SUCCEEDING IN THE GLOBAL NATURAL GAS MARKET

ENERFLEX

2012 ANNUAL REPORT


Nisku
Calgary
Casper
Houston
Caterham
Abu Dhabi
Singapore
Brisbane
Perth
Manufacturing Facility
Regional Head Office

Contents

AN
INTERNATIONAL SUCCESS STORY

A record opening backlog of nearly $1 billion, growth in most key markets, and strategic initiatives to strengthen Enerflex's internal systems and manufacturing infrastructure drove an extremely successful year for the Company worldwide. Growth in revenue, gross margin and EBIT further strengthened the balance sheet and supported an increase to Enerflex's dividend beginning in the fourth quarter. Improved profitability was reflected in a higher EBIT margin. The Company exited 2012 free of net debt.

Enerflex's diversified international operations, with positioning in key gas-producing areas, the Company's enhanced capabilities and its strengthened balance sheet have created a strong platform to pursue growth initiatives in 2013.

Revenue	EBIT	Ending Backlog	Net Cash*
$1.5 BILLION	$117.3 MILLION	$683.2 MILLION	$48.5 MILLION

* Short-term and long-term debt less cash balances.

WE'RE GROWING GLOBALLY

Enerflex is positioned in many of the world's fastest-growing natural gas markets, from the rapidly developing liquids-rich gas plays of North America – with exposure to anticipated LNG export projects in Canada – to domestic gas processing projects in the Middle East, to LNG export projects in Australia, plus Russia, Africa and emerging markets in Southeast Asia.

Enerflex's years spent building global operations underpinned by a superb workforce of approximately 3,300 people, integrated systems, and world-class design and manufacturing capabilities have come to fruition. Execution of processes and deliverables improved sequentially in each quarter of 2012, including higher manufacturing turnover rates and improved project execution, driving steadily increased performance indicators and financial metrics. Entering 2013 Enerflex was active in 13 countries, with a network of six regional offices – including a new regional office in Singapore – six manufacturing facilities, two central distribution centres and over 60 locations worldwide.

Countries around the world are recognizing the opportunity and the need to develop natural gas resources and lever the benefits for internal economic development and export revenues. Enerflex's global platform is ready: ready to compete for and win natural gas infrastructure projects over a broad range of sizes, meeting any requirement across the project life-cycle, around the world. With natural gas flourishing as a hydrocarbon of choice, the short and long-term growth potential is vast.

With enhanced capabilities, an expanded product line that now includes cryogenic processing and oil sands capabilities, and a larger global footprint, Enerflex is positioned to succeed as it pursues opportunities in all of its markets.

Gas storage and processing plant, Dongara, Western Australia.

WE DESIGN, BUILD, COMMISSION AND MAINTAIN LARGE GAS INFRASTRUCTURE PROJECTS

Around the world, the production, gathering, processing and movement of natural gas drives the need for Enerflex's products and services. We compress, process, and treat natural gas, we service the associated equipment, and we believe we are the best in the industry at what we do.

Natural gas processing facility in the Horn River play, British Columbia, Canada.

Enerflex designs and manufactures the compression packages – reciprocating gas-fuelled engines, reciprocating and screw compressors and control systems – needed to gather gas in the field, to run processing plants, to move gas to market and to operate liquefaction terminals and storage facilities. The Company also builds processing facilities for all forms of natural gas – dry or liquids-rich, sweet or sour – greatly enhancing its offering through the recent expansion into cryogenic processing.

Enerflex's ability to meet the full range of needs means that the more processing a gas producer requires, the greater the business opportunity for Enerflex. Further capabilities include gas-fired power generation and module fabrication in Alberta's oil sands.

With expert teams covering the key disciplines of engineering, design, manufacturing, installation, and after-market service, Enerflex's capabilities span the full project life-cycle, from concept through overhaul, and everything in-between. Contract types range from pure fabrication all the way to engineering, procurement and construction ("EPC") and build-own-operate-maintain projects. Deep after-market capabilities, including a network of field service locations in gas-producing areas and a vast array of parts and components, enable efficient ongoing operations for producers – and for Enerflex, generate recurring revenues.

Enerflex's full-cycle capabilities, expanded product line and on-the-ground presence in all of its markets provide a service offering that customers can rely on for natural gas infrastructure projects.

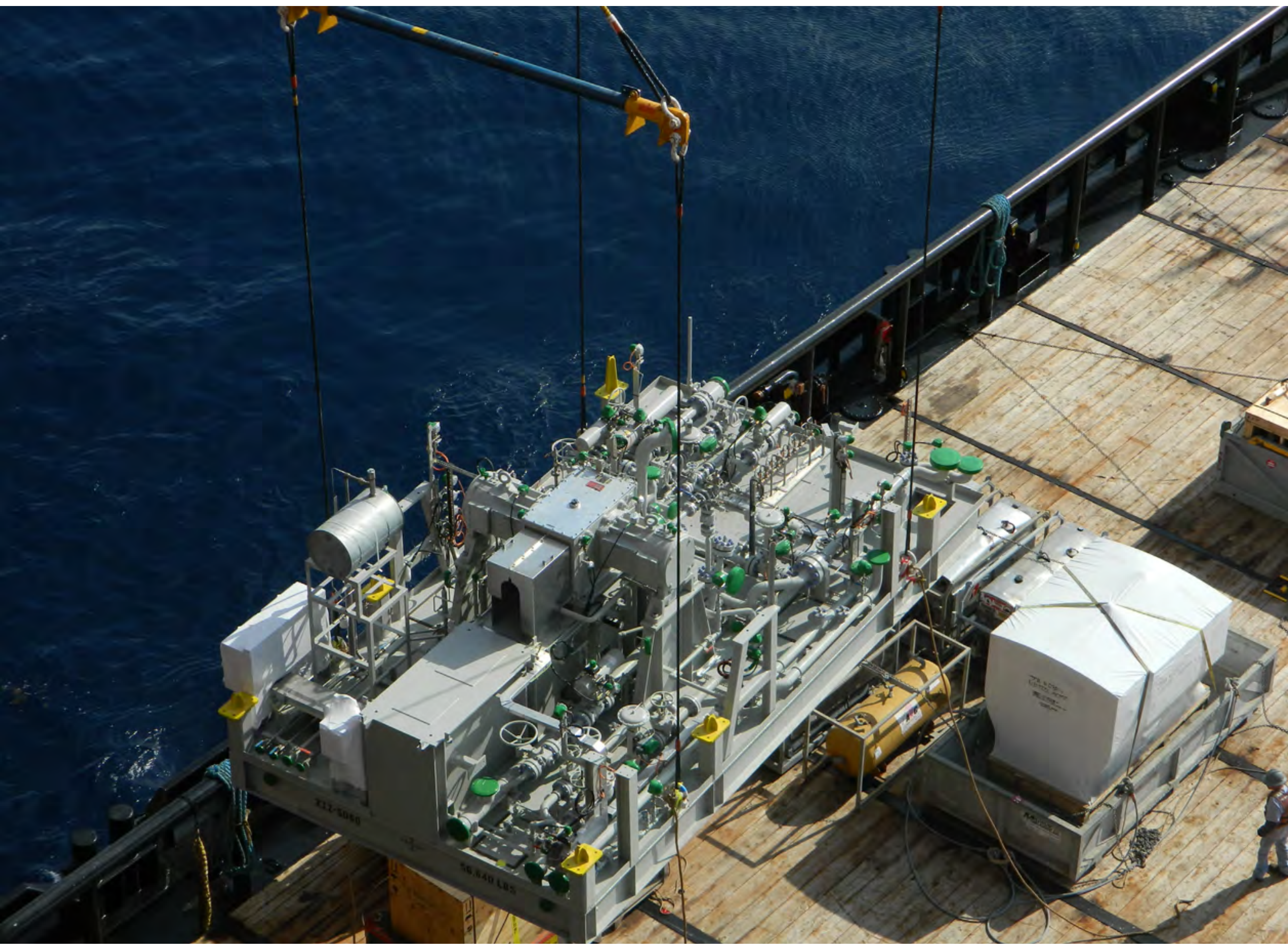
WE MOBILIZE PEOPLE AND TRANSPORT COMPONENTS AROUND THE WORLD

Enerflex has greatly strengthened its international platform over the past several years. The Company has evolved from providing selected products and services in particular regions to offering comprehensive capabilities everywhere the Company operates.

Vertical integration enables us to provide full-cycle solutions – engineering and design, manufacturing and global transportation, installation, operations and long-term maintenance. Customers are able to select from this menu. Today we are on the ground in all the jurisdictions where we work, with a physical presence and expertise providing the capability to install our systems and support all products with long-term service agreements.

These enhanced capabilities create internal and external synergies. Internally, integrated processes and systems throughout our engineering and manufacturing facilities in Canada, the United States and Australia enable rapid and efficient fulfillment of international orders. The tidewater location of the recently expanded Houston facility provides additional competitive advantages. Meanwhile, we can redeploy top expertise to help execute particular projects worldwide, to strengthen operations or to pursue new opportunities. Knowledge gained and innovations developed in one region are transferred to others.

Externally, Enerflex's product and service offering increases customers' confidence in our worldwide capabilities, creating new opportunities for repeat business across regions from customers who are active in multiple markets. Strong relationships with key customers also help Enerflex enter new markets.



Reciprocating compressor for an offshore platform, Gulf of Mexico.

HOW BEING GLOBAL GENERATES MORE VALUE

Enerflex's investment proposition centres on being an operationally focused, financially strong, dividend-paying Company delivering profitable growth by serving an expanding industry in six gas-producing regions worldwide. Enerflex's global footprint is intrinsic to both our customer value and investment proposition. Being a global Company enables Enerflex to generate more value.

