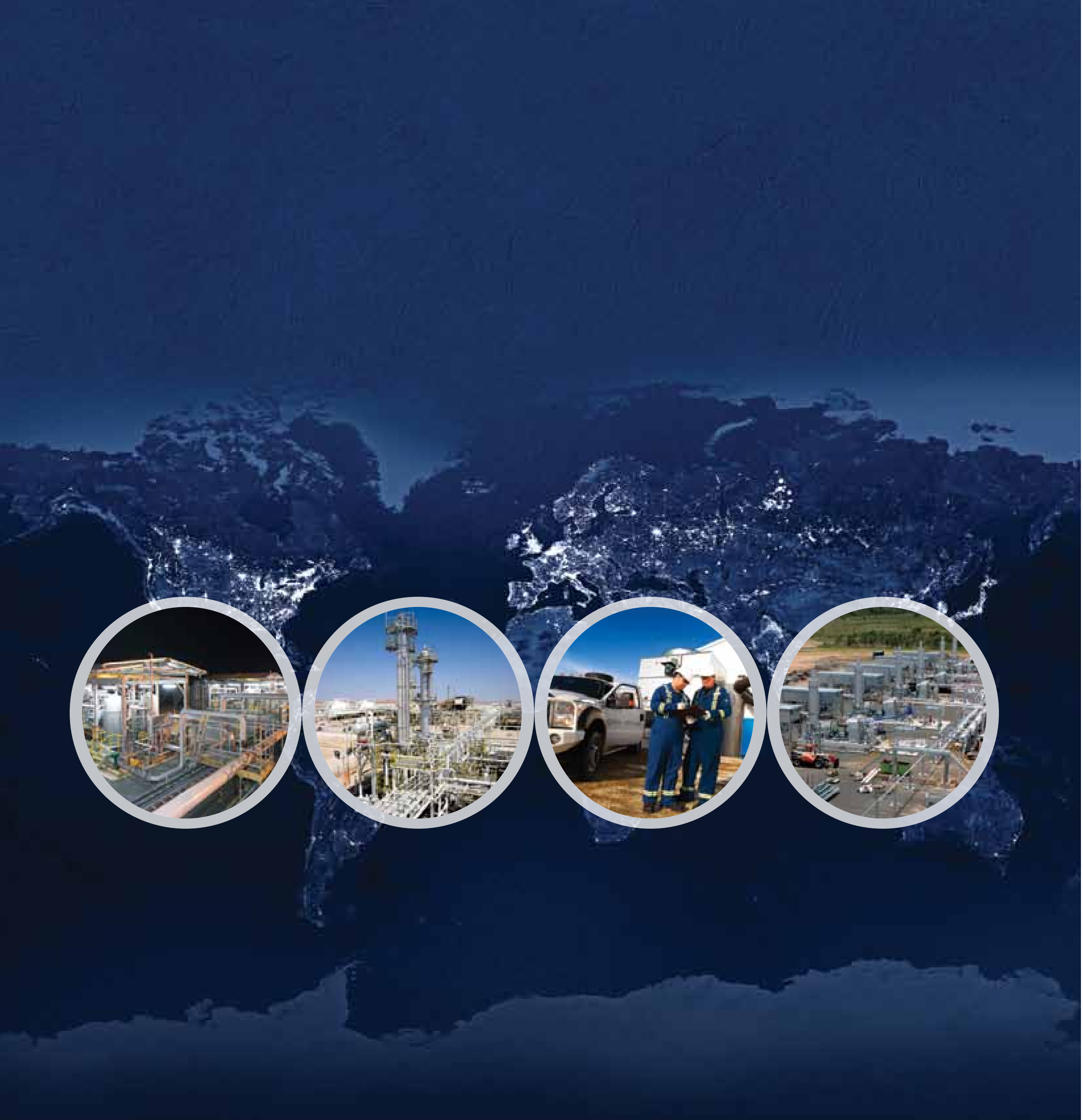
Imagine A World Without Natural Gas.

2011 Annual Report

ENERFLEX

Imagine Natural Gas Without Enerflex.



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World-class engineered solutions for a global natural gas market

Enerflex Ltd. (TSX:EFX) provides complete compression, processing and power generation solutions to the natural gas industry in five major gas-producing regions around the world. Enerflex's proven full-lifecycle capability – design, engineering, manufacturing, installation and after-market support – combined with its strategic positioning and key relationships are driving the Company's profitable growth.

Headquartered in Calgary, Alberta, Enerflex has approximately 3,100 employees operating from 60 locations in 13 countries worldwide. Revenues in 2011 exceeded $1.2 billion and the Company entered 2012 with net debt below $38 million and a backlog of $986 million.

What makes Enerflex a unique investment

For investors seeking to be aligned with a company focused purely on the natural gas cycle, Enerflex is that pure play. The Company's revenue is derived from providing and maintaining infrastructure to the global natural gas industry including compression, processing and power generation. Enerflex's 2011 results were strong across the board, with EBIT up 41 percent over 2010. The Company's backlog of $986 million at year-end positions us for further growth in 2012. And the long-term future for natural gas as an energy source worldwide is strong.

The Enerflex investment proposition comes down to this: a strong, focused, dividend-paying and growing company serving an expanding industry in five key regions around the world.

ENERFLEX

We are a **pure play** provider of **infrastructure** to the global natural gas industry.

We are established in the world's largest and **fastest-growing natural gas markets.**

We are **financially stable,** with 2011 year-end net debt down by more than 81 percent from year-end 2010.

We offer **growth and yield** – 2011 revenues rose 15 percent year-over-year to more than $1.2 billion, and we pay a quarterly dividend of $0.06 per share.

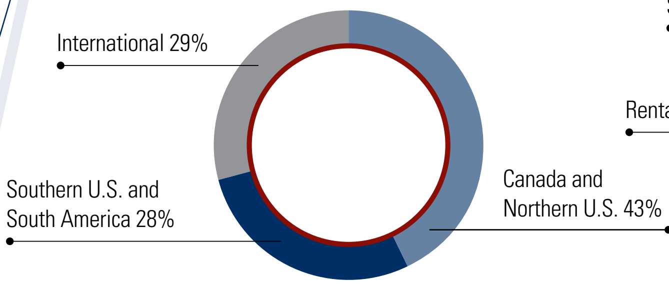
Our **strong after-market diversification** offers downside protection by generating stable, recurring revenue.

A pure play natural gas infrastructure provider

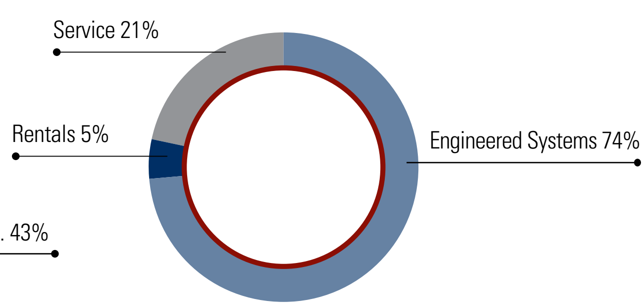
Wherever natural gas is produced, Enerflex's capabilities in compression and processing are needed – whether the gas is dry or liquids-rich, sweet or sour. The more processing required by the natural gas stream, the greater Enerflex's involvement, and the greater the business opportunity.

Enerflex's proven capabilities extend all the way to custom design-through-commissioning of turnkey compression and processing facilities, including build-own-operate-maintain ("BOOM") contracts spanning the complete facility lifecycle. The Company also distributes reciprocating gas-fuelled engines and provides industry-leading after-market service, from the smallest part to maintenance of an entire gas field's infrastructure.

2011 Revenue by Region



2011 Revenue by Product Line



Field and plant compression

Moving natural gas from the wellhead starts with compression. Virtually all gas fields of any size, anywhere worldwide, require it, and field compression is almost always gas-fuelled. Enerflex designs and manufactures compression solutions – including high-horsepower applications for shale gas fields – and offers industry-leading operations and maintenance capability.

EPC and BOOM capability

Customers who are building large facilities in markets like the Middle East and Australia often prefer dealing with single-source suppliers. Enerflex has stepped up repeatedly, using its in-house capabilities to efficiently execute a succession of large processing facilities.

Innovative niche projects

Experience, flexibility, great people and in-house engineering and manufacturing enable us to go far beyond standard offerings. Whether these are new approaches to natural gas storage or helping a coal seam gas producer transform reservoir water into potable water for agriculture, Enerflex is able to provide its customers with innovative yet practical solutions.

Processing/extraction facilities

Enerflex's capability extends worldwide: From processing the liquids-rich gas in Canada and the United States, to manufacturing and installing a modularized LPG extraction plant in New Zealand, to a $200 million-plus turnkey processing facility in Oman, and many more.

Power generation

Distribution of the high efficiency Jenbacher line of gas-fuelled engines and parts on behalf of GE's Gas Engines creates a new foundation for the Company to pursue opportunities for micro-generation of electricity. Applications range from harnessing landfill methane and biogas to replacing more-expensive diesel with natural gas in powering remote sites and drilling rigs.

Established in the world's fastest-growing natural gas markets

Canada and Northern United States

Market

Modestly growing overall consumption amidst booming production from unconventional liquids-rich shale and tight sand reservoirs.

Growth Strategy

Lever the Company's sales and service presence in unconventional gas plays, which are forecast to represent 50 percent of North American gas production by 2020. Particular focus is on increased processing sales. The Company will continue achieving efficiencies in state-of-the-art facilities, as well as exploit the expanded product line.

Current Projects

Large compression and processing facilities in the Horn River and Montney shale gas plays.

Southern United States and South America

Market

The Southern U.S. is shifting decisively to unconventional, liquids-rich reservoirs while South America is a smaller gas market, with shale gas exploration beginning in Argentina.

Growth Strategy

Lever the greatly expanded U.S. presence and newly expanded Houston facility. The Company will focus on continuous improvement, exploit positioning in liquids-rich unconventional gas plays and serve export markets.

Current Projects

Expansion of the Houston facility, which provides tidewater access to worldwide markets, as well as large compression projects in Texas' Eagle Ford and West Virginia's Marcellus shale gas plays.

Enerflex's positioning in five key regions worldwide results in a focused business model with mutually reinforcing components of compression, processing and after-market support comprising of parts, maintenance and operations. Enerflex has focused on regions with growing natural gas production and/or demand – areas with an increasing need for Enerflex's products and services.

Enerflex's ability to manufacture at modern, strategically located facilities and transport anywhere worldwide provides internal efficiencies. Strong and proven capability in operations and maintenance delivers recurring revenue on the Company's growing installed base around the world. In addition, we are expanding into power generation in selected markets with growth potential.

Europe/CIS

Market

Europe's gas imports continue to increase while Russia's gas production is based on conventional historical technology, creating long-term modernization potential.

Growth Strategy

Lever the Company's new Russian joint venture for additional projects, as well as expanding processing opportunities throughout the region.

Current Projects

Large compression projects in eastern Russia and processing projects for European engineering companies being installed and operated outside the region.

Middle East/North Africa

Market

With gigantic natural gas reserves, the Middle East is expected to lead the world in production growth over the next 20 years.

Growth Strategy

The Company will take advantage of its growing reputation in continuing to bid on longer-lead, large, full-lifecycle projects. The focus will also be on building the recurring revenue stream.

Current Projects

The USD$228 million Oman Oil processing facility (late 2013 commissioning), operate and maintain the BP Oman gas compression facility, the Tatweer compression facility and operation and maintenance contracts in Bahrain.

Australasia

Market

Australia is a major producer of gas from coal seams and LNG exporter. Asia is a major gas consumer.

Growth Strategy

The Company will lever its established presence and proven ability to build and commission facilities on-time and on-budget, as well as continuing to execute ongoing projects.

Current Projects

Santos GLNG screw compressor packages and QGC screw compression and TEG dehydration units in Queensland; silica gel gas dehydration package and multidiscipline fabrication and construction for the Mondarra underground natural gas storage; and processing facility projects in Western Australia.

We are financially strong

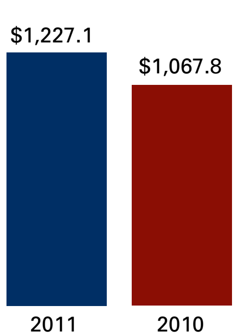
For the years ended December 31, [1] *(Thousands of dollars, except percent and per share) (Unaudited)*	**2011**	2010
Revenue	**$ 1,227,137**	$ 1,067,783
Gross margin	**225,876**	183,898
Operating income	**80,086**	40,955
Net earnings – continuing operations	**56,741**	30,262
Net loss – discontinued operations	**(64,040)**	(3,963)
	(7,299)	26,299
Earnings per share (basic) – continuing operations	**0.73**	0.40
Loss per share – discontinued operations	**(0.83)**	(0.05)
	(0.10)	0.35
EBITDA [2]	**127,012**	99,231
EBITDA – normalized [2,3]	**127,012**	80,604
Dividends per share	**0.18**	0.00
Financial Position		
Working capital	**191,703**	183,019
Total assets	**1,370,560**	1,377,556
Long-term debt/Note payable	**118,963**	215,000
Shareholders'/Owner's equity	**836,262**	839,528
Key Ratios		
Gross margin as a percentage of revenue	**18.4%**	17.2%
Operating income as a percentage of revenue	**6.5%**	3.8%
Net debt-to-equity ratio	**0.05**	0.24
Net debt-to-EBITDA [2]	**0.30**	2.02
Net debt-to-EBITDA – normalized [2,3]	**0.30**	2.48

[1] Results through May 31, 2011 have been prepared on a carve-out basis. Enerflex became an independently operated and TSX listed company on June 1, 2011.

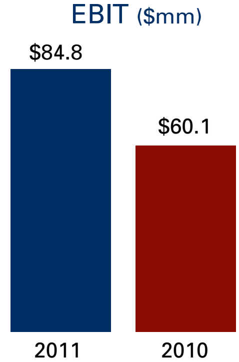
[2] EBITDA is a non-GAAP measure that does not have a standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers.

[3] EBITDA for the twelve months of 2010 is normalized for the net impact of the gain on available for sale assets of $18.6 million ($17.2 million, net of tax) related to Toromont's acquisition of Enerflex Systems Income Fund (ESIF).

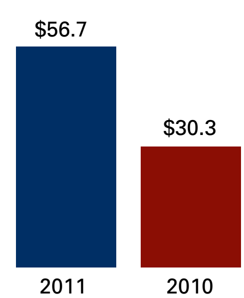
Revenue ($mm)



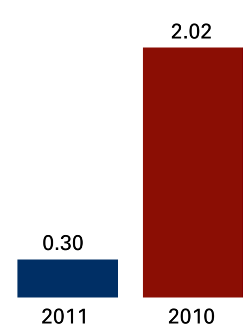
EBIT ($mm)



Net Earnings – Continuing Operations ($mm)



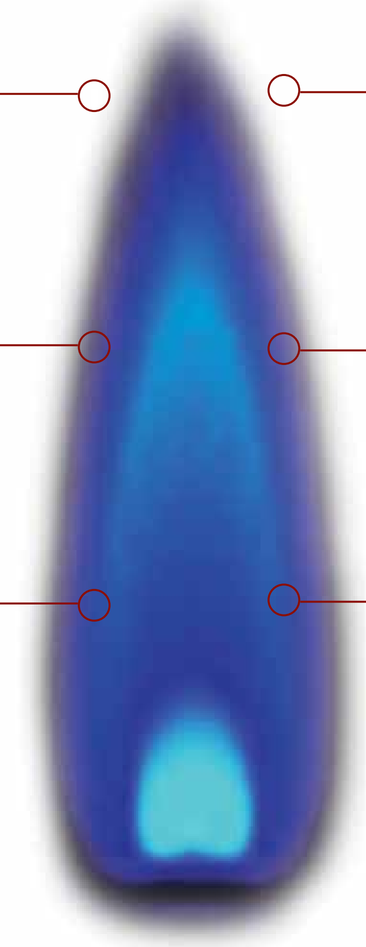
Net Debt-to-EBITDA



Key measures of our performance

Revenue

Growing activity and Enerflex's expanded geographical presence and service offering drove 15 percent year-over-year growth to $1.2 billion.



Gross Margin

Grew by 23 percent year-over-year to $226 million. This outpaced revenue growth, reflecting internal efficiency gains and cost discipline.

Backlog

Strong pickup in second-half activity drove year-end backlog to $986 million. This positions Enerflex for a strong 2012.

Free Cash Flow

Free cash flow improved by 72 percent as a result of higher revenue, cost efficiency, limited capital investment and disposal of non-core properties.

Dividend

Recognizing investors' desire for yield, in June 2011 Enerflex initiated a quarterly dividend of $0.06 per share.

Year-End Net Debt

Steady debt repayments and strong working capital management reduced year-end net debt by 81 percent to less than $38 million at December 31, 2011.

Return on Capital Employed

Generated an increase from 12 percent to 17 percent in 2011, as a result of improved earnings while strengthening the balance sheet and reducing capital employed.

An interview with J. Blair Goertzen

President and CEO

What did Enerflex's return to the public equity markets as an independent company mean for Enerflex as a business?

The independent Enerflex is a pure-play company that is focused on servicing the natural gas industry. We are a stronger company coming out of our recent time as part of Toromont, with a much larger geographical presence, additional products and experienced employees. With this larger platform, becoming a publicly-traded, independent company once again gives us access to capital to expand the business and pursue opportunities. As an independent company, we are better able to continue the expansion of our global footprint. Independence also allows us to pursue new strategic partnerships and alliances. We have an almost immediate example of this in the much stronger relationship with GE's Gas Engines that is unfolding right now.

And what does it mean for investors?

We are a highly focused business providing an extensive product and service line-up with a global reach. All of our revenue is derived from compression, processing or some form of use of natural gas. For investors who want to align with a company that focuses on global natural gas development, we are that pure play. We believe natural gas has a strong future as an energy source around the world. The investment proposition comes down to this: a strong, focused, growing company operating globally in a developing industry.

What were your immediate goals and tasks upon becoming independent?

We identified a number of priorities for the organization. First, we recognized the need to fully integrate, harmonize and streamline our operations to create a single organization in which different regions and business units could support one another efficiently. That process is ongoing. Second, we needed to "tell the story" of the new, larger, more capable company to customers and investors. We were, and continue to be, focused on efficiently fulfilling the growing backlog of orders – to the benefit of our customers and our shareholders. Finally, we identified the need to strengthen the balance sheet. We entered 2011 with $200 million in net debt, and we exited with less than $38 million. Our balance sheet strength is very important as it positions the Company for future growth.

A major accomplishment in the year was Enerflex's participation in the realignment by GE's Gas Engines of its channel-to-market strategy and distribution network of Waukesha and Jenbacher gas-fuelled engines. We see Enerflex's creation of Gas Drive Global LP to fulfill that role as an important opportunity.

We intend to grow our existing offerings, expand on the opportunity with GE's Gas Engines and increase our gas processing product portfolio.

What is the opportunity, and why was Gas Drive created as an independently operating subsidiary of Enerflex?

The strengthened relationship with GE's Gas Engines expands our territory for distribution and it expands our product line, meaning we will be able to sell and support additional world-class products in the regions that we work in. This makes it a growth driver for our business. We now distribute and support two gas engine lines: Waukesha in Canada and 20 U.S. states and Jenbacher in Canada.

We created Gas Drive to take on this expanded business because we want to have a very specific focus on gas engine distribution from sales to full product support. We needed to have separation in terms of branding and reporting, which provides a greater level of accountability in this recurring-revenue business. We also anticipate Gas Drive receiving a lot of support from GE, which will be positive for the business. By managing it this way it will benefit our customers and our investors.

How do Enerflex's business lines complement one another? What are their respective strengths?

If we think about the progression of natural gas from the wellhead to the pipeline, almost all natural gas needs some type of processing. Even "dry" gas requires compression and may require the removal of impurities like carbon dioxide or hydrogen sulphide. Liquids-rich gas requires more sophisticated processing. And then there are ancillary products in a gas processing facility, including compression, refrigeration, power generation and the balance of plant items that have to be integrated into the facility design. Enerflex's business lines collectively design, manufacture and install each of these elements and in some areas they also provide turnkey solutions for gas plant and gas compression projects. Once the package or plant is assembled, we are also able to maintain and operate it, providing care and custody for its entire lifecycle. We are able to deliver on our offering in each of the five regions that we operate around the globe.

Do you now have the "ideal" shape for Enerflex, or are there business units that need to be added, discarded, enlarged, streamlined, improved, and so on?

I think our current continuing operations, following our decision to exit the Service and Combined Heat and Power business in Europe, provide the perfect shape for the next couple of years. We intend to grow our existing offering, expand on the opportunity with GE's Gas Engines and increase our gas processing product portfolio.

Let's talk about what the year brought in each Enerflex region, starting with Canada and the Northern United States.

In Canada, the business drivers for all three product lines were growth in two large unconventional gas plays, the Horn River and the Montney. Last year we initiated a number of major projects in these plays. A prime example is the two-phase, multi-million dollar sour gas compression package for Spectra Energy near Dawson Creek, B.C. It illustrates Enerflex's ability to design, manufacture and commission a wide variety of compression and processing solutions for customers operating in diverse supply basins. In addition, our Northern United States facility in Casper, Wyoming, exited with high utilization as this facility is responsible for fulfilling the backlog for the Australian coal seam gas project.

Overall activity levels were low in the first half, coming off the bottom of the industry downturn in 2010, which resulted in low facility utilization and margin compression due to the competitive landscape. This was followed by a buildup of bookings and backlog in the second half of 2010 and throughout 2011. This region's financial performance was not ideal in the first half, but Canada experienced a pickup in the second half of the year. The oil sands in northern Alberta are driving incremental demand for natural gas and for condensate, a key component of natural gas liquids (NGL). Over the medium term, the export capacity provided by the proposed liquefied natural gas (LNG) export facilities at Kitimat, B.C., should drive incremental gas demand for use in the Pacific Rim, as well as for power generation at the facility itself.

What about the Southern United States and South America? The main driver was liquids-rich gas in several major plays, especially the Eagle Ford and the Marcellus, as well as manufacturing product for the International regions. We have seen a noticeable shift from dry gas production to liquids-rich gas in the relative activity in various basins and we expect to see the shift continuing in 2012.

Enerflex's product offering complements this shift very well. Liquids-rich gas opportunities are a good story for Enerflex due to the fact that liquids-rich gas production remains economic at today's prices, driving activity and the need for compression. The removal of the liquids provides additional opportunity for product supply. The more processing required, the better, because we are involved in providing the separation capability.

One of the important developments in this region is the expansion of our Houston facility, which is underway. It will consist of over 30 acres of production area, including a new assembly and paint facility. This manufacturing facility is important to Enerflex because of its tidewater location for International projects and its increased capabilities.

South America did not provide the growth that we expected, this year. However, we are still in the early phases of exploring opportunities in this market, which we will continue to do.

I would like to commend our people for their dedication throughout the process and their commitment to coalescing around our values so quickly.

And Australasia? The Australian economy remains one of the world's stronger economies, with continued growth and increasing activity. Coal seam gas to LNG is the story there. In 2011, the Company was awarded a couple of major projects for compression and processing for QGC, as well as compression packages for the Santos GLNG facility. In the Service business we were awarded maintenance contracts, including the long-term service contract for Santos. The Enerflex Indonesian Service business also performed extremely well. Finally, we saw an improvement in bookings for our Construction business.

Natural gas facility, Australia.

And rounding it out, the Middle East and North Africa. We had an extremely successful year, bringing three years of investment in the area to its culmination of profitability and growth. The most notable projects were the successful BP Oman project, which was a build-own-operate-maintain or "BOOM" contract, and the award of the Oman Oil contract. Valued at approximately USD$228 million, it is the largest contract in the Company's history and was a direct result of our success on the BP Oman project. We have also established operations in Oman and Bahrain and we are seeing an increase in the operations and maintenance side of the business. Enerflex continues to expand its international footprint in the service business.

So of all this, what were the fastest-growing and/or strongest areas in 2011?

Coal seam gas to LNG development in Australia and unconventional gas in North America. From an operating standpoint, we were very happy with how our first BOOM contract went. The execution was a success, the project is operating well, and the lessons learned for operating in a global context were enormous. It was a way to demonstrate the "One Enerflex" concept.

And what were the greatest challenges?

The integration of the Company. We were bringing together people, facilities and processes from two different companies, and that was a formidable challenge, especially in the depressed market for the first half of 2010. While the integration was primarily focused in Canada, we also faced some challenges internationally. In Australia, Queensland experienced devastating floods in early 2011 – which was very hard on a lot of people there. From an operational perspective, the floods caused delays and cost overruns in a number of our projects. In Europe, given some poor business performance, macro-economic concerns and GE's realignment, Enerflex decided to exit those operations. We had expected additional Combined Heat and Power opportunities, which did not materialize, nor were we able to expand into the industrial oil and gas applications that we had anticipated.

Plant inlet compression facility, Eagle Ford Shale, United States.

How is Enerflex's integration going?

I would like to commend our people for their dedication throughout the process and their commitment to coalescing around our values so quickly. We closed overlapping facilities, trimmed duplicated resources, and of course we rebranded Enerflex globally. Enerflex's employees embraced the challenges and, as an organization, we came together as a team and achieved our integration goals. Combining the two organizations has made us much stronger as a business in terms of people, product and geography.

As you may imagine, we were also harmonizing internal processes to take advantage of the size of our enterprise from the standpoints of reporting systems, engineering tools, business development processes, and so on. The last phase of the implementation is deploying SAP across the entire organization – which should be completed in 2013.

So with all of these moving parts plus the economic swings, were you able to maintain a reasonable level of safety?

We were able to achieve a number of significant health, safety and environmental goals. The most noteworthy achievement was that our Calgary manufacturing facility, which employs more than 600 people, went the entire year without a lost-time incident. Enerflex as a whole is very proud of that accomplishment, especially when viewed in context. First, Enerflex was dealing with the aftermath of the slowdown. Next, Enerflex needed to respond to an increased workload, which meant hiring hundreds of people. We take safety seriously, and we recognize that it has become top-of-mind with Enerflex's stakeholders. Safety and up-to-date management systems are almost a window into a company's soul – if you do those things right, you're likely to do other things right as well.

How were the financial results for 2011?

They were very good. We significantly outperformed 2010, which in part was coming off the bottom of a downturn. Our key financial metrics are revenue growth, gross margin, earnings before interest and taxes margin, return on capital employed and net debt. As you can see from the highlights table, Enerflex performed well across the board. We're particularly pleased with the more than 81 percent reduction in year-end net debt, which makes us better able to pursue growth opportunities. We also saw significant growth in the bookings and in the backlog throughout 2011, both of which increased significantly in the third and fourth quarters. We generated new bookings of $768 million in the second half, and we ended the year with backlog at $986 million. That is setting up 2012 as a very strong year.

An amine sweetening facility with an output of 2 x 95 MMSCF per day, Oman.

How is Enerflex affected by the macro picture, particularly the various forms of instability around the world?

If there is another global economic recession like the one we saw three years ago, then of course we are impacted, because a lower level of economic activity consumes less energy and, ultimately, commodities. Generally, when consumers spend less, they spend less on a number of things that are driven by energy. Enerflex has a strong base of recurring revenue from its customers' existing installed base; however, this continues to percolate because there is always some demand for parts and services. The key for us in the event of a downturn is to react quickly to tighten up on the non-recurring revenue side. Our balance sheet is very solid, with net debt having been reduced to below $38 million entering 2012 and opening working capital of $192 million. This is a major source of strength for Enerflex during uncertain times, reducing our overall business risk, creating flexibility and positioning us to thrive in a range of market conditions. We also have the advantage of geographical diversification, and it is rare for every region to experience a downturn at the same time, or to the same degree. The key is to plan ahead and be prepared.

What should investors expect in terms of Enerflex's activities in 2012, and what is your economic and commodity outlook?

We will be building off the backlog that we exited with in 2011, and we expect 2012 to continue the growth that we saw in 2011. We foresee unconventional gas plays throughout North America and gas production in the Middle East being the major drivers. In North America we see many separate, individually smaller opportunities because of the wide distribution of gas plays, which are collectively a gigantic gas market. In addition, with the increasing production of liquids-rich gas, Enerflex will focus on expanding into the design and manufacturing of modular cryogenic plants to capture these opportunities. Internationally, we have large projects in Oman and Australia.

That is as long as the world economy remains in reasonable condition. There are many sources of instability around the world that we have no influence over. Within North America, both the U.S. and Canadian economies are forecast to grow this year. Natural gas prices, however, are very low – they were low throughout 2011 and as the year turned they commenced a decline to the mid-$2 mark that we have not seen in a long time. This is due to the prolific nature of the unconventional gas plays, to the astounding success of the technologies being applied, to a very mild winter, and also somewhat to the large volumes of solution gas being produced in association with the new unconventional oil plays. It seems that we will need some combination of significantly curtailed natural gas drilling and production, especially in dry gas fields, and increased use of natural gas – perhaps in association with a push towards North American energy independence – for natural gas prices to recover. In recent weeks, we have seen a decline in the U.S. gas-focused drilling rig count, and announcements of production shut-ins by some producers. That is encouraging, but only time will tell how strong the effect will be.

