management Succession**

Reviewing and approving a management succession plan, developed by the Chairman/CEO, to ensure continuity in senior management. This plan, on which the Chairman/CEO shall report at least annually, shall address:

- Emergency Chairman/CEO succession
- Chairman/CEO succession in the ordinary course of business
- Succession plans for the other members of senior management

**Management Compensation and Development**

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Providing counsel and oversight on the selection, evaluation, development and compensation of senior management

Annual Operating Plans and Budgets

Overseeing, understanding and monitoring the Company's annual operating plans and budgets prepared by management

Controls

Reviewing and assessing the processes and policies in place for maintaining the integrity of the Company, including the integrity of its financial statements, the integrity of its compliance with law, ethics and the Company's own statement of values, and the integrity of its relationships with employees, customers and suppliers.

Risk Management

Reviewing and assessing management's processes and policies to assess the major risks facing the Company, and periodically reviewing management's assessment of these major risks and the options for their mitigation.

Board Nomination and Evaluation

Nominating Directors and Committee members and overseeing the composition, structure, practices and evaluation of the Board and its Committees.

Significant Transactions and Transactions Outside the Ordinary Course of Business

Evaluating and approving all material Company transactions not arising in the ordinary course of business. Acquisitions of businesses, dividend policy and long term financing are the type of transactions included.

### Chairman/CEO

The Board believes it should remain free to structure the leadership of the Board and the Company in the manner that best serves the Company's interests at a given time, and, accordingly, has no fixed policy with respect to combining or separating the offices of Chairman and CEO. If the Chairman is not an Independent Director (as defined below), a Lead Director shall be selected by the Independent Directors and shall serve as the chair of the Nominating and Corporate Governance Committee.

The Chairman will lead all Board meetings. In the absence of the Chairman, the President will lead the Board meeting.

### Board Composition and Size

The Board will periodically review its own size, and determine the size most appropriate for the governance of the business.

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## Director Qualification Standards & Selection

Each director should have the capabilities and professionalism needed to earn and maintain credibility with stockholders, the financial community, Board colleagues and MFRI employees. As a group, the Board should be sufficiently diverse in point of view and experience to provide credible and effective oversight of all aspects of the work of the enterprise.

Board members should individually have the following skills:

### Intelligence:

1. Outlook: Contemporary viewpoints regarding public company governance & relevant business operations; up-to-date; international scope of perspective
2. Analytic skills: Realistically and objectively dissects seemingly complex problems, possibilities & dynamics into clear critical elements that can be evaluated, prioritized & addressed
3. Incisive: Sees the heart of the matter; able to separate the relevant from the irrelevant; recognizes and focuses on true priorities

### Character:

1. Confidence: Willing to exercise judgment; assumes accountability for decisions & actions
2. Committed to MFRI: Motivated by, and works toward, predictable profitable long-term growth of the business
3. Even-tempered: Deals with matters calmly & dispassionately

### Social Style:

1. Collegial: Identifies with the Board member group; responsible and reliable in meeting Board commitments & expectations
2. Influential & Persuasive: Poised, comfortable and appropriately confident dealing with Board colleagues and constituents; diplomatic & tactful; viewed by others as capable, honest & open
3. Communication skills: Clear, articulate & direct in statements; initiates and responds as appropriate to the circumstance; strong with give & take dialogue; adept using current communication/information technology

Board members should collectively have the following skills:

- Experienced in running a business (managing partner)
- Experienced in strategic planning
- Experienced in mergers and acquisitions
- Experienced in international business

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A Nominating and Corporate Governance Committee will manage the Board selection process. The Nominating and Corporate Governance Committee shall nominate potential Board members to the Board for its consideration. The Board shall then select the slate of Board members who will be on the shareholders' ballot at the next annual meeting. The Nominating and Corporate Governance Committee will also nominate potential Board members to the Board to fill any vacancies that may arise. The Board shall then elect new Board members to fill such vacancies.

The Nominating and Corporate Governance Committee shall give appropriate consideration to candidates for Board membership nominated by stockholders in accordance with the Company's by-laws, and shall evaluate such candidates in the same manner as candidates identified by the Committee.

The Nominating and Corporate Governance Committee may use outside consultants to assist in identifying candidates.

### Independent Directors

The Board shall be a combination of both Management Directors as well as Independent Directors. A majority of the Board shall consist of directors who the Board has determined are "independent" under the rules of the NASDAQ.

All Independent Directors must have the ability to fulfill their duties and act unfettered by extraneous influences or considerations, such as personal financial or other gain through their affiliation with the Board and the Company.