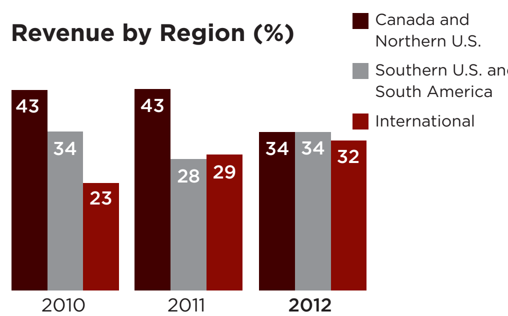
Larger Projects

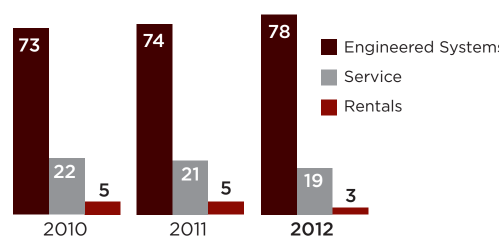
1

International positioning provides exposure to large and/or high-margin projects in growing natural gas markets.

Diversified Revenue

2



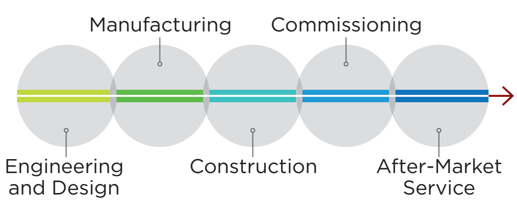


A diversified revenue stream drawn from multiple markets reduces revenue and margin risks, with growth in some regions more than offsetting weaknesses in others.

Life-Cycle Projects

3

Our comprehensive product and service offering delivers revenue from all phases of the project's life-cycle, including recurring after-market service revenue.



Greater Synergies

4

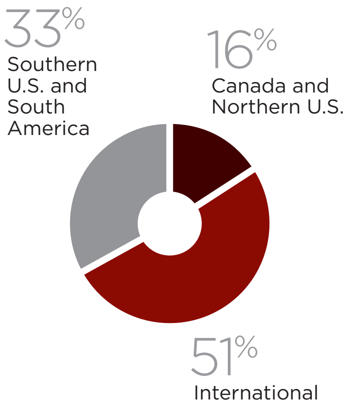
Being active in multiple regions creates internal and customer synergies, enabling deployment of key expertise worldwide, and generating repeat business from globally active customers.

Strong Backlog

5

Backlog reflects success in pursuing opportunities around the world.

2012 Backlog by Region

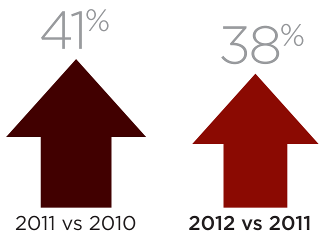


Stronger Returns

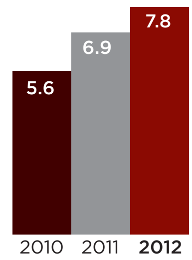
7

Profitable global operations have strengthened Enerflex's EBIT margins and cash flow, allowing us to repay debt, return more cash to shareholders and move towards our medium-term goal of a 10 percent EBIT margin.

EBIT Growth



EBIT Margin



Facility Utilization

6

International project work levers Enerflex's North American design and manufacturing capabilities and maintains facility utilization through local market downturns.

Global Opportunity

8

Enerflex is able to pursue the best growth opportunities worldwide, selecting from a suite of options while carefully managing contract and margin risks, thereby making best use of reinvested capital.

Global Locations of Enerflex-Supplied Equipment and Services

2012 HIGHLIGHTS

For the years ended December 31, (Thousands of dollars, except percent and per share) (Unaudited)	2012	2011 [1]	2010 [1]
Revenue	$ 1,501,684	$ 1,227,137	$ 1,067,783
Gross margin	273,155	225,876	183,898
Operating income	114,557	80,086	40,955
Earnings before finance costs and taxes	117,341	84,841	60,118
Net earnings – continuing operations	82,253	56,741	30,262
Net loss – discontinued operations	(10,479)	(64,040)	(3,963)
	71,774	(7,299)	26,299
Earnings per share (basic) – continuing operations	1.06	0.73	0.40
Loss per share (basic) – discontinued operations	(0.14)	(0.83)	(0.05)
	0.92	(0.10)	0.35
Dividends per share	0.25	0.18	0.00
Key Financial Performance Indicators [2]			
Bookings	875,477	1,242,850	1,194,834
Backlog	683,206	986,105	643,642
Recurring revenue as a percentage of revenue	21.5%	26.2%	27.6%
Gross margin as a percentage of revenue	18.2%	18.4%	17.2%
Selling and administrative expenses as a percentage of revenue	10.6%	11.9%	13.4%
Earnings before finance costs and taxes as a percentage of revenue	7.8%	6.9%	5.6%
Earnings before finance costs, taxes, depreciation and amortization	156,828	127,012	99,231
Earnings before finance costs, taxes, depreciation and amortization – normalized [3]	156,828	127,012	80,604
Return on capital employed	13.3%	8.8%	3.9%
Net (cash) debt-to-EBITDA	(0.31):1	0.30:1	2.02:1
Net (cash) debt-to-EBITDA – normalized	(0.31):1	0.30:1	2.48:1

[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. As a result, the 2010 return on capital employed calculation is based on capital employed at December 31, 2010 only.

[2] Key financial performance indicators used by Enerflex to measure its performance include revenue and earnings before finance costs and taxes (EBIT). Further information on Non-GAAP Measures is provided on page 49.

[3] Earnings before finance costs, taxes, depreciation and amortization for the twelve months of 2010 has been 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 Industries Ltd.'s acquisition of Enerflex Systems Income Fund.

LETTER
TO SHAREHOLDERS

The Enerflex management team is pleased with the way 2012 unfolded in all of the Company's operating markets. We implemented several strategic initiatives, levered continuing strength in the liquids-rich gas plays of the United States, and dramatically improved performance and profitability in our Australian operations. The Company generated better financial results in each quarter, further strengthened its balance sheet and progressed towards its medium-term goal of a 10 percent EBIT margin. Without compromising our ability to finance future growth, we were able to raise the quarterly dividend by 17 percent, beginning with the fourth quarter's dividend, which was paid to shareholders in January 2013.

In 2012, Enerflex built from the solid foundation that was put in place in 2011 – a strong financial and operating platform that enabled the Company to pursue opportunities in both weak and strong markets. Today, Enerflex is ready: our product lines, processes and systems, people, manufacturing capabilities, geographical positioning and financial capacity are all in place to grow and thrive globally in the years to come.

2012 Financial Performance – Raising the Bar

Improving execution in our manufacturing processes and project delivery throughout 2012 drove growth in a number of important metrics. We raised the financial bar going into 2012, raising the targets in our financial dashboard. Enerflex exited 2012 well ahead of 2011, which in itself was a good year. Results included:

> Revenue of $1,502 million, year-over-year growth of 22 percent, due to Enerflex's expanded geographical presence and growing activity in our compression, processing and after-market service offerings;

> Gross margin increased by 21 percent year-over-year to $273 million. This equalled revenue growth, reflecting internal efficiency gains, improved project execution and cost discipline;

> EBIT of $117 million, year-over-year growth of 38 percent;

> An EBIT margin of 8 percent, up from 7 percent in 2011, demonstrating solid progress towards our medium-term goal of 10 percent. Our EBIT margin improved sequentially each quarter;

> Capital expenditures of $43 million, slightly above our forecast range of $35-$40 million;

> Return on capital employed of 13 percent, a significant improvement on 9 percent in 2011;

> Further strengthening of the balance sheet exiting 2012, with zero net debt, compared to long-term net debt of $38 million exiting 2011; and

> Increased the quarterly dividend by 17 percent to $0.07 per share beginning with the dividend paid in January 2013.

Strategic Initiatives

In 2012 we were focused on the future, driving strategic initiatives to strengthen key capabilities, add to our product offering and expand our geographical footprint:

- Sales office in Singapore – Recruiting the right individual to lead this operation facilitated Enerflex's move into Singapore, the manufacturing and shipping hub for a large region stretching from South Korea to India. Increasing onshore and offshore natural gas development has created an annual compression and processing equipment market of approximately $300-$600 million. Enerflex is following its proven approach for entering a new region by starting with a core sales and engineering team with a mandate to compete for work;

- Systems and process integration – This three-year program is aimed at maximizing the performance of all our sales, engineering, manufacturing and service capabilities by, among other things, enabling teams in separate facilities to seamlessly coordinate work. With the roll-out of SAP as the Company-wide information platform, systems integration will be completed in 2014;

- Expansion of the Houston manufacturing facility – Enerflex doubled the manufacturing capacity of the Houston facility, which is strategically situated at tidewater. The expansion was completed on-budget in June, and we expect to add further engineering capability this year;

- Cryogenic gas processing – Enerflex sees a compelling opportunity to participate in the North American gas producing sector's shift to developing liquids-rich natural gas reservoirs and maximizing liquids extraction. This demands moving beyond the Company's historical focus on dew point (-40° C) gas processing, with limited liquids extraction, to cryogenic (-173° C) or "deep cut" processing, which extracts the full range of liquids, from ethane to condensate. Customers in the United States typically request turnkey installation of such facilities, which levers the revenue potential and also offers opportunity for longer-term maintenance and refurbishment. Our Houston team is tasked with developing grassroots engineering and manufacturing capability for cryogenic processing. The sales and engineering team is already active, with initial capital being committed and long-lead items being ordered; and

- Improved safety performance – While the majority of our business made significant progress toward the Company's targeted total recordable injury rate ("TRIR"), we still have room for improvement. I am proud to say that from a process and behaviour standpoint, we have moved a long way in developing our safety culture. Among other things, we were able to grow the Southern United States business by 50 percent year-over-year and at the same time improved the region's TRIR.

Ready for the Future

With our product lines, processes and positioning in place, and further strategic initiatives in progress, Enerflex is ready for the future. We will continue to look at opportunities to expand our business and grow our market share. While the macroeconomic outlook is mixed, we believe that Enerflex has the opportunities and capabilities to drive further growth.

Canada and Northern United States – Continued weakness in Canada is perhaps the most significant risk for Enerflex in 2013. In the second half of 2012, the Alberta natural gas price rallied from approximately $2 per MCF to approximately $3.50 per MCF, but this did not revive dry gas drilling. Barring a further increase in the gas price, we foresee the Canadian market reviving only when there is a significant change in natural gas demand and supply fundamentals, or when LNG export capability is added on Canada's west coast. The Northern United States market is also limited in liquids-rich gas opportunities.