What are your capital allocation priorities, and where does the dividend fit in?

It is an understatement to say there is more desire for yield than in the past. We understand that, and are committed to dividend growth over the long-term. The question from investors is always, "When?" We can only answer that it has to happen at an appropriate time for the business. We are going to use our cash first to grow the business. As our profitability increases, then we can increase the dividend. Our capital allocation priorities include debt repayment, funding expansion, the dividend, and lastly buyback of shares via the normal course issuer bid. We do not say what percentages are going where, because business conditions and opportunities change over the course of the year. We do, however, expect capital expenditures to total approximately $35-$40 million in 2012.

On behalf of the Board of Directors,

[signed] "J. Blair Goertzen"

J. Blair Goertzen
President, Chief Executive Officer and Director
February 29, 2012

Imagine a world without natural gas

Natural gas is on the rise around the world. In North America, the unconventional shale and tight gas revolution is driving production growth even at sustained low gas prices. In Europe and other developed countries, the cleanest fossil fuel is increasingly relied on for power generation. Rapidly industrializing developing countries are installing natural gas infrastructure and building industries that rely on natural gas for fuel and feedstock. Oil-producing countries in the Middle East are seeing the possibilities in natural gas both for domestic consumption and export earnings.

Liquefied natural gas (LNG) tankers are roaming the oceans, transforming natural gas from a regional to a global commodity. The world's natural gas consumption is increasing by 1.6 percent per year, with forecasts showing consumption to grow to 169 trillion [1] cubic feet in 2035.

Build-Own-Operate-Maintain ("BOOM") compression facility, Oman.

[1] *Source: eia, International Energy Outlook 2011*

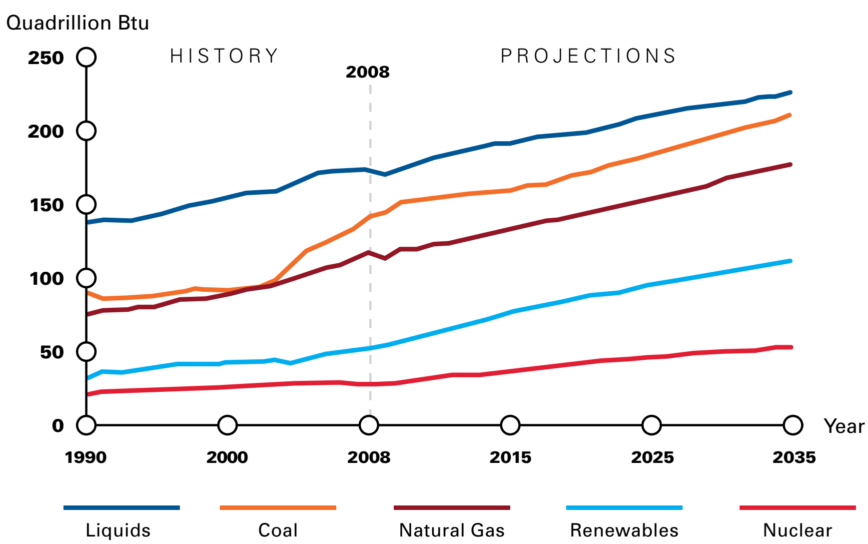
As a low-carbon fuel, natural gas has major environmental attractions compared to other fossil fuels and enormous cost advantages over alternative energy. Yet the amount of natural gas that is still "flared" or simply burnt off in oil fields, especially in Africa and Russia, is in the multiple billions of cubic feet per day worldwide. That's the equivalent of some countries' entire natural gas consumption – and it creates a need for new capture and processing infrastructure. Demand will be created as these countries continue industrialization.

It is very hard to imagine today's world without natural gas. The uses of natural gas are varied and growing:

- Commercial and residential heating and cooling;
- Industrial fuel – manufacturing, water desalination;
- Manufacturing feedstock – fertilizer, petrochemicals;
- Power generation;
- Fuel-switching from higher-carbon or more expensive energy sources; and
- Potential growth applications such as natural gas-powered vehicles.

These trends represent major opportunities for Enerflex, today and for the long-term – because the world's natural gas markets need everything Enerflex offers. Enerflex is an established, recognized company with a track record of growth, operating in a growing industry. **Why would we want to be anywhere else?**

World Energy Consumption by Fuel (quadrillion Btu)[1]



[1] *Source: eia, International Energy Outlook 2011*

Compression

Essentially most natural gas fields require compression to move gas from producing wells to high-pressure sales pipelines. Enerflex is a leading supplier of gas compression packages consisting of gas-fuelled engines or motors, reciprocating and screw compressors, cooling fans, piping and instrumentation and controls. Applications include gas gathering compression, inlet and residue compression in processing facilities, compression for gas storage and pipeline compression. Customers range from small independent producers to majors, as well as midstream or third-party processing providers.

Enerflex is positioned in virtually every unconventional gas play across North America. Key markets are the Eagle Ford, Marcellus, Montney, Horn River, Fayetteville, Haynesville, Barnett, Avalon and Bakken plays. Enerflex is at the forefront of today's high-horsepower compression trend to service high-rate unconventional wells. The Company accounts for approximately half of the world's installations of the 8,000-hp Caterpillar GCM34 engine for gas compression applications.

Enerflex's 60 locations in major gas fields position us to serve the growing demand for new packages, as well as to generate recurring revenue from after-market support (refer to pages 22-23). The Company is well-served by manufacturing facilities in Nisku and Calgary, Alberta; Casper, Wyoming; Houston, Texas; and Brisbane, Australia. Internally, Enerflex has focused on continuous improvement of internal processes and cost reductions to achieve "lean manufacturing", along with integration of engineering, design and manufacturing functions across our facilities. Enerflex foresees continued growth in compression demand at liquids-rich gas plays across North America.

International compression is a large piece of Enerflex's overall business, and represents approximately half of the Company's international business. Enerflex's success comes from its longstanding presence in selected markets, experienced people, close ties to local businesses, and relationships with major energy producers.

The International compression market typically involves designing and manufacturing to the individual customer's specifications. Enerflex is experienced and comfortable in taking on technically complex projects governed by different codes and standards, as well as varying climatic and terrain conditions. An important recent example is the Tatweer Petroleum compression project in Bahrain, consisting of six compressor packages totalling 26,000-hp installed. It was sold by the international team, manufactured in Houston, shipped in modules to Bahrain, commissioned by Enerflex, and is being maintained and operated by a local Enerflex team.

QGC QCLNG and Santos GLNG projects

Queensland, Australia

Enerflex is midway through a USD$193 million project to supply compressors and related equipment for QGC's Queensland Curtis LNG project ("QCLNG"). The high-horsepower rotary screw compression packages and process dehydration systems will be supplied for gas gathering and treatment. The project integrates multiple Enerflex capabilities, with design and prototyping in Calgary, Alberta, fabrication in Casper, Wyoming, and final assembly at a dedicated new facility in Brisbane, Australia. This approach levers Enerflex's resources, resulting in cost-effective and high-quality execution. Much of the focus for Enerflex has been on the coal seam gas basin development in Australia, where multi-billion dollar investments are being made for the domestic market and for the export of LNG.

Continuing our success in the coal seam gas industry in Queensland, Enerflex is supplying over 60,000 horsepower of skid-mounted rotary screw compressor packages for the Santos GLNG project. The packages are being engineered and fabricated in the Houston, Texas facility. The compression packages support a coal seam gas gathering system connected to an underground gas transmission pipeline to Gladstone, where the liquefied natural gas facility will produce 7.8 million tonnes per annum of LNG for export markets.

Enerflex's Houston facility expansion

Houston, Texas, United States

This strategic facility provides manufacturing capacity not only for North America but globally due to its tidewater location near the Gulf of Mexico. The plant is undergoing a two-phase expansion. It includes a new 81,000-square-foot assembly and paint building with 20 enlarged assembly bays having 100-ton lift capacity – doubling the previous manufacturing capacity and offering indoor manufacturing of double-deck skids. Phase I was completed in February 2012 and Phase II should be partially operational by April. The Houston facility is a key component in Enerflex's integration of its engineering, design and manufacturing resources for worldwide application.

Caiman Energy's reciprocating compression project

Houston, Texas, United States

Enerflex's Houston facility is engineering and packaging two 9,315-horsepower, electric motor-driven reciprocating compressor packages for Caiman Energy's Fort Beeler III gas processing facility in Marshall County, West Virginia, which processes gas produced in the Marcellus Shale. These packages represent the highest-horsepower reciprocating compressors utilizing an Ariel compressor built in North America to date, and will serve to boost processed gas from the facility into the sales gas pipeline. Enerflex won this contract as a result of its superior engineering and fabrication capabilities. The project is expected to be completed in late summer 2012.

Processing

Processing conditions natural gas to ready it for transportation by pipeline and end-use consumption. All newly produced natural gas requires the removal of water, carbon dioxide ("CO_2") and other impurities, and gas containing natural gas liquids (ethane, propane, butane and condensate) requires more complex processing. Enerflex supplies processing equipment including plant compression, general processing, dew point control, dehydration and liquids separation, and amine sweetening to remove hydrogen sulphide or CO_2.

The North American producing sector's increased focus on liquids-rich gas opportunities has generated new demand for processing facilities. Enerflex's main North American processing markets are the Horn River, Montney, Eagle Ford, Bakken and Marcellus plays. Customers include small through large producers plus midstream processing providers. Enerflex's advantages in this competitive business are its detailed engineering, longstanding experience and high-quality manufacturing. Enerflex's processing business is smaller than its compression business but generates typically stronger margins and offers large growth potential.

Internationally, Enerflex has had strong success in bidding and winning turnkey processing projects including after-market operations and maintenance contracts. Gas processing facilities outside North America tend to be large and complex, requiring a high level of technical expertise, worldwide logistics capability, plus the technical expertise to provide design guarantees. Key markets include Australia and Arabian Gulf nations such as Oman, Bahrain and the UAE. The large amount of coal seam gas production in eastern Australia generates numerous opportunities for dehydration facilities.

In the Middle East, important past successes include the build-own-operate-maintain ("BOOM") project for BP Oman. This multi-million dollar project included a 70 MMSCF per day gas processing plant with inlet separation, five 2,500 hp compressors, plus a three-year contract to operate and maintain the facility. It came on-stream in August 2010. This success strengthened Enerflex's reputation in bidding for the much larger Oman Oil contract. Going forward, Enerflex foresees multiple opportunities to bid on large, complex, full-lifecycle projects.

Todd Energy's LPG facility

Taranaki, New Zealand

This multi-million dollar project to extract natural gas liquids including propane (LPG) from locally produced natural gas demonstrates Enerflex's ability to efficiently lever its North American capabilities worldwide. Enerflex designed the facility and manufactured modules in its Nisku, Alberta facility in packages small enough to fit in standard sea containers, minimizing shipping costs. Using an advanced process engineering design unique to Enerflex, the facility will achieve extremely high recovery of liquids from the gas stream. The project was awarded in December 2009, equipment was shipped in October 2010 and LPG production commenced in December 2011. Plant processing capacity is 26 MMSCF per day with annual LPG output planned at 27,000 tonnes.

Oman Oil's gas processing facility

Block 60, Sultanate of Oman

This USD$228 million contract for the design, engineering, procurement, construction and commissioning of a 90 MMSCF per day natural gas processing facility that will extract 6,000 bbls per day of condensate is Enerflex's largest-ever project. Currently in design, construction is to commence later this year and commissioning is scheduled for the third quarter of 2013. Facility design and major equipment including separators, dehydrators, an amine unit and dew point plant are being provided by Enerflex's Nisku, Alberta facility, while the Houston, Texas plant is supplying the compression packages. Construction will require a peak workforce of 500. The new plant will serve Oman's growing natural gas demand, while the condensate will be sold for export. The contract strengthens Enerflex's position in the MENA region.

Spectra Energy's gas processing project

Dawson Creek, B.C., Canada

This multi-million dollar, two-phase sour gas processing facility exemplifies the large, centralized processing facilities used in northeast British Columbia. Enerflex was awarded the process modules for this facility in July 2010 due to our ability to manufacture and deliver a wide range of products and services. Engineering, design and manufacturing were performed at Enerflex's Calgary and Nisku, Alberta facilities. Phase I equipment includes an amine plant, a hydrocarbon dew point plant, an inlet separator, an electric motor drive vapour recovery compression package, an acid gas dehydration package, a 1,150 horsepower electric motor drive acid gas compression package, and a condensate stabilizer package. Shipping of the modules commenced in May 2011 and Phase II was in fabrication in early 2012.

After-market service

Approximately 21 percent of Enerflex's top-line consists of recurring revenue generated by the Company's after-market service and support activities. This sophisticated business includes distribution and remanufacturing facilities, more than two-dozen outlets situated in active natural gas producing areas, hundreds of service vehicles, hundreds of skilled mechanics, tens of millions of dollars in inventory, plus an experienced management team. In 2011, Enerflex's Service business generated $262 million in revenue and achieved strong margins.

Enerflex services a large installed base of gas compression and storage facilities in North America and Australia, reflecting Enerflex's longstanding presence. In addition, Enerflex provides contract maintenance and operation for large natural gas facilities in the Middle East and other markets where there is little experience in operating and maintaining gas facilities. Customers range from independent producers to regionally significant players to some of the world's largest producers, such as BP, Shell, ConocoPhillips, and others. Maintenance contracts are managed centrally out of Calgary, Alberta by a team of dedicated engineers and planners using remote monitoring and on-site specialist personnel to carry out the work required.

Through its predecessor companies, Enerflex has accumulated over 40 years of experience in providing parts, field repairs, equipment overhauls and other services to the natural gas producing sector. After-market service helps producers maintain existing fields and facilities, thereby generating stable revenue throughout the commodity price cycle. Enerflex values this business as a way of both strengthening relationships with customers and providing stable revenue during times of lower capital spending on natural gas infrastructure.

Creation of Gas Drive

In 2011 Enerflex's after-market service business evolved substantially. Through an agreement with GE's Gas Engines, the Company became the authorized distributor and after-sales support provider for Waukesha parts and engines in Canada and 20 U.S. states, as well as a distributor and after sales support provider of Jenbacher engines and parts in Canada. GE's Gas Engines produce high-quality

reciprocating gas-fuelled engines – Waukesha primarily for gas compression applications and Jenbacher for power generation.

Enerflex created a wholly-owned limited partnership, **Gas Drive Global LP** to act as distributor. This separation is required to focus on a pure distribution business, from selling engines and power generation systems to service and full lifecycle support of the product. Most of Enerflex's after-market service resources were transferred to Gas Drive, enabling Gas Drive to commence operations with complete capabilities. The distribution business is a "local" business, and Gas Drive is offering "local service provided by local people" by being positioned directly in gas-producing areas. Gas Drive has 35 branches including locations in Drumheller, Alberta; Gillette, Wyoming; Roma, Australia and Jakarta, Indonesia.

Outside of Gas Drive's designated distribution/service areas, after-market service continues to be provided by Enerflex Service. This includes operations and maintenance contracts in the Middle East. Together, Enerflex and Gas Drive have formed one of the world's largest after-market service providers to the natural gas producing sector.

Commissioning of a compression facility, Canada.

The dynamometer cell with the design capability of load testing engines, Canada.

Gas Drive Global

The Opportunity

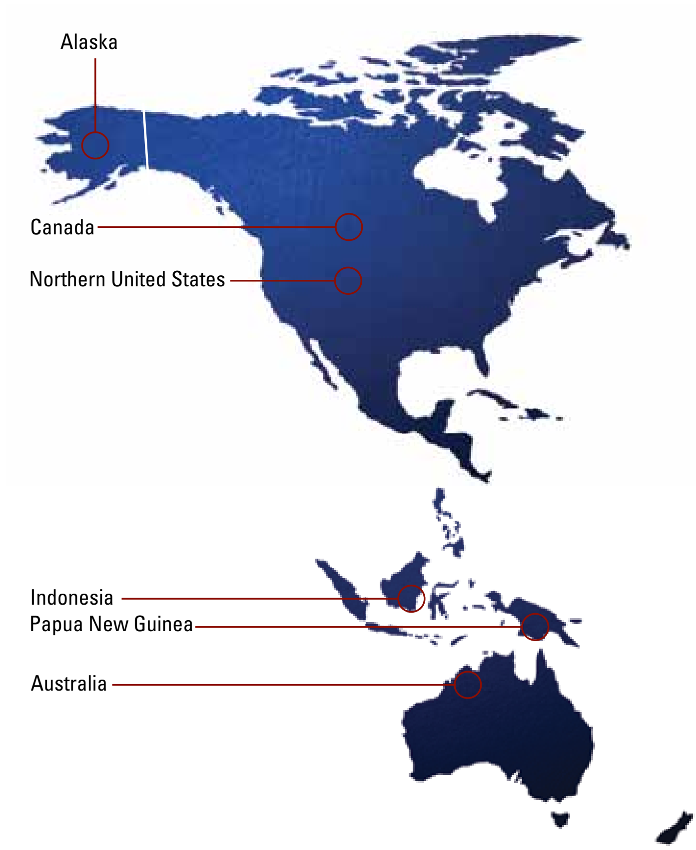
Enerflex is excited by the new opportunities arising from Gas Drive's creation. GE Energy is involved in the delivery of 25 percent of the world's electricity. Marketing two new product lines opens avenues of sales growth. Waukesha is a storied engine manufacturer that, under the ownership of GE's Gas Engines, stands to gain investment in new technology such as the larger horsepower required in today's shale gas plays, better electronic engine controls and reduced emissions. GE's Gas Engines' decision to have its distributors bundle sales with service enables Enerflex and Gas Drive to offer customers their full range of expertise. Gas Drive is diversifying into new product sales, into new regions including many more U.S. states and eastern Canada and with Jenbacher engines into a new sector, power generation.

Power Generation

Enerflex's relationship with GE's Gas Engines includes a unique opportunity to pursue growth in power generation. Following the acquisition of Jenbacher by GE's Gas Engines and their investment in new technologies, Jenbacher increased its share of the European reciprocating gas-fuelled power generation market. Gas Drive is now the authorized distributor of Jenbacher in Canada and intends to build from Jenbacher's small Canadian presence. There are numerous potential applications including biogas and landfill gas, wastewater facility power, peak shaving, remote off-grid locations having local natural gas resources, and fuel-switching from diesel-powered electricity to gas-driven power generation on drilling rigs.

Gas Drive has over 200 fully equipped service vehicles.

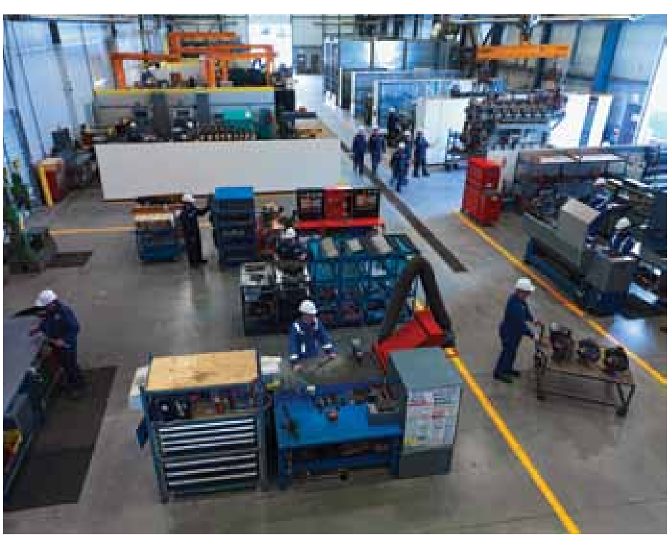
gas | drive



Leduc, Alberta distribution and remanufacturing facility

This state-of-the-art, 55,000-square-foot, $12 million facility just one minute's drive from Edmonton International Airport opened in May 2011 and provides Gas Drive with capabilities unmatched by any other service provider. Half the facility is dedicated to parts distribution, logistics and supporting $40 million of inventory, including exchange natural gas-fuelled engines. The remanufacturing operation occupies the other half, producing exchange engines and a full selection of exchange engine components such as cylinder heads, pumps, connecting rods and turbochargers. Every remanufactured exchange engine is fully run-tested in a dynamometer cell designed to accommodate engine models up to and including the new Waukesha 16V275GL+ (4,835 hp).

Over $40 million in company held inventory, Canada.



A brand new, 55,000 square-foot, $12 million parts, distribution and manufacturing facility, Leduc, Canada.

Building a global service provider

Safety

Safety is a passion at Enerflex and an integral part of the Company's culture. This passion begins at the top, with Enerflex's President and CEO, the Board of Directors and the senior management team. To be a health and safety leader is a core value of the Company. Enerflex's safety principles and programs encompass all of the Company's business units and regions worldwide. Within this framework, each business unit builds and refines a safety program that is applicable to its business focus, specific circumstances and risk factors. Safety is thereby tied into everything we do.

Over the past 18 months Enerflex reviewed its safety programs across-the-board, with a focus on achieving cross-functional consistency plus sharing of information and ideas to encourage continual improvement. Enerflex's safety program is performance-based. In addition to Enerflex's safety programs, the Company provides a comprehensive health and welfare benefits plan for employees plus a corporate wellness package to help employees recognize and overcome health challenges.

A system of leading and lagging indicators provides management with insight into the safety performance that can be expected in the year ahead and actual results for the past year. For 2011, the four key leading indicators were the planned number of site inspections, pre-job hazard assessments, hazard identifications, and safety meetings across the Company. Business units maintain additional health, safety and environmental performance indicators. The two key lagging indicators are total recordable injury frequency ("TRIF") and lost-time injury rate ("LTIR"). Enerflex focuses mainly on the TRIF because the Company's goal is to eliminate injuries.

Enerflex had several important safety achievements in 2011. The Compression and Power, Rentals and Retrofit and Service (which became Gas Drive in October 2011) business units in Alberta operated for one year without a lost-time injury, while the MENA region operated for one year without any type of recordable injury.

In addition to meeting or exceeding the stringent safety requirements in well-established jurisdictions such as those across North America, Enerflex applies fundamental safety standards, such as use of hardhats in all manufacturing areas. The Company transfers key best practices to ensure consistency of operation across geographical boundaries. For example, Enerflex works according to North America's stringent hydrogen sulphide ("H_2S") safety requirements when building and operating gas processing facilities in the Middle East, where there are no specific H_2S standards. Also in 2011 Enerflex implemented a stop work authority. It establishes the authority and obligation for any Enerflex employee to suspend a work task or group operation when becoming aware of an unsafe condition, act, error, omission, or lack of understanding that could result in an undesirable event.

Enerflex sponsors many customer events, Canada.

Enerflex's team for the 2011 Enerflex MS Walk, Canada.

In addition to establishing principles, policies and leading/lagging indicators, senior management members are engaged in safety matters, becoming personally involved in the investigation and root cause analysis following a safety incident. In keeping with a consistent "One Enerflex" philosophy, International health, safety and environment team members remain in regular contact to exchange insights and ideas on safety issues and applying best practices.

Environmental Protection

Being in the natural gas business means that Enerflex is promoting environmental improvement. Fuel-switching from other fossil fuels, as well as choosing natural gas-based equipment over other fossil fuels has a positive impact on the environment worldwide. Natural gas is innately clean-burning and, when properly processed, releases little in the way of harmful pollutants such as sulphur dioxide and particulates. Natural gas is simply a cleaner energy source – and natural gas infrastructure is our business.

In addition, the natural gas-fuelled equipment that Enerflex provides to our customers has substantially improved. Today's gas-fuelled engines are more fuel-efficient than in the past. That is objectively beneficial to the environment. Enerflex's products are designed to be environmentally friendly once in operation, with built-in design features that minimize the risk of spills and provide containment.

Operationally, Enerflex is focused on ensuring that its operations meet or exceed environmental regulations and do not have a negative environmental impact.

Internally, Enerflex has re-examined our processes around managing chemicals and hazardous waste, the Company is better at managing minor spills in facilities and on job sites, and are reducing the overall use of hazardous materials. Recently instituted audit programs ensure that Enerflex is meeting regulations and industry practices and are applying leading standards wherever the Company operates.

Community Engagement

Among Enerflex's goals is to be recognized as a partner of choice. This goes beyond our technical capabilities and includes fostering pride in the Company's employees and sustained loyal relationships with all the stakeholders. In order to achieve this vision, Enerflex participates continuously in strengthening and helping to shape the future of the communities in which it operates. Enerflex contributes directly to a number of causes, and encourages and supports the employees in the volunteer and charitable activities in which they engage. Enerflex is involved with many charities around the world, including Multiple Sclerosis Societies in Alberta and Australia, the Alberta Junior Hockey League, the Kids Cancer Care Foundation of Alberta and other initiatives in nearly all of the operating regions worldwide.

Governance

Attendance by Board Members

Directors	Board Meetings	Audit Committee Meetings	Human Resources & Compensation Committee Meetings	Nominating & Corporate Governance Committee Meetings
Stephen J. Savidant, Chairman [1]	9 of 10	4 of 5	2 of 2	2 of 2
Wayne S. Hill	10 of 10	5 of 5	-	2 of 2
Michael A. Weill	10 of 10	5 of 5	-	-
Kenneth R. Bruce	10 of 10	5 of 5	-	-
Robert S. Boswell	9 of 10	-	2 of 2	2 of 2
W. Byron Dunn	9 of 10	-	2 of 2	2 of 2
H. Stanley Marshall	9 of 10	-	2 of 2	-
J. Blair Goertzen[1]	10 of 10	2 of 4	2 of 2	0 of 2

[1] Mr. Savidant and Mr. Goertzen are not members of the committees but have been invited to attend the Audit Committee, Nominating and Corporate Governance Committee, and Human Resources and Compensation Committee meetings.

The Board of Directors and management of Enerflex believe that for the Company to achieve its full potential, it is necessary for the Company to maintain a strong and effective corporate governance program.

Our vision and values are exemplified by management across all levels of the Company throughout the five geographical regions. Communicating and reinforcing Enerflex's values includes circulating a quarterly global newsletter, as well as *Ethics 101 Communications*, in which employees are presented with an ethics problem and solution. In 2011, Enerflex's management also conducted a series of internal presentations at a number of Enerflex's global locations to promote the Company's values.

Enerflex's Board of Directors consists of eight members, seven of whom are considered independent. These eight members are responsible for overseeing the management of the Company's business. The Board's primary role is to foster Enerflex's long-term success, consistent with the Board's fiduciary duty to shareholders. The Board oversees corporate performance and provides judgment, experience and continuity of guidance to help achieve the Company's strategic objectives.

Committees and Mandate

Committees of the Board are designed to ensure the full accountability of the Board and the Company by focusing the detailed attention of experienced members on key aspects of the business. All committees are comprised solely of directors who are independent of management. The following three committees have been delegated various oversight responsibilities: the Audit Committee, the Nominating and Corporate Governance Committee, and the Human Resources and Compensation Committee.

The Mandate of the Board explicitly affirms the Board's ongoing responsibility for the stewardship of the business and affairs of the Company on behalf of shareholders. To view the full Mandate of the Board of Directors, please refer to our website at www.enerflex.com.

Board of Directors

(from left to right)

W. Byron Dunn
Director

Mr. Dunn is a Principal and a Founding Partner of Tubular Synergy Group LP, which acts as a sales, marketing and supply chain services provider for a variety of suppliers of tubular products to the oil and natural gas industry. Prior thereto, Mr. Dunn had a 32-year career with Lone Star Steel Company, of which he was CEO, President and a Director from 1997 to 2007. Mr. Dunn is also a Director of Quicksilver Resources Inc., a publicly traded company.

Michael A. Weill
Director

Mr. Weill has been the CEO of Global Deepwater Partners LLC since 2008. From 1996 to 2007, Mr. Weill served in various positions with BHP Billiton Petroleum, including President, Production – Americas and President Operations and Technology – Americas/Australia, based in Houston, Texas. He also served as President, Integrated Business Development, based in Melbourne, Australia. Prior thereto, Mr. Weill served in various positions with Royal Dutch Shell in Houston, New Orleans and the Hague.

Robert S. Boswell
Director

Mr. Boswell is Chairman and Chief Executive Officer of Laramie Energy II LLC, a Denver-based company primarily focused on finding and developing natural gas reserves from unconventional gas reservoirs. Prior thereto, Mr. Boswell was Chairman and Chief Executive Officer of Laramie Energy LLC from 2004 to 2007. Mr. Boswell was previously Chief Executive Officer of Forest Oil Company from 1995 to 2003.