The Lead Director shall:

- Focus on governance. The Lead Director shall focus on Board mechanics (meeting calendars, committee membership, Board recruitment, and dealing with underperforming directors).
- Be the point person for the Independent Directors and the consensus builder for the whole Board. Should the Independent Directors have a different view than the Management Directors, the Lead Director may be called upon to communicate those concerns to the Chairman/CEO.
- Review the agendas for Board meetings. The Chairman/CEO will propose an agenda: it should be shared and discussed with the Lead Director before it is finalized.

### Board Committees

The Board committees (the "Committees") currently are:

Audit Committee  
Compensation Committee

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### Nominating and Corporate Governance Committee

Membership on each of the three Committees will be limited to Independent Directors. Each Independent Director shall be assigned to at least one standing Committee and is a voting member on that Committee's matters. A particular senior officer of the Company will be designated by the Chairman to serve as the corporate liaison to each Committee. Each of the Committees shall be composed of no fewer than three members. A director may serve on more than one Committee.

The Audit and Compensation Committees shall have separate written charters. The Nominating and Corporate Governance Committee charter is set forth in this document.

The Board expects to accomplish a substantial amount of its work through the Committees. Each Committee shall report regularly to the Board summarizing the Committee's actions.

The Nominating and Corporate Governance Committee shall be responsible for identifying Board members qualified to fill vacancies on any Committee and recommending that the Board appoint the identified member or members to the applicable Committee. The Board shall designate two members of each Committee as chairperson and vice chairperson of such Committee. The vice chairperson shall act as the chairperson in the absence of the chairperson.

### Frequency of Board and Committee Meetings

The Board should meet at least quarterly. Additional meetings may be held when deemed necessary or desirable by the Board or its chairperson.

Each of the Committees shall have the number of meetings provided for in its charter, with further meetings to occur when deemed necessary or desirable by the Committee or its chairperson.

The agenda for each Board meeting shall be established by the Chairman/CEO. Any Board member may suggest the inclusion of additional subjects on the agenda. The agenda for each Committee meeting shall be established by the Committee chairperson in consultation with appropriate members of the Committee and when appropriate with the chairs of the other Committees. Board and Committee members should provide the information needed for the directors to make an informed judgment or engage in informed discussion, and such information shall, to the extent practicable, be circulated to Board and Committee members in advance of meetings.

The agenda materials and minutes for each Committee meeting shall be available to all directors, and unless a Committee expressly determines otherwise, all directors shall be free to attend any Committee meeting. In addition, all directors, whether or not members of the Committee, shall be free to make suggestions to a Committee chairperson for

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additions to the agenda of his or her Committee or to request that an item from a Committee agenda be considered by the Board.

### Content and Process of Board Meetings

The content of Board meetings should include all key matters brought forth by senior executives and a review of past activities so that management can be held accountable; additionally, the process the Board will use to make decisions will be by simple majority vote. It is important for all directors to stand behind the decisions which are reached.

To ensure free and open discussion and communication among the Independent Directors, these directors shall meet in executive session two or more times each year with no members of management present. Such executive sessions may be conducted as a separate part of the Nominating and Corporate Governance Committee meeting. Each Independent Director shall have the authority to call executive sessions.

The chairperson of the Nominating and Corporate Governance Committee shall preside at the executive sessions. The duties of the chair of the Nominating and Corporate and Governance Committee shall include:

- advising the Chairman and CEO of decisions reached, and suggestions made, at executive sessions;
- presiding at each Board meeting at which the Chairman/CEO and President/COO are not present;
- facilitating communication between the Independent Directors and the Chairman/CEO.

### Board Term and Turnover

The term of a Board member shall be one year. Directors can be nominated to continue for succeeding one year terms. Although the Nominating and Corporate Governance Committee will consider length of service in recommending candidates for re-election, the Board does not believe that adopting a set term limit for directors serves the interests of the Company.

### Board and Committees Evaluation Process

A high performance Board must assess its effectiveness and that of its committees. Such a Board must seek improvement through continuous self evaluation.

The Nominating and Corporate Governance Committee shall be responsible for assessing the effectiveness of the Board as a whole and the Committees of the Board. Each director will complete an annual evaluation with recommendations to improve the:

- performance of the Board,
- performance of the Committees of the Board

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The Chairman of the Nominating and Corporate Governance Committee shall review and assess Board member evaluations and recommendations with the Nominating and Corporate Governance Committee and with the Chairman and/or the President.