The region continues to offer positives, however, there has been a strong shift by producers to develop the liquids-rich sections of the Montney shale/siltstone, including in areas of Alberta with relatively sparse infrastructure. Momentum in the Duvernay shale is growing, with an estimated 100 high-impact horizontal wells to be drilled in 2013, also in areas requiring additional infrastructure. The considerable solution gas volumes produced in certain oil-focused unconventional plays, such as the North Dakota Bakken, create opportunity for compression and processing sales. With this region also holding one of the world's largest energy projects – the Alberta oil sands – we have a strategic initiative to participate in oil sands projects. Enerflex is pursuing opportunities to supply modules and equipment that build off the Company's proven manufacturing competencies, such as compression and fluid processing (discussed further in the Operations Review).

Southern United States and South America – The Southern United States market has been buoyant, with large liquids-rich gas plays, plus oil plays that produce solution gas, maintaining demand for compression and processing equipment and driving Enerflex's move into cryogenic processing. From the standpoint of the producer, the economics of liquids-rich gas plays improve along with the degree of liquids recovery. Low gas prices increase the incentive to maximize the netback from liquids, so we foresee strong demand for the full range of compression and processing equipment. On the demand side, the reduction in coal-fired power generation is having a positive impact on natural gas consumption, which lends itself to continued field activity.

Cryogenic gas processing is an important initiative for 2013. We are adding this capability internally rather than through acquisition, with our senior engineering manager in Houston assigned as the lead for the entire gas processing business. While the newly formed sales team pursues project opportunities, we are designing and building one 60 MMSCF per day and one 100 MMSCF per day deep cut processing plant, the first of which should be ready in the third quarter of 2013. While recent months have seen some pullback in crude oil and natural gas liquids pricing, we are very excited by the Company's move into designing, manufacturing and installing these large, complex plants.

Middle East/North Africa – This continues to be an active and positive market for Enerflex, although longer-lead, large-scale projects result in "lumpy" regional revenues. Enerflex has focused its efforts on Oman, Bahrain and the UAE, which we believe are among the more geopolitically stable countries. The general market driver is the development of gas resources for domestic uses such as generation of electricity, cooling, desalination and the manufacture of petrochemicals and fertilizer. We are pleased with the progress of our two-year-long project for Oman Oil Company Exploration and Production LLC ("OOCEP"). The work camp was completed in late 2012, and the manufacturing of the compression and treating equipment is underway.

AustralAsia and Southeast Asia – We foresee a continued active market for coal-seam gas to LNG projects as Australia remains a regional gas exporter. Indonesia continues to provide opportunities for the sale and servicing of compression and processing equipment. We believe that Singapore will become Enerflex's regional growth engine as the active onshore and offshore natural gas development in Thailand, Vietnam, South Korea and Malaysia represents a substantial compression and processing packaging market.

Europe/CIS – Russia continues to increase gas production for export to Europe. We continue to be pleased with the results of our joint venture in Russia, which is generating sales and recurring service business while limiting our capital commitment and physical footprint in-country. We foresee further growth potential in Russia, and are also receiving inquiries for gas compression products from other CIS members.

Risk Management

Being ready for the future requires having a clear understanding of the risks. Our foremost priority is ensuring the safety of our people at every location – and that means continually monitoring geopolitical events and trends. Enerflex actively manages its business risks. The measures include strengthening the balance sheet, increasing our geographical diversification in lower-risk countries, opting for a greenfield rather than acquisition approach to add cryogenic processing, and continuing to improve health, safety and environmental performance.

The Company's primary short-term business risks are the lower backlog and bookings in Canada and the Northern United States as a result of low gas prices, a situation we do not foresee being resolved in 2013. The primary mitigation of this is Enerflex's geographical diversification. Our regional market approach is designed to offset the impact of economic downturns – and we are indeed seeing growth in some regions more than offsetting flat or weaker activity in others.

We have strengthened contract and margin risk management. In 2012 we provided values training for hundreds of our people, with a focus on making decisions based on those values – which includes asking the right questions and always doing the right thing. Enerflex values thinkers, and we want to provide authority to exercise appropriate initiative within boundaries that avoid excessive risk. It is very important during the sales process that Enerflex, through its people, communicate consistent messages to prospective customers around the world, and negotiate terms that provide threshold margins. To mitigate contract and margin risks, personal involvement by the regional managing director is required at the front end of any new contract. This consistency helps Enerflex's centralized legal department prepare robust and comprehensive contracts that protect the Company's financial interests.

A Global Growth Platform

Enerflex has assembled a global platform built upon carefully selected regions. We are present on the ground, with people and infrastructure, in all of the regions where we work. We have the capability to install our products, and we can support all products in all regions with long-term service agreements. This consistency is an ongoing source of strength, helping to secure many deals and generating recurring revenue that stabilizes year-to-year financial performance.

We are vertically integrated for customers who need Enerflex to engineer, design, manufacture, install and maintain equipment – and customers can select from that menu. Our ability to provide turnkey solutions for larger facilities moves us to the centre of projects which, in turn, generates related work. New customers attained in one region lead to project wins in others, while knowledge gained in one region is applied to improve our practices in others. Gaining manufacturing capability located at tidewater has improved the economics of our bids. Our key expertise is mobile – deployable worldwide wherever it is most needed.

Our overall outlook for 2013 is one of prudence. We will seek opportunities to grow – by overall activity, by adding product lines and potentially by acquisition – but only if this is the right fit and financially prudent. We will practise careful risk management and continually manage the balance of revenues, costs and profitability.

For 2013 Enerflex has the following strategic objectives:

> Become increasingly active in the Alberta oil sands through the pursuit of opportunities to supply modules and equipment that build on the Company's proven manufacturing competencies;

> Enter the Southeast Asia market for gas compression and processing equipment through our new Singapore location;

> Initiate the sale of cryogenic processing facilities in North American liquids-rich gas plays;

> Build on the strong sales growth of 2012 by pursuing continued growth in the vibrant Southern United States and International compression and processing markets;

> Continue to improve manufacturing processes, systems and project execution in all regions. This will include progressing the Company-wide implementation of SAP, and implementing regional gas processing models;

> Continue making progress in our safety management programs and improve our Company-wide TRIR by 13 percent to 2.80 in 2013;

> Conduct a capital expenditure program of approximately $36 million that balances growth and risk management objectives. It includes developing the cryogenic engineering and manufacturing capability in the Southern United States, adding to the rental fleet as needed, and expanding and adding to our facilities to accommodate future growth;

> Continue progressing towards the goal of 35-40 percent recurring revenue; and

> Make measurable progress towards the medium-term objective of a 10 percent EBIT margin.

Enerflex's investment proposition has always been summarized with two simple words: natural gas. What does Enerflex do? We compress, process, and treat natural gas, we service the associated equipment, and we believe we are the industry's best at it. If you believe in natural gas as a hydrocarbon of choice in the United States, with growing demand for natural gas in power generation, industries and transportation. If you believe North America is reducing its energy import dependency. If you believe liquefied natural gas will be exported from Canada. If you believe that natural gas is an important input for growth in developing countries. Then Enerflex is your investment choice. In addition, we are branching out into a large new market that holds tremendous long-term potential for Enerflex – the Alberta oil sands – and I'm very pleased to report that significant orders have already been secured. My management team and I strongly believe that these are all powerful, long-term trends. The past year demonstrated that Enerflex can flourish in the current natural gas environment worldwide. Supported by the financial strength and strategic initiatives that have readied Enerflex for the future, we believe the Company will continue to do so.

On behalf of the Board of Directors,

[signed] "J. Blair Goertzen"

J. Blair Goertzen
President, Chief Executive Officer and Director

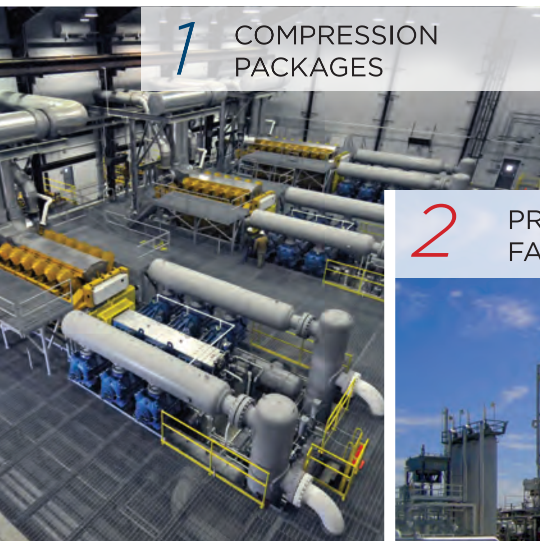
February 28, 2013

OPERATIONS REVIEW

DIVERSIFIED AND VERTICALLY **INTEGRATED PLATFORM**

Our platform delivers a powerful and value-creating array of natural gas and oil infrastructure solutions.

1 COMPRESSION PACKAGES



2 PROCESSING FACILITIES

3 AFTER-MARKET SERVICE

4 COAL SEAM GAS

1) One of Enerflex's core product offerings since its founding. The Company is a leading provider of reciprocating and rotary screw compression packages, with millions of horsepower installed in gathering systems and processing facilities worldwide.

2) Processing is required in virtually all gas fields worldwide. There are multiple applications, from basic dry gas dehydration, to dew point liquids recovery, to deep-cut cryogenic processing, plus particular processes used in underground storage or liquefaction facilities. Enerflex offers them all.

3) Enerflex is a trusted service provider, helping to keep gas fields operating with expert technicians, parts, and round-the-clock service capability supported by a network of locations.

4) With its presence having grown to 700 personnel in Australia, Enerflex is a significant provider of compression equipment for coal seam gas, the primary source of Australia's natural gas production.

Enerflex's products and services form a complementary lineup, each element of which strengthens or is strengthened by other elements. Our lineup rests on a strong foundation of capabilities including engineering, design, manufacturing, project management, logistics, operations and service.

5 GLOBAL EPC FACILITIES

6 OPERATIONS AND MAINTENANCE

8 CRYOGENIC PROCESSING

7 LNG GAS GATHERING

5) International producers typically prefer turnkey solutions for centralized facilities in large producing fields, and Enerflex provides the full range of capabilities.

6) Enerflex's full life-cycle capabilities enable the Company to operate and maintain major facilities following construction and commissioning, an approach sometimes preferred by large, international customers.