J. Blair Goertzen
Director, President and Chief Executive Officer

Mr. Goertzen is the President and Chief Executive Officer of Enerflex Ltd. Mr. Goertzen joined Enerflex in 2003 as Executive Vice President. He was appointed President and Chief Operating Officer in 2005 and became President and Chief Executive Officer in 2006. Prior thereto, Mr. Goertzen was employed by IPEC Ltd, was Vice President of Enserv Corporation and was appointed to Senior Vice President, Business Development of Precision Drilling Corporation when Precision acquired Enserv.

Stephen J. Savidant
Chairman

Mr. Savidant is an independent businessman with over 33 years of industry experience. He was the Chairman of ProspEx Resources Ltd., a Calgary-based oil and natural gas company focused on exploration for natural gas in the Western Canada Sedimentary Basin, until it was acquired by Paramount Resources Ltd. on May 31, 2011. Mr. Savidant was previously President and Chief Executive Officer of Esprit Energy Trust from 2002 to 2006 and Canadian Hunter Exploration from 1998 to 2001. He is also a director of Empire Company, a reporting issuer.

H. Stanley Marshall
Director

Mr. Marshall is President and Chief Executive Officer and a director of Fortis Inc., and several of its subsidiaries (an international electric utility holding company). Fortis Inc. is a reporting issuer. Mr. Marshall joined Newfoundland Power Inc. in 1979 and was appointed President and Chief Executive Officer of Fortis Inc. in 1996.

Wayne S. Hill
Director

Mr. Hill is currently a director and a former Executive Vice President and Chief Financial Officer of Toromont Industries Ltd. He joined Toromont in 1985 as Vice President, Finance and Chief Financial Officer and became Executive Vice President and Chief Financial Officer in 2002. He retired on May 31, 2006, but was re-appointed as Executive Vice President on August 28, 2006. He subsequently retired in May 2008.

Kenneth R. Bruce
Director

Mr. Bruce retired as Vice Chairman of CIBC World Markets in 2007, having served in this position since 2003. From 1995 to 2003, Mr. Bruce headed Global Energy at CIBC World Markets, which had professionals in Toronto, Calgary, New York, London, Hong Kong and Sydney. While at CIBC World Markets, he was a Fellow of the Canadian Securities Institute and a Chartered Business Valuator.

Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2011 and 2010 and the accompanying notes to the consolidated financial statements contained in this annual report. They should also be read in combination with Toromont Industries Ltd. ("Toromont") Management Information Circular Relating to an Arrangement involving Toromont Industries Ltd., its shareholders, Enerflex Ltd. and 7787014 Canada Inc. ("Information Circular" or "Arrangement") dated April 11, 2011.

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars unless otherwise stated. In accordance with the standard related to the first time adoption of IFRS, the Company's transition date to IFRS was January 1, 2010 and therefore the comparative information for 2010 has been prepared in accordance with IFRS accounting policies. IFRS has been adopted in Canada as Generally Accepted Accounting Principles ("GAAP") and as a result GAAP and IFRS are used interchangeably within this MD&A.

The MD&A has been prepared taking into consideration information that is available up to February 29, 2012 and focuses on information and key statistics from the audited consolidated financial statements, and pertains to known risks and uncertainties relating to the oil and gas service sector. This discussion should not be considered all-inclusive, as it excludes possible future changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex Ltd. in the future. Additional information relating to the Company, including the Information Circular, is available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Certain statements containing words such as "anticipate", "could", "expect", "seek", "may", "intend", "will", "believe" and similar expressions, statements that are based on current expectations and estimates about the markets in which the Company operates and statements of the Company's belief, intentions and expectations about development, results and events which will or may occur in the future constitute "forward-looking statements" and are based on certain assumptions and analyses made by the Company derived from its experience and perceptions. All statements, other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation: statements with respect to anticipated financial performance; future capital expenditures, including the amount and nature thereof; bookings and backlog; oil and gas prices and demand; other development trends of the oil and gas industry; business prospects and strategy; expansion and growth of the business and operations, including market share and position in the energy service markets; the ability to raise capital; expectations regarding future dividends; expectations and implications of changes in government regulation, laws and income taxes; and other such matters. In addition, other written or oral statements which constitute forward-looking statements may be made from time to time by and on behalf of the Company. Such forward-looking statements are subject to important risks, uncertainties, and assumptions which are difficult to predict and which may affect the Company's operations, including, without limitation: the impact of general economic conditions; industry conditions, including the adoption of new environmental, taxation and other laws and regulations and changes in how they are interpreted and enforced; volatility of oil and gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations, including future dividends to shareholders of the Company; increased competition; the lack of availability of qualified personnel or management; labour unrest; fluctuations in foreign exchange or interest rates; stock market volatility; opportunities available to or pursued by the Company and other factors, many of which are beyond its control. As such, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds or dividends the Company and its shareholders, will derive therefrom. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

THE COMPANY

Enerflex Ltd. was formed after the acquisition of Enerflex Systems Income Fund ("ESIF") by Toromont and subsequent integration of Enerflex's products and services with Toromont's existing Natural Gas Compression and Process business. In January 2010, the operations of Toromont Energy Systems Inc., a subsidiary of Toromont Industries Ltd., were combined with the operations of ESIF to form Enerflex Ltd. Enerflex began independent operations on June 1, 2011 pursuant to the Arrangement with Toromont which received all necessary regulatory approvals. The transaction was implemented by way of a plan of arrangement whereby Toromont shareholders received one share of Enerflex for each common share of Toromont, creating two independent public companies – Toromont Industries Ltd. and Enerflex Ltd. Enerflex's shares began trading on the Toronto Stock Exchange ("TSX") on June 3, 2011 under the symbol EFX.

Enerflex Ltd. is a single-source supplier for natural gas compression, oil and gas processing, refrigeration systems and power generation equipment – plus in-house engineering and mechanical services expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission and service hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO_2 processing plants, refrigeration systems and power generators serving the natural gas production industry.

Headquartered in Calgary, Canada, Enerflex has approximately 3,100 employees worldwide. Enerflex, its subsidiaries, interests in affiliates and joint-ventures operate in Canada, the United States, Argentina, Colombia, Australia, the United Kingdom, the United Arab Emirates, Oman, Egypt, Bahrain and Indonesia.

OVERVIEW

The oil and natural gas service sector in Canada has a distinct seasonal trend in activity levels which results from well-site access and drilling pattern adjustments to take advantage of weather conditions. Generally, Enerflex's Engineered Systems product line has experienced higher revenues in the fourth quarter of each year while the Service and Rentals product line revenues are more stable throughout the year. Rentals revenues are also impacted by both the Company's and its customers' capital investment decisions. The International markets are not significantly impacted by seasonal variations. Variations from these trends usually occur when hydrocarbon energy fundamentals are either improving or deteriorating.

During the twelve months of 2011, Enerflex continued to see improved bookings in all regions, including successful bids on large projects in Canada, the Southern U.S. and the International segments. Manufacturing activity levels have increased in Canada and Northern U.S. and International while service activity levels have increased in all regions as we continue to expand Enerflex's branch network and field operations in all three segments. Manufacturing revenue was lower in the Southern U.S. and South America during the twelve months ended December 31, 2011, compared to the same period the prior year. Booking activity has increased in this region during 2011 driven predominantly by the Eagle Ford and Marcellus shale gas basins. As a result, the decrease in revenues in the twelve months of 2011 is related to timing of project deliveries which have been deferred into the first quarter of 2012 and not lower activity levels.

North American rental utilization levels were challenged throughout 2010; however, utilization rates have increased slightly throughout 2011. In the International segment, Middle East North Africa ("MENA") has contributed positively to profitability through the twelve months of the year as a result of key projects achieving commercial operation in the region and recognition of approved change orders related to past projects. The European region, within the International segment, has not performed as expected during 2011. This fact, coupled with General Electric's decision to realign its distribution network in this region, has resulted in Enerflex's decision to exit the Service and Combined Heat and Power ("CHP") business during the third quarter of 2011. This business unit has been reported as a discontinued operation beginning the third quarter of 2011 and for the twelve months ended December 31, 2011 and Enerflex has recorded a total impairment of $54.0 million, consisting of non-cash impairments of $46.0 million for goodwill, intangible assets, deferred tax assets and fair value adjustments, and anticipated cash transaction costs totalling $8.0 million.

FINANCIAL HIGHLIGHTS

($ Canadian thousands)	Three months ended December 31, 2011	Three months ended December 31, 2010	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010[1]
Revenue				
Canada and Northern U.S.	**$ 151,844**	$ 146,189	**$ 524,235**	$ 453,757
Southern U.S. and South America	**109,664**	129,372	**342,335**	364,273
International	**122,294**	72,055	**360,567**	249,753
Total revenue	**$ 383,802**	$ 347,616	**$ 1,227,137**	$ 1,067,783
Gross margin	**68,622**	64,518	**225,876**	183,898
Selling and administrative expenses	**42,113**	42,863	**145,790**	142,943
Operating income	**$ 26,509**	$ 21,655	**$ 80,086**	$ 40,955
Loss (gain) on sale of assets	**82**	907	**(3,594)**	(68)
(Gain) on available for sale assets	**–**	–	**–**	(18,627)
Equity earnings	**(354)**	(138)	**(1,161)**	(468)
Earnings before finance costs and taxes	**$ 26,781**	$ 20,886	**$ 84,841**	$ 60,118
Finance costs and income	**1,201**	4,589	**7,011**	15,471
Earnings before taxes	**$ 25,580**	$ 16,297	**$ 77,830**	$ 44,647
Income tax expense	**7,860**	7,978	**21,089**	14,385
Gain on sale of discontinued operations	**–**	–	**1,430**	–
(Loss) from discontinued operations	**(6,963)**	1,133	**(65,470)**	(3,963)
Net (loss) earnings	**$ 10,757**	$ 9,452	**$ (7,299)**	$ 26,299

Key Ratios

Key Ratios	2011	2010	2011	2010
Gross margin as a % of revenues	**17.9%**	18.6%	**18.4%**	17.2%
Selling and administrative expenses as a % of revenues	**11.0%**	12.3%	**11.9%**	13.4%
Operating income as a % of revenues	**6.9%**	6.2%	**6.5%**	3.8%
Income taxes as a % of earnings before income taxes	**30.7%**	49.0%	**27.1%**	32.2%

[1] 2010 amounts include the financial results of ESIF from the date of acquisition, January 20, 2010.

NON-GAAP MEASURES

($ Canadian thousands)		Three months ended December 31, 2011		2010		Twelve months ended December 31, 2011		2010 [1]
EBITDA								
Earnings before finance costs and taxes	**$**	**26,781**	$	20,885	**$**	**84,841**	$	60,118
Depreciation and amortization		**9,865**		7,966		**42,171**		39,113
EBITDA	**$**	**36,646**	$	28,851	**$**	**127,012**	$	99,231
EBITDA – normalized [2]	**$**	**36,646**	$	28,851	**$**	**127,012**	$	80,604
Cash Flow								
Cash flow from operations	**$**	**27,659**	$	17,294	**$**	**86,329**	$	43,008
Non-cash working capital and other		**22,340**		18,073		**48,466**		50,784
Cash flow	**$**	**49,999**	$	35,367	**$**	**134,795**	$	93,792

1 2010 amounts include the financial results of ESIF from the date of acquisition, January 20, 2010.

2 EBITDA for 2010 is normalized for the net impact of the gain on available for sale assets of $18,627. Prior to the acquisition of ESIF, Toromont owned 3,902,100 ESIF Trust Units. On acquisition of ESIF, Toromont recognized a pre-tax gain of $18,627 on this investment which was recorded at the Enerflex Ltd. level.

The success of the Company and business unit strategies is measured using a number of key performance indicators, some of which are outlined below. These measures are also used by management in its assessment of relative investments in operations. These key performance indicators are not measurements in accordance with GAAP. It is possible that these measures will not be comparable to similar measures prescribed by other companies. They should not be considered as an alternative to net income or any other measure of performance under GAAP.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")

EBITDA provides the results generated by the Company's primary business activities prior to consideration of how those activities are financed, assets are amortized or how the results are taxed in various jurisdictions.

Cash Flow

Cash flow provides the amount of cash generated by the business (net of non-cash working capital) and measures the Company's ability to finance capital programs and meet financial obligations.

Operating Income and Operating Margin

Each operating segment assumes responsibility for its operating results as measured by, amongst other factors, operating income, which is defined as income before income taxes, interest income, interest expense, equity income or loss and gain or loss on sale of assets. Financing and related charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments and income tax jurisdictions are not synonymous, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of business segments.

Bookings and Backlog

Bookings and backlog are monitored by Enerflex as an indicator of future revenue and business activity levels for Enerflex's Engineered Systems product line. Bookings are recorded in a period when a firm commitment or order has been received from Enerflex's customers. Bookings increase backlog in the period that they are received. Revenue recognized on Engineered Systems products decrease backlog in the period that this revenue is recognized. As a result backlog is an indication of revenue to be recognized in future periods using percentage of completion accounting.

FOR THE THREE MONTHS ENDED DECEMBER 31, 2011

During the fourth quarter of 2011, the Company generated $383.8 million in revenue, as compared to $347.6 million in the fourth quarter of 2010. The increase of $36.2 million was a result of increased revenue in the Canada and Northern U.S. and International segment predominantly offset by decreased revenues in Southern U.S. and South America. As compared to the three month period ended December 31, 2010:

- Canada and Northern U.S. revenues increased by $5.7 million as a result of higher Rental revenue, which was partially offset by lower Engineered Systems and Service revenue. Engineered Systems revenue was impacted by timing of revenue recognition, while Service revenue was impacted during the fourth quarter of 2011 as a result of producers deferring maintenance due to low natural gas prices. Rental revenue was higher in the quarter as a result of an increase in utilization rates and increased unit sales compared to the same period in 2010;

- Southern U.S. and South America revenues decreased by $19.7 million, as a result of decreased Engineered Systems and Service revenue in the fourth quarter of 2011. Engineered Systems revenue continued to be impacted by project delivery dates being deferred to 2012. Activity levels in this region remain robust with respect to booking and backlogs and are being driven by liquids-rich resource basins in the Eagle Ford and the Marcellus; and

- International revenues increased by $50.2 million as a result of increased revenue in Australia, and Production and Processing ("P&P"), partially offset by lower revenues in MENA and International Compression and Power ("C&P") as a result of closing the manufacturing facility in this segment during the fourth quarter of 2010 and the transfer of bookings and backlog related to that facility to Enerflex's other two segments. Revenues in Australia during the fourth quarter of 2011 benefited from increased activity in the development of Coal Seam Gas ("CSG"), while revenues during the comparable quarter in 2010 in MENA included $40.0 million for the construction of a gas processing facility which was accounted for as a finance lease.

Gross Margin for the three months ended December 31, 2011 was $68.6 million or 17.9% of revenue as compared to $64.5 million or 18.6% of revenue for the three months ended December 31, 2010. The increase in gross margin of $4.1 million was primarily due to strong gross margin performance in Canada and Northern U.S. and International, as a result of improved plant utilization, improved rental margins and increased activity in Australasia related to CSG projects. This was partially offset by lower gross margin performance in the Southern U.S., as a result of lower awarded gross margins and timing of revenue recognition related to deferred delivery dates of projects in backlog.

Selling, General and Administrative ("SG&A") expenses were $42.1 million or 11.0% of revenue during the three months ended December 31, 2011, compared to $42.9 million or 12.3% of revenue in the same period of 2010. The decrease in SG&A expenses during the quarter is primarily attributable to lower occupancy costs and lower depreciation and amortization, partially offset by higher severance costs and incentive costs resulting from improved profitability.

Operating Income assists the reader in understanding the net contributions made from the Company's core businesses after considering all SG&A expenses. During the fourth quarter of 2011, Enerflex produced an operating income of $26.5 million or 6.9% of revenue as compared to operating income of $21.7 million or 6.2% of revenue in 2010. The increase in operating income in the fourth quarter of 2011 over the comparable period of 2010 was a result of the same factors contributing to the increased revenue, gross margin and lower SG&A expenses.

Finance Costs and Income totaled $1.2 million for the three months ended December 31, 2011, compared with $4.6 million in the same period of 2010, a decrease of $3.4 million. Finance costs in 2011 were lower than those in 2010 primarily as a result of lower average borrowings, a lower effective interest rate and higher finance income arising from higher cash balances.

Income Tax Expense totaled $7.9 million or 30.7% for the three months ended December 31, 2011 compared with an expense of $8.0 million or 49.0% in the same period of 2010. The decrease in expense and the effective tax rate compared to the same period in 2010 was primarily due to increased earnings in lower tax jurisdictions within Canada and Northern U.S. and the International segment and lower earnings in higher tax jurisdictions within the Southern U.S. and South America segment in 2011 as compared to 2010.

During the fourth quarter of 2011, Enerflex generated net earnings from continuing operations of $17.7 million or $0.22 cents per share, as compared to $8.3 million or $0.11 cents per share in the same period of 2010.

Loss from Discontinued Operations reflects the results of Enerflex Environmental Australia ("EEA"), Enerflex Syntech ("Syntech") and Enerflex Europe ("EE"). These business units recorded a net loss from discontinued operations, including impairments of $7.0 million ($0.09 cents per share) in the fourth quarter of 2011 compared to a gain of $1.1 million ($0.01 cents per share) in the same period a year ago.

SEGMENTED RESULTS

Enerflex operates three business segments: Canada and Northern United States, Southern United States and South America, and International, which operate as follows:

1. Canada and Northern U.S. is comprised of three divisions:

- Manufacturing, with business units operating in Canada and the Northern U.S., focuses on Compression and Power which provides custom and standard compression packages for reciprocating and screw compressor applications, Production and Processing ("P&P") which designs, manufactures, constructs and installs modular natural gas processing equipment and Retrofit which operates from plants located in Calgary, Alberta and Casper, Wyoming;

- Service provides mechanical services and parts as the authorized Waukesha distributor to the oil and gas industries, focusing in Canada and Northern U.S. Enerflex re-branded its service business during the fourth quarter of 2011 as Gas Drive Global LP ("Gas Drive") and was awarded new service territories within the U.S. All future parts sales and service revenue will be undertaken by this new wholly-owned entity; and

- Rentals which provides compression and natural gas processing equipment rentals in Canada and Northern U.S.

2. Southern U.S. and South America is comprised of three divisions:

- Compression and Power provides custom and standard compression packages for reciprocating and screw compressor applications from facilities located in Houston, Texas;

- Production and Processing designs, manufactures, constructs and installs modular natural gas processing equipment; and

- Service which provides mechanical services and products to the oil and gas industries focusing on Southern and Eastern U.S., as well as South America.

3. International is comprised of four divisions:

Continuing Operations

- AustralAsia division provides process construction for gas and power facilities and compression package assembly. This division also provides mechanical service and parts, as the authorized Waukesha distributor for the oil and gas industry in this region;

- MENA division provides engineering, procurement and construction services, as well as operating and maintenance services for gas compression and processing facilities in the region; and

- P&P division designs, manufactures, constructs and installs modular natural gas processing equipment, and waste gas systems, for the natural gas, heavy oil Steam Assisted Gravity Drainage ("SAGD") and heavy mining segments of the market.

Discontinued Operations

Europe division provides CHP generator products and mechanical service to the CHP product line. Enerflex has announced its intention to exit this business over the next twelve months through a sale, partial sale or closure of these operations. As a result of this decision, the Europe division is reported as a discontinued operation.

Each region has three main product lines:

Engineered Systems product line includes engineering, fabrication and assembly of standard and custom-designed compression packages, production and processing equipment and facilities and power generation systems. Engineered Systems' product line tends to be more cyclical with respect to revenue, gross margin and earnings before interest and income taxes than Enerflex's other business segments. Revenues are derived primarily from the investments made in natural gas infrastructure by producers.

Service product line includes support services, labor and parts sales to the oil and gas industry. Enerflex, through various business units, is an authorized distributor for Waukesha engines and parts in Canada, Alaska, Northern U.S., Australia, Indonesia and Papua New Guinea. Enerflex is also an exclusive authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems in Canada, Australia, Papua New Guinea and New Zealand. Mechanical Service revenues tend to be fairly stable as ongoing equipment maintenance is generally required to maintain the customer's natural gas production.

Rental revenue includes a variety of rental and leasing alternatives for natural gas compression, power generation and processing equipment. The rental fleet is primarily deployed in Western Canada and Northern U.S. Expansion in international markets is conducted on a selective basis to minimize the risk of these newer markets.

CANADA AND NORTHERN U.S.

	Three months ended December 31,	
($ Canadian thousands)	**2011**	2010
Segment revenue	**$ 191,032**	$ 154,200
Intersegment revenue	**(39,188)**	(8,011)
Revenue	**$ 151,844**	$ 146,189
Revenue – Engineered Systems	**$ 96,943**	$ 98,033
Revenue – Service	**$ 42,067**	$ 42,837
Revenue – Rental	**$ 12,834**	$ 5,319
Operating income	**$ 12,093**	$ 7,007
Segment revenues as a % of total revenues	**39.6%**	42.1%
Service revenues as a % of segment revenues	**27.7%**	29.3%
Operating income as a % of segment revenues	**8.0%**	4.8%

Canada and Northern U.S. revenues totaled $151.8 million in the fourth quarter of 2011 as compared to $146.2 million for the same period of 2010. The increase of $5.6 million was the result of higher Rental revenues due to higher utilization rates and higher sales of rental units compared to the same quarter of the prior period. This was partially offset by lower Engineered Systems revenues and lower activity in the Service business in Canada and Wyoming as a result of lower natural gas prices. Engineered Systems revenue was slightly lower in the fourth quarter of 2011 due to timing of revenue recognition on certain projects. This region has recorded higher backlog and bookings in 2011 compared to 2010, as a result of higher activity in unconventional resource basins in Canada.

Operating income increased to $12.1 million in 2011 from $7.0 million in 2010. This $5.1 million increase was due to better gross margin performance as a result of improved plant utilization and higher realized margins on the sale and rental of compression equipment from the rental fleet during the quarter.

SOUTHERN U.S. AND SOUTH AMERICA

($ Canadian thousands)	Three months ended December 31, 2011	2010
Segment revenue	**$ 110,359**	$ 129,548
Intersegment revenue	**(695)**	(176)
Revenue	**$ 109,664**	$ 129,372
Revenue – Engineered Systems	**$ 99,342**	$ 118,733
Revenue – Service	**$ 10,322**	$ 10,639
Operating income	**$ 10,906**	$ 22,034
Segment revenues as a % of total revenues	**28.6%**	37.2%
Service revenues as a % of segment revenues	**9.4%**	8.2%
Operating income as a % of segment revenues	**9.9%**	17.0%

Southern U.S. and South America revenues totaled $109.7 million in the fourth quarter of 2011 as compared to $129.4 million in the fourth quarter of 2010. The decrease of $19.7 million was the result of deferred delivery dates on Engineered Systems projects to the first half of 2012. In addition, revenues in the fourth quarter of 2010 include $32.0 million for the completion of a large pipeline project that did not reoccur in 2011. Service revenues were comparable to the fourth quarter of the prior year, as a result of higher activity levels in the unconventional resource basins in the U.S. and as a result of new service branches being opened in this region during 2011.

The Eagle Ford and Marcellus resource basins have been very active in this segment as evidenced by stronger bookings and backlog levels in 2011. The lower revenue in 2011 is related to timing of project delivery, not lower activity within this region.

Operating income decreased from $22.0 million in the fourth quarter of 2010 to $10.9 million in the fourth quarter of 2011, as a result of lower revenues due to timing of revenue recognition and lower realized margins, partially offset by lower SG&A compared to the same period in 2010.

INTERNATIONAL

($ Canadian thousands)	Three months ended December 31, 2011	2010
Segment revenue	**$ 122,496**	$ 91,916
Intersegment revenue	**(202)**	(19,861)
Revenue	**$ 122,294**	$ 72,055
Revenue – Engineered Systems	**$ 105,504**	$ 59,520
Revenue – Service	**$ 15,830**	$ 12,203
Revenue – Rental	**$ 960**	$ 332
Operating income	**$ 3,510**	$ (7,386)
Segment revenues as a % of total revenues	**31.9%**	20.7%
Service revenues as a % of segment revenues	**12.9%**	16.9%
Operating income as a % of segment revenues	**2.9%**	(10.3)%

Continuing Operations

International revenues totaled $122.3 million in the fourth quarter of 2011, compared to $72.1 million in the same period of 2010. The increase of $50.2 million was due to higher activity levels in Australia related to CSG projects and higher activity levels for P&P in unconventional resource basins and in Africa. This was partially offset by lower revenue in MENA and lower C&P revenue as a result of the closure of the International C&P business during the fourth quarter of 2010, with its backlog transferred to plants in Casper, Wyoming and Houston, Texas. Revenue in the fourth quarter of 2010 included $40.0 million for the construction of a gas processing facility in MENA which was accounted for as a finance lease.

Operating income for the fourth quarter of 2011 was $3.5 million, which was $10.9 million higher than the fourth quarter of 2010. Operating income improved due to lower SG&A costs as a result of the closure of the International C&P facility and improved margin performance in the MENA region resulting from a project in Oman and International P&P, as a result of improved plant utilization and higher awarded margins.

Discontinued Operations

Operating results for the International segment do not include the results for the discontinued operations of the Syntech business, which was sold in the fourth quarter of 2010 and the EEA business, which was sold in the first quarter of 2011 for a gain of $1.4 million net of tax. During the fourth quarter of 2011, Enerflex announced its intention to exit the European Service and CHP operations via a sale, partial sale or closure of this business unit. As a result, this business unit has been reported as a discontinued operation since the third quarter of 2011 and has been excluded from the operating results of the International segment.

These three discontinued operations recorded a loss before tax totaling $7.0 million in the fourth quarter of 2011 compared to a gain of $1.1 million in the same period a year ago.

BOOKINGS AND BACKLOG

The Company records bookings and backlog when a firm commitment or order is received from customers for the Engineered Systems product line. Bookings represent new orders awarded to Enerflex during the period. Backlog represents unfulfilled orders at period end and is an indicator of future Engineered Systems revenue for the Company.

Bookings

($ Canadian thousands) Years ended December 31,	**2011**	2010 [1]
Canada and Northern U.S.	**$ 348,849**	$ 283,811
Southern U.S. and South America	**437,953**	358,010
International [2]	**456,048**	553,013
Total bookings	**$ 1,242,850**	$ 1,194,834

[1] 2010 amounts include the financial results of ESIF from the date of acquisition, January 20, 2010.
[2] International bookings includes backlog acquired as part of the ESIF acquisition totaling approximately $140.0 million on January 20, 2010.

Backlog

($ Canadian thousands) As at December 31,	**2011**	2010
Canada and Northern U.S.	**$ 177,056**	$ 135,661
Southern U.S. and South America	**284,622**	146,138
International	**524,427**	361,843
Total backlog	**$ 986,105**	$ 643,642

Backlog at December 31, 2011 was $986.1 million compared to $643.6 million at December 31, 2010, representing a 53.2% increase over the prior year.

Backlog in Canada and Northern U.S. was $41.4 million higher in 2011 as a result of increased activity in unconventional resource basins such as the Montney and Horn River. The Southern U.S. and South America backlog was $138.5 million higher during 2011 as a result of increased activity in the liquids-rich shale resources in the Eagle Ford, Marcellus and Woodford resource basins. The International backlog was $162.6 million higher in 2011, compared to the same period in 2010, as a result of increased activity in Australia related to CSG exploration and increased activity in MENA related to gas production for domestic consumption. During the fourth quarter of 2011, Enerflex was awarded a USD $228.0 million contract for the engineering, procurement, construction and commissioning of a gas processing plant to be located in the Sultanate of Oman.

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

The four quarters of 2011 includes twelve full months of activity, whereas the four quarters of 2010 includes twelve full months of activity for the legacy Toromont Compression business and eleven months and nine days activity for the legacy ESIF business;

During the twelve months of 2011, the Company generated $1,227.1 million in revenue, as compared to $1,067.8 million during the same period of 2010. The increase of $159.3 million, or 14.9%, was a result of increased revenues in the Canada and Northern U.S. and International business segments, partially offset by lower revenues in the Southern U.S. and South America business segment.