### Service of Other Boards; Change in Status

The Board does not believe that fixing a specific limitation on the number of directorships a member of the Board may hold serves the interests of the Company. The Board recognizes that service on too many boards may interfere with the ability of a director to perform his or her responsibilities as a director, and the Nominating and Corporate Governance Committee will take into account the competing demands on a person's time in deciding whether or not to recommend to the Board such person's nomination or renomination as a director. A member of the Audit Committee may not serve on the audit committee of more than two additional public companies.

If a director has a substantial change in professional responsibilities, occupation or business association he or she should notify the Nominating and Corporate Governance Committee and offer his or her resignation from the Board. The Nominating and Corporate Governance Committee will evaluate the facts and circumstances and make a recommendation to the Board whether to accept the resignation or request that the director continue to serve on the Board.

### Board Compensation

The Compensation Committee shall manage the compensation of the Board. Independent Directors should be paid according to market norms. Board members who are part of management shall not be compensated for their Board activity.

### Board Continuing Education

The Board members must stay abreast of corporate governance "best practices" through continuing professional education sponsored by accredited organizations. The Board may elect to reimburse members for their out-of-pocket costs.

### Attendance at Board, Committee and Stockholder Meetings

Participation in Board meetings is critical to Board effectiveness. Board Members are expected to make every reasonable effort to physically attend all regularly scheduled full Board and regularly scheduled assigned Board Committee meetings, and to spend the time needed to discharge their responsibilities as directors. Directors are also expected to attend the annual meeting of the Company's stockholders.

Board Members are expected to attend all meetings and advance notification of any absence is highly desirable and expected when practicable. Recognizing that Board

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Members have distance and time constraints, participation by phone will be acceptable when physical attendance is not practicable. The Nominating and Corporate Governance Committee will evaluate the facts and circumstances of any director's failure to meet the aforesaid attendance expectations as part of its evaluation process.

The Board may remove any Board Member from such Board Member's assigned Committee for missing three consecutive regularly scheduled Committee meetings or three meetings in the same fiscal or calendar year.

### Executive Compensation

Management's recommendations regarding executive compensation will be reviewed annually by the Compensation Committee and then recommended to the Board for final approval by the Board. The Board should tie compensation to the organization's mission, annual business performance, long-term financial results, industry practices and performance of non-financial measures.

### Board Communications

The Chairman or his designee should communicate with stockholders as appropriate for a public company. It is important that the Company speak to employees and outside constituencies with a single voice, and that management serve as the primary spokesperson.

### Board Plan for Excellence:

Form a constructive partnership with the Chairman/CEO by:

- Facing and resolving problems early
- Changing executive leadership at the right time
- Articulating a clear statement of mission and values
- Monitoring the staff implementation of the mission and values of the enterprise
- Being a strategic asset and a source of leadership to the enterprise
- Addressing difficult issues and identifying opportunities
- Generating solutions that are understood and supported
- Institutionalize a culture of: inquiry, mutual respect and constructive debate leading to sound and shared decision making
- Being independent-minded and making decisions in the best interest of the enterprise and its stockholders

Encourage transparency of appropriate and accurate information regarding finances and operations to stakeholders

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Promote and monitor strong ethical values and disciplined compliance to those ethical values

Link bold visions and ambitious plans to the financial capacity, expertise, and operational resources of the enterprise

Measure the enterprise's advancement towards its mission and evaluating the performance of the strategic plan

Fulfill all of its governance duties

### Board Commitment

#### Loyalty and Ethics

In their roles as directors, all directors owe a duty of loyalty to the Company. This duty of loyalty mandates that the best interests of the Company take precedence over any interest possessed by a director.

The Company has adopted a Code of Business Conduct and Ethics. Certain portions of the Code deal with activities of directors, particularly with respect to potential conflicts of interest, the taking of corporate opportunities for personal use and transactions in the securities of the Company.

#### Director Stock Ownership

The Board believes that it is important for each director to have a financial stake in the Company to help align the director's interests with those of the Company's shareholders. Each Director is expected to acquire and/or maintain an equity interest in the Company in accordance with the Compensation Committee Charter.

#### Contact with Management and Employees.

Each director shall be free to contact the Chairman/CEO at any time to discuss any aspect of the Company's business. Directors shall also have complete access to Company officers. The Board expects that there will be frequent opportunities for directors to meet with the Chairman/CEO and other Company officers in Board and Committee meetings, or in other formal or informal settings.

Direct access to Company employees other than directors and officers may be necessary and constructive at times. To assure that this access is not disruptive to business operations of the Company, the directors are asked to advise and coordinate with the CEO when contacting any Company employee other than directors and officers.

Matters of ethics should be reported through the confidential LRN/EthicsPoint Report Line accessed through the Company's website.

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