7) Enerflex supports this capital-intensive business through the provision of equipment for LNG liquefaction, as well as in the producing fields that supply the LNG facilities.

8) North America's shift to liquids-rich natural gas production creates added demand for cryogenic or "deep cut" processing capacity. Enerflex's addition of cryogenic engineering and manufacturing capability, now underway, is a major strategic initiative.

OPERATIONS REVIEW

CANADA AND NORTHERN UNITED STATES

This is an essential region for Enerflex. It holds four manufacturing facilities that ship packages worldwide, two central parts distribution facilities, dozens of after-market service locations situated near major gas fields, key technical and business development expertise, as well as the Company's corporate headquarters.

Canada and the Northern United States form a major natural gas-producing region. Enerflex is one of the region's top compression and processing providers, generating approximately $500 million in compression and processing sales in 2012, plus recurring revenues from after-market parts and service work.

Strengthening the Platform

In 2012 the Company made significant progress on a multi-year initiative to integrate its systems and processes while launching a major investment to bring its facilities, which design and manufacture world-class products, to world-class standards, with the goal of increasing efficiency and quality. The multi-million-dollar investment included comprehensive repairs and modifications, reorganization of work flows, expansion of equipment yards, and new tooling, including plasma-cutting profilers for vessels and computerized plate-cutters.

Concurrently, Enerflex's employees were trained in the "5-S" program, originated by Toyota, aimed at improving the organization of the manufacturing process and operating under an approach of "lean" manufacturing. A continuous improvement initiative covering processes and accountability has the goal of ensuring Accurate, Complete and Timely ("ACT") provision of all deliverables, and was coupled with more detailed performance monitoring capability. In response to these initiatives, Enerflex's manufacturing turnover rates accelerated markedly and on-time delivery of shop production increased from 70 to 94 percent.

In 2013 the main focus is on further strengthening product quality and efficiency. A new product support group has streamlined the interface between field operations and customers, providing a single point of contact, as well as systematic customer follow-up.

Manufacturing for Worldwide Application

In addition to engineering and manufacturing for the large regional market, this region's facilities provide products for worldwide markets. Processing equipment for the OOCEP project is being fabricated in the Nisku facility, compression and refrigeration packages for a customer in Africa at the Calgary facility, and nearly $100 million in equipment for the large QGC project in Casper, with final assembly in Brisbane.

The Regional Market

Enerflex entered 2012 with a large regional backlog of compression and processing orders, particularly for the Montney and Horn River plays. Initially the Company was extremely busy getting product fabricated and into the field before spring break-up. The continued fall of natural gas prices to decade-lows, coupled with the producing sector's ongoing shift from "dry" gas fields to resource plays with light oil and/or liquids-rich gas opportunities, drove a pronounced market weakening in the second half. Development in the prolific but dry Horn River play was weaker than expected. Regional sales totalled $303 million in 2012, compared to $307 million in 2011,

Processing equipment being manufactured in Enerflex's Nisku facility, near Edmonton, Alberta, Canada.

Natural gas processing facility, Canada.

Units from Enerflex's rental fleet.

Natural gas compressor, United States.

with recurring revenues from after-market service adding $171 million in 2012 and $172 million in 2011. Regional sales and service revenues exclude the Nisku facility which, effective January 1, 2013, was included in the Canada and Northern United States business segment for operational alignment of all North American manufacturing.

Strategy

The liquids-rich gas plays in western Canada and the northern United States so far have generally not been as large as historical dry gas fields, nor as large as the liquids-rich gas opportunities in the southern United States. The Company's cryogenic processing initiative, described on page 25, is aimed in part at offsetting these typically lower compression needs by capturing more processing work in this region's liquids-rich gas plays, where producers seek to optimize economics by maximizing liquids extraction. In addition, the Company is optimistic about capturing new opportunities through its oil sands initiative, with initial contracts awarded as of January 2013. Over the medium to longer term, Enerflex foresees planned LNG export terminals on the west coast driving a revival of western Canada's natural gas development, particularly in northeast British Columbia.

Oil Sands Initiative

Enerflex has increased its efforts to participate in the oil sands in ways that apply the Company's core competencies. Our focus is on manufacturing various types of packaged equipment including piping and well pair modules, as well as on steam generation or water treatment and recovery in steam-assisted gravity drainage ("SAGD") facilities. With oil sands capital investment totalling many billions of dollars per year, and the average project size being very large, Enerflex sees its sub-contract-based approach generating growth for the Company.

OPERATIONS REVIEW

CANADA AND NORTHERN UNITED STATES

Enerflex's value proposition to prospective oil sands customers is the Company's manufacturing expertise, world-class Alberta facilities, long track record of manufacturing success and the conceptual similarities between gas processing and steam/water processing. The Company has secured orders for 2013 (please see accompanying discussion on the Sunshine Oilsands project).

Going Forward

Entering 2013, bookings were down approximately 30 percent year-over-year, and Enerflex expects relatively weak conditions across this region in the first half of 2013, potentially followed by an uptick in the second half. There should be further work in liquids-rich natural gas plays such as the Montney and Duvernay, where producers are expanding their infrastructure, as well as maintenance and replacement work in legacy fields, plus potential opportunities for compression and processing of solution gas in oil-producing plays such as North Dakota's Bakken and Wyoming's Niobrara. Bolstered by the addition of cryogenic capability, Enerflex's customers' offering is well-suited to the shift into liquids.

Enerflex is pleased by the positive customer response in the oil sands sector and foresees growing momentum for its oil sands fabrication initiative in 2013. Over the medium to longer term, generating a secondary market for western Canada's natural gas production through LNG exports will be key to reviving growth in regional gas production and the associated demand for compression and processing packages.

Enerflex management at work, Nisku, Canada.

Western Canada's Long-Term LNG Opportunity

There is growing industry consensus that the long-term health of western Canada's natural gas producing sector depends on securing additional markets, thereby moving the region beyond its traditional reliance on domestic consumption plus demand from the United States. Continued growth in U.S. gas production, falling Canadian exports and low domestic gas prices (approximately $3 per MCF as of February 2013) make the case for Canada accessing the international LNG market, where prices range from US$8-$14 per MCF. Up to seven LNG liquefaction and export terminals plus the necessary pipelines from producing regions have been discussed.

The Kitimat LNG project would be situated at the British Columbia port town of the same name. The estimated $4.5 billion facility would have inlet capacity of 0.7-1.4 BCF per day and export capacity of 5-10 million tonnes of LNG per year. Owned by Apache Canada Ltd. and Chevron Canada Ltd., Kitimat LNG has its environmental approval and export licence, plus critical First Nation's support. It is to commence construction as soon as long-term customer contracts are signed. Other projects include a 2 BCF per day proposal by Shell Canada Ltd. and several large Asian partners, also situated at Kitimat, which has applied for its export licence, and an ambitious 4.2 BCF per day terminal at Prince Rupert by BG Group plc, with a new pipeline by Spectra Energy, both at the evaluation stage. These projects are expected to be completed between 2016 and 2020.

Industry analysts foresee the long-term LNG development process driving the need for significant additional natural gas production volumes and associated infrastructure from multiple plays across western Canada. Enerflex believes this should create significant new compression, processing and after-market service opportunities stretching over many years.

Projects

Cabin Gas Plant Processing Facility, Horn River Play, Northeast British Columbia

This major dry gas processing facility will have close to 1 BCF per day of raw gas inlet capacity, with two project phases each having two processing trains. Enerflex

Natural gas processing facility, Canada.

Gas Drive has over 200 fully equipped service vehicles.

engineered, designed and manufactured the facility's amine trains, dehydrators and compression equipment. This processing facility is the largest in the region's history, including over 17,000 hp of compression, manufactured from the Calgary facility. The Company, through its Nisku operations, supplied the modularized amine units for H_2S and CO_2 removal. Each train is designed for a circulation rate of 2,200 US gallons per minute. Execution of the project included 58,000 engineering hours, 350,000 shop hours and 600 trailer loads, including approximately 70 assembled process modules.

Enerflex secured the contract through its proven ability to meet the needs of large, discerning customers with high technical specifications and safety standards, to execute work to a high level of engineering and manufacturing integrity, as well as to support all processes through thorough documentation and reporting. The Company foresees other medium-term processing opportunities in the region as producers bring on new volumes in anticipation of LNG export capacity coming on-line in the next several years.

Sunshine Oilsands Ltd., West Ells SAGD Project, Heavy Oil Processing Modules, Northwest of Fort McMurray, Alberta

Under Phase A of Sunshine's West Ells SAGD project, which began construction in autumn 2012, with first steam expected this summer, the customer plans to produce 10,000 bbls per day (each from Phase A1 and A2). At the end of January 2013, Enerflex had secured approximately $15 million of project work for Phase A1, with Phase A2 construction scheduled on a back-to-back basis. Enerflex's scope of work comprises the fabrication of numerous modules. Under Sunshine's modularized expansion model, the West Ells project, located approximately 200 km northwest of Fort McMurray, will produce 10,000 bbls per day, with long-term plans of having production capacity of 300,000 bbls per day completed by 2025 from it's West Ells, Thickwood and Legend Lake areas. Enerflex's work for Sunshine represents an excellent step in the Company's oil sands growth initiative.

After-Market Service – Gas Drive

Enerflex generates nearly one-fifth of its worldwide revenues through the provision of after-market service – directly in the field, as well as in the Company's facilities – including maintenance, overhaul and remanufacturing of the installed base of gas compression packages (engines, compressors, cooling system, piping and controls), the supply of parts, and the distribution of two major lines of gas-fuelled compression and power generation engines. This service offering is provided through Gas Drive Global LP ("Gas Drive"), a wholly-owned limited partnership.

Gas Drive operates a network of over 40 outlets situated strategically in major gas-producing areas, modern central parts distribution and remanufacturing facilities at Leduc, Alberta and Denver, Colorado, hundreds of trained technicians and mechanics, and a fleet of over 200 service vehicles. Gas Drive also markets gas-fuelled power generation packages, typically aimed at alternative applications, such as a recent biogas installation at a pulp mill.