As compared to the shortened twelve month period ended December 31, 2010:

- Canada and Northern U.S. revenues increased by $70.5 million as a result of increased Engineered Systems product sales related to the Montney and Horn River unconventional resource basins and increased parts sales in the Service business. This was partially offset by lower Rental revenue, as a result of selling low horsepower units in the first twelve months of 2011 yielding less revenue, compared to the sale of higher horsepower units in the same period of 2010. The comparable period in 2010 benefited from increased sales that resulted from efforts to rationalize idle units within the rental fleet in Canada as part of the integration of the two businesses;

- Southern U.S. and South America revenues decreased by $22.0 million, as a result of a lower average foreign exchange rate in 2011 and delayed delivery dates for Engineered Systems bookings recorded in 2010 and 2011. This has deferred revenue recognition on these projects into 2012. The Eagle Ford, Woodford and Marcellus resource basins have been very active in this segment during the year as evidenced by strong booking levels and higher backlog during 2011, when compared to the same period in 2010. As a result, the lower revenue in 2011 is related to deferred project deliveries, not lower activity or reduced business prospects within this region; and

- International revenues increased by $110.8 million as a result of increased revenues in Australia due to CSG projects and P&P projects related to unconventional resource basins and gas production in Africa. This was partially offset by lower revenues in MENA and International C&P for the twelve months of 2011 resulting from the closure of the International C&P facility during the fourth quarter of 2010. Revenues for 2010 included $40.0 million for the construction of a gas processing facility in MENA which was accounted for as a sales-type lease.

Gross Margin for the twelve months ended December 31, 2011 was $225.9 million or 18.4% of revenue as compared to $183.9 million or 17.2% of revenue for the twelve months ended December 31, 2010, an increase of $42.0 million. Contributing to the gross margin increase over the first twelve months of 2010 was strong gross margin performance in Canada and Northern U.S. as a result of increased revenues from Engineered Systems, improved plant utilization, improved rental utilization rates and stronger parts sales. International gross margins were also higher than the same period a year ago, as a result of the recognition of approved change orders related to past projects in MENA, which contributed $16.5 million to gross margin, partially offset by under applied overhead, project cost over-runs and impairment of work in process on specific projects in Australia due to weather related delays in Queensland. Southern U.S. and South America gross margins were lower compared to the same period in 2010.

Selling, General and Administrative expenses were $145.8 million or 11.9% of revenue during the twelve months ended December 31, 2011, compared to $142.9 million or 13.4% of revenue in the same period of 2010. The increase of $2.9 million in SG&A expenses is primarily attributable to a full twelve months of costs in 2011, compared to 2010, which included SG&A costs for the legacy Enerflex business for only eleven months and nine days.

Operating Income for 2011 was $80.1 million or 6.5% of revenue as compared to an operating income of $41.0 million or 3.8% of revenue in 2010. The increase in operating income in 2011 over 2010 was a result of the same factors contributing to the increased gross margin partially offset by the increased SG&A expenses.

Finance Costs and Income totaled $7.0 million for the twelve months ended December 31, 2011, compared with $15.5 million in the same period of 2010, a decrease of $8.5 million. Finance costs in 2011 were lower than those in 2010 primarily as a result of lower average borrowings, a lower effective interest rate and higher finance income, resulting from higher invested cash balances.

Income Tax Expense totaled $21.1 million or 27.1% of pre-tax income for the twelve months ended December 31, 2011 compared with $14.4 million or 32.2% of pre-tax income during the same period of 2010. The increase in income taxes during the period compared to 2010 was primarily due to an increase in earnings before taxes from operations. Enerflex recorded a lower effective tax rate in 2011, compared to the same period in 2010, as earnings increased in lower tax jurisdictions within the International segment and the Canada and Northern U.S. segment. Earnings during the twelve months of 2010 included an $18.6 million ($17.2 million net of tax) gain realized on ESIF units, which was taxed at a lower effective rate.

During the twelve months of 2011, Enerflex generated net earnings from continuing operations of $56.7 million or $0.73 cents per share as compared to $30.3 million or $0.40 cents per share in the same period of 2010, which included the $17.2 million (net of tax gain) realized on the ESIF units.

Loss from Discontinued Operations reflects the results of EEA, Syntech and Enerflex Europe. These business units recorded a net loss of $64.0 million ($0.83 cents per share) (net of a $1.4 million gain on the sale of EEA) and $4.0 million ($0.05 cents per share) in the first twelve months of 2011 and 2010 respectively.

CANADA AND NORTHERN U.S.

($ Canadian thousands)	Twelve months ended December 31, 2011	2010 [1]
Segment revenue	**$ 641,459**	$ 491,571
Intersegment revenue [2]	**(117,224)**	(37,814)
Revenue	**$ 524,235**	$ 453,757
Revenue – Engineered Systems	**$ 307,452**	$ 233,911
Revenue – Service	**$ 171,553**	$ 164,103
Revenue – Rental	**$ 45,230**	$ 55,743
Operating income	**$ 38,849**	$ 9,855
Segment revenues as a % of total revenues	**42.7%**	42.5%
Service revenues as a % of segment revenues	**32.7%**	36.2%
Operating income as a % of segment revenues	**7.4%**	2.2%

1 2010 amounts include the financial results of ESIF from the date of acquisition, January 20, 2010.
2 Intersegment revenue includes revenue on contracts relating to CSG projects in Queensland.

Revenues in this region were $524.2 million for the twelve months of 2011 compared to $453.8 million for the same period of 2010. The increase of $70.4 million was the result of increased Engineered Systems revenues due to strong activity by Enerflex customers in the Montney and Horn River resource basins, increased service revenues from parts sales in Canada and Northern U.S., partially offset by lower rental revenue as a result of selling low horsepower units in the twelve months of 2011 yielding less revenue, compared to the sale of higher horsepower units in the same period of 2010. Enerflex focused on rationalizing the rental fleet in 2010 as part of its integration efforts once the acquisition of ESIF was completed.

Operating income was $38.8 million in 2011, an increase of $29.0 million compared to the same period in 2010. The improved performance was due to increased gross margin resulting from improved plant utilization, higher parts sales and higher realized margins on the sale and rental of compression equipment in the rental fleet. This was partially offset by higher SG&A as a result of a full twelve months of expenses in this segment compared to eleven months and nine days in 2010 and the transfer of staff to the Domestic C&P facility resulting from reorganization costs and the closure of the International C&P facility during the fourth quarter of 2010.

SOUTHERN U.S. AND SOUTH AMERICA

($ Canadian thousands)	**Twelve months ended December 31, 2011**	2010
Segment revenue	**$ 343,596**	$ 364,600
Intersegment revenue	**(1,261)**	(327)
Revenue	**$ 342,335**	$ 364,273
Revenue – Engineered Systems	**$ 299,470**	$ 327,305
Revenue – Service	**$ 42,865**	$ 36,968
Operating income	**$ 33,191**	$ 46,373
Segment revenues as a % of total revenues	**27.9%**	34.1%
Service revenues as a % of segment revenues	**12.5%**	10.1%
Operating income as a % of segment revenues	**9.7%**	12.7%

Southern U.S. and South America revenues totaled $342.3 million for the twelve months of 2011 as compared to $364.3 million in the same period of 2010. This decrease of $22.0 million was due to foreign exchange rates and the timing of revenue recognition. Delivery dates on Engineered Systems projects booked during the first half of 2011 have been delayed, deferring revenue to early 2012. Despite the timing impact of certain projects, the Eagle Ford and Marcellus resource basins have been very active in this segment in 2011 as evidenced by stronger bookings and backlog levels throughout 2011. As a result, the lower revenue in 2011 is related to lower average foreign exchange rates and the timing of project delivery, not lower activity or business prospects within this region.

Operating income decreased to $33.2 million for the twelve months ended 2011 from $46.4 million in the same period of 2010. This was as a result of lower revenue, lower realized gross margins and higher SG&A in 2011. Revenue during 2010 included $85.0 million related to large pipeline compression projects that did not reoccur in 2011.

INTERNATIONAL

($ Canadian thousands)	**Twelve months ended December 31, 2011**	2010 [1]
Segment revenue	**$ 365,198**	$ 290,491
Intersegment revenue	**(4,631)**	(40,738)
Revenue	**$ 360,567**	$ 249,753
Revenue – Engineered Systems	**$ 299,171**	$ 211,590
Revenue – Service	**$ 47,799**	$ 37,529
Revenue – Rental	**$ 13,597**	$ 634
Operating income	**$ 8,047**	$ (15,273)
Segment revenues as a % of total revenues	**29.4%**	23.4%
Service revenues as a % of segment revenues	**13.3%**	15.0%
Operating income as a % of segment revenues	**2.2%**	(6.1)%

[1] 2010 amounts include the financial results of ESIF from the date of acquisition, January 20, 2010.

Continuing Operations

International revenues totaled $360.6 million for the twelve months ended 2011, compared to $249.8 million during the same period of 2010. The increase of $110.8 million was due to higher activity levels in Australia related to CSG projects and higher P&P revenue resulting from gas processing projects in unconventional gas basins and gas production projects in Africa. This was partially offset by lower revenues in MENA and International C&P for the twelve months ended 2011 resulting from the closure of the International C&P facility during the fourth quarter of 2010. Revenues for 2010 included $40.0 million for the construction of a gas processing facility in MENA which was accounted for as a finance lease.

Operating income for the twelve months of 2011 was $8.0 million, compared to an operating loss of $15.3 million for the same period of 2010. Operating income improved by $23.3 million over the same period last year, as a result of increased revenues and improved margin performance in International P&P resulting from improved plant utilization and in the MENA division resulting from recognition of approved change orders related to past projects. This was partially offset by project delays, cost over-runs and impairment of work in process on specific projects in Australia due to weather related delays in Queensland. Operating income was also impacted by higher SG&A costs in this segment during 2011, resulting from a full twelve months of expenses in this segment compared to eleven months and nine days in 2010.

Discontinued Operations

Operating results for the International segment do not include the results for the discontinued operations of the Syntech business, which was sold in the fourth quarter of 2010 and EEA, which was sold in the first quarter of 2011 for a gain of $1.4 million net of tax. During the fourth quarter of 2011, Enerflex announced its intention to exit the European Service and CHP operations via a sale, partial sale or closure of this business unit. As a result, this business unit has been reported as part of discontinued operations and excluded from the operating results of the International segment.

These three discontinued operations recorded a loss before tax totaling $64.0 million (net of a $1.4 million gain on the sale of EEA), including $54.0 million of impairments in the first twelve months of 2011 compared to a loss of $4.0 million in the same period a year ago.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue [3]	Net earnings [3]	Earnings per share – basic [3]	Earnings per share – diluted [3]
December 31, 2011	**$ 383,802**	**$ 17,719**	**$ 0.22**	**$ 0.22**
September 30, 2011	282,335	16,979	0.22	0.22
June 30, 2011	246,491	10,456	0.14	0.14
March 31, 2011 [2]	314,509	11,587	0.15	0.15
December 31, 2010 [2]	347,616	8,319	0.11	0.11
September 30, 2010 [2]	270,859	5,062	0.06	0.06
June 30, 2010 [2]	244,502	3,686	0.05	0.05
March 31, 2010 [1, 2]	204,806	13,195	0.18	0.18

1 2010 amounts include the financial results of ESIF from the date of acquisition, January 20, 2010.
2 Enerflex shares were issued pursuant to the Arrangement on June 1, 2011; as a result, per share amounts for comparative periods are based on Toromont's common shares at the time of initial exchange.
3 Amounts presented are from continuing operations.

FINANCIAL POSITION

The following table outlines significant changes in the Consolidated Statement of Financial Position as at December 31, 2011 as compared to December 31, 2010:

($ Canadian millions)	Increase/ (Decrease)	Explanation
Assets		
Accounts Receivable	11.2	The increase is primarily related to higher accrued revenues and billings during the quarter in all regions, partially offset by a reclassification of receivables to assets held for sale related to the European operations.
Inventory	17.6	The increase is related to higher work in process (WIP) in all segments as backlog increases, partially offset by a reclassification of inventory to assets held for sale related to the European Operations.
Other Current Assets	(6.8)	The decrease is due to lower finance income receivable resulting from recognition of finance income on the BP project and lower prepaid expenses.
Property, Plant and Equipment	(48.9)	The decrease is due to depreciation charges and the sale of non-core real estate assets in Calgary and Stettler, Alberta completed during the year.
Rental Equipment	(14.3)	The decrease is related to depreciation charges and the sale of rental assets during the year, partially offset by rental asset additions to the rental fleet.
Deferred Tax Assets	(8.4)	The decrease in deferred tax assets is due to a write off of the tax assets related to the European operations, as a result of Enerflex's decision to exit that business. In addition, the Canada and Northern U.S. region returned to profitability and utilized its non-capital loss pools.
Other Long-Term Assets	(5.6)	The decrease is due to lower finance income receivable resulting from recognition of finance income on a project in Oman.
Intangible Assets	(7.9)	The decrease is related to amortization of intangibles and an impairment of $1.8 million recorded as part of discontinued operations during the quarter related to the European Operations.
Goodwill	(22.7)	The decrease is due to an impairment charge related to the European Operations and recorded as part of discontinued operations during the quarter. This was partially offset by a foreign currency revaluation of goodwill allocated to the International and Southern U.S. and South America segment.

($ Canadian millions)	Increase/ (Decrease)	Explanation
Liabilities		
Accounts Payable and Accrued Liabilities	4.1	The increase is primarily related to purchases of raw materials allocated to projects in WIP and accruals for year-end incentives.
Deferred Revenue	84.4	The increase is related to higher activity levels and bookings during the year. Advanced billings have exceeded revenue recognition on key projects in the first twelve months of 2011.
Note Payable	(215.0)	The note was repaid to Toromont concurrent with Enerflex's bifurcation on June 1, 2011.
Long-Term Debt	119.0	Enerflex established new bank facilities during 2011 and issued $90.5 million in 5 and 10 year term debt to repay indebtedness to Toromont and to fund working capital requirements.

LIQUIDITY

The Company's primary sources of liquidity and capital resources are:

- Cash generated from continuing operations;
- Bank financing and operating lines of credit; and
- Issuance and sale of debt and equity instruments.

Statement of Cash Flows

($ Canadian thousands) Years ended December 31,	**2011**	2010[1]
Cash, beginning of period	**$ 15,000**	$ 34,949
Cash provided by (used in):		
Operating activities	**134,795**	93,792
Investing activities	**32,177**	(288,173)
Financing activities	**(101,438)**	176,307
Exchange rate changes on foreign currency cash	**666**	(1,875)
Cash, end of period	**$ 81,200**	$ 15,000

[1] 2010 amounts include the financial results of ESIF from the date of acquisition, January 20, 2010.

Operating Activities

For the twelve months ended December 31, 2011, cash provided by operating activities was $134.8 million as compared to $93.8 million in the same period of 2010. The increase of $41.0 million was a result of improved profitability from continuing operations.

Investing Activities

Investing activities provided $32.2 million for the twelve months ended December 31, 2011, as compared to cash used in investing activities of $288.2 million during the same period of 2010. Expenditures on capital assets for the twelve months ended December 31, 2011 decreased by $19.6 million from the same period in 2010, while proceeds from the disposition of capital assets increased by $5.9 million as a result of the disposition of non-core real estate assets. For the twelve months ended December 31, 2011, Enerflex completed the sale of manufacturing facilities in Calgary and Stettler, Alberta which generated $42.9 million in 2011, while the acquisition of ESIF in the first quarter of 2010 resulted in an investment of $292.5 million.

Financing Activities

Cash used in financing activities for the twelve months ended December 31, 2011 was $101.4 million, as compared to cash provided by financing activities of $176.3 million in the same period of 2010. The year-over-year difference was primarily due to the repayment of the note to Toromont during the second quarter of 2011, partially offset by borrowings on the new debt facility and the issuance of $90.5 million in term debt during the same period, as compared to an equity investment by Toromont for the acquisition of ESIF in the first quarter of 2010.

RISK MANAGEMENT

In the normal course of business, the Company is exposed to financial and operating risks that may potentially impact its operating results in any or all of its business segments. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. Derivative financial agreements are used to manage exposure to fluctuations in exchange rates and interest rates. The Company does not enter into derivative financial agreements for speculative purposes.

Personnel

Enerflex's Engineered Systems product line requires skilled engineering and design professionals in order to maintain customer satisfaction and engage in product innovation. Enerflex competes for these professionals, not only with other companies in the same industry, but with oil and gas producers and other industries. In periods of high energy activity, demand for the skills and expertise of these professionals increases, making the hiring and retention of these individuals more difficult.

Enerflex's Service product line relies on the skills and availability of trained and experienced tradesmen and technicians to provide efficient and appropriate services to Enerflex and its customers. Hiring and retaining such individuals is critical to the success of Enerflex's businesses. Demographic trends are reducing the number of individuals entering the trades, making Enerflex's access to skilled individuals more difficult. There are few barriers to entry in a number of Enerflex's businesses, so retention of staff is essential in order to differentiate Enerflex's businesses and compete in its various markets.

Additionally, in increasing measures, Enerflex is dependent upon the skills and availability of various professional and administrative personnel to meet the increasing demands of the requirements and regulations of various professional and governmental bodies.

Energy Prices and Industry Conditions

The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. The majority of Enerflex's customers generate cash flow from crude oil and natural gas production. They in-turn base their capital expenditure decisions on various factors, including, but not limited to, hydrocarbon prices, exploration and development prospects in various jurisdictions, production levels of their reserves and access to capital – none of which can be accurately predicted. Periods of prolonged or substantial reductions in commodity prices may lead to reduced levels of exploration and production activities, which may negatively impact the demand for the products and services that Enerflex offers, which may have a material adverse effect on the Enerflex results of operations and financial condition, including Enerflex's ability to pay dividends to its shareholders.

Inflationary Pressures

Strong economic conditions and competition for available personnel, materials and major components may result in significant increases in the cost of obtaining such resources. To the greatest extent possible, Enerflex passes such cost increases on to its customers and it attempts to reduce these pressures through proactive procurement and human resource practices. Should these efforts not be successful, the gross margin and profitability of Enerflex could be adversely affected.

The Cyclical Nature of the Energy Industry

Changing political, economic or military circumstances throughout the energy producing regions of the world can impact the market price of oil for extended periods of time, which in turn impacts the price of natural gas, as industrial users often have the ability to choose to use the lower priced energy source.

Climatic Factors and Seasonal Demand

Demand for natural gas fluctuates largely with the heating and electrical generation requirements caused by the changing seasons in North America. Cold winters typically increase demand for, and the price of, natural gas. This increases customers' cash flow which can then have a positive impact on Enerflex. At the same time, access to many western Canadian oil and gas properties is limited to the period when the ground is frozen so that heavy equipment can be transported. As a result, the first quarter of the year is generally accompanied by increased winter deliveries of equipment. Warm winters in western Canada, however, can both reduce demand for natural gas and make it difficult for producers to reach well locations. This restricts drilling and development operations, reduces the ability to supply gas production in the short-term and can negatively impact the demand for Enerflex's products and services.

Hedging Activities

Enerflex reports its financial results to the public in Canadian dollars; however, a significant percentage of its revenues and expenses are denominated in currencies other than Canadian dollars. As a result, Enerflex has implemented a hedging policy, applicable primarily to the Canadian domiciled business units, with the objective of securing the margins earned on awarded contracts denominated in currencies other than Canadian dollars. In addition, Enerflex may hedge input costs that are paid in a currency other than the home currency of the subsidiary executing the contract. Enerflex utilizes a combination of foreign denominated debt and currency forward contracts to meet its hedging objective. Under IFRS, derivative instruments that do not qualify for hedge accounting are marked-to-market at the end of each period with the changes in fair value recognized in current period net earnings. Enerflex does apply hedge accounting to the majority of its forward contracts, as such, the gains or losses on the forward contracts are deferred to the consolidated statement of financial position. However, there can be no assurance that Enerflex will choose to continue to use or qualify for hedge accounting in the future, as such, the use of currency forwards may introduce significant volatility into Enerflex's reported earnings.

Foreign Operations

Enerflex sells products and services throughout the world. This diversification exposes Enerflex to risks related to cultural, political and economic factors of foreign jurisdictions which are beyond the control of Enerflex. Other issues, such as the quality of receivables, may also arise.

Distribution Agreements

One of Enerflex's strategic assets is its distribution and original equipment manufacturer agreements with leading manufacturers, notably the Waukesha Engine division of General Electric for engines and parts. Enerflex is also the international distributor for Altronic, a leading manufacturer of electric ignition and control systems in Australia, New Zealand, Papua New Guinea and Canada. Enerflex also has relationships and agreements with other key equipment manufacturers including Finning (Caterpillar) and Ariel Corporation.

In the event that one or more of these agreements were to be terminated, Enerflex may lose a competitive advantage. While Enerflex and its people make it a priority to maintain and enhance these strategic relationships, there can be no assurance that these relationships will continue.

Competition

Enerflex has a number of competitors in all aspects of its business, both domestically and abroad. Some of these competitors, particularly in the Engineered Systems product line, are large, multi-national companies with potentially greater access to resources and more experience in international operations than Enerflex. Within Canada, particularly in the Service product line, Enerflex has a number of small to medium-sized competitors, who may not have access to the capital and resources that Enerflex has, but may also incur lower overhead costs than Enerflex.

Availability of Raw Materials, Component Parts or Finished Products

Enerflex purchases a broad range of materials and components in connection with its manufacturing and service activities. Enerflex purchases most of its natural gas engines and parts either through a distributor or an original equipment manufacturer agreement with Waukesha Engine, a division of General Electric, and through an original equipment manufacturer agreement with Finning (Caterpillar). Enerflex purchases most of its compressors and related parts through a distributor agreement with Ariel Corporation. Enerflex has had longstanding relationships with these companies. Additionally, Enerflex has relationships with a number of other suppliers including Kobelco Compressors (America) Inc. and Mycom Group Inc. The availability of the component parts and the delivery schedules provided by these suppliers affect the assembly schedules of Enerflex's production and services.

Enerflex purchases coolers for its compression packages from a limited number of suppliers. The production schedules and delivery time tables from these suppliers affects the assembly schedule of Enerflex's products.

Though Enerflex is generally not dependent on any single source of supply, the ability of suppliers to meet performance, quality specifications and delivery schedules is important to the maintenance of customer satisfaction.

A challenge to achieving improved profitability will be the timely availability of certain original equipment manufacturer components and repair parts, which will generally be in steady demand.

Information Technology

As Enerflex continues to expand internationally, access to engineering and other technical skills in foreign locations, develop web-based applications and monitoring products, and to improve its business software applications, information technology assets and protocols will become increasingly important to Enerflex. Enerflex has attempted to reduce this exposure by improving its information technology general controls, updating or implementing new business applications and hiring or training specific employees with respect to the protection and use of information technology assets.

Environmental Considerations

Demand for the Company's products and services could be adversely affected by changes to Canadian, U.S. or other countries' laws or regulations pertaining to the emission of CO_2 and other Green House Gases ("GHG") into the atmosphere. Although the Company is not a large producer of GHG, the products and services of the Company are primarily related to the production of hydrocarbons including crude oil and natural gas, whose ultimate consumption are generally considered major sources of GHG emissions. Changes in the regulations concerning the release of GHG into the atmosphere, including the introduction of so-called "carbon taxes" or limitations over the emissions of GHG, may adversely impact the demand for hydrocarbons and ultimately, the demand for the Company's products and services.

Insurance

Enerflex carries insurance to protect the Company in the event of destruction or damage to its property and equipment, subject to appropriate deductibles and the availability of coverage. Liability and executive insurance coverage is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. Extreme weather conditions, natural occurrences and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage.

It is anticipated that insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available in the future on commercially reasonable terms or be available on terms as favourable as Enerflex's current arrangements. The occurrence of a significant event outside of the coverage of Enerflex's insurance policies could have a material adverse effect on the results of the organization.

Credit Facility and Senior Notes

Enerflex relies on the Credit Facility and Senior Notes to meet its funding and liquidity requirements. The Senior Notes are due on two separate dates with $50.5 million, at a fixed interest rate of 4.841%, due on June 20, 2016 and $40.0 million, at a fixed interest rate of 6.011%, due on June 20, 2021. The Credit Facility is due on June 1, 2015 and may be renewed annually with the consent of the lenders. If the Company cannot successfully renegotiate all or part of the Credit Facility prior to its due date, the cash available for dividends to shareholders and to fund ongoing operations could be adversely affected.

The Credit Agreement and Note Purchase Agreement also contain a number of covenants. Failure to meet any of these covenants, financial ratios or financial tests could result in events of default under each agreement. While Enerflex is currently in compliance with all covenants, financial ratios and financial tests, there can be no assurance that it will be able to comply with these covenants, financial ratios and financial tests in future periods. These events could restrict the Company's and other guarantors' ability to declare and pay dividends.

Government Regulation

The Company is subject to health, safety and environmental laws and regulations that expose it to potential financial liability**.** The Company's operations are regulated under a number of federal, provincial, state, local, and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage, and disposal of hazardous materials. Compliance with these environmental laws is a major consideration in the manufacturing of the Company's products, as the Company uses, generates, stores and disposes of hazardous substances and wastes in its operations. The Company may be subject to material financial liability for any investigation and clean-up of such hazardous materials. In addition, many of the Company's current and former properties are, or have been, used for industrial purposes. Accordingly, the Company also may be subject to financial liabilities relating to the investigation and remediation of hazardous materials resulting from the actions of previous owners or operators of industrial facilities on those sites. Liability in certain instances may be imposed on the Company regardless of the legality of the original actions relating to the hazardous or toxic substances or whether or not the Company knew of, or was responsible for, the presence of those substances. The Company is also subject to various Canadian and U.S. federal, provincial, state and local laws and regulations, as well as foreign laws and regulations relating to safety and health conditions in its manufacturing facilities. Those laws and regulations may also subject the Company to material financial penalties or liabilities for any noncompliance, as well as potential business disruption if any of its facilities or a portion of any facility is required to be temporarily closed as a result of any violation of those laws and regulations. Any such financial liability or business disruption could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

Liability Claims

The Company could be subject to substantial liability claims, which could adversely affect its projections, business, results of operations and financial condition. Some of the Company's products are used in hazardous applications where an accident or a failure of a product could cause personal injury, loss of life, damage to property, equipment, or the environment, as well as the suspension of the end-user's operations. If the Company's products were to be involved in any of these difficulties, the Company could face litigation and may be held liable for those losses. The Company's insurance coverage may not be adequate in risk coverage or policy limits to cover all losses or liabilities that it may incur. Moreover, the Company may not be able in the future to maintain insurance at levels of risk coverage or policy limits that management deems adequate. Any claims made under the Company's policies likely will cause its premiums to increase. Any future damages deemed to be caused by the Company's products or services that are not covered by insurance, or that are in excess of policy limits or subject to substantial deductibles, could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

Tax Indemnity Agreement

The Company could be exposed to substantial tax liabilities if certain requirements of the "butterfly" rules in section 55 of the Income Tax Act are not complied with. Failure to comply with these requirements could also cause the spinoff to be taxable to Toromont in circumstances where the Company would be required to indemnify Toromont for the resulting tax.

Foreign Exchange Risk

Enerflex mitigates the impact of exchange rate fluctuations by matching expected future U.S. dollar denominated cash inflows with U.S. dollar liabilities, principally through the use of foreign exchange contracts, bank debt, accounts payable and by manufacturing U.S. dollar denominated contracts at plants located in the U.S. The Company has adopted U.S. based manufacturing plants and foreign exchange forward contracts as its primary mitigation strategy to hedge any net foreign currency exposure. Forward contracts are entered into for the amount of the net foreign dollar exposure for a term matching the expected payment terms outlined in the sales contract.

The Company elected to apply hedge accounting for foreign exchange forward contracts for firm commitments, which are designated as cash flow hedges. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of taxes. The ineffective portion of the fair value changes is recognized in net income. Amounts charged to accumulated other comprehensive income are reclassified to the income statement when the hedged transaction affects the income statement.

Outstanding forward contracts are marked-to-market at the end of each period with any gain or loss on the forward contract included in accumulated other comprehensive income until such time as the forward contract is settled, when it flows to income.

Enerflex does not hedge its exposure to investments in foreign subsidiaries. Exchange gains and losses on net investments in foreign subsidiaries are accumulated in accumulated comprehensive income/loss. The accumulated comprehensive loss at the end of 2010 of $10.8 million was adjusted to an accumulated comprehensive loss of $0.6 million at December 31, 2011. This was primarily the result of the changes in the value of the Canadian dollar against the Euro, Australian dollar and U.S. dollar. The Canadian dollar appreciated by 2% against the U.S. dollar in the fourth quarter of 2011 versus an appreciation of 4% against the U.S. dollar during the same period of 2010. The Australian dollar appreciated by 3% against the Canadian dollar during the fourth quarter of 2011, consistent with a 3% appreciation in the same period of 2010. The Euro depreciated against the Canadian dollar by 6% during the fourth quarter of 2011, as compared to an appreciation of 5% in the same period of 2010.

The types of foreign exchange risk and the Company's related risk management strategies are as follows:

Transaction Exposure

The Canadian operations of the Company source the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company mitigates exchange rate risk by entering into foreign currency contracts to fix the cost of imported inventory where appropriate.

The Company also sells compression packages in foreign currencies, primarily the U.S. dollar, the Australian dollar and the Euro and enters into foreign currency contracts to reduce these exchange rate risks.