Despite weaker conditions for natural gas development in 2012, Gas Drive maintained strong support from its customers in producing areas. Service coverage was expanded in the Northern United States through new locations in Gaylord, Michigan; Williston, North Dakota; North Canton, Ohio; and Auburn, Washington. Meanwhile, Gas Drive's management structure was simplified and the organization streamlined for greater efficiency.

OPERATIONS REVIEW

SOUTHERN UNITED STATES AND SOUTH AMERICA

Natural gas processing facility, near Gonzales, Texas, United States.

Dew point control plant, Eagle Ford shale, Texas, United States.

Reciprocating compressor for an offshore platform, Gulf of Mexico.

With a large backlog entering 2012 and solid bookings throughout the year, this region remained very buoyant and delivered 50 percent year-over-year sales growth, with revenue reaching $512 million in 2012. This region is also the location of Enerflex's recently expanded Houston manufacturing facility, which supports Enerflex projects worldwide.

Enerflex is serving and benefiting from the United States natural gas sector's shift from "dry" or non-liquids-bearing fields to natural gas reservoirs rich in liquids such as ethane, propane and condensate, like the Eagle Ford in Texas. Developing such projects requires the regular compression offering plus more intensive processing. Enerflex's new cryogenic processing capability was launched to serve this trend. There is also opportunity in oil fields that produce associated or solution gas, while activity does continue in the lowest-cost and best-situated dry gas fields.

Major Accomplishments

A key accomplishment in 2012 was completing the expansion of Enerflex's manufacturing facility in Houston. It serves North American and worldwide markets, with a strategic location near tidewater on the Gulf of Mexico enabling efficient ocean shipping. The $24 million expansion included almost doubling the skid assembly capacity to 35 bays, including 20 bays with double-deck manufacturing and 100-ton lifting capacity, as well as every associated element, from yard size to office space. The expansion was substantially completed in June 2012. It is a key element in the integration of Enerflex's engineering, design and manufacturing resources, which also included adoption of a new SAP enterprise resource planning system, which went live on May 1, 2012.

The Market

With the United States' natural gas production growing even as the weight of development shifts into some areas with little previous natural gas production, the producing sector continues to invest heavily in natural gas gathering, processing and pipeline infrastructure. The shift from vertical drilling of conventional pools to horizontal drilling of unconventional "tight" gas and shale reservoirs, as well as the previously mentioned shift to liquids-rich targets, has generated tens of billions of dollars in capital investment.

The Marcellus shale play in Pennsylvania and West Virginia, for example, has emerged from a virtually undeveloped state into a major producing region, requiring complete infrastructure. Several major regional pipelines have been added or expanded, particularly out of the Marcellus, to deliver new production to consuming markets. Other, more established shale plays are getting their "second wind". One example is the Woodford in Oklahoma, where producers are moving energetically out of the play's dry gas core into areas with liquids-rich gas and combination oil-gas opportunities, which will require substantial new infrastructure. Enerflex is active in both plays and numerous others, including the Eagle Ford and the reviving historical Permian Basin in west Texas.

2013 and Beyond

With moderate growth forecast in natural gas demand plus ongoing moves to export LNG to higher-priced international markets, Enerflex foresees continued buoyant market conditions in the Southern United States region. Key industry trends, including intensive development of liquids-rich gas fields plus development of solution gas in oil plays, are expected to continue, along with the associated infrastructure construction. With production continuing to grow in the Marcellus shale, and activity accelerating in the neighbouring Utica shale, there are also proposals to construct a dedicated natural gas liquids line from producing areas in the northeast to the petrochemical and refining region along the U.S. Gulf Coast.

The Company also foresees continuation of the distinct shift towards greater use of natural gas for power generation, in recognition of gas as a cleaner fuel, as coal-fired generation is discouraged by federal and state regulators. Enerflex's growth strategy will centre on offering the full range of gas compression, treating and processing equipment, including cryogenic processing, as well as commissioning and after-market service, in all gas-producing areas.

Enerflex's Houston facility expansion, Texas, United States.

OPERATIONS REVIEW

SOUTHERN UNITED STATES AND SOUTH AMERICA

South America

Enerflex has had success and continues to make sales in countries including Mexico, Colombia and Venezuela. Many of the continent's countries are focused mainly on oil production, with natural gas coming a distant second and still often being flared or re-injected into oil fields for pressure maintenance. Enerflex continues to seek opportunities in this region while minimizing risks and capital commitments. One emerging trend is the initial exploration of Argentina's massive shale gas resources through horizontal drilling and multi-stage fracturing which, if successful, would hold great promise.

Projects

LPG Export Terminal, Upper Gulf Coast, Texas

This major LPG export terminal is one of the largest in the United States. In 2012 Enerflex engineered, designed and manufactured a new refrigeration system to support a 120,000 barrel-per-day propane marine export system. It required 20,000 new installed propane compression horsepower across six screw compressors, making it one of Enerflex's largest refrigeration systems. Enerflex's Houston manufacturing facility provided the modular refrigeration system, large screw compressors, shell and tube heat exchangers and flash vessels. Execution included building 12 skids and 21,000 shop hours. Enerflex is currently producing a duplicate of this system for this terminal which will be shipped in 2013.

Enerflex secured the contract through its proven ability to meet the needs of large, discerning customers with high technical specifications and safety standards, and to execute work with high engineering and manufacturing integrity. The Company foresees other near-term propane export terminal-based refrigeration systems being built, based on the favorable economics from the increase in U.S. natural gas liquids production from shale fields.

Ammonia System for CO_2 Scrubbers, Southern United States

Enerflex supplied 35,000 compression horsepower and ammonia refrigeration equipment in a total of 13 modules. The compressors are part of a system to refrigerate Selexol, used to remove or scrub CO_2 from the emissions stream of a coal-fired power generating station, under a nationwide clean coal initiative. Eight skid-mounted compressors, arranged in parallel, compress ammonia fed into a condenser and economizer. The complex system, which includes repeated cooling cycles and a sub-cooler, supplies sub-cooled ammonia used to chill the customer's Selexol.

Engineering and manufacturing were provided by Enerflex's Houston facility and the modules were delivered in October 2012. Enerflex's design includes the ability to operate the system at lower power during the cooler months, reducing energy consumption while maintaining refrigeration performance. This project highlights Enerflex's ability to perform at a high level on hydrocarbon refrigeration projects of any shape, size and purpose, including large ammonia systems.

Natural Gas Processing Facility, Eagle Ford Play, Near Gonzales, Texas

Enerflex engineered, designed and manufactured a 45 MMSCF per day natural gas processing plant with liquids extraction to provide separate streams for propane/butane, condensate and processed gas. The plant serves the rapidly growing Eagle Ford play in south Texas and is dedicated to processing solution gas from the play's oil-producing region.

The plant consists of 12 modules which include a gas processing system, refrigeration system, depropanizer, stabilizer, ethylene glycol regeneration package, hot oil system, VRU compression and engine-driven refrigeration compression.

Cryogenic Processing Initiative

Virtually all natural gas requires some processing to prepare it for shipment and end-use consumption, even if it is only the removal of water, CO_2 and other impurities. Natural gas rich in liquids – ethane, propane, butane and condensate or pentanes – needs more intensive processing if the producer or midstream operator wishes to recover the liquids for separate sale. Most natural gas liquids are priced by reference to crude oil, making them highly valuable commodities during low natural gas prices and/or high oil prices. The lower the natural gas price, the greater the incentive to maximize liquids recovery.

The simpler form of mechanical refrigeration known as "dew point" processing can recover some liquids through cooling to approximately -40° C. More complete liquids recovery – and the opportunity for more sales revenue – requires cooling the gas stream to -173° C. That demands cryogenic processing.

Enerflex historically focused on dew point processing. The natural gas sector's current drive to optimize production economics by maximizing liquids recovery, however, creates powerful opportunities in cryogenic processing. The concurrent revival of the United States' petrochemical sector is creating renewed demand for natural gas liquids, which serve as feedstock.

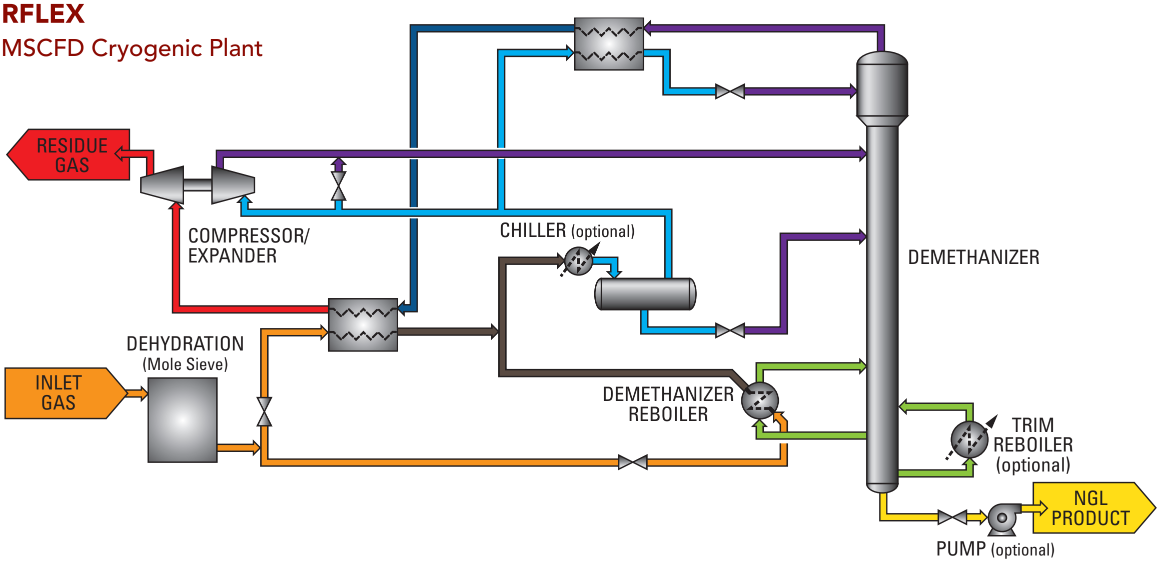
Following market and customer research, in 2012 Enerflex made the strategic decision to develop in-house cryogenic gas processing capability. The Company's manager of engineering at the Houston facility was assigned to head the new cryogenic team, and business development commenced. After preparing a suitable working area at the Houston facility, the engineering team set about engineering, designing and commencing the pre-build of two cryogenic facilities.