Most of Enerflex's international orders are manufactured in the U.S. operations if the contract is denominated in U.S. dollars. This minimizes the Company's foreign currency exposure on these contracts.

The Company identifies and hedges all significant transactional currency risks.

Translation Exposure

The Company's earnings from, and net investment in, foreign subsidiaries are exposed to fluctuations in exchange rates. The currencies with the most significant impact are the U.S. dollar, Australian dollar and the Euro.

Assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. The cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the foreign operations.

Earnings at foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year-over-year relative to the overall earnings or financial position of the Company.

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at December 31, 2011 include interest rates that are fixed and therefore will not be impacted by fluctuations in market interest rates. The Company's Bank Facilities however, are subject to changes in market interest rates. For each 1.0% change in the rate of interest on the Bank Facilities, the change in interest expense would be approximately $1.2 million. All interest charges are recorded on the income statement as a separate line item called Finance Costs.

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents, accounts receivable, and derivative financial instruments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

Cash equivalents consist mainly of short-term investments, such as money market deposits. The Company has deposited the cash equivalents with highly rated financial institutions, from which management believes the risk of loss to be remote.

The Company has accounts receivable from clients engaged in various industries including natural gas producers, natural gas transportation, agricultural, chemical and petrochemical processing and the generation and sale of electricity. These specific industries may be affected by economic factors that may impact accounts receivable. Enerflex has entered into a number of significant projects to 2013 with one specific customer; however, no single operating unit is reliant on any single external customer.

The credit risk associated with net investment in sales-type lease arises from the possibility that the counterparty may default on its obligations. In order to minimize this risk, the Company enters into sales-type lease transactions only in select circumstances. Close contact is maintained with the customer over the duration of the lease to ensure visibility to issues as and if they arise.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on its obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly-rated financial institutions.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. Accounts payable are primarily due within 90 days and will be satisfied from current working capital.

CAPITAL RESOURCES

On February 1, 2012, Enerflex had 77,412,981 shares outstanding. Enerflex has not established a formal dividend policy and the Board of Directors anticipates setting the quarterly dividends based on the availability of cash flow and anticipated market conditions, taking into consideration business opportunities and the need for growth capital. In the fourth quarter of 2011, the Company declared a dividend of $0.06 per share.

The Company has a series of credit facilities with a syndicate of banks ("Bank Facilities") totaling $325.0 million. The Bank Facilities consist of a committed 4-year $270.0 million revolving credit facility (the "Revolver"), a committed 4-year $10.0 million operating facility (the "Operator"), a committed 4-year $20.0 million Australian operating facility (the "Australian Operator") and a committed 4-year $25.0 million bi-lateral letter of credit facility (the "LC Bi-Lateral"). The Revolver, Operator, Australian Operator and LC Bi-Lateral are collectively referred to as the Bank Facilities. The Bank Facilities were funded on June 1, 2011.

The Bank Facilities have a maturity date of June 1, 2015 ("Maturity Date"), but may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facilities may be increased by $50.0 million at the request of the Company, subject to the lenders' consent. There is no required or scheduled repayment of principal until the Maturity Date of the Bank Facilities.

Drawings on the Bank Facilities are available by way of Prime Rate loans ("Prime"), U.S. Base Rate loans, LIBOR loans, and Bankers' Acceptance ("BA") notes. The Company may also draw on the Bank Facilities through bank overdrafts in either Canadian or U.S. dollars and issue letters of credit under the Bank Facilities.

Pursuant to the terms and conditions of the Bank Facilities, a margin is applied to drawings on the Bank Facilities in addition to the quoted interest rate. The margin is established in basis points and is based on consolidated net debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio. The margin is adjusted effective the first day of the third month following the end of each fiscal quarter based on the above ratio.

The Company also has a committed facility with one of the lenders in the Bank Facilities for the issuance of letters of credit (the "Bi-Lateral"). The amount available under the Bi-Lateral is $50.0 million and has a maturity date of June 1, 2013, which may be extended annually with the consent of the lender. Drawings on the Bi-Lateral are by way of letters of credit.

In addition, the Company has a committed facility with a US lender ("US Facility") in the amount of USD$20.0 million. Drawings on the US Facility are by way of LIBOR loans, US Base Rate Loans and letters of credit. During the year, the Company negotiated an extension of the US Facility to July 1, 2014. The US Facility may be extended annually at the request of the Company, subject to the lender's consent. There are no required or scheduled repayments of principal until the maturity date of the US Facility.

The Company completed the restructuring of its debt with the closing of a private placement for $90.5 million in Unsecured Private Placement Notes ("Notes") during the second quarter of 2011. The Notes mature on two separate dates with $50.5 million, with a coupon of 4.841%, maturing on June 22, 2016 and $40.0 million, with a coupon of 6.011%, maturing on June 22, 2021.

The Bank Facilities, the Bi-Lateral and the US Facility are unsecured and rank pari passu with the Notes. The Company is required to maintain certain covenants on the Bank Facilities, the Bi-Lateral, the US Facility and the Notes. As at December 31, 2011, the Company was in compliance with these covenants.

At December 31, 2011, the Company had $31.3 million drawn against the Bank Facilities. The Bank Facilities were not available at December 31, 2010, as the Company's borrowings consisted of a Note Payable to its parent company.

CONTRACTUAL OBLIGATIONS, COMMITTED CAPITAL INVESTMENT AND OFF-BALANCE SHEET ARRANGEMENTS

The Company's contractual obligations are contained in the following table.

Contractual Obligations

	Payments due by period				
($ Canadian thousands)	**2012**	**2013-2014**	**2015-2016**	**Thereafter**	**Total**
Leases	**$ 11,095**	**$ 14,898**	**$ 8,620**	**$ 5,934**	**$ 40,547**
Purchase obligations	**24,122**	**1,312**	–	**–**	**25,434**
Total	**$ 35,217**	**$ 16,210**	**$ 8,620**	**$ 5,934**	**$ 65,981**

The majority of the Company's lease commitments are operating leases for Service vehicles.

The majority of the Company's purchase commitments relate to major components for the Engineered Systems product line and to long-term information technology and communications contracts entered into in order to reduce the overall cost of services received.

The Company does not believe that it has off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity or capital expenditures.

RELATED PARTIES

Enerflex transacts with certain related parties as a normal course of business. Related parties include Toromont which owned 100% of Enerflex until June 1, 2011, and Total Production Services Inc. ("Total") which was an influenced investee by virtue of the Company's 40% investment in Total. As described in the financial statements, the Company has two joint ventures, PDIL and Enerflex-ES. Due to the fact that Enerflex-ES was incorporated in Q4 2011, there are no related party transactions or balances to report.

All transactions occurring with related parties were in the normal course of business operations under the same terms and conditions as transactions with unrelated companies. A summary of the financial statement impacts of all transactions with all related parties are as follows:

($ Canadian thousands) Years ended December 31,		**2011**		2010
Revenue	**$**	**212**	$	20
Management fees		**4,299**		7,920
Purchases		**526**		1,279
Interest expense		**1,902**		5,484
Accounts receivable		**44**		61
Accounts payable		**–**		3,692
Note payable		**–**		215,000

The above noted management fee expense and interest expense have all been paid to Toromont; there are no related party payables due to Toromont as at December 31, 2011. The note payable to Toromont was non-interest bearing and did not have fixed terms of repayment.

Revenues recognized and purchases identified above for 2011 and 2010 were from Total and PDIL. The accounts receivable balances outstanding at December 31, 2011 and 2010 were from the joint venture.

All related party transactions are settled in cash.

ACCOUNTING POLICIES

Adoption of International Financial Reporting Standards

As disclosed in Note 4, these Consolidated Financial Statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its annual financial statements in accordance with pre-changeover Canadian GAAP.

The consolidated financial statements for the twelve months ended December 31, 2011 include the results for the three months ended March 31, 2011, which were prepared on a carve-out basis, and the results for the twelve months ended December 31, 2011, which were prepared on a carve-out basis for the first five months of 2011 and consolidated basis as at December 31, 2011.

Assets Held for Sale

Non-current assets and groups of assets and liabilities which comprise disposal groups are categorized as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and, it is unlikely there will be changes to the plan. Non-current assets held for sale and disposal groups are carried at the lesser of carrying amount and fair value less costs to sell. The profit or loss arising on reclassification or sale of a disposal group is recognized in discontinued operations on the statement of earnings.

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue Recognition – Long-Term Contracts

The Company reflects revenues generated from the assembly and manufacture of projects using the percentage-of-completion approach of accounting for performance of production-type contracts. This approach to revenue recognition requires management to make a number of estimates and assumptions surrounding the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized in a given period.

Provisions for Warranty

Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer.

Property, Plant and Equipment

Fixed assets are stated at cost less accumulated depreciation, including asset impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of fixed assets are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of fixed assets requires judgment and is based on currently available information. Fixed assets are also reviewed for potential impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Changes in circumstances, such as technological advances and changes to business strategy can result in actual useful lives and future cash flows differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of fixed assets or future cash flows constitute a change in accounting estimate and are applied prospectively.

Allowance for Doubtful Accounts

An estimate for doubtful accounts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired receivables are derecognized when they are assessed as uncollectible. Amounts estimated represent management's best estimate of probability of collection of amounts from customers.

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

Impairment of Goodwill

The Company tests whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the operating segment to which the goodwill is allocated. Estimating the recoverable amount requires the Company to make an estimate of the expected future cash flows from each operating segment and also to determine a suitable discount rate in order to calculate the present value of those cash flows. Impairment losses on goodwill are not reversed.

Income Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Assets Held for Sale and Discontinued Operations

The Company's accounting policy related to assets held for sale is described in Note 3. In applying this policy, judgment is applied in determining whether certain assets should be reclassified to assets held for sale on the consolidated statement of financial position. Judgment is also applied in determining whether the results of operations associated with the assets should be recorded in discontinued operations on the consolidated statements of earnings. The Company will reclassify the results of operations associated with certain assets to discontinued operations where the asset represents part of a disposal group or segment.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

As of January 1, 2013, the Company will be required to adopt *IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interest in Other Entities; IFRS 13 Fair Value Measurement;* and *IAS 1 Presentation of Items of Other Comprehensive Income.* Starting January 1, 2015, the Company will be required to adopt *IFRS 9 Financial Instruments*.

IFRS 9 Financial Instruments is the result of the first phase of the IASB's project to replace *IAS 39 Financial Instruments: Recognition and Measurement*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The Company is in the process of assessing the impact of adopting IFRS 9, if any.

IFRS 10 Consolidated Financial Statements replaces the consolidation requirements in *SIC-12 Consolidation – Special Purpose Entities* and *IAS 27 Consolidated and Separate Financial Statements*. The Standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is in the process of assessing the impact of adopting IFRS 10, if any.

IFRS 11 Joint Arrangements replaces *IAS 31 Interests in Joint Ventures* and *SIC-13 Jointly-controlled Entities – Non-Monetary Contributions by Venturers.* IFRS 11 uses some of the terms that were originally used by IAS 31, but with different meanings. This Standard addresses two forms of joint arrangements (joint operations and joint ventures) where there is joint control. The Company is in the process of assessing the impact of adopting IFRS 11, if any.

IFRS 12 Disclosure of Interest in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is in the process of assessing the impact of adopting IFRS 12, if any.

IFRS 13 Fair Value Measurement provides new guidance on fair value measurement and disclosure requirements for IFRS. The Company is in the process of assessing the impact of adopting IFRS 13, if any.

IAS 1 Presentation of Items of Other Comprehensive Income has been amended to require entities to split items of other comprehensive income (OCI) between those that are reclassed to income and those that are not. The Company is in the process of assessing the impact of IAS 1 amendment, if any.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1 replaced Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011. Accordingly, Enerflex has adopted IFRS effective January 1, 2011 and has prepared the interim and annual financial statements, inclusive of comparative information using IFRS accounting policies. Prior to the adoption of IFRS, the Company's financial statements were prepared in accordance with Canadian GAAP. The Company's financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRS.

Transitional Impacts

IFRS 1 First-Time Adoption of International Financial Reporting Standards provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective adoption of IFRS. Most adjustments required on transition to IFRS are made retrospectively against opening retained earnings as of the date of the first comparative statement of financial position presented, which is January 1, 2010.

The following are the key transitional provisions which have been adopted on January 1, 2010 and which had an impact on the Company's financial position on transition.

Area of IFRS	Summary of Exemption Available	Policy Elected
Business Combinations	The Company may elect on transition to IFRS to either restate all past business combinations in accordance with IFRS 3 Business Combinations or to apply an elective exemption from applying IFRS to past business combinations.	The Company has applied the elective exemption such that business combinations entered into prior to transition date have not been restated. **Transitional impact:** None.
Property, Plant and Equipment	The Company may elect on transition to IFRS to report items of property, plant and equipment in its opening statement of financial position at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under pre-changeover Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis.	The Company did not elect to report any items of property, plant and equipment in its opening statement of financial position at a deemed cost instead of the actual cost that would be determined under IFRS. **Transitional impact:** None.
Foreign Exchange	On transition, cumulative translation gains or losses in accumulated other comprehensive income can be reclassified to retained earnings. If not elected, all cumulative translation differences must be recalculated under IFRS from inception.	The Company elected to reclassify all cumulative translation gains and losses at the date of transition to retained earnings. **Transitional impact:** See Note 33 of the financial statements.
Borrowing Costs	On transition, the Company must select a commencement date for capitalization of borrowing costs relating to all qualifying assets which is on or before January 1, 2010.	The Company elected to capitalize borrowing costs on all qualifying assets commencing January 1, 2010. **Transitional impact:** None.
Deferred Taxes	On transition, the Company must reclassify all deferred tax assets and liabilities as non-current.	The Company has reclassified all deferred tax assets and liabilities as non-current. **Transitional impact:** See Note 33 of the financial statements.

The following are key IFRS 1 mandatory exceptions from full retrospective application of IFRS:

Area of IFRS	Mandatory Exception Applied
Hedge Accounting	Only hedging relationships that satisfied the hedge accounting criteria as of January 1, 2010 are reflected as hedges in the Company's financial statements under IFRS. **Transitional Impact:** None.
Estimates	Hindsight was not used to create or revise estimates. The estimates previously made by the Company under former Canadian GAAP are consistent with their application under IFRS. **Transitional Impact:** None.

In addition to the one-time transitional impacts described above, several accounting policy differences will impact the Company on a go-forward basis. The significant accounting policy differences are presented below.

Area of IFRS	Policy Difference	Status
Share-Based Payments	The valuation of stock options under IFRS requires individual "tranche-based" valuations for those option plans with graded vesting, while former Canadian GAAP allowed a single valuation for all tranches.	**The impact of these changes is not significant.**
Impairment of Assets	IFRS requires impairment testing be done at the smallest identifiable group of assets that generate cash inflows largely independent from other groups of assets ("cash generating unit"), which in some cases is different from the grouping required by former Canadian GAAP. IFRS requires the assessment of asset impairment to be based on recoverable amounts, which is the higher of the fair value less costs to sell and value-in-use. IFRS allows for reversal of impairment losses other than for goodwill and indefinite life intangible assets, while former Canadian GAAP did not.	**The identification of additional cash generating units did not have an impact on transition to IFRS as no impairments were identified.**
Borrowing Costs	Under IFRS, borrowing costs will be capitalized to assets which take a substantial time to develop or construct using a capitalization rate based on the Company's weighted average cost of borrowing.	**The Company did not identify any qualifying assets in the period and therefore there was no impact on adoption of this policy.**
Financial Statement Presentation and Disclosure	IFRS requires significantly more disclosure than former Canadian GAAP for certain standards.	**Financial statement disclosures for the years ended December 31, 2011 and 2010 have been updated to reflect IFRS requirements.**

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying consolidated financial statements. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2011, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as at December 31, 2011, to provide reasonable assurance that a) material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities, and b) information required to be disclosed is recorded, processed, summarized and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting were adequate and effective as at December 31, 2011, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP.

There have been no significant changes in the design of the Company's internal controls over financial reporting during the fourth quarter ended December 31, 2011 that would materially affect, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

While the Officers of the Company have designed the Company's disclosure controls and procedures and internal controls over financial reporting, they expect that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

SUBSEQUENT EVENTS

Subsequent to December 31, 2011, the Company declared a dividend of $0.06 per share, payable on April 4, 2012, to shareholders of record on March 12, 2012.

OUTLOOK FOR MARKETS

The global economy continues its fragile recovery from the recent recession. Enerflex entered 2011 with significantly stronger backlog than the prior year. Bookings during the twelve months of 2011, including the large International contract in the Sultanate of Oman received during the fourth quarter of 2011, has resulted in backlog for Engineered Systems of approximately $1.0 billion.

The Canada and Northern U.S. region benefited from improved bookings and backlog during 2011 as a result of increased activity in Canada's unconventional gas basins in the Montney and the Horn River. These unconventional gas basins require higher horsepower compression and more gas processing equipment in comparison to conventional gas basins. Enerflex is well positioned to take advantage of opportunities in this area for both equipment supply and mechanical services as many of our customers increased activities in 2011. Natural gas prices have fallen below $3.00/ mcf to begin 2012 and North America has experienced a very mild winter, which has increased storage levels above the five year average. This has created uncertainty for producers and capital spending could be reduced for natural gas exploration in this region during 2012.

The Southern U.S. and South America region also experienced improved bookings and backlog during the twelve months of 2011. Increased activity in liquids-rich U.S. gas basins has driven new orders for compression equipment for this region. These liquids-rich resource basins can achieve superior returns for producers despite low natural gas prices due to the higher value that could be realized for the natural gas liquids. In addition, the requirement for gas compression and gas processing equipment for liquids-rich resource basins like the Eagle Ford and parts of the Marcellus has increased bookings in this region. It is highly probable that the low natural gas price will impact dry gas production in the U.S. during 2012, with some producers already announcing reduced production resulting from shutting in gas wells. Enerflex's U.S. business is heavily weighted to activity in liquids-rich resource basins and as long as frac spread ratios (the differential between oil prices and natural gas prices) remain high the Company expects activity levels to remain strong in this region. However, there is still uncertainty in this market resulting from historically high storage levels and the potential impact on capital spending and activity levels for our customers during 2012 remains uncertain.

The International region continues to hold considerable long-term opportunity and has benefited from strong bookings and backlog during the twelve months of 2011. Activity in these regions is being driven by increased activity in Australia's natural gas industry. There are numerous Liquefied Natural Gas ("LNG") projects in early stages of development. LNG projects of Queensland Gas and Santos have received final investment decisions and orders for equipment have already been placed with Enerflex.

In the Middle East and North Africa, Enerflex has taken a targeted approach to mitigate exposure to political unrest. The Company's primary areas of focus have been Bahrain, Kuwait, Egypt, Oman and the United Arab Emirates. Enerflex has achieved commercial operations of the on-shore gas compression facility for BP in Oman and during the fourth quarter of 2011, has received an award for a USD $228.0 million gas processing plant in the region. Domestic demand for gas in this region remains strong and we are well positioned to compete for future projects in Oman and Bahrain for compression, processing equipment and after-market service support.

In Europe, the traditional customers have been small greenhouse operators, which were significantly impacted by the financial crisis and economic downturn. In addition, they have come under commercial pressure from overseas competitors. This fact, coupled with General Electric's decision to realign distribution territories in this region, has resulted in Enerflex's decision to exit the CHP and Service business in Europe. Enerflex will continue to pursue opportunities for Compression and Processing equipment in this region through it sales office in the United Kingdom and the Company's joint venture in Russia. Unconventional gas basins are in the early stages of development in Poland, while Russia is home to the largest recoverable natural gas reserves in the world. We are well positioned to compete for these opportunities once some of these projects receive final investment decisions.

Management's Responsibility for Financial Position

To the Shareholders of Enerflex Ltd.

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of finance data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The Audit Committee is appointed by the Board of Directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Ernst & Young LLP on behalf of the shareholders in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

[signed] "J. Blair Goertzen"

J. Blair Goertzen
President, Chief Executive Officer and Director

[signed] "D. James Harbilas"

D. James Harbilas
Vice-President and Chief Financial Officer

February 29, 2012

Auditors' Report

To the Shareholders of Enerflex Ltd.

We have audited the accompanying consolidated financial statements of Enerflex Ltd., which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010, and the consolidated statements of earnings (loss), comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enerflex Ltd. as at December 31, 2011 and 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

(signed) "Ernst & Young LLP"

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
February 29, 2012

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands) As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents	**$ 81,200**	$ 15,000	$ 34,949
Accounts receivable (Note 8)	**254,482**	243,238	78,011
Inventories (Note 9)	**240,419**	222,855	167,275
Income tax receivable (Note 18)	**2,800**	1,944	5,776
Derivative financial instruments (Note 26)	**2,136**	448	13
Other current assets	**15,220**	22,013	3,104
Total current assets	**596,257**	505,498	289,128
Property, plant and equipment (Note 10)	**123,130**	172,041	69,781
Rental equipment (Note 10)	**101,908**	116,162	59,142
Deferred tax assets (Note 18)	**39,581**	47,940	19,893
Other assets (Note 11)	**8,167**	13,797	56,502
Intangible assets (Note 12)	**31,528**	39,462	–
Goodwill (Note 13)	**459,935**	482,656	21,350
	1,360,506	1,377,556	515,796
Assets held for sale (Note 6)	**10,054**	–	–
Total assets	**$ 1,370,560**	$ 1,377,556	$ 515,796
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities (Note 14)	**$ 153,980**	$ 149,884	$ 57,584
Provisions (Note 15)	**12,953**	14,538	11,289
Income taxes payable (Note 18)	**2,410**	7,135	–
Deferred revenues	**234,756**	150,319	59,751
Derivative financial instruments (Note 26)	**455**	603	–
Note payable (Note 29)	**–**	215,000	–
Total current liabilities	**404,554**	537,479	128,624
Note payable (Note 29)	**–**	–	73,570
Long-term debt (Note 16)	**118,963**	–	–
Other liabilities	**590**	549	–
	524,107	538,028	202,194
Liabilities related to assets held for sale (Note 6)	**10,191**	–	–
Total liabilities	**534,298**	538,028	202,194
Guarantees, commitments and contingencies (Note 17)			
Shareholders' Equity			
Owner's net investment	**–**	849,977	297,973
Share capital (Note 19)	**207,409**	–	–
Contributed surplus (Note 20)	**656,536**	–	–
Retained deficit	**(35,540)**	–	–
Accumulated other comprehensive (loss) income	**7,857**	(10,845)	15,629
Total shareholders' equity before non-controlling interest	**836,262**	839,132	313,602
Non-controlling interest	–	396	–
Total shareholders' equity and non-controlling interest	**836,262**	839,528	313,602
Total liabilities and shareholders' equity	**$ 1,370,560**	$ 1,377,556	$ 515,796

See accompanying Notes to the Consolidated Financial Statements.

[signed] "Wayne S. Hill"
Wayne S. Hill
Director

[signed] "Stephen J. Savidant"
Stephen J. Savidant
Chairman

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

($ Canadian thousands, except per share amounts) Years ended December 31,	**2011**	2010
Revenues (Note 21)	**$ 1,227,137**	$ 1,067,783
Cost of goods sold	**1,001,261**	883,885
Gross margin	**225,876**	183,898
Selling and administrative expenses	**145,790**	142,943
Operating income	**80,086**	40,955
Gain on disposal of property, plant and equipment	**(3,594)**	(68)
Gain on available-for-sale financial assets	**–**	(18,627)
Equity earnings from associates	**(1,161)**	(468)
Earnings before finance costs and income taxes	**84,841**	60,118
Finance costs (Note 24)	**8,954**	16,195
Finance income (Note 24)	**(1,943)**	(724)
Earnings before income taxes	**77,830**	44,647
Income taxes (Note 18)	**21,089**	14,385
Net earnings from continuing operations	**$ 56,741**	$ 30,262
Gain on sale of discontinued operations (Note 7)	**1,430**	–
Loss from discontinued operations (Note 7)	**(65,470)**	(3,963)
Net (loss) earnings	**$ (7,299)**	$ 26,299
Net (loss) earnings attributable to:		
Controlling interest	**$ (6,983)**	$ 26,434
Non-controlling interest	**$ (316)**	$ (135)
Earnings (loss) per share – basic (Note 25)		
Continuing operations	**$ 0.73**	$ 0.40
Discontinued operations	**$ (0.83)**	$ (0.05)
Earnings (loss) per share – diluted (Note 25)		
Continuing operations	**$ 0.73**	0.40
Discontinued operations	**$ (0.83)**	$ (0.05)
Weighted average number of shares – basic	**77,221,440**	76,170,972
Weighted average number of shares – diluted	**77,335,232**	76,361,949

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

($ Canadian thousands) Years ended December 31,		2011		2010
Net (loss) earnings	$	(7,299)	$	26,299
Other comprehensive income (loss):				
Change in fair value of derivatives designated as cash flow hedges, net of income tax expense (2011: $14; 2010: $81)		721		210
Gain (loss) on derivatives designated as cash flow hedges transferred to net income in the current year, net of income tax (recovery) expense (2011: $(77) ; 2010: ($65))		199		(168)
Unrealized gain (loss) on translation of financial statements of foreign operations		17,782		(10,901)
Reclassification to net income of gain on available for sale financial assets as a result of business acquisition, net of income tax expense (2011: $nil; 2010: $3,090)		–		(15,615)
Other comprehensive income (loss)	$	18,702	$	(26,474)
Total comprehensive income (loss)	$	11,403	$	(175)

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Canadian thousands) Years ended December 31,	**2011**	2010
Operating Activities		
Net (loss) earnings	**$ (7,299)**	$ 26,299
Items not requiring cash and cash equivalents:		
Impairment of assets held for sale (Note 6)	**54,030**	–
Depreciation and amortization	**42,171**	39,113
Equity earnings from associates	**(1,161)**	(468)
Deferred income taxes (Note 18)	**3,796**	(3,386)
Stock option expense (Note 22)	**858**	–
(Gain) loss on sale of:		
Discontinued operations	**(2,471)**	–
Property, plant and equipment	**(3,595)**	77
Available for sale financial assets	**–**	(18,627)
	86,329	43,008
Net change in non-cash working capital and other	**48,466**	50,784
Cash provided by operating activities	**$ 134,795**	$ 93,792
Investing Activities		
Business acquisition, net of cash acquired (Note 5)	**$ –**	$ (292,533)
Additions to:		
Rental equipment (Note 10)	**(12,634)**	(30,062)
Property, plant and equipment (Note 10)	**(22,040)**	(24,202)
Proceeds on disposal of:		
Rental equipment	**11,802**	58,379
Property, plant and equipment	**56,865**	4,391
Disposal of discontinued operations, net of cash (Note 7)	**3,389**	3,500
Change in other assets	**2,103**	(7,510)
	39,485	(288,037)
Net change in non-cash working capital and other	**(7,308)**	(136)
Cash provided by (used in) investing activities	**$ 32,177**	$ (288,173)
Financing Activities		
(Repayment of) proceeds from note payable	**$ (215,000)**	$ 141,431
Proceeds from (repayment of) long-term debt	**118,781**	(164,811)
Dividends	**(9,266)**	–
Stock option exercises	**1,250**	–
Equity from parent	**2,797**	199,687
Cash (used in) provided by financing activities	**$ (101,438)**	$ 176,307
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ 666**	(1,875)
Increase (decrease) in cash and cash equivalents	**66,200**	(19,949)
Cash and cash equivalents, beginning of year	**$ 15,000**	$ 34,949
Cash and cash equivalents, end of year	**$ 81,200**	$ 15,000

Supplemental cash flow information (Note 28).
See accompanying Notes to the Consolidated Financial Statements.

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

($ Canadian thousands)	Net investment	Share capital	Contributed surplus	Retained deficit	Foreign currency translation adjustments	Hedging reserve	Available for sale financial assets	Total accumulated other comprehensive income/ (loss)	Non-controlling interest	Total
At January 1, 2010	297,973	–	–	–	–	14	15,615	15,629	–	313,602
Net earnings (loss)	26,434	–	–	–	–	–	–	–	(135)	26,299
Non-controlling interest on acquisition	–	–	–	–	–	–	–	–	531	531
Other comprehensive (loss) income	–	–	–	–	(10,901)	42	(15,615)	(26,474)	–	(26,474)
Owner's investment/ dividends	525,570	–	–	–	–	–	–	–	–	525,570
At December 31, 2010	849,977	–	–	–	(10,901)	56	–	(10,845)	396	839,528
Net earnings (loss)	14,654	–	–	(21,637)	–	–	–	–	(316)	(7,299)
Owner's investment/ equity to parent	(2,794)	–	–	–	–	–	–	–	–	(2,794)
Bifurcation transaction	(861,837)	205,337	656,500	–	–	–	–	–	–	–
Non-controlling interest disposed	–	–	–	–	–	–	–	–	(80)	(80)
Other comprehensive income	–	–	–	–	17,782	920	–	18,702	–	18,702
Effect of stock option plans	–	2,072	36	–	–	–	–	–	–	2,108
Dividends	–	–	–	(13,903)	–	–	–	–	–	(13,903)
At December 31, 2011	–	207,409	656,536	(35,540)	6,881	976	–	7,857	–	836,262

See accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

($ thousands of Canadian dollars, except per share amounts or as otherwise noted)

NOTE 1. NATURE AND DESCRIPTION OF THE COMPANY

Enerflex Ltd. ("Enerflex" or "the Company") was formed subsequent to the acquisition of Enerflex Systems Income Fund ("ESIF") by Toromont Industries Ltd. ("Toromont") and subsequent integration of Enerflex's products and services with Toromont's existing Natural Gas Compression and Processing business. In January 2010, the operations of Toromont Energy Systems Inc., a subsidiary of Toromont, were combined with the operations of ESIF to form Enerflex Ltd. The common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "EFX".

Headquartered in Calgary, the registered office is located at 904, 1331 Macleod Trail SE, Calgary, Canada. Enerflex has approximately 3,100 employees worldwide. Enerflex, its subsidiaries, affiliates and joint-ventures operate in Canada, the United States, Argentina, Colombia, Australia, the United Kingdom, the United Arab Emirates, Oman, Egypt, Bahrain and Indonesia.

These consolidated financial statements include the legacy natural gas and process compression business (Toromont Energy Systems, subsequently renamed Enerflex Ltd.) and the acquired business of ESIF ("the Business") from the date of acquisition, January 20, 2010.

NOTE 2. BACKGROUND AND BASIS OF PRESENTATION

On May 16, 2011 Toromont Shareholders approved the Plan of Arrangement ("the Arrangement") that would establish Enerflex as a stand-alone publicly traded company listed on the TSX. In connection with the Arrangement, Toromont common shareholders received one share of Enerflex for each common share of Toromont, creating two independent public companies – Toromont Industries Ltd. and Enerflex Ltd.

Enerflex began independent operations on June 1, 2011 pursuant to the Arrangement with Toromont. Enerflex's shares began trading on the TSX on June 3, 2011.

In the second quarter of 2011, Enerflex entered into a transitional services agreement (the "Agreement") pursuant to which it is expected that, on an interim basis, Toromont would provide consulting services and other assistance with respect to information technology of Enerflex which, from time to time, were reasonably requested by Enerflex in order to assist in its transition to a public company, independent from Toromont. Unless terminated earlier, the Agreement will expire on June 1, 2012. The Agreement reflects terms negotiated in anticipation of each company being a stand-alone public company, each with independent directors and management teams.

Accordingly, until the completion of the Arrangement, Toromont and Enerflex were considered related parties due to the parent – subsidiary relationship that existed. Subsequent to June 1, 2011, Toromont was no longer considered a related party.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These consolidated financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company adopted IFRS in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards".

(b) Basis of Presentation and Measurement

These consolidated financial statements for the year ending December 31, 2011 represent the financial position, results of operations and cash flows of the Business transferred to Enerflex on a carve-out basis up to May 31, 2011.

The historical financial statements have been derived from the accounting system of Toromont using the historical results of operations and historical bases of assets and liabilities of the Business transferred to Enerflex on a carve-out accounting basis.

As the Company operated as a subsidiary of Toromont up to May 31, 2011 and was a stand-alone entity effective June 1, 2011, certain current period and historical financial information include an allocation of certain Toromont corporate expenses up to the date of the Arrangement.

The carve-out operating results of Enerflex were specifically identified based on Toromont's divisional organization. Certain other expenses presented in the consolidated financial statements represent allocations and estimates of services incurred by Toromont.

These financial statements are presented in Canadian dollars rounded to the nearest thousand and are prepared on a going concern basis under the historical cost convention with certain financial assets and financial liabilities at fair value. The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in Note 4.

These consolidated financial statements were authorized for issue by the Board of Directors on February 16, 2012.

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, and continue to be consolidated until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

(d) Significant Accounting Estimates and Judgments

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements:

- Revenue Recognition – Long-Term Contracts

  The Company reflects revenues generated from the assembly and manufacture of projects using the percentage-of-completion approach of accounting for performance of production-type contracts. This approach to revenue recognition requires management to make a number of estimates and assumptions surrounding the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized in a given period.

- Provisions for Warranty

  Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer.

- Property, Plant and Equipment

  Fixed assets are stated at cost less accumulated depreciation, including any asset impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of fixed assets are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of fixed assets requires judgment and is based on currently available information. Fixed assets are also reviewed for potential impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Changes in circumstances, such as technological advances and changes to business strategy can result in actual useful lives and future cash flows differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of fixed assets or future cash flows constitute a change in accounting estimate and are applied prospectively.

- Allowance for Doubtful Accounts

  An estimate for doubtful accounts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired receivables are derecognized when they are assessed as uncollectible. Amounts estimated represent management's best estimate of probability of collection of amounts from customers.

- Impairment of Non-Financial Assets

  Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model.

- Impairment of Goodwill

  The Company tests whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the groups of cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from each group of cash-generating units and also to determine a suitable discount rate in order to calculate the present value of those cash flows. Impairment losses on goodwill are not reversed.

- Income Taxes

  Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

  Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

- Assets Held for Sale and Discontinued Operations

  The Company's accounting policy related to assets held for sale is described in Note 3 (i). In applying this policy, judgment is used in determining whether certain assets should be reclassified to assets held for sale on the consolidated statements of financial position. Judgment is also applied in determining whether the results of operations associated with the assets should be recorded in discontinued operations on the consolidated statements of earnings (loss).

(e) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in selling and administrative expenses.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the group of cash generating units that are expected to benefit from the synergies of the combination.

(f) Investment in Associates

The Company uses the equity method to account for its 40% investment in Total Production Services Inc., an investment subject to significant influence.

Under the equity method, the investment in the associate is carried on the consolidated statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate.

The consolidated statement of earnings (loss) reflects the Company's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The Company's share of profit of an associate is shown on the face of the consolidated statement of earnings (loss). This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in the consolidated statement of earnings (loss).

(g) Interests in Joint Ventures

The Company proportionately consolidates its 50% interest in the Presson-Descon International (Private) Limited ("PDIL") joint venture and its 51% interest in the Enerflex-ES joint venture. This involves recognizing its proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

(h) Foreign Currency Translation

The Company's functional and presentation currency is the Canadian dollar. In the accounts of individual subsidiaries, transactions in currencies other than the Company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At year end, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the period end date. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rates of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the consolidated statement of earnings (loss) with the exception of exchange differences arising on monetary assets and liabilities that form part of the Company's net investment in subsidiaries. These are taken directly to other comprehensive income until the disposal of the foreign subsidiary at which time the unrealized gain or loss is recognized in the consolidated statement of earnings (loss).

The statements of financial position of foreign subsidiaries and joint ventures are translated into Canadian dollars using the closing rate method, whereby assets and liabilities are translated at the rates of exchange prevailing at the period end date. The consolidated statements of earnings (loss) of foreign subsidiaries and joint ventures are translated at average exchange rates for the reporting period. Exchange differences arising on the translation of net assets are taken to accumulated other comprehensive income (loss).

On the disposal of a foreign entity, accumulated exchange differences are recognized in the statement of earnings as a component of the gain or loss on disposal.

(i) Assets Held for Sale

Non-current assets and liabilities are categorized as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and; it is unlikely there will be changes to the plan. Non-current assets held for sale are carried at the lesser of carrying amount and fair value less costs to sell. The profit or loss arising on reclassification or sale is recognized in discontinued operations on the consolidated statement of earnings (loss).

(j) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making the asset capable of operating as intended by management. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets:

Asset class	Estimated useful life range
Buildings	5 to 20 years
Equipment	3 to 20 years

Major renewals and improvements are capitalized when they are expected to provide future economic benefit. When significant components of property, plant and equipment are required to be replaced at intervals, the Company derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. No depreciation is charged on land or assets under construction. Repairs and maintenance costs are charged to the consolidated statement of earning (loss) as incurred.

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of property, plant and equipment is included in profit or loss when the item is derecognized.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

(k) Rental Equipment

Rental equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are generally between 5 and 15 years.

When, under the terms of a rental contract, the Company is responsible for maintenance and overhauls, the actual overhaul cost is capitalized and depreciated over the estimated useful life of the overhaul, generally between 2 and 5 years.

Major renewals and improvements are capitalized when they are expected to provide future economic benefit. Repairs and maintenance costs are charged to operations as incurred.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

(l) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized to non-controlling interest ("NCI") over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the acquiree, the difference is recognized directly in the consolidated statement of earnings (loss). Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or when there is an indication that a related group of cash generating units may be impaired.

For the purposes of impairment testing, goodwill acquired is allocated to the groups of cash-generating units that are expected to benefit from the synergies of the combination. Each group to which the goodwill is allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes and is not larger than an operating segment, determined in accordance with IFRS 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the group of cash-generating units to which the goodwill relates. Where the recoverable amount of the group of cash-generating units is less than the carrying amount of the cash-generating units and related goodwill, an impairment loss is recognized in the consolidated statements of earnings (loss). Impairment losses on goodwill are not reversed.

(m) Intangible Assets

Intangible assets are initially measured at cost being their fair value at the date of acquisition and are recognized separately from goodwill if the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with a finite life are amortized over management's best estimate of their expected useful life. The amortization charge in respect of intangible assets is included in selling, general and administrative expense line in the consolidated statement of earnings (loss). The expected useful lives are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortization period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Acquired identifiable intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives as follows:

Asset	Estimated useful life range
Customer relationships	5 years
Software and other	< 1 year – 5 years

(n) Impairment of Assets (Excluding Goodwill)

At each statement of financial position date, the Company reviews the carrying amounts of its tangible and intangible assets with finite lives to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. In assessing its value-in-use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of earnings (loss).

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of earnings (loss).

(o) Inventories

Inventories are valued at the lower of cost and net realizable value.

Cost of equipment, repair and distribution parts and direct materials include purchase cost and costs incurred in bringing each product to its present location and condition. Serialized inventory is determined on a specific item basis. Non-serialized inventory is determined based on a weighted average cost.

Cost of work-in-process includes cost of direct materials, labour and an allocation of manufacturing overheads, excluding borrowing costs, based on normal operating capacity.

Cost of inventories include the transfer from accumulated other comprehensive income (loss) of gains and losses on qualifying cash flow hedges in respect of the purchase of inventory.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. Inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write down previously recorded is reversed.

(p) Construction Work in Process

Construction work in process represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in contract activities based on normal operating capacity.

Construction work in process is presented as part of trade and other receivables in the statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred revenue in the consolidated statement of financial position.

(q) Trade and Other Receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any amounts estimated to be uncollectible. An estimate for doubtful debts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired debts are derecognized when they are assessed as uncollectible.

(r) Cash

Cash includes cash and cash equivalents, which are defined as highly liquid investments with original maturities of three months or less.

(s) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized in the consolidated statement of earnings (loss) as a finance cost.

(t) Onerous Contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(u) Employee Future Benefits

The Company sponsors various defined contribution pension plans, which cover substantially all employees and are funded in accordance with applicable plan and regulatory requirements. Regular contributions are made by the Company to the employees' individual accounts, which are administered by a plan trustee, in accordance with the plan document. The actual cost of providing benefits through defined contribution pension plans is charged to income in the period in respect of which contributions become payable.

(v) Share-Based Payments

The Company issued share-based awards to certain employees and non-employee directors. The cost of equity-settled share-based transactions is determined as the fair value of the options on grant date using a fair value based model. Stock options have a seven-year expiry, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is determined by the average of the market price of the Company's shares on the five days preceding the date of the grant. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The Company also offers a deferred share unit ("DSU") plan for executives and non-employee directors, whereby they may elect on an annual basis to receive all or a portion of their annual bonus, or retainer and fees, respectively in deferred share units. The holder of the DSUs receives a payment from the Company equal to the implied market value calculated as the number of DSUs multiplied by the closing price of Enerflex shares on the entitlement date. The DSUs vest upon being credited to the executive or non-employee director's account.

For certain directors and key employees of affiliates located in Australia and the United Arab Emirates ("UAE"), the Company utilizes a Phantom Share Rights Plan (Share Appreciation Right) ("SAR"). The exercise price of each SAR equals the average of the market price of the Company's shares on the five days preceding the date of the grant. The SARs vest at a rate of one fifth on each of the first five anniversaries of the date of the grant and expire on the fifth anniversary. The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

(w) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date. Leases which transfer substantially all of the benefits and risk of ownership of the asset to the lessee are classified as finance leases; all other leases are classified as operating leases. Classification is re-assessed if the terms of the lease are changed.

The Company has entered into various operating leases, the payments for which are recognized as an expense in the consolidated statement of earnings (loss) on a straight-line basis over the lease terms.

- Company as a Lessor

  Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

  Amounts due from leases under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of leases.

- Company as a Lessee

  Assets held under finance lease are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

  Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the period in which they are incurred.

  Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

  In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of the rental expense on a straight-line basis over the term of the lease.

(x) Revenue Recognition

Revenue is recognized to the extent that it is probable economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, net of discounts, rebates, sales taxes and duties. In addition to this general policy, the following describes the specific revenue recognition policies for each major category of revenue:

- Revenues from the supply of equipment systems involving design, manufacture, installation and start-up are recorded based on the stage of completion, where the stage of completion measured by reference to costs incurred to date as a percentage of total estimated costs of the project. Any foreseeable losses on such projects are charged to operations when determined.

- Revenues from equipment rentals are recognized in accordance with the terms of the relevant agreement with the customer on a straight-line basis over the term of the agreement. Certain rental contracts contain an option for the customer to purchase the equipment at the end of the rental period. Should the customer exercise this option to purchase, revenue from the sale of the equipment is recognized directly to the consolidated statement of earnings (loss).

- Product support services include sales of parts and servicing of equipment. For the sale of parts, revenues are recognized when the part is shipped to the customer. For servicing of equipment, revenues are recognized on a straight-line basis determined based on performance of the contracted upon service.

- Revenues from long-term service contracts are recognized on a stage of completion basis proportionate to the service work that has been performed based on parts and labour service provided. At the completion of the contract, any remaining profit on the contract is recognized as revenue. Any foreseeable losses on such projects are charged to operations when determined.

(y) Financial Instruments

The Company classifies all financial instruments into one of the following categories: financial assets at 'fair value through profit or loss' ("FVTPL"), loans and receivables, held to maturity investments, assets available for sale, financial liabilities at FVTPL, other financial liabilities or assets/liabilities held for trading. Financial instruments are measured at fair value on initial recognition. The subsequent measurement of financial assets and liabilities depends on their classification as described below:

Financial Assets at FVTPL

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in the hedge relationship as defined by IAS 39. Financial assets at FVTPL are carried in the statement of financial position at fair value with changes in fair value being recognized in finance income or finance costs in the statement of earnings (loss).

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment.

Held-To-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment.

Available-For-Sale ("AFS") Financial Investments

Available-for-sale financial assets are non-derivatives that are either designated as AFS or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Financial Liabilities at FVTPL

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of earnings (loss).

The Company primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Fair value measurements are those derived from inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs). In these instances, internally developed methodologies are used to determine fair value.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability and may affect placement within.

The Company has made the following classifications:

- Cash and cash equivalents are classified as assets held for trading and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net income.
- Accounts receivable is classified as loans and receivables and is recorded at amortized cost using the effective interest rate method.
- Accounts payable, accrued liabilities, long-term debt and note payable to Toromont are classified as other financial liabilities. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for financial instruments classified or designated as fair value through profit or loss. Transaction costs for financial assets classified as available for sale are added to the value of the instrument at acquisition. Transaction costs related to other financial liabilities are added to the value of the instrument at acquisition and taken into net earnings using the effective interest rate method.

(z) Derivative Financial Instruments and Hedge Accounting

Derivative financial agreements are used to manage exposure to fluctuations in exchange rates. The Company does not enter into derivative financial agreements for speculative purposes.

Derivative financial instruments, including certain embedded derivatives, are measured at their fair value upon initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company elected to apply hedge accounting for foreign exchange forward contracts for anticipated transactions. These are also designated as cash flow hedges. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of taxes. The ineffective portion of the fair value changes is recognized in net income. Amounts charged to accumulated other comprehensive income are reclassified to the statement of earnings when the hedged transaction affects the statement of earnings.

All hedging relationships are formally documented, including the risk management objective and strategy. On an on-going basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

(aa) Income Taxes

Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. Taxable profit differs from profit as reported in the statement of earnings because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date.

Deferred income tax is recognized on all temporary differences at the consolidated statement of financial position date between the carrying amounts of assets and liabilities in the financial consolidated statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Deferred income tax assets are recognized only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each consolidated statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the consolidated statement of financial position date.

Current and deferred income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity in the same period. Otherwise, income tax is recognized in the consolidated statement of earnings (loss) except in some circumstances related to business combinations.

(bb) Discontinued Operations

The results of discontinued operations are presented net of tax on a one-line basis in the consolidated statement of earnings (loss). Direct corporate overheads and income taxes are allocated to discontinued operations. Interest expense (income) and general corporate overheads are not allocated to discontinued operations.

(cc) Earnings Per Share

Basic earnings per share amounts are calculated by dividing net earnings for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net earnings attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

(dd) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(ee) Finance Income and Expenses

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

NOTE 4. CHANGES IN ACCOUNTING POLICIES

(a) First-Time Adoption of IFRS

These are the Company's first annual financial statements prepared under IFRS. IFRS 1 First-Time Adoption of International Financial Reporting Standards provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective adoption of IFRS. Most adjustments required on transition to IFRS are made retrospectively against opening retained earnings as of the date of the first comparative statement of financial position presented, which is January 1, 2010.

The following is a summary of the key transitional provisions that were adopted on January 1, 2010. The impact of transition to IFRS is presented in Note 33.

Area of IFRS	Summary of Exemption Available	Policy Elected
Business Combinations	The Company may elect on transition to IFRS to either restate all past business combinations in accordance with IFRS 3 Business Combinations or to apply an elective exemption from applying IFRS to past business combinations.	The Company has applied the elective exemption such that business combinations entered into prior to transition date have not been restated. **Transitional impact:** None.
Property, Plant and Equipment	The Company may elect on transition to IFRS to report items of property, plant and equipment in its opening statement of financial position at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under pre-changeover Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis.	The Company did not elect to report any items of property, plant and equipment in its opening statement of financial position at a deemed cost instead of the actual cost that would be determined under IFRS. **Transitional impact:** None.
Foreign Exchange	On transition, cumulative translation gains or losses in accumulated other comprehensive income ("OCI") can be reclassified to retained earnings. If not elected, all cumulative translation differences must be recalculated under IFRS from inception.	The Company elected to reclassify all cumulative translation gains and losses at the date of transition to retained earnings. **Transitional impact:** See Note 33.
Borrowing Costs	On transition, the Company must select a commencement date for capitalization of borrowing costs relating to all qualifying assets which is on or before January 1, 2010.	The Company elected to capitalize borrowing costs on all qualifying assets commencing January 1, 2010. **Transitional impact:** None.
Deferred Taxes	On transition, the Company must reclassify all deferred tax assets and liabilities as non-current.	The Company has reclassified all deferred tax assets and liabilities as non-current. **Transitional impact:** See Note 33.

The following are key IFRS 1 mandatory exceptions from full retrospective application of IFRS:

Area of IFRS	Mandatory Exception Applied
Hedge Accounting	Only hedging relationships that satisfied the hedge accounting criteria as of January 1, 2010 are reflected as hedges in the Company's financial statements under IFRS.
Estimates	Hindsight was not used to create or revise estimates. The estimates previously made by the Company under former Canadian GAAP are consistent with their application under IFRS.

Area of IFRS	Policy Difference	Status
Share-Based Payments	The valuation of stock options under IFRS requires individual ("tranche-based") valuations for those option plans with graded vesting, while former Canadian GAAP allowed a single valuation for all tranches.	**The impact of these changes is not significant.**
Impairment of Assets	IFRS requires impairment testing be done at the smallest identifiable group of assets that generate cash inflows largely independent from other groups of assets ("cash generating unit"), which in some cases is different from the grouping required by former Canadian GAAP. IFRS requires the assessment of asset impairment to be based on recoverable amounts, which is the higher of the fair value less costs to sell and value-in-use. IFRS allows for reversal of impairment losses other than for goodwill and indefinite life intangible assets, while former Canadian GAAP did not.	**The identification of additional cash generating units did not have an impact on transition to IFRS as no impairments were identified.**
Borrowing Costs	Under IFRS, borrowing costs will be capitalized to assets which take a substantial time to develop or construct using a capitalization rate based on the Company's weighted average cost of borrowing.	**The Company did not identify any qualifying assets in the period and therefore there was no impact on adoption of this policy.**
Financial Statement Presentation and Disclosure	IFRS requires significantly more disclosure than former Canadian GAAP for certain standards.	**Financial statement disclosures for the years ended December 31, 2011 and 2010 have been updated to reflect IFRS requirements.**

(b) Future Accounting Changes

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

As of January 1, 2013, the Company will be required to adopt *IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interest in Other Entities; IFRS 13 Fair Value Measurement; and IAS 1 Presentation of Items of Other Comprehensive Income.* Starting January 1, 2015, the Company will be required to adopt *IFRS 9 Financial Instruments.*

IFRS 9 Financial Instruments is the result of the first phase of the IASB's project to replace *IAS 39 Financial Instruments*: *Recognition and Measurement.* The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The Company is in the process of assessing the impact of adopting IFRS 9, if any.

IFRS 10 Consolidated Financial Statements replaces the consolidation requirements in *SIC-12 Consolidation – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements.* The Standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is in the process of assessing the impact of adopting IFRS 10, if any.

IFRS 11 Joint Arrangements replaces *IAS 31 Interests in Joint Ventures* and *SIC-13 Jointly-controlled Entities – Non-Monetary Contributions by Venturers.* IFRS 11 uses some of the terms that were originally used by IAS 31, but with different meanings. This Standard addresses two forms of joint arrangements (joint operations and joint ventures) where there is joint control. The Company is in the process of assessing the impact of adopting IFRS 11, if any.

IFRS 12 Disclosure of Interest in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is in the process of assessing the impact of adopting IFRS 12, if any.

IFRS 13 Fair Value Measurement provides new guidance on fair value measurement and disclosure requirements for IFRS. The Company is in the process of assessing the impact of adopting IFRS 13, if any.

IAS 1 Presentation of Items of Other Comprehensive Income has been amended to require entities to split items of other comprehensive income ("OCI") between those that are reclassed to income and those that are not. The Company is in the process of assessing the impact of this amendment, if any.

NOTE 5. BUSINESS ACQUISITION

No businesses were acquired in 2011.

On January 20, 2010, Toromont completed its offer for the units of ESIF ("the Offer").

Toromont paid approximately $315.5 million in cash and issued approximately 11.9 million of Toromont common shares to complete the acquisition. For accounting purposes, the cost of Toromont's common shares issued in the Acquisition was calculated based on the average share price traded on the TSX on the relevant dates.

Prior to the acquisition, Toromont owned 3,902,100 Trust Units which were purchased with cash of $37.8 million ($9.69 per unit). Prior to the date of acquisition, Toromont designated its investment in ESIF as available-for-sale and as a result the units were measured at fair value with the changes in fair value recorded in Other Comprehensive Income ("OCI"). On acquisition, the cumulative gain on this investment was reclassified out of OCI and into the income statement. The fair value of this investment was included in the cost of purchase outlined below. The fair value of these units at January 20, 2010 was $56.4 million, resulting in a pre-tax gain of $18.6 million.

Purchase Price

Units owned by Toromont prior to the Offer	$	56,424
Cash consideration		315,539
Issuance of Toromont common shares		328,105
Total	**$**	**700,068**

The transaction was accounted for using the acquisition method of accounting with Enerflex designated as the acquirer of ESIF. Results from ESIF have been consolidated from the acquisition date, January 20, 2010.

Cash used in the acquisition was determined as follows:

Cash consideration	$	315,539
Less: cash acquired		(23,006)
	$	**292,533**

The assets acquired and liabilities assumed were recorded based upon their fair value at the date of acquisition. The Company determined the fair values based on discounted cash flows, market information, independent valuations and management's estimates.

The final allocation of the purchase price was as follows:

Purchase Price Allocation

Cash	$	23,006
Non-cash working capital		125,742
Property, plant and equipment		135,400
Rental equipment		67,587
Other long-term assets		24,315
Intangible assets with a finite life		
Customer relationships		38,400
Other		5,700
Long-term liabilities		(181,388)
Net identifiable assets acquired		238,762
Residual purchase price allocated to goodwill		461,306
	$	**700,068**

Non-cash working capital included accounts receivable of $109 million, representing gross contractual amounts receivable of $115 million less management's best estimate of the contractual cash flows not expected to be collected of $6 million.

Factors that contributed to a purchase price that resulted in the recognition of goodwill include: the existing ESIF business; the acquired workforce; time-to-market benefits of acquiring an established manufacturing and service organization in key international markets such as Australia and the Middle East; and the combined strategic value to the Company's growth plan. The amount assigned to goodwill is not expected to be deductible for tax purposes.

The combined revenues and pre-tax earnings for the year ended December 31, 2010 as though the acquisition date had been January 1, 2010, excluding purchase accounting adjustments and one-time costs related to change of control, are estimated at $1,155 million and $26 million respectively.

The Company recorded a gain of $4.9 million on equipment sold from June 1, 2011 to December 31, 2011.

NOTE 6. ASSETS AND ASSOCIATED LIABILITIES HELD FOR SALE

During 2011, the Company reclassified its European operations to assets and associated liabilities held for sale as a result of management's decision to exit the business. As the Combined Heat and Power ("CHP") and Service business within the European region represents a specific line of business that management intends to exit, the assets and liabilities have been reclassified to assets and associated liabilities held for sale on the statement of financial position.

Enerflex will continue to sell compression processing equipment in Europe through its sales office in the United Kingdom.

The following table represents the assets and associated liabilities reclassified to held for sale:

	December 31, 2011
Assets	
Cash and cash equivalents	**$ –**
Accounts receivable	**5,474**
Inventories	**3,621**
Other current assets	**901**
Property, plant and equipment	**58**
Assets held for sale ("AHFS")	**$ 10,054**
Liabilities	
Accounts payable, accrued liabilities and provisions	**$ 9,428**
Deferred revenue	**763**
Liabilities associated with assets held for sale	**$ 10,191**

The carrying value of the assets held for sale was established at the lower of the carrying value and the estimated fair value less costs to sell. As a result, for the year ended December 31, 2011, an impairment loss of $54.0 million was recognized, which consisted of impairment of goodwill and intangible assets of $31.2 million and $1.8 million, respectively; deferred tax assets of $3.0 million; fair value adjustments of $10.0 million; and anticipated cash transaction costs, including termination benefits of $8.0 million.

NOTE 7. DISCONTINUED OPERATIONS

As disclosed in Note 6, the Company reclassified its European operations to assets held for sale during the third quarter. As the CHP and Service business within the European region represents a specific line of business that management intends to exit, the corresponding revenues and expenses have been reclassified to discontinued operations in the statement of earnings.

Effective February 2011, the Company sold the shares of Enerflex Environmental Australia Pty ("EEA") to a third party, as the business was not considered core to the future growth of the Company. Total consideration received was $3.4 million, net of cash, and resulted in a pre-tax gain of $2.5 million, less tax of $1.1 million.

Effective September 2010, the Company sold certain assets and the operations of Enerflex Syntech, an electrical, instrumentation and controls business, as the business was not considered core to the future growth of the Company.

Total consideration received was $7.0 million, comprised of $3.5 million cash and $3.5 million in note receivable due in twelve equal instalments, plus interest, commencing January 2011. Net assets disposed, including transaction costs, also totalled $7.0 million, comprised of $6.0 million of non-cash working capital and $1.0 million of capital assets.

The following tables summarize the revenues, income (loss) before income taxes, and income taxes from discontinued operations for the years ended December 31, 2011 and 2010. The operations presented below had all been part of the international reporting segment.