One will have inlet capacity of 60 MMSCF per day, the other 100 MMSCF per day. These plants are designed to recover up to 92 percent of the ethane, 98 percent of the propane and 100 percent of the C_{4+} in the customer's gas stream. Units 1 and 2 were being designed in early 2013, with key items having been ordered, and an anticipated fabrication start date of mid-2013. If the units are pre-sold, Enerflex will then commence construction of Units 3 and 4.

Cryogenic processing plants can be built as small processing locations or large centralized facilities with up to 1 BCF per day inlet capacity in several parallel trains, making each cryogenic plant a major economic opportunity for Enerflex. Customers tend to favour turnkey contracts with a single supplier, creating strong potential for installation, commissioning and after-market service revenue.

Enerflex foresees a vibrant market for cryogenic processing facilities at liquids-rich gas projects throughout North America, not only across the United States but in western Canada, the northern United States and internationally. The new gas processing team in Houston is also in charge of dew point, dehydration, amine and stabilizing systems, thereby bringing all of Enerflex's processing capabilities within one group. Enerflex considers the worldwide market for cryogenic processing to be promising and believes this strategic product-line expansion could drive significant long-term upside in the Company's global footprint.

ENERFLEX
60 MMSCFD Cryogenic Plant



INTERNATIONAL OPERATIONS REVIEW

MIDDLE EAST/ NORTH AFRICA

Enerflex's operations and business development in the MENA region focuses on natural gas markets with favourable business climates, including Oman, Bahrain and the UAE. The Company is currently also pre-qualifying for work in Saudi Arabia and Kuwait, and has multiple projects underway in Africa.

Gas compression for a re-injection facility, Kingdom of Bahrain.

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

The Market

Enerflex seeks to participate in the development of gas processing and distribution infrastructure aimed at serving the internal needs of countries broadening their energy development beyond a historical focus on oil. There is increasing domestic demand for natural gas for power generation, desalination plants for freshwater production, fertilizer manufacture, cooling needs, and petro-chemical facilities, as well as gas export and LNG commitments. Enerflex foresees these factors forming a major regional growth driver as vast domestic natural gas resources are exploited to service developing economies. Total natural gas consumption in the MENA region is forecast to double by 2035. MENA holds nearly half of the world's known energy resources.

Growth Strategy

The main competitive advantages Enerflex brings to the region are its ability to understand the customer's exact needs, work with the customer to design and engineer a customized solution, project-manage the construction and oversee the installation. The Company seeks to build on its initial contracts through its ability to provide complete operations and maintenance services.

Since regional contracts tend to be large, Enerflex's year-over-year revenues can be "lumpy" and the variations do not signal flagging business conditions. Natural gas development throughout the region will require decades of further investment and work. Numerous MENA countries remain net importers of natural gas, despite having impressive domestic natural gas resources that should enable them to keep up with demand growth.

Strengthening the Platform

Enerflex's Houston manufacturing facility provides a strategic advantage for the MENA market. The facility's expansion has strengthened the Company's manufacturing capabilities, while the plant's tidewater location enables competitively-priced ocean shipping. The Enerflex team in MENA will continue to strengthen its relationships with local fabricators in order to provide a full local solution while being competitive and adding value to the Company's customers. Enerflex's focus in the MENA region in 2013 is to efficiently execute its current backlog while pursuing other opportunities for regional gas compression and processing projects.

Projects

OOCEP's Gas Processing Facility

Entering 2013 construction had been completed on the 500-person camp at a remote site under Enerflex's contract for the engineering, design, procurement, construction, and commissioning of a 90 MMSCF per day natural gas processing facility, which will also extract 6,000 bbls per day of condensate. This is Enerflex's largest-ever project. Construction of the compression modules has commenced at the Houston facility, while manufacturing of the processing equipment began in late 2012 in Nisku, Alberta. Shipping of these modules is to commence in the first quarter of 2013 and field installation is underway in preparation for all major procurement items arriving by mid-2013. Construction is due to wrap up in late 2013, with Enerflex then moving into the commissioning phase.

Dove Energy, Yemen

Enerflex is providing a 3.0 MMSCF per day skid-mounted fuel gas treatment unit ("FGTU") for installation at Dove Energy's Bayoot fields in Yemen. The FGTU will reduce flaring, provide a fuel gas quality suitable for use in the field's bi-fuel systems fitted to the generators diesel engines in the Sharyoof and Bayoot oilfields, as well as recover natural gas liquids that can be exported with the commingled Bayoot and Sharyoof oil production. The FGTU includes a reciprocating booster compressor package and a hydrocarbon dew point unit using propane refrigeration and a stabilizer system which produces 150 bbls per day of condensate. The compressor package is being manufactured at the Houston facility, the propane refrigeration equipment at the Calgary facility and the remaining equipment in the UAE to Enerflex's design by preferred suppliers.

Oman Oil's gas processing facility, Oman.

AUSTRALASIA

Historically, Australia's largest natural gas reserves have been located offshore in Bass Strait and on the northwest shelf. In the past decade, the onshore story has developed predominantly around developing the country's large and accessible coal seam gas resources (known as coalbed methane in North America). Australia has been investing in LNG facilities and terminals to export much of its expanded gas production to high-demand markets in Southeast Asia, where natural gas commands prices of up to $14 per MCF. There is also renewed investment for domestic uses via the onshore distribution system, where gas is consumed predominantly for power generation, as well as industrial applications.

QGC's Queensland Curtis LNG project, Australia.

Natural gas processing facility, Australia.

The Market

Australia has in the range of $250 billion in natural gas-related development commitments, including two major LNG plants scheduled to come on-stream in 2014-2015. On the country's east coast, where most of the population is located, domestic gas prices were historically below $3 per MCF, but pricing has been coming up in recent years, spurring redevelopment of legacy fields. Domestic natural gas distribution is mainly limited to the major population centres, historically serviced by pipelines from the centre of Australia, as well as one pipeline down the west coast, with a second inland pipeline providing gas for power generation and industrial use in the growing mining industry.

Domestic natural gas consumption is growing for power generation, as Australia's carbon tax aims to discourage the use of coal. Australia also has potentially vast shale gas resources, but development is at a very early stage, with the first exploratory well drilled in 2011.

Focus on Execution

Since entering Australia in 1992 with a single sales representative, Enerflex's presence has grown to over 700 personnel, a manufacturing facility in Brisbane and several regional branch locations. The Company is active in multiple projects in Queensland and Western Australia, as well as in the Cooper Basin. Its overall focus is on gas gathering, storage, processing, compression and transmission infrastructure. The major priority for 2012 was the efficient execution of the Company's projects, through improved management and leadership, as well as strengthening its full life-cycle service and maintenance capabilities to generate recurring revenue from the installed equipment base.

Improved Profitability

Following a period of weaker than expected market conditions and poor execution, the Company's regional operation entered 2012 with improved bookings and backlog. Business strengthened each quarter of 2012, with increased revenues and improved execution increasing profitability in the region.

Construction of a gas storage facility including gas processing and compression, Western Australia.

The Future

Enerflex foresees a range of opportunities, not only in new LNG projects but in the growing focus by producers to maximize volumes by optimizing operations at existing gas fields. These opportunities include not only further development of coal seam resources but development of conventional natural gas and potentially shale gas resources. Such gas developments would require additional compression, processing and gathering infrastructure. Enerflex is ideally positioned to participate every step of the way, thanks to its strong national presence and proven, full life-cycle capabilities. The large installed equipment base means that after-market service is expected to be a significant part of this growth, including overhaul and sales of natural gas-fuelled reciprocating engines, for a range of applications.

Projects

Mondarra Gas Storage

Mondarra is an underground gas storage facility that includes a gas processing facility with multiple gas export and injection options. Enerflex applied its newly developed regional gas processing model to manufacture and install a silica gel dehydration system for this large storage project, demonstrating the Company's capabilities and responsiveness in complex processing facilities. The silica gel package was delivered on schedule, allowing Enerflex to ramp up onsite resources early in the project. Enerflex self-executed the concrete, structural, mechanical, piping, and electrical and instrumentation scopes, managed all facets of the fabrication phase and self-constructed some of the skids. Enerflex's involvement continued with commissioning and start-up in early 2013.