Years ended December 31,	**2011** Enerflex Europe	**2011** EEA	**2011** Syntech	2010 Enerflex Europe	2010 EEA	2010 Syntech
Revenue	**$ 39,532**	**$ 2,653**	**$ –**	$ 39,101	$ 18,336	$ 41,887
(Loss) earnings from operations	**$ (11,276)**	**$ (239)**	**$ –**	$ (2,315)	$ (111)	$ (2,003)
Impairments	**$ (51,012)**	**$ –**	**$ –**	$ –	$ –	$ –
Income tax	**$ (3,018)**	**$ 75**	**$ –**	$ (542)	$ 503	$ 505

The following table summarizes cash provided by (used in) discontinued operations for the years ended December 31, 2011 and 2010:

Years ended December 31,	**2011** Enerflex Europe	**2011** EEA	**2011** Syntech	2010 Enerflex Europe	2010 EEA	2010 Syntech
Cash from operating	**$ (442)**	**$ (1,407)**	**$ –**	$ 4,846	$ 2,724	$ 28,280
Cash from investing	**$ (562)**	**$ (67)**	**$ –**	$ 191	$ (52)	$ (17)
Cash from financing	**$ –**	**$ –**	**$ –**	$ –	$ –	$ –

NOTE 8. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	**$ 198,165**	$ 200,382	$ 70,874
Less: allowance for doubtful accounts	**3,761**	6,217	2,029
Trade receivables, net	**194,404**	194,165	68,845
Other receivables [1]	**60,078**	49,073	9,166
Total accounts receivable	**$ 254,482**	$ 243,238	$ 78,011

Aging of trade receivables:

	December 31, 2011	December 31, 2010	January 1, 2010
Current to 90 days	**$ 186,046**	$ 182,538	$ 67,199
Over 90 days	**12,119**	17,844	3,675
	$ 198,165	$ 200,382	$ 70,874

[1] Included in other receivables at December 31, 2011 is $43.1 million relating to amounts due from customers under construction contracts. (December 31, 2010 – $39.0 million; January 1, 2010 – $7.0 million).

Movement in allowance for doubtful accounts:

	2011	2010
Balance, beginning of period	**$ 6,217**	$ 2,029
Impairment provision recognized on receivables	**18,327**	17,492
Adjustment due to AHFS revaluation (Note 6)	**(1,283)**	–
Amounts written off during year as uncollectible	**(1,657)**	(762)
Impairment provision reversed	**(17,837)**	(12,480)
Foreign exchange movement	**(6)**	(62)
Balance, end of period	**$ 3,761**	$ 6,217

NOTE 9. INVENTORIES

Inventories consisted of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Equipment	**$ 13,153**	$ 35,171	$ 33,896
Repair and distribution parts	**32,985**	41,611	18,620
Direct materials	**33,918**	53,935	73,534
Work-in-process	**160,363**	92,138	41,225
Total inventories	**$ 240,419**	$ 222,855	$ 167,275

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold accounted for other than by the percentage-of-completion method was $223.5 million (2010 – $253.9 million). The cost of goods sold includes inventory write-down pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount charged to the consolidated statement of earnings (loss) and included in cost of goods sold was $1.1 million (2010 – $0.8 million).

NOTE 10. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Building	Equipment	Assets under construction	Property, plant and equipment	Rental equipment
Cost						
January 1, 2011	$ 47,384	$ 107,845	$ 44,222	$ 15,611	$ 215,062	$ 132,703
Additions	61	802	1,987	19,190	22,040	12,634
Reclassification	2,422	8,118	3,311	(22,434)	(8,583)	3,262
AHFS	–	–	(72)	–	(72)	14
Impairment of AHFS	–	(207)	(1,355)	–	(1,562)	(322)
Disposals	(23,519)	(29,833)	(3,251)	–	(56,603)	(16,622)
Currency translation effects	151	1,169	2,397	601	4,318	1,084
December 31, 2011	**$ 26,499**	**$ 87,894**	**$ 47,239**	**$ 12,968**	**$ 174,600**	**$ 132,753**
Accumulated depreciation						
January 1, 2011	$ –	$ (18,308)	$ (24,713)	$ –	$ (43,021)	$ (16,541)
Depreciation charge	–	(6,597)	(8,013)	–	(14,610)	(18,124)
Reclassification	–	–	2,746	–	2,746	–
Impairment of AHFS	–	35	670	–	705	98
Disposals	–	3,914	796	–	4,710	4,589
Currency translation effects	–	(291)	(1,709)	–	(2,000)	(867)
December 31, 2011	**$ –**	**$ (21,247)**	**$ (30,223)**	**$ –**	**$ (51,470)**	**$ (30,845)**
Net book value – December 31, 2011	**$ 26,499**	**$ 66,647**	**$ 17,016**	**$ 12,968**	**$ 123,130**	**$ 101,908**

	Land	Building	Equipment	Assets under construction	Property, plant and equipment	Rental equipment
Cost						
January 1, 2010	$ 13,287	$ 62,214	$ 33,721	$ 497	$ 109,719	$ 69,012
Business combinations	31,906	50,741	16,501	36,252	135,400	67,587
Additions	6,460	3,633	3,126	10,983	24,202	30,062
Reclassifications	–	–	–	(32,121)	(32,121)	32,121
Disposals	(377)	(1,852)	(6,318)	–	(8,547)	(63,138)
Currency translation effects	(3,892)	(6,891)	(2,808)	–	(13,591)	(2,941)
December 31, 2010	$ 47,384	$ 107,845	$ 44,222	$ 15,611	$ 215,062	$ 132,703
Accumulated depreciation						
January 1, 2010	$ –	$ (16,904)	$ (23,034)	$ –	$ (39,938)	$ (9,870)
Depreciation charge	–	(6,589)	(9,785)	–	(16,374)	(11,765)
Disposals	–	800	4,564	–	5,364	3,047
Currency translation effects	–	4,385	3,542	–	7,927	2,047
December 31, 2010	$ –	$ (18,308)	$ (24,713)	$ –	$ (43,021)	$ (16,541)
Net book value – December 31, 2010	$ 47,384	$ 89,537	$ 19,509	$ 15,611	$ 172,041	$ 116,162

During 2011, the Company sold idle manufacturing facilities in Calgary and Stettler, Alberta totalling approximately 406,000 square feet for gross proceeds of $42.9 million. The sale of the Stettler facility closed at the end of July 2011 and the sale of the Calgary facility closed in September 2011. The gain on sale of these facilities is reflected in the statement of earnings.

Depreciation of property, plant and equipment and rental equipment included in income for the year ended December 31, 2011 was $32.7 million (December 31, 2010 – $28.1 million) of which $23.6 million was included in cost of goods sold and $9.1 million was included in selling and administrative expenses (December 31, 2010 – $19.5 million and $8.6 million respectively).

NOTE 11. OTHER ASSETS

	December 31, 2011	December 31, 2010	January 1, 2010
Investment in associates	**$ 3,317**	$ 3,146	$ –
Net investment in finance lease	**4,850**	10,651	–
Investments in units of ESIF	–	–	56,502
	$ 8,167	$ 13,797	$ 56,502

(a) Net Investment in Finance Lease

The Company entered into finance lease arrangements for certain of its rental assets. Leases are denominated in Canadian or US dollars. The term of the leases entered into ranges from 2 to 5 years.

The value of the net investment is comprised of the following:

	Minimum lease payments		Present value of minimum lease payments	
December 31,	**2011**	2010	**2011**	2010
Not later than one year	**$ 10,717**	$ 10,076	**$ 10,271**	$ 9,167
Later than one year and not later than five years	**4,850**	10,651	**3,983**	9,660
Later than five years	**–**	–	**–**	–
	$ 15,567	$ 20,727	**$ 14,254**	$ 18,827
Less: unearned finance income	**(1,313)**	(1,900)	–	–
	$ 14,254	$ 18,827	**$ 14,254**	$ 18,827

The average interest rates inherent in the leases are fixed at the contract date for the entire lease term and is approximately 9% per annum (December 31, 2010 – 9%). The finance lease receivables at the end of the reporting period are neither past due nor impaired.

NOTE 12. INTANGIBLE ASSETS

December 31, 2011	**Acquired value**	**Accumulated amortization and impairment**	**Net book value**
Customer relationships	**$ 36,400**	**$ 14,820**	**$ 21,580**
Software and other	**17,775**	**7,827**	**9,948**
	$ 54,175	**$ 22,647**	**$ 31,528**

December 31, 2010	Acquired value	Accumulated amortization and impairment	Net book value
Customer relationships	$ 38,400	$ 7,658	$ 30,742
Software and other	14,174	5,454	8,720
	$ 52,574	$ 13,112	$ 39,462

NOTE 13. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

	December 31, 2011	December 31, 2010
Balance, beginning of year	**$ 482,656**	$ 21,350
Acquisitions during the year (Note 5)	**–**	461,306
Impairment recognized on assets held for sale (Note 6)	**(31,200)**	–
Foreign currency translation adjustment	**8,479**	–
Balance, end of year	**$ 459,935**	$ 482,656

Goodwill acquired through business combinations has been allocated to the Canada and Northern U.S., Southern U.S. and South America and International regions. The allocation of goodwill is to groups of cash-generating units which represent the lowest level within the entity at which the goodwill is monitored for internal management purposes.

In assessing whether goodwill has been impaired, the carrying amount of the segment (including goodwill) is compared with its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value-in-use. In the absence of any information about the fair value of a segment, the recoverable amount is deemed to be the value-in-use.

The recoverable amounts for the regions have been determined based on value-in-use calculations, using the discounted pre-tax cash flow projections. Management has adopted a four year projection period to assess each region's value-in-use, as it is confident, based on past experience of the accuracy of long-term cash flow forecasts, that these projections are reliable. The cash flow projections are based on financial budgets approved by senior management covering a three year period, extrapolated thereafter at a growth rate of 2.0% per annum. Management considers this a conservative long-term growth rate relative to both the economic outlook for the units in their respective markets within the oil and gas industry and the long-term growth rates experienced in the recent past by each region.

Key Assumptions Used in Value-in-Use Calculations:

The calculation of value-in-use for the Company's groups of cash-generating units is most sensitive to the following assumptions:

- Growth rate: estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past of each region. A growth rate of 2.0% per annum has been applied for the remaining years of the four year projection.

- Discount rate: management has used a post-tax discount rate of 8.41% per annum which is derived from the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the Company's estimated equity market risk premium, Company's cost of debt, and the tax rate in the local jurisdiction.

Sensitivity Analysis

	2011
Sensitivity of value-in-use to a change in the discount rate of 1% ($ million)	235.6
Sensitivity of value-in-use to a change in the growth rate of 1% ($ million)	136.5

NOTE 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable and accrued liabilities	**$ 149,119**	$ 149,884	$ 57,584
Accrued dividend payable	**4,638**	–	–
Cash-settled share-based payments	**223**	–	–
	$ 153,980	$ 149,884	$ 57,584

NOTE 15. PROVISIONS

	December 31, 2011	December 31, 2010	January 1, 2010
Warranty provision	**$ 12,345**	$ 13,402	$ 11,289
Legal provision	**608**	1,136	–
	$ 12,953	$ 14,538	$ 11,289

December 31, 2011	Warranty provision [1]	Legal provision	Total
Balance, beginning of year	$ 13,402	$ 1,136	$ 14,538
Additions during the year	14,975	231	15,206
Unused amounts paid in the year	(11,810)	(347)	(12,157)
Unused amounts reversed during the year	(4,222)	(412)	(4,634)
Balance, end of year	$ 12,345	$ 608	$ 12,953

[1] Warranty Provision – The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties under local sale of goods legislation. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

NOTE 16. LONG-TERM DEBT

The Company has, by way of private placement, $90.5 million of Unsecured Notes ("Notes") issued and outstanding. They have different maturities with $50.5 million, with a coupon of 4.841%, maturing on June 22, 2016 and $40.0 million, with a coupon of 6.011%, maturing on June 22, 2021.

The Company has syndicated revolving credit facilities ("Bank Facilities") with an amount available of $325.0 million. The Bank Facilities consist of a committed 4-year $270.0 million revolving credit facility (the "Revolver"), a committed 4-year $10.0 million operating facility (the "Operator"), a committed 4-year $20.0 million Australian operating facility (the "Australian Operator") and a committed 4-year $25.0 million bi-lateral letter of credit facility (collectively known as the "LC Bi-Lateral"). The Revolver, Operator, Australian Operator and LC Bi-Lateral are collectively referred to as the Bank Facilities. The Bank Facilities were funded on June 1, 2011.

The Bank Facilities have a maturity date of June 1, 2015 ("Maturity Date"), but may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facilities may be increased by $50.0 million at the request of the Company, subject to the lenders' consent. There is no required or scheduled repayment of principal until the Maturity Date of the Bank Facilities.

Drawings on the Bank Facilities are available by way of Prime Rate loans ("Prime"), U.S. Base Rate loans, LIBOR loans, and Bankers' Acceptance ("BA") notes. The Company may also draw on the Bank Facilities through bank overdrafts in either Canadian or U.S. dollars and issue letters of credit under the Bank Facilities.

Pursuant to the terms and conditions of the Bank Facilities, a margin is applied to drawings on the Bank Facilities in addition to the quoted interest rate. The margin is established in basis points and is based on consolidated net debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio. The margin is adjusted effective the first day of the third month following the end of each fiscal quarter based on the above ratio.

The Company also has a committed facility with one of the lenders in the Bank Facilities for the issuance of letters of credit (the "Bi-Lateral"). The amount available under the Bi-Lateral is $50.0 million and has a maturity date of June 1, 2013, which may be extended annually with the consent of the lender. Drawings on the Bi-Lateral are by way of letters of credit.

In addition, the Company has a committed facility with a U.S. lender ("U.S. Facility") in the amount of $20.0 million USD. Drawings on the U.S. Facility are by way of LIBOR loans, US Base Rate loans and letters of credit. The maturity date of the U.S. Facility is July 1, 2014 and may be extended annually at the request of the Company, subject to the lenders consent. There are no required or scheduled repayments of principal until the maturity date of the U.S. Facility.

The Bank Facilities, the Bi-Lateral and the U.S. Facility are unsecured and rank pari passu with the Notes. The Company is required to maintain certain covenants on the Bank Facilities, the Bi-Lateral, the US Facility and the Notes. As at December 31, 2011, the Company was in compliance with these covenants.

At December 31, 2011, the Company had $31.3 million cash drawings against the Bank Facilities. These Bank Facilities were not available at December 31, 2010, as the Company's borrowings consisted of a Note Payable to its parent company.

The composition of the December 31, 2011 borrowings on the Bank Facilities and the Notes was as follows:

		December 31, 2011
Drawings of bank facilities	**$**	**31,348**
Notes due June 22, 2016		**50,500**
Notes due June 22, 2021		**40,000**
Deferred transaction costs		**(2,885)**
	$	**118,963**

Canadian dollar equivalent principal payments which are due over the next five years and thereafter, without considering renewal at similar terms, are:

2012	$	–
2013		–
2014		–
2015		31,348
2016		50,500
Thereafter		40,000
Total	**$**	**121,848**

NOTE 17. GUARANTEES, COMMITMENTS AND CONTINGENCIES

At December 31, 2011, the Company had outstanding letters of credit of $102.2 million (December 31, 2010 – $61.2 million).

The Company is involved in litigation and claims associated with normal operations against which certain provisions have been made in the financial statements. Management is of the opinion that any resulting net settlement arising from the litigation would not materially affect the financial position, results of operations or liquidity of the Company.

Operating leases relate to leases of equipment, automobiles and premises with lease terms between 1 to 10 years. The material lease arrangements generally include the existence of renewal and escalation clauses.

The aggregate minimum future required lease payments over the next five years and thereafter is as follows:

2012	$ 11,095
2013	8,228
2014	6,670
2015	5,144
2016	3,476
Thereafter	5,934
Total	**$ 40,547**

In addition, the Company has purchase obligations over the next three years as follows:

2012	$ 24,122
2013	998
2014	314

NOTE 18. INCOME TAXES

(a) Income Tax Recognized in Profit or Loss

Years ended December 31,	**2011**	2010
Total income tax expense is attributable to:		
Continuing operations	**$ 21,089**	$ 14,385
Discontinued operations (Note 7)	**3,937**	(466)
	$ 25,026	$ 13,919

The components of income tax expense attributable to continuing operations are as follows:

Current tax	**$ 17,293**	$ 17,771
Deferred income tax	**3,796**	(3,386)
	$ 21,089	$ 14,385

(b) Reconciliation of Tax Expense

The provision for income taxes attributable to continuing operations differs from that which would be expected by applying Canadian statutory rates. A reconciliation of the difference is as follows:

Years ended December 31,	**2011**	2010
Earnings before income taxes from continuing operations	**$ 77,830**	$ 44,647
Canadian statutory rate	**26.60%**	28.10%
Expected income tax provision	**20,703**	12,546
Add (deduct)		
Income taxed in foreign jurisdictions	**(535)**	1,651
Expenses not deductible for tax purposes	**656**	2,040
Impact of future income tax rate adjustments	**606**	2,038
Non-taxable portion of gain on available-for-sale financial asset	**–**	(3,938)
Other	**(341)**	48
Income tax expense from continuing operations	**$ 21,089**	$ 14,385

The applicable tax rate is the aggregate of the Canadian Federal income tax rate of 16.5% (2010 – 18.0%) and the Provincial income tax rate of 10.1% (2010 – 10.1%).

(c) Income Tax Recognized in Other Comprehensive Income

Years ended December 31,	**2011**	2010
Deferred Tax		
Arising on income and expenses recognized in other comprehensive income:		
Fair value remeasurement of hedging instruments entered into for cash flow hedges	**$ 14**	$ 81
Arising on income and expenses reclassified from equity to profit or loss:		
Relating to cash flow hedges	**$ (77)**	$ 65
Total income tax recognized in other comprehensive income	**$ (63)**	$ 146

(d) Deferred Tax Assets/(Liabilities) arise from the following:

2011	Opening balance	Charged to income	Charged to other comprehensive income	Charged to owner's investment	Acquisition/ disposals	Exchange differences	Closing balance
Accounting provisions and accruals	$ 25,259	$ (4,850)	$ –	$ –	$ –	$ (277)	$ 20,132
Tax losses	36,964	(9,797)	–	–	–	(515)	26,652
Capital assets	(17,469)	7,563	–	–	–	59	(9,847)
Other	3,394	(649)	–	–	–	–	2,745
Cash flow hedges	(208)	–	63	–	–	44	(101)
	$ 47,940	$ (7,733)	$ 63	$ –	$ –	$ (689)	$ 39,581

2010	Opening balance	Charged to income	Charged to other comprehensive income	Charged to owner's investment	Acquisition/ disposals	Exchange differences	Closing balance
Accounting provisions and accruals	$ 19,192	$ (2,871)	$ –	$ –	$ 9,070	$ (132)	$ 25,259
Tax losses	–	788	–	–	35,556	620	36,964
Capital assets	2,539	3,309	–	–	(23,359)	42	(17,469)
Other	1,252	(464)	–	(1,129)	3,735	–	3,394
Available for sale financial asset	(3,090)	3,090	–	–	–	–	–
Cash flow hedges	–	–	(146)	–	–	(62)	(208)
	$ 19,893	$ 3,852	$ (146)	$ (1,129)	$ 25,002	$ 468	$ 47,940

(e) Unrecognized Deferred Tax Assets

	December 31, 2011	December 31, 2010	January 1, 2010
The following deferred tax assets have not been recognized at the date of the statement of financial position:			
Tax losses on European discontinued operations	**$ 9,118**	$ 879	$ –
	$ 9,118	$ 879	$ –

NOTE 19. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares.

Issued and Outstanding December 31, 2011	Number of common shares	Common share capital
Balance, beginning of year	–	$ –
Bifurcation transaction	77,212,396	205,337
Exercise of stock options	127,385	2,072
Balance, end of year	77,339,781	**$ 207,409**

As part of the Arrangement, Toromont shareholders received one share of Enerflex for each common share of Toromont owned. To determine Enerflex's share capital amount, Toromont's stated capital immediately prior to the Arrangement was bifurcated based on the relative fair market value of the property transferred from Toromont to Enerflex ("Butterfly Proportion") at the time of the Arrangement. The Butterfly Proportion was determined to be 56.4% and 43.6% for Toromont and Enerflex, respectively.

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and a right to a dividend.

Total dividends declared in the year were $13.9 million, or $0.06 per share (December 31, 2010 – no dividend declared).

Net Investment

For comparative periods, Toromont's Net Investment in Enerflex Ltd. prior to the arrangement is presented as Owner's Net Investment in these consolidated financial statements. Total Net Investment consists of Owner's Net Investment, Retained Earnings and Contributed Surplus.

Normal Course Issuer Bid ("NCIB")

On December 15, 2011, Enerflex received acceptance from the TSX of the Company's intention to make a NCIB to purchase up to 6.3 million of the public float of its common shares, representing approximately 10% of common shares then outstanding. Purchases made under the bid can be executed on the Exchange in the 12 months following commencement of the bid on December 19, 2011. During the year ended December 31, 2011, Enerflex did not purchase any of its common shares (December 31, 2010 – nil).

NOTE 20. CONTRIBUTED SURPLUS

As at December 31, 2011	
Contributed surplus, beginning of year	**$ –**
Reclassification of net investment on bifurcation transaction	**656,500**
Share-based compensation	**858**
Exercise of stock options	**(822)**
Contributed surplus, end of year	**$ 656,536**

For comparative periods, contributed surplus was included in the balance of Toromont's Net Investment in Enerflex Ltd.

NOTE 21. REVENUE

Years ended December 31,	2011	2010
Engineered systems	**$ 906,093**	$ 772,807
Service	**262,217**	238,600
Rentals	**58,827**	56,376
	$ 1,227,137	$ 1,067,783

Proceeds on the sale of rental equipment included in revenue for the year ended December 31, 2011 were $16.4 million (2010 – $24.4 million).

NOTE 22. SHARE-BASED COMPENSATION

(a) Stock Options

The Company maintains a stock option program for certain employees. Under the plan, up to 7.7 million options may be granted for subsequent exercise in exchange for common shares. It is Company policy that no more than 1% of outstanding shares or approximately 0.8 million share options may be granted in any one year.

The stock option plan entitles the holder to acquire shares of the Company at the strike price, established at the time of the grant, after vesting and before expiry. The strike price of each option equals the weighted average of the market price of the Company's shares on the five days preceding the effective date of the grant. The options have a seven-year term and vest at a rate of one-fifth on each of the five anniversaries of the date of the grant.

As part of the Arrangement, Toromont Options were exchanged for new stock options granted by each of Toromont and Enerflex. For each Toromont stock option previously held, option holders received one option in each of Toromont and Enerflex, with the exercise price determined by applying the Butterfly Proportion to the previous exercise price. All other conditions relating to these options, including terms and vesting periods, remained the same and there was no acceleration of option vesting. The Butterfly Proportion was determined to be 56.4% and 43.6% for Toromont and Enerflex, respectively. Stock options outstanding at June 1, 2011 represent options exchanged under the Arrangement.

December 31, 2011	Number of options	Weighted average exercise price
Options outstanding, June 1, 2011	2,030,030	$ 11.39
Granted	674,500	11.66
Exercised	(127,385)	9.82
Forfeited	(13,160)	11.52
Options outstanding, end of year	**2,563,985**	**11.53**
Options exercisable, end of year	**983,205**	**$ 11.16**

The Company granted 674,500 stock options during 2011. The weighted average fair value of stock options granted from the stock option plan during the year ended December 31, 2011 was $3.58 per option at the grant date using the Black-Scholes option pricing model.

The assumptions used in the calculation were:

Year ended December 31, 2011	
Expected life (in years)	5.0
Volatility [1]	48.19%
Dividend yield	1.99%
Risk-free rate	1.01% – 1.45%
Estimated forfeiture rate	0.0%

[1] Expected volatility factor is based on Enerflex's peers over a five-year period, consistent with the expected life of the option.

The following table summarizes options outstanding and exercisable at December 31, 2011:

	Options Outstanding			Options Exercisable	
Range of exercise prices	**Number outstanding**	**Weighted average remaining life (years)**	**Weighted average exercise price**	**Number outstanding**	**Weighted average exercise price**
$9.53 – $11.54	986,585	2.52	$ 10.27	672,625	$ 10.44
$11.55 – $12.96	1,577,400	5.46	12.32	310,580	12.71
Total	2,563,985	4.33	$ 11.53	983,205	$ 11.16

The fair value of the stock options granted by Toromont during the year ended December 31, 2010 was determined at the time of the grant using the Black-Scholes option pricing model.

(b) Deferred Share Units

The Company offers a deferred share unit ("DSU") plan for executives and non-employee directors, whereby they may elect on an annual basis to receive all or a portion of their annual bonus, or retainer and fees, respectively, in deferred share units. In addition, the Board may grant discretionary DSUs to executives. A DSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the implied market value calculated as the number of DSUs multiplied by the closing price of Enerflex shares on the entitlement date.

DSUs may be granted to eligible participants on an annual basis and will vest upon being credited to the executive or non-employee director's account. Vested DSUs are to be settled by the end of the year vesting occurs. The Company may, at its sole discretion, satisfy, in whole or in part, its payment obligation through a cash payment to the participant or by instructing an independent broker to acquire a number of fully paid shares in the open market on behalf of the participant.

DSU recipients are entitled to additional units over and above those initially granted based on the notional number of units that could have been purchased using the proceeds of notional dividends, that would have been received had the units then subject to vesting been actual shares of the Company, following each dividend paid to the Shareholders of the Company. The additional units are calculated with each dividend declared by the Company.

DSUs represent an indexed liability of the Company relative to the Company's share price. In 2011, the Board of Directors did not grant any DSUs to employees of the Company. For the year ended December 31, 2011, director's fees elected to be received in deferred share units totalled $0.2 million (December 31, 2010 – nil).

December 31, 2011	Number of DSUs	In lieu of distributions	Weighted average grant date fair value per unit
DSUs outstanding, June 1, 2011	–	–	$ –
Granted	18,703	40	11.30
Exercised	–	–	–
Forfeited	–	–	–
DSUs outstanding, end of period	18,703	40	$ 11.30

(c) Phantom Share Rights

The Company utilizes a Phantom Share Rights Plan (Share Appreciation Right) ("SAR") for certain directors and key employees of affiliates located in Australia and the UAE, for whom the Company's Stock Option Plan would have negative personal taxation consequences.

The exercise price of each SAR equals the average of the market price of the Company's shares on the five days preceding the date of the grant. The SARs vest at a rate of one-fifth on each of the first five anniversaries of the date of the grant and expire on the fifth anniversary. The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

In 2011, the Board of Directors granted 59,000 SARS and recognized a nominal expense for the year ended December 31, 2011 (December 31, 2010 – nil). No SARs had vested at December 31, 2011 and 2010.

(d) Employee Share Ownership Plan

The Company offers an Employee Share Ownership Plan whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match of up to one thousand dollars per employee per annum based on contributions by the Company of one dollar for every three dollars contributed by the employee. Company contributions vest to the employee immediately. Company contributions are charged to selling and administrative expense when paid. The Plan is administered by a third party.

(e) Share-Based Compensation Expense

The share-based compensation expense included in the determination of net income for the year ended December 31, 2011 was:

Year ended December 31,	**2011**
Stock options	**$ 858**
Deferred share units	**210**
Phantom share units	**13**
Total	**$ 1,081**

NOTE 23. RETIREMENT BENEFIT PLANS

The Company sponsors pension arrangements for substantially all of its employees through defined contribution plans in Canada, Europe and Australia, and a 401(k) matched savings plan in the United States. In the case of the defined contribution plans, regular contributions are made to the employees' individual accounts, which are administered by a plan trustee, in accordance with the plan document. Both in the case of the defined contribution plans and the 401(k) matched savings plan, the pension expenses recorded in earnings are the amounts of actual contributions the Company is required to make in accordance with the terms of the plans.

Years ended December 31,	**2011**	2010
Defined contribution plans	**$ 8,067**	$ 7,125
401(k) matched savings plan	**764**	672
Net pension expense	**$ 8,831**	$ 7,797

The amount expensed in 2011 under the Company's defined contribution plans was $8.8 million (2010 – $7.8 million).

NOTE 24. FINANCE COSTS AND INCOME

Years ended December 31,	**2011**	2010
Finance Costs		
Long-term borrowings	**$ 7,243**	$ 16,195
Other interest, including short-term loans	**1,711**	–
Total finance costs	**$ 8,954**	$ 16,195
Finance Income		
Bank interest income	**$ 418**	$ 427
Income from finance leases	**1,525**	297
Total finance income	**$ 1,943**	$ 724

NOTE 25. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

Years ended December 31,	**Net (loss) earnings**	**2011 Weighted average shares outstanding**	**Per share**	Net earnings	2010 Weighted average shares outstanding	Per share
Basic	**$ (7,299)**	**77,221,440**	**$ (0.10)**	$ 26,299	76,170,972	$ 0.35
Dilutive effect of stock option conversion	**–**	**113,792**	**–**	–	190,977	–
Diluted	**$ (7,299)**	**77,335,232**	**$ (0.10)**	$ 26,299	76,361,949	$ 0.35

Since Enerflex's shares were issued pursuant to the Arrangement with Toromont to create the Company, per share amounts disclosed for the comparative period are based on Toromont's common shares.