Coal Seam Gas for LNG

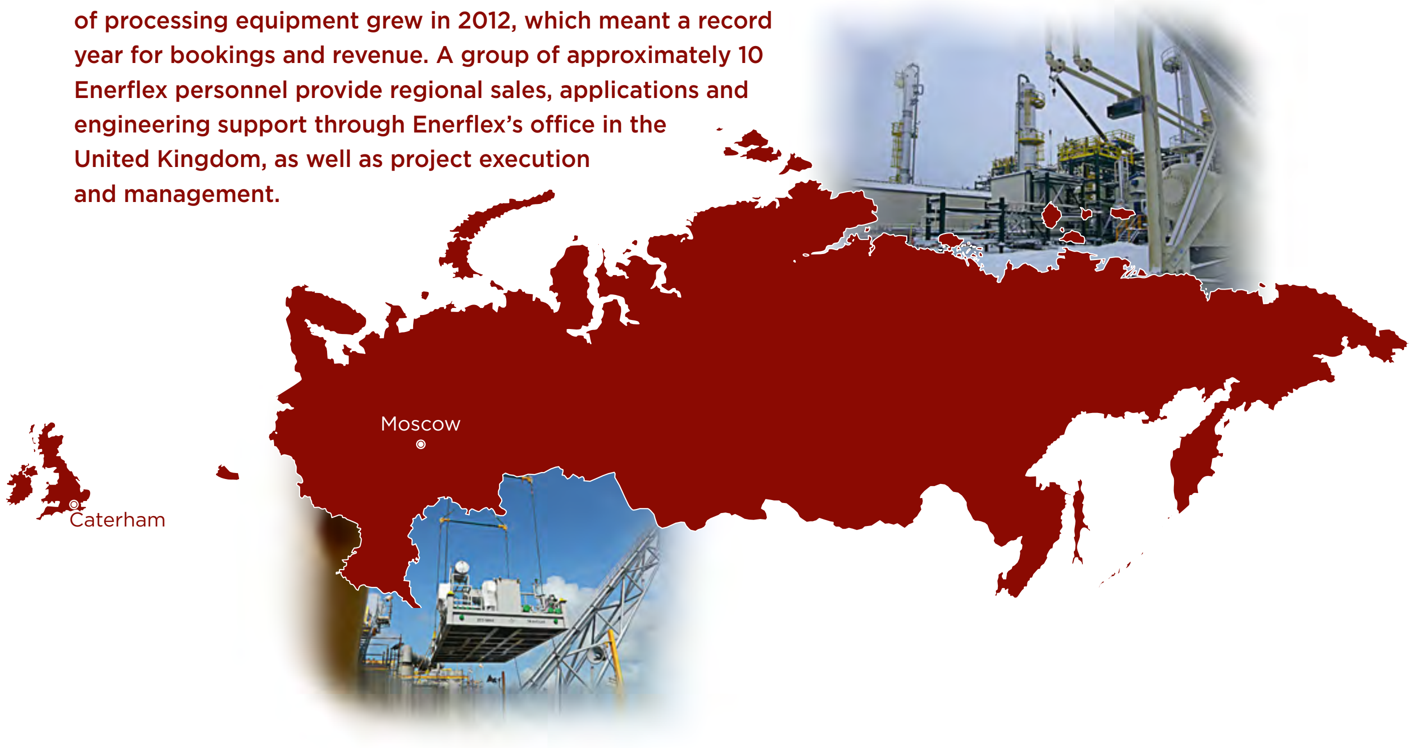
By late 2012 Enerflex's Houston facility had manufactured and delivered approximately 60,000 horsepower of skid-mounted rotary screw compression for gathering CSG to be transported and processed for LNG export. Additionally, Enerflex was awarded the turnkey installation scope of the compression gas gathering packages, with onsite construction due to commence in the second quarter of 2013. The customer also awarded Enerflex with the long-term after-market service contract demonstrating the Company's full cycle solutions on large projects.

INTERNATIONAL OPERATIONS REVIEW

EUROPE/CIS

Enerflex is pleased with the continued success of its joint venture partner in Russia, Energoservice. Working with Energoservice, Enerflex is able to provide a unique value proposition to customers, providing logistics, installation and construction works, as well as ongoing after-market service and support, providing the complete solution demanded by the market. Sales through the joint venture and direct sales of processing equipment grew in 2012, which meant a record year for bookings and revenue. A group of approximately 10 Enerflex personnel provide regional sales, applications and engineering support through Enerflex's office in the United Kingdom, as well as project execution and management.

Natural gas compression and processing facility, Russia.



Projects

Recent projects consisted of large-horsepower, engine-driven reciprocating natural gas compression for gas re-injection, as well as some smaller screw compressors and power generation equipment. Projects in the Russian market have predominantly been a result of the mandate to reduce flared gas. Enerflex has also provided several key modules for a 225 MMSCF per day gas plant in Europe, including the gas dehydration packages, compression, CO_2 and refrigeration equipment. Equipment is manufactured in Enerflex's expanded Houston facility and in the Calgary facilities.

Growth Potential

Enerflex practises diligent risk management in all foreign jurisdictions, where challenges include the tendency towards abrupt changes in regulatory and business conditions, plus uncertainty in the legal system. The Company carefully manages contract terms and trends in the market.

Enerflex sees substantial opportunities for growth in this market, as the Russian government continues to boost gas exports and encourages the capture and sale of traditionally flared solution gas, and the country's energy sector begins to move beyond reliance on historical producing technology. Such initiatives, if widely pursued, will create need for the full range of upstream gas gathering, compression and processing infrastructure.

INTERNATIONAL OPERATIONS REVIEW

EMERGING MARKET: SOUTHEAST ASIA

Enerflex generated steady growth through recurring revenues from its parts distribution and service business in Indonesia, and also uses manufacturers in the region to supply some equipment to Australia. But the Company sees far stronger indigenous potential. With countries throughout the region steadily developing their natural gas resources and domestic distribution systems, Enerflex estimates there is an up-to $600 million annual market for gas compression and processing equipment.

Singapore Sales Office

In July 2012 Enerflex opened a sales office in Singapore. Singapore is the region's hub for the final assembly and distribution of natural gas equipment. It offers advantages including an educated workforce, sophisticated business culture and world-class port with bonded warehouses. Enerflex's direct presence should provide access to bidding opportunities for natural gas projects throughout the region, which stretches from South Korea, via Southeast Asia, as far west as India.

Regional Projects

Enerflex is at work on several projects across the region. One consists of several custom-engineered, high-pressure CO_2 re-injection compressor packages for China, manufactured in the Houston facility. Another is a modular, high-integrity wellhead and pipeline pressure protection system for an international customer in Bangladesh.

Growth Plan

The new Singapore team is seeking opportunities for onshore compression and processing, as well as offshore equipment for production platforms and FPSOs. Enerflex has high hopes for the region's long-term potential and envisions Singapore becoming its regional growth engine. The regional launch, with a modest commitment of personnel and capital, minimizes risks and follows the proven approach used in Australia and the MENA regions, in each of which Enerflex began with just one person.

BUILDING A RESPONSIBLE INTERNATIONAL SERVICE PROVIDER

Enerflex achieved substantial improvements in its safety performance in 2012 and in developing a Company-wide safety culture. The Company's total recordable injury rate ("TRIR"), a key industry statistic that tracks the number of recordable on-the-job injuries over a selected period per 200,000 man-hours worked, was 3.21 for 2012. This was down from 3.64 in 2011. The Company's TRIR objective for 2013 is 2.80.

Enerflex's health, safety and environmental ("HSE") management program covers the Company's six manufacturing facilities in Canada, the United States and Australia, the after-market services business, which includes extensive field operations plus remanufacturing and parts distribution facilities, and Enerflex's worldwide operations. 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.

Manufacturing Facilities

In 2012 Enerflex extended its behaviour-based safety program, which has achieved great success in the Houston facility over the past several years, to its Calgary, Alberta and Casper, Wyoming manufacturing facilities. Houston reduced its injury rate by 35-50 percent per year for five consecutive years. The hazard identification cards previously relied upon in the other facilities are useful, but industry research has shown that few safety incidents are caused by the hazards themselves. Most are caused by human behaviour.

Under behaviour-based safety, employees are brought to understand that their behavior and actions on the job are interdependent. The approach includes direct observation of co-workers to identify safe behaviour that should be maintained and practised across the team, as well as potentially hazardous behaviour that should be improved upon. The new program has been well-accepted by employees at the Calgary and Casper facilities and represents further steps towards a true, Company-wide safety culture. The Nisku facility, a star safety performer for several years, is also switching to behaviour-based safety.

At the Casper facility, advanced safety audits were implemented under the direction of a new HSE manager. In each audit, a safety manager and facility manager visit a part of a facility, observe employee behaviour to promote safe practices and improve sub-standard practices, and have the team formally agree to the improvement measures. The Casper facility's safety performance improved month-by-month in the second half of 2012.

At the management level, in spring 2012 Enerflex started an internal HSE focus group to identify best practices in individual facilities for Company-wide implementation, as well as to harmonize overall practices and align management in all business units. Incident reporting has been centralized to facilitate communication of safety awareness and lessons learned worldwide.

Personal protective equipment must be worn at all times in Enerflex's manufacturing facilities.

After-Market Service

Enerflex's service business has an excellent safety performance record. As of December 31, 2012, Gas Drive in Canada had operated for 829 days and in the U.S. for 587 days without a lost-time injury. That represented a total of 2,233,583 exposure hours. Gas Drive has a formal commitment of everyone going home safely after work each day. In the MENA region, Enerflex achieved zero lost-time incidents across all its projects including BP Oman, OOCEP and Tatweer Petroleum.

In 2012 the Company performed a comprehensive assessment of its HSE management system. This began with a job hazard analysis, performed by employees, to provide a detailed inventory and hazard analysis of all tasks performed. Following this, a risk ranking identified critical tasks and identified methods to prevent losses to people, property and the environment. A root cause analysis identified lack of knowledge as contributing to 60 percent of recordable incidents.

The 2012 process confirmed that many of the Company's policies and procedures are effective while identifying areas to improve, such as wildlife safety. Enerflex's on-boarding process for new employees was modified to ensure that recruits understand critical areas within the HSE management system, and the Company also elected to provide existing employees with a refresher course. Preparation of a new HSE management program followed the 2012 assessment process.

In 2013, the Company is conducting a high-risk tasks campaign, with employee communication through orientation, training and written materials being the central tactic. The campaign draws attention to high-risk tasks identified in the 2012 process and informs employees how to protect themselves from associated hazards.

Environmental Management

Enerflex's environmental performance record is very good and the Company experienced a record-low number of spills in 2012. The Company has a full environmental management program, including spill kits in service vehicles and emergency response plans for facilities and locations. Enerflex meets or exceeds environmental legislation and regulation in all its operating regions. In 2012 Enerflex developed a new auditing program to measure the environmental management system's effectiveness and assess control measures. The Houston facility maintains a storm-water pollution prevention program. Each Enerflex facility performs a monthly environmental audit of its environmental controls.

Community Engagement

Enerflex engages in strengthening and helping to shape the future of the communities in which it operates. This is in keeping with the Company's vision, its goal to be a partner of choice, and its desire to foster pride among its employees and sustained relationships with its customers and other stakeholders.

Enerflex contributes directly to a number of causes, and encourages and supports employees in the volunteer and charitable activities in which they engage. We are involved with many charities around the world, including Multiple Sclerosis ("MS") Societies in Alberta and Australia, the Alberta Junior Hockey League, Kids Cancer Care of Alberta, the Children's Protective Services of Houston and other initiatives in nearly all of our operating regions worldwide.

Enerflex's Brisbane team for the 2012 MS Brissie to the Bay, Australia.

Enerflex's Calgary team for the 2012 Enerflex MS Walk, Canada.

GOVERNANCE

Governance at Work

The Board of Directors and management of Enerflex believe that for the Company to achieve its full potential, Enerflex must maintain a strong and effective corporate governance program and rigorously promote/adhere to its vision and values.

Our vision and values are exemplified by the members of our management team, who instill our vision and values through leadership and education among all levels of the Company throughout our six geographical regions. One method by which the Company communicates and reinforces its values is circulating a quarterly global newsletter, Ethics 101, in which employees are presented with an ethics problem and solution. In addition, in 2012 Enerflex provided values training for hundreds of its employees. The focus was on making decisions based on those values – and this process includes asking the right questions and always doing the right thing. The Company also conducted a series of internal presentations at a number of its global locations to promote the Company's vision and values.

Enerflex's Board of Directors is responsible for overseeing the management of the Company's business. The Board consists of eight members, seven of whom are considered independent. 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

Enerflex has constituted three standing committees, to ensure full accountability of the Board and the Company by focusing the detailed attention of experienced members of the Board 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 Human Resources and Compensation Committee, and the Nominating and Corporate Governance Committee.

The Mandate of the Board of Directors 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, please refer to Appendix "A" in Enerflex's Management Information Circular. It is also available on the Company's website at www.enerflex.com.

Attendance by Board Members

Directors	Board Meetings	Audit Committee Meetings	Human Resources and Compensation Committee Meetings	Nominating and Corporate Governance Committee Meetings
Robert S. Boswell	7/8		4/4	2/2
Kenneth R. Bruce	8/8	7/7		
W. Byron Dunn	8/8		4/4	2/2
J. Blair Goertzen[1]	8/8	6/7	4/4	1/2
Wayne S. Hill	8/8	7/7		2/2
H. Stanley Marshall	8/8		4/4	
Stephen J. Savidant[1]	8/8	6/7	4/4	2/2
Michael A. Weill	8/8	7/7		

[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.

BOARD OF DIRECTORS

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.

Kenneth R. Bruce
Director

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

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 Chief Executive Officer, President and a Director from 1997 to 2007. Mr. Dunn is also a Director of Quicksilver Resources Inc., a reporting issuer.

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 with IPEC Ltd. from 1999 to 2002. From 1989 to 1999, Mr. Goertzen was Vice President of Enserv Company and was appointed to Senior Vice President, Business Development of Precision Drilling Company when Precision acquired Enserv.

Wayne S. Hill
Director

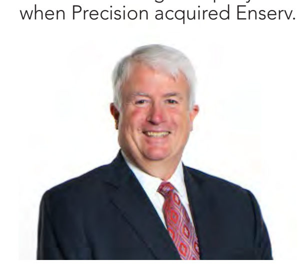
Mr. Hill is an independent businessman with an extensive background in finance, accounting and general management with Canadian public companies and is a director of Toromont Industries Ltd. He has served as director of various other Canadian listed companies and was on the Board of Enerflex Systems Ltd. from 1988 until 1996. He was Executive Vice President of Toromont until retirement in 2008, was Executive Vice President and Chief Financial Officer of Toromont until 2005 and Vice President, Finance and Chief Financial Officer from 1985 to 2002. Prior to 1985, he held executive positions with Canadian public companies and as a Chartered Accountant working in the public accounting profession for 10 years.

H. Stanley Marshall
Director

Mr. Marshall is the President and Chief Executive Officer and a Director of Fortis Inc. Fortis Inc. is an international electric utility holding company and 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.

Stephen J. Savidant
Chairman

Mr. Savidant is an independent businessman with approximately 35 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 Limited, a reporting issuer.



Michael A. Weill
Director

Mr. Weill has been the Chief Executive Officer 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 as 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 from 1980 to 1996.

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 year ended December 31, 2012 and 2011. They should also be read in combination with Toromont Industries Ltd. ("Toromont") Management Information Circular relating to an arrangement involving Toromont, its shareholders, Enerflex Ltd. ("Enerflex" or "the Company") and 7787014 Canada Inc. ("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. 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 28, 2013 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 in the future. Additional information relating to the Company, including the Annual Information Form and Management 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. Any statements, other than statements of historical fact contained in this MD&A may be 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 the impact of such prices on demand for Enerflex products and services; development trends in the oil and gas industry; seasonal variations in the activity levels of certain oil and gas markets; 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; the ability of existing and expected cash flows and other cash resources to fund investments in working capital and capital assets; the impact of economic conditions on accounts receivable; expectations regarding future dividends; expectations and implications of changes in government regulation, laws and income taxes; alternatives relating to the sale or wind up of the European Service and Combined Heat and Power business and other such matters. 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; political 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 was formed after the acquisition of Enerflex Systems Income Fund ("ESIF") by Toromont and subsequent integration of ESIF'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. 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 and Enerflex. Enerflex's shares began trading on the Toronto Stock Exchange ("TSX") on June 3, 2011 under the symbol EFX.

Enerflex 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.

Enerflex operates three business segments: Canada and Northern U.S., Southern U.S. and South America and International. The International business segment includes operations in the Middle East and North Africa ("MENA") region, Singapore and Australia. Further information on these business segments is provided in the *Segmented Results* section. Each regional business segment has three main product lines: Engineered Systems, Service and Rentals.

The Engineered Systems product line includes engineering, fabrication and assembly of standard and custom-designed compression packages, production and processing equipment and facilities, including refrigeration systems, and power generation systems.

The Service product line includes support services, labour and parts sales to the oil and gas industry. Enerflex, through wholly-owned Gas Drive Global LP ("Gas Drive") subsidiaries, is the authorized distributor and service provider for GE's Waukesha gas engines and parts in Canada, the Northern U.S. including Alaska, Australia, Indonesia and Papua New Guinea, and for Jenbacher gas engines and parts in Canada. The Company is also the exclusive authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems in Canada, Australia, and New Zealand. Outside of Gas Drive's designated distribution/service areas, in the Southern U.S., in South America and in the MENA region, after-market service continues to be provided by Enerflex.

The Rentals product line 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 the Northern U.S. Expansion in international markets is conducted on a selective basis to minimize the risk of these newer markets.

Headquartered in Calgary, Canada, Enerflex has approximately 3,300 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint-ventures, operate in Canada, the United States, Argentina, Colombia, Australia, the United Kingdom, Russia, the United Arab Emirates ("UAE"), Oman, Egypt, Bahrain, Indonesia and Singapore.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The oil and natural gas service sector in the Canada and Northern U.S. segment 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 generally more stable throughout the year. Rentals revenues are also impacted by both the Company's and its customers' capital investment decisions.

The Southern U.S. and South America, and International segments are not significantly impacted by seasonal factors. Variations from these trends in all regional segments generally occur when hydrocarbon energy supply and demand fundamentals are either improving or deteriorating.

During the 2012 year, Enerflex experienced a downturn in bookings in the Canada and Northern U.S., and Southern U.S. and South America segments due to weak natural gas prices and Natural Gas Liquids ("NGL") prices, which has resulted in a corresponding reduction in activity levels by natural gas producers. In addition, in the International segment, bookings were lower in 2012, particularly in the Middle East and North Africa region. During 2012, Enerflex recorded bookings of $875.5 million compared to $1,242.9 million during the same period in 2011. The weak natural gas prices in the Canada and Northern U.S. segment continued throughout 2012, resulting in reduced bookings. The Southern U.S. and South America segment experienced strong bookings in the first half of 2012, saw activity decline in the third quarter of 2012, but finished with a strong fourth quarter. International bookings have remained strong in the twelve months ended December 31, 2012, compared to the same period last year, driven by activity in Australia. Bookings have not, however, included a repeat of the large International project in the Sultanate of Oman that was booked in the fourth quarter of 2011. It is important to note that international projects have long lead times associated with tendering, bid evaluation and contract award due to projects being larger in scale and scope.

Manufacturing activity levels for the Engineered Systems product line, and correspondingly revenue, have increased in 2012 in the Southern U.S. and South America, and International segments, and were comparable with 2011 for the Canada and Northern U.S. segment. The higher revenues in 2012 were a result of a higher backlog at the start of 2012 of $986.1 million, compared to $643.6 million at the start of 2011. Engineered Systems revenues increased 30 percent from $906.1 million in 2011 to $1,178.4 million in 2012. During 2012, as a result of the lower booking levels and the increased conversion of backlog to Engineered Systems revenue, the backlog has declined to $683.2 million as at December 31, 2012.

Service activity levels in 2012 were comparable with 2011 in Canada and the Northern U.S. despite lower natural gas prices. In response to the lower prices, natural gas producers in Canada and the Northern U.S. have curtailed or "shut-in" dry gas production. As a result Enerflex reorganized the Service business and recorded a $1.5 million restructuring charge during the second quarter of 2012, positioning itself well for the second half of 2012 and into 2013. Company-wide, revenues from the Service product line in 2012 have increased primarily due to growth and higher service activity levels in the International segment due to new service contracts in the MENA region and increased parts sales and overhaul activity levels in Australia related to Coal Seam Gas ("CSG") to Liquefied Natural Gas ("LNG") development. Southern U.S. and South America Service activity levels in 2012 were comparable to the same period in 2011.

North American rental utilization levels have decreased to 61 percent in the fourth quarter of 2012, compared to 62 percent in 2011, resulting in a corresponding reduction in revenues in 2012. The decrease in utilization occurred despite the sale of idle rental units from the fleet, resulting in a decrease in the total horsepower available.

The sale of the Company's 50 percent Joint Venture interest in Presson Descon International Limited ("PDIL") to its joint venture partner, Descon Engineering Limited, was completed during the third quarter of 2012.

Update on Discontinued Operations

The European Service and Combined Heat and Power ("CHP") business, within the International segment, has been reported as a discontinued operation since the third quarter of 2011. In 2011, Enerflex 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.

As noted in previous public disclosures, Enerflex would consider a sale, partial sale, wind up or combination thereof of the Service and CHP business. Enerflex conducted a process to sell this business as a "turnkey" operation to third parties. This process was unsuccessful as offers received were not considered fair and reasonable, resulting in the termination of the sale process. Enerflex is now pursuing alternatives involving a partial sale and wind up of the Service and CHP business. Enerflex recorded additional reorganization costs during the second quarter of 2012 totaling $5.9 million to reflect anticipated termination payments to employees, lessors and vendors under the applicable laws in the Netherlands, in the event that part of the operations are wound up. The partial sale and wind up process is subject to and shall be conducted in accordance with Dutch information and consultation rules.

OUTLOOK FOR MARKETS

Enerflex entered 2012 with a significantly higher backlog