NOTE 26. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

The Company has designated its financial instruments as follows:

	December 31, 2011 Carrying value	December 31, 2011 Estimated fair value
Financial Assets		
Cash and cash equivalents [1]	**$ 81,200**	**$ 81,200**
Derivative instruments designated as fair value through profit or loss ("FVTPL")	**68**	**68**
Derivative instruments in designated hedge accounting relationships	**2,068**	**2,068**
Loans and receivables:		
Accounts receivable	**254,482**	**254,482**
Financial Liabilities		
Derivative instruments designated as FVTPL	**$ 16**	**$ 16**
Derivative instruments in designated hedge accounting relationships	**439**	**439**
Other financial liabilities:		
Accounts payable and accrued liabilities	**153,980**	**153,980**
Long-term debt – bank facilities	**31,348**	**31,348**
Long-term debt – notes	**87,615**	**91,095**
Other long-term liabilities	**590**	**590**

[1] Includes $1.6 million of highly liquid short-term investments with maturities of three months or less.

	December 31, 2010 Carrying value	December 31, 2010 Estimated fair value
Financial Assets		
Cash and cash equivalents	$ 15,000	$ 15,000
Derivative instruments in designated hedge accounting relationships	448	448
Loans and receivables:		
Accounts receivable	243,328	243,328
Financial Liabilities		
Derivative instruments designated as FVTPL	$ 26	$ 26
Derivative instruments in designated hedge accounting relationships	577	577
Other financial liabilities:		
Accounts payable and accrued liabilities	149,884	149,884
Note payable to Toromont	215,000	215,000
Other long-term liabilities	549	549

		January 1, 2010
	Carrying value	Estimated fair value
Financial Assets		
Cash and cash equivalents	$ 34,949	$ 34,949
Derivative instruments in designated hedge accounting relationships	13	13
Loans and receivables:		
Accounts receivable	78,011	78,011
Financial Liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	57,584	57,584
Note payable	73,570	73,570

Fair Values of Financial Assets and Liabilities

The following table presents information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis as at December 31, 2011 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2011, there were no transfers between Level 1 and Level 2 fair value measurements.

	Carrying value	Level 1	Fair value Level 2	Level 3
Financial Assets				
Derivative financial instruments	$ 2,136	$ –	$ 2,136	$ –
Financial Liabilities				
Derivative financial instruments	$ 455	$ –	$ 455	$ –

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other long-term liabilities and the note payable to Toromont are reported at amounts approximating their fair values on the statement of financial position. The fair values approximate the carrying values for these instruments due to their short-term nature.

The fair value of derivative financial instruments is measured using the discounted value of the difference between the contract's value at maturity based on the contracted foreign exchange rate and the contract's value at maturity based on prevailing exchange rates. The financial institution's credit risk is also taken into consideration in determining fair value.

Long-term debt associated with the Company's Notes is recorded at amortized cost using the effective interest rate method. The amortized cost of the Notes is equal to the face value as there were no premiums or discounts on the issuance of the debt. Transaction costs associated with the debt were deducted from the debt and are being recognized using the effective interest rate method over the life of the related debt. The fair value of these Notes at December 31, 2011, as determined on a discounted cash flow basis with a weighted average discount rate of 4.77%, was $91.1 million.

Fair values are determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Fair values determined using inputs including forward market rates and credit spreads that are readily observable and reliable, or for which unobservable inputs are determined not to be significant to the fair value, are categorized as Level 2. If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data where possible, including recent arm's-length market transactions, and comparisons to the current fair value of similar instruments; where this is not feasible, inputs such as liquidity risk, credit risk and volatility are used.

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations related to purchases of inventory and sales of products. The following table summarizes the Company's commitments to buy and sell foreign currencies as at December 31, 2011:

	Notional amount		Maturity
Canadian dollar denominated contracts			
Purchase contracts	USD	18,462	January 2012 to September 2012
	EUR	64	January 2012 to March 2012
Sales contracts	USD	43,518	January 2012 to September 2012
	EUR	700	February 2012
	AUD	4,800	January 2012
Australian dollar denominated contracts			
Purchase contracts	EUR	315	January 2012 to February 2012
Sales contracts	USD	35,720	January 2012 to February 2014

Management estimates that a gain of $1.7 million would be realized if the contracts were terminated on December 31, 2011. Certain of these forward contracts are designated as cash flow hedges, and accordingly, a loss of less than $0.1 million has been included in other comprehensive income for the year ended December 31, 2011. These gains or losses are not expected to affect net income as the gains will be reclassified to net income and will offset losses recorded on the underlying hedged items, namely foreign currency denominated accounts payable and accounts receivable. The amount removed from other comprehensive income during the year and included in the carrying amount of the hedging items as a basis adjustment was immaterial for both 2011 and 2010.

All hedging relationships are formally documented, including the risk management objective and strategy. On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

Risks Arising from Financial Instruments and Risk Management

In the normal course of business, the Company is exposed to financial risks that may potentially impact its operating results in any or all of its business segments. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. Derivative financial agreements are used to manage exposure to fluctuations in exchange rates and interest rates. The Company does not enter into derivative financial agreements for speculative purposes.

Foreign Currency Risk

In the normal course of operations, the Company is exposed to movements in the U.S. dollar, the Australian dollar, the Euro, the Pakistani rupee and the Indonesian rupiah. In addition, Enerflex has significant international exposure through export from its Canadian operations as well as a number of foreign subsidiaries, the most significant of which are located in the United States, Australia, the Netherlands and the United Arab Emirates. The Company does not hedge its net investment exposure in foreign subsidiaries.

The types of foreign exchange risk and the Company's related risk management strategies are as follows:

Transaction Exposure

The Canadian operations of the Company source the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company mitigates exchange rate risk by entering into foreign currency contracts to fix the cost of imported inventory where appropriate.

The Company also sells compression packages in foreign currencies, primarily the U.S. dollar, the Australian dollar and the Euro and enters into foreign currency contracts to reduce these exchange rate risks.

Most of Enerflex's international orders are manufactured in the U.S. operations if the contract is denominated in U.S. dollars. This minimizes the Company's foreign currency exposure on these contracts.

The Company identifies and hedges all significant transactional currency risks.

Translation Exposure

The Company's earnings from and net investment in foreign subsidiaries are exposed to fluctuations in exchange rates. The currencies with the most significant impact are the U.S. dollar, Australian dollar and the Euro.

Assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the statement of financial position dates. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. The cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the foreign operations.

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year-over-year relative to the overall earnings or financial position of the Company. The following table shows the effect on net income before tax for the period ended December 31, 2011 of a 5% weakening of the Canadian dollar against the U.S. dollar, Euro and Australian dollar, everything else being equal. A 5% strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis is provided as an indicative range in a volatile currency environment.

Canadian dollar weakens by 5%	USD	Euro	AUD
Net earnings before tax	$ 2,505	$ 32	$ (675)

The movement in net earnings before tax in Canadian operations is a result of a change in the fair values of financial instruments. The majority of these financial instruments are hedged.

Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and comprehensive income. Financial instruments affected by currency risk include cash and cash equivalents, accounts receivable, accounts payable and derivative financial instruments. This sensitivity analysis relates to the position as at December 31, 2011 and for the period then ended. The following table shows the Company's sensitivity to a 5% weakening of the Canadian dollar against the U.S. dollar, Euro and Australian dollar. A 5% strengthening of the Canadian dollar would have an equal and opposite effect.

Canadian dollar weakens by 5%	USD	Euro	AUD
Financial instruments held in foreign operations			
Other comprehensive income	$ 3,476	$ 271	$ 829
Financial instruments held in Canadian operations			
Net earnings	927	2	–
Other comprehensive loss	(5)	–	–

The movement in accumulated other comprehensive income is mainly a result of the changes in fair value of derivative instruments designated as hedging instruments in cash flow hedges.

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at December 31, 2011 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facilities however, are subject to changes in market interest rates. For each 1% change in the rate of interest on the Bank Facilities, the change in interest expense would be approximately $1.2 million. All interest charges are recorded on the consolidated statement of earnings (loss) as a separate line item called Finance Costs.

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents, accounts receivable, net investment in finance lease, and derivative financial instruments. The carrying amount of assets included on the consolidated statement of financial position represents the maximum credit exposure.

Cash equivalents consist mainly of short-term investments, such as money market deposits. The Company has deposited the cash equivalents with highly-rated financial institutions, from which management believes the risk of loss to be remote.

The Company has accounts receivable from clients engaged in various industries. These specific industries may be affected by economic factors that may impact accounts receivable. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Credit is extended based on an evaluation of the customer's financial condition and, generally, advance payment is not required. For the year ended December 31, 2011, the Company has no individual customers which account for more than 10% of its revenues. Outstanding customer receivables are regularly monitored and an allowance for doubtful debts is established based upon specific situations.

The Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in this note. The Company does not hold collateral as security.

The credit risk associated with the net investment in finance leases arises from the possibility that the counterparty may default on its obligations. In order to minimize this risk, the Company enters into finance lease transactions only in select circumstances. Close contact is maintained with the customer over the duration of the lease to ensure visibility to issues as and if they arise.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly-rated financial institutions.

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with the finance lease receivable is mitigated because the lease receivables are secured over the leased equipment.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its Bank Facilities for future drawings to meet the Company's future growth targets. As of December 31, 2011, the Company had $31.3 million committed against the Bank Facilities, leaving $293.7 million available for future drawings plus cash and cash equivalents of $81.2 million at that date.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows including interest associated with the maturity of the Company's financial liabilities:

		Less than 3 months		3 months to 1 year		Greater than 1 year		Total
Derivative financial instruments								
Foreign currency forward contracts	$	455	$	–	$	–	$	455
Other financial liabilities								
Accounts payable and accrued liabilities	$	153,980	$	–	$	–	$	153,980
Long-term debt – bank facilities		–		–		31,348		31,348
Long-term debt – notes		–		–		87,615		87,615
Other Long-term liabilities		–		–		590		590

The Company expects that continued cash flows from operations in 2011, together with cash and cash equivalents on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital, and capital assets.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

NOTE 27. CAPITAL DISCLOSURES

The capital structure of the Company consists of shareholders' equity plus net debt. The Company manages its capital to ensure that entities in the Company will be able to continue to grow while maximizing the return to shareholders through the optimization of the debt and equity balances. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new Company shares, or access debt markets.

The Company formally reviews the capital structure on an annual basis and monitors it on an on-going basis. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital. In order to position itself to execute its long-term plan to become a leading supplier of products and services to the global energy sector, the Company is maintaining a conservative statement of financial position. The Company uses the following measures to monitor its capital structure:

Net Debt to Equity Ratio

The Company targets a Net debt to equity ratio of less than 1.00:1. At December 31, 2011, the Net debt to equity was 0.05:1 (December 31, 2010 – 0.24:1), calculated as follows:

December 31,		**2011**		2010
Note payable	**$**	**–**	$	215,000
Long-term debt		**118,963**		–
Cash		**(81,200)**		(15,000)
Net debt	**$**	**37,763**	$	200,000
Shareholders'/owner's equity	**$**	**836,263**	$	839,528
Net debt to equity ratio		**0.05:1**		0.24:1

NOTE 28. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,		**2011**		2010
Cash provided by (used in) changes in non-cash working capital				
Accounts receivable	**$**	**(11,407)**	$	(56,003)
Inventories		**(34,753)**		75,586
Accounts and taxes payable, accrued liabilities and deferred revenue		**86,565**		47,840
Foreign currency and other		**753**		(16,774)
	$	**41,158**	$	50,649

Cash paid/received during the period:

Years ended December 31,		**2011**		2010
Interest paid	**$**	**8,864**	$	16,195
Interest received	**$**	**(339)**	$	(390)
Taxes paid	**$**	**27,134**	$	10,989
Taxes received	**$**	**(1,492)**	$	(6,657)

NOTE 29. RELATED PARTIES

Enerflex transacts with certain related parties as a normal course of business. Related parties include Toromont, which owned 100% of Enerflex until June 1, 2011, and Total Production Services Inc. ("Total"), which was an influenced investee by virtue of the Company's 40% investment in Total. As described in Note 30 the Company has two joint ventures, PDIL and Enerflex-ES. Due to the fact that Enerflex-ES was incorporated in Q4 2011, there are no related party transactions or balances to report.

All transactions occurring with related parties were in the normal course of business operations under the same terms and conditions as transactions with unrelated companies. A summary of the financial statement impacts of all transactions with all related parties are as follows:

		December 31, 2011		December 31, 2010		January 1, 2010
Revenue	**$**	**212**	$	20	$	–
Management fee expense		**4,299**		7,920		–
Purchases		**526**		1,279		–
Interest expense		**1,902**		5,484		–
Accounts receivable		**44**		61		3
Accounts payable		**–**		3,692		524
Note payable		**–**		215,000		73,570

The above noted management fee expense and interest expense have all been paid to Toromont; there are no related party payables from Toromont as at December 31, 2011. The note payable to Toromont was non-interest bearing and did not have fixed terms of repayment.

Revenues recognized and purchases identified above for 2011 and 2010 were from Total and PDIL. The accounts receivable balances outstanding at December 31, 2011 and 2010 were from the joint venture.

All related party transactions are settled in cash.

The remuneration of directors and other key management personnel during the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Short-term employee benefits	**$ 4,876**	$ 2,741
Post-employment benefits	**431**	88
Other long-term benefits	**1,269**	1,538
Share-based payments	**673**	159
Termination benefits	**72**	–

The remuneration of directors and key executives is determined by the Human Resources and Compensation committee of the Board of Directors having regard to the performance of individuals and market trends.

NOTE 30. INTEREST IN JOINT VENTURE

The Company proportionately consolidates its 50% interest in the assets, liabilities, results of operations and cash flows of its joint venture in Pakistan, Presson-Descon International (Private) Limited and its 51% interest in Enerflex-ES located in Russia. The Presson-Descon joint venture began on January 20, 2010 as part of the acquisition of ESIF. The Enerflex-ES joint venture began in Q4 2011. The interest included in the Company's accounts includes:

	December 31, 2011	December 31, 2010	January 1, 2010
Statement of Financial Position			
Current assets	**$ 2,535**	$ 2,477	$ –
Long-term assets	**415**	518	–
Total assets	**$ 2,950**	$ 2,995	$ –
Current liabilities	**$ 1,688**	$ 894	$ –
Long-term liabilities and equity	**1,262**	2,101	–
Total liabilities and equity	**$ 2,950**	$ 2,995	$ –

Years ended December 31,	2011	2010
Statement of earnings		
Revenue	**$ 467**	$ 2,192
Expenses	**1,281**	2,939
Net loss	**$ (814)**	$ (747)

Cash Flows	2011	2010
Cash from operations	**$ (684)**	$ (1,738)
Cash from investing	**(21)**	(501)
Cash from financing	**77**	(12)

NOTE 31. SEGMENTED INFORMATION

The Company has three reportable operating segments as outlined below, each supported by the Corporate office. Corporate overheads are allocated to the business segments based on revenue. For each of the operating segments, the Company's CEO reviews internal management reports on at least a quarterly basis.

The following summary describes the operations of each of the Company's reportable segments:

- Canada and Northern U.S. generates revenue from manufacturing (primarily compression equipment), service and rentals;
- Southern U.S. generates revenue from the manufacture of natural gas compression equipment and process equipment in addition to generating revenue from product support services; and
- International generates revenue from manufacturing primarily process equipment, service and rentals including a finance lease in Oman.

The accounting policies of the reportable operating segments are the same as those described in the summary of significant accounting policies.

Years ended December 31,	Canada and Northern U.S. 2011	2010	Southern U.S. and South America 2011	2010	International 2011	2010	Total 2011	2010
Segment revenue	**$ 641,459**	$ 491,571	**$ 343,596**	$ 364,600	**$ 365,198**	$ 290,491	**$ 1,350,253**	$ 1,146,662
Intersegment revenue	**(117,224)**	(37,814)	**(1,261)**	(327)	**(4,631)**	(40,738)	**(123,116)**	(78,879)
External revenue	**$ 524,235**	$ 453,757	**$ 342,335**	$ 364,273	**$ 360,567**	$ 249,753	**$ 1,227,137**	$ 1,067,783
Operating income	**$ 38,849**	$ 9,855	**$ 33,191**	$ 46,373	**$ 8,046**	$ (15,273)	**$ 80,086**	$ 40,955

As at December 31,	Canada and Northern U.S. 2011	2010	Southern U.S. and South America 2011	2010	International 2011	2010	Total 2011	2010
Segment assets	**$ 516,135**	$ 524,304	**$ 219,931**	$ 222,980	**$ 274,615**	$ 280,482	**$ 1,010,681**	$ 1,027,766
Corporate	**–**	–	**–**	–	**–**	–	**(110,110)**	(132,866)
Goodwill	**198,891**	199,666	**54,402**	56,510	**206,642**	226,480	**459,935**	482,656
	$ 715,026	$ 723,970	**$ 274,333**	$ 279,490	**$ 481,257**	$ 506,962	**$ 1,360,506**	$ 1,377,556
Assets held for sale	**–**	–	**–**	–	**10,054**	–	**10,054**	–
Total segment assets	**$ 715,026**	$ 723,970	**$ 274,333**	$ 279,490	**$ 491,311**	$ 506,962	**$ 1,370,560**	$ 1,377,556

As at January 1, 2010	Canada and Northern U.S.	Southern U.S. and South America	International	Total
Segment assets	$ 297,265	$ 204,831	$ 1,049	$ 503,145
Corporate	–	–	–	(8,699)
Goodwill	21,350	–	–	21,350
Total segment assets	$ 318,615	$ 204,831	$ 1,049	$ 515,796

Revenue from foreign countries was:

Years ended December 31,	2011	2010
Australia	**$ 201,163**	$ 48,715
Netherlands	**746**	9,312
United States	**368,458**	431,116
Other	**161,768**	176,990

Revenue is attributed by destination of sale.

NOTE 32. SEASONALITY

The oil and natural gas service sector in Canada has a distinct seasonal trend in activity levels which results from well-site access and drilling pattern adjustments to take advantage of weather conditions. Generally, Enerflex's Engineered Systems product line has experienced higher revenues in the fourth quarter of each year while the Service and Rentals product line revenues are stable throughout the year. Rentals revenues are also impacted by both the Company's and its customers' capital investment decisions. The international markets are not significantly impacted by seasonal variations. Variations from these trends usually occur when hydrocarbon energy fundamentals are either improving or deteriorating.

NOTE 33. TRANSITION TO IFRS

As disclosed in Note 2, these Consolidated Financial Statements represent Enerflex's initial presentation of the financial results of operations and financial position under IFRS for the year ended December 31, 2011. As a result, these Consolidated Financial Statements have been prepared in accordance with *IFRS 1 First-time Adoption of International Financial Reporting Standards*, as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its interim and annual financial statements in accordance with pre-changeover Canadian GAAP.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS allow for certain mandatory exceptions and elective exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

The following reconciliations present the adjustments made to the Company's previous GAAP financial results of operations and financial position to comply with IFRS 1. Reconciliations include the Company's Consolidated Statement of Financial Position as at January 1, 2010 and December 31, 2010, and Consolidated Statements of Changes in Owner's Equity for the twelve months ended December 31, 2010. IFRS had no impact on the Consolidated Statements of Earnings (loss), Comprehensive Income (loss) and Cash Flows.

IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 exemptions are permitted to first-time adopters.

Significant differences upon transition to IFRS:

[A] Cumulative Translation Adjustment – the Company elected to reset the cumulative translation adjustment balance to zero as at January 1, 2010.

[B] Reclassification – the Company reclassified certain balances in the December 31, 2010 combined financial statements included in Toromont's Information Circular to reflect the IFRS presentation in this note.

OPENING CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at January 1, 2010

($ Canadian thousands)	Canadian GAAP	[A] Cumulative translation adjustment	[B] Reclassification	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	$ 34,949	–	–	$ 34,949
Accounts receivable	78,011	–	–	78,011
Inventory	167,275	–	–	167,275
Income taxes receivable	5,776	–	–	5,776
Current tax assets	23,194	–	(23,194)	–
Derivative financial instruments	13	–	–	13
Other current assets	3,104	–	–	3,104
Total current assets	312,322	–	(23,194)	289,128
Property, plant and equipment	69,781	–	–	69,781
Rental equipment	59,142	–	–	59,142
Deferred tax assets	1,129	–	18,764	19,893
Other assets	56,502	–	–	56,502
Intangible assets	–	–	–	–
Goodwill	21,350	–	–	21,350
Total assets	$ 520,226	–	(4,430)	$ 515,796
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities and provisions	$ 68,873	–	–	$ 68,873
Income taxes payable	–	–	–	–
Deferred revenue	59,751	–	–	59,751
Current tax liability	–	–	–	–
Derivative financial instruments	–	–	–	–
Total current liabilities	128,624	–	–	128,624
Note payable	73,570	–	–	73,570
Other long-term liabilities	–	–	–	–
Deferred tax liability	4,430	–	(4,430)	–
Total liabilities	206,624	–	(4,430)	202,194
NET INVESTMENT				
Owner's net investment	312,682	(14,709)	–	297,973
Accumulated other comprehensive income	920	14,709	–	15,629
Non-controlling interest	–	–	–	–
Total net investment and non-controlling interest	313,602	–	–	313,602
Total liabilities and net investment	$ 520,226	–	(4,430)	$ 515,796

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

($ Canadian thousands)	Canadian GAAP	[A] Cumulative translation adjustment	[B] Reclassification	IFRS
ASSETS				
Current assets				
Cash and cash equivalents	$ 15,000	–	–	$ 15,000
Accounts receivable	243,238	–	–	243,238
Inventory	222,855	–	–	222,855
Income taxes receivable	1,944	–	–	1,944
Current tax assets	29,204	–	(29,204)	–
Derivative financial instruments	448	–	–	448
Other current assets	22,013	–	–	22,013
Total current assets	534,702	–	(29,204)	505,498
Property, plant and equipment	172,041	–	–	172,041
Rental equipment	116,162	–	–	116,162
Deferred tax assets	18,736	–	29,204	47,940
Other assets	13,797	–	–	13,797
Intangible assets	39,462	–	–	39,462
Goodwill	482,656	–	–	482,656
Total assets	$ 1,377,556	–	–	$ 1,377,556
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities and provisions	$ 164,422	–	–	$ 164,422
Income taxes payable	7,135	–	–	7,135
Deferred revenue	150,319	–	–	150,319
Derivative financial instruments	603	–	–	603
Note payable	215,000	–	–	215,000
Total current liabilities	537,479	–	–	537,479
Other long-term liabilities	549	–	–	549
Total liabilities	538,028	–	–	538,028
NET INVESTMENT				
Owner's net investment	864,686	(14,709)	–	849,977
Accumulated other comprehensive (loss) income	(25,554)	14,709	–	(10,845)
Non-controlling interest	396	–	–	396
Total net investment and non-controlling interest	839,528	–	–	839,528
Total liabilities and net investment	$ 1,377,556	–	–	$ 1,377,556

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at December 31, 2010

($ Canadian thousands)		Canadian GAAP	[A] Cumulative translation adjustment		IFRS
Owner's Net Investment					
Balance, beginning of year	$	312,682	(14,709)	$	297,973
Net income		25,024	–		25,024
Owner's investment/dividend		526,980	–		526,980
Balance, end of year	$	864,686	(14,709)	$	849,977
Accumulated Other Comprehensive Income (Loss)					
Balance, beginning of year	$	920	14,709	$	15,629
Exchange differences on translation of foreign operations		(10,901)	–		(10,901)
Reclassification of gain on available-for-sale assets		(15,615)	–		(15,615)
Gain on cash flow hedges		42	–		42
Balance, end of year	$	(25,554)	14,709	$	(10,845)
Non-Controlling Interest					
Balance, beginning of year	$	–	–	$	–
Net income		396	–		396
Balance, end of year	$	396	–	$	396
Total	$	839,528	–	$	839,528

NOTE 34. SUBSEQUENT EVENTS

Subsequent to December 31, 2011, the Company declared its fourth dividend per share of $0.06 per share, payable on April 4, 2012, to shareholders of record on March 12, 2012.

Quarterly and Share Data

QUARTERLY DATA

(unaudited)

($ millions, except per share data and percentages)	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Revenue	383.8	282.3	246.5	314.5	347.6	270.9	244.5	204.8
Operating income	26.5	22.0	16.2	15.5	21.7	11.5	8.8	(0.9)
Earnings before finance costs and taxes	26.8	24.6	16.5	17.0	20.9	12.5	9.5	17.2
Net earnings – continuing	17.7	17.0	10.5	11.6	8.3	5.1	3.7	13.2
Net earnings – discontinued operations	(7.0)	(54.3)	(4.1)	1.3	1.1	(1.8)	(0.9)	(2.3)
Earnings per share – continuing	0.22	0.22	0.14	0.15	0.11	0.06	0.05	0.18
Earnings per share – discontinued operations	(0.09)	(0.70)	(0.05)	0.02	0.01	(0.02)	(0.01)	(0.03)
Depreciation and amortization	9.7	11.4	10.3	10.8	8.0	11.1	10.2	9.8
Cash from operations	27.7	24.8	17.1	16.8	17.3	12.5	10.0	3.3
Capital expenditures, net								
Rental equipment	(2.7)	(1.8)	3.3	2.0	(33.8)	(1.4)	5.3	1.6
Property, plant and equipment	6.3	(36.6)	(4.3)	(0.2)	3.3	5.2	6.2	5.2
Dividends	4.6	4.6	4.7	–	–	–	–	–
Dividends per share	0.06	0.06	0.06	–	–	–	–	–
Pre-tax earnings (continuing) as a % of revenue	7.0%	8.7%	6.7%	5.4%	6.0%	4.6%	3.9%	8.4%

SHARE DATA

(unaudited)

($ millions, except per share data and percentages)		2011 Q4	2011 Q3	2011 Q2
Trading price range of share:	High	13.50	12.66	13.75
	Low	7.65	8.48	11.90
	Close	13.26	8.75	12.41
Trading volume (millions)		6.24	16.38	6.18
Shares (millions)				
Outstanding at end of period		77.340	77.215	77.215
Weighted average-basic		77.221	77.215	77.215

Directors and Officers

Robert S. Boswell [1, 4]
Director
Denver, CO

Kenneth R. Bruce [6]
Director
Calgary, AB

W. Byron Dunn [2,4]
Director
Dallas, TX

J. Blair Goertzen
Director
President and
Chief Executive Officer
Calgary, AB

Wayne S. Hill [2, 5]
Director
Toronto, ON

H. Stanley Marshall [3]
Director
Paradise, NL

Stephen J. Savidant
Chairman
Calgary, AB

Michael A. Weill [6]
Director
Houston, TX

Jerry Fraelic
President (Americas)
Houston, TX

D. James Harbilas
Vice President and
Chief Financial Officer
Calgary, AB

Bill Moore
President (International)
Calgary, AB

Greg Stewart
Vice President and
Chief Information Officer
Calgary, AB

1 Chair of the Nominating and Corporate Governance Committee

2 Member of the Nominating and Corporate Governance Committee

3 Chair of the Human Resources and Compensation Committee

4 Member of the Human Resources and Compensation Committee

5 Chair of the Audit Committee

6 Member of the Audit Committee

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Shareholders' Information

Common Shares

The common shares of the Company are listed and traded on the Toronto Stock Exchange under the symbol "EFX".

Trustee, Registrar and Transfer Agent

Canadian Stock Transfer Company Inc.
Calgary, AB Canada

For shareholder inquiries:

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320 Bay Street
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Montreal, QC H3B 3K3 Canada

Tel: +1.800.387.0825 or +1.416.643.5500
Fax: +1.416.643.5501

Web: www.canstockta.com

United States

Computershare Trust Company
118 Femwood Avenue
Edison, New Jersey United States 08837

Mail:
PO Box 43021
Providence, Rhode Island United States 02940

Tel: +1.866.320.2895 (within USA) or
+1.732.512.3172 (outside USA)
Fax: +1.732.491.0451

Web: www.us.computershare.com/employee

All questions about accounts, share certificates or dividend cheques should be directed to the Trustee, Registrar and Transfer Agent.

Auditors

Ernst and Young LLP
Calgary, AB Canada

Bankers

The Toronto Dominion Bank
Calgary, AB, Canada

The Bank of Nova Scotia
Toronto, ON, Canada

Investor Relations

Enerflex Ltd.
904 1331 Macleod Trail SE
Calgary, AB T2G 0K3 Canada

Tel: +1.403.387.6377

Email: ir@enerflex.com

Requests for Enerflex's Annual Report, Quarterly Reports and other corporate communications should be directed to ir@enerflex.com.

Annual General Meeting Information

Shareholders of Enerflex Ltd. are invited to attend the Annual General Meeting, which will be held on April 12, 2012 at 4:00 p.m. MST. The meeting will be held at the Calgary Petroleum Club in the McMurray Room, 319 5th Avenue SW, Calgary, Alberta. Those unable to attend are encouraged to sign and return the proxy form mailed to them.

ENERFLEX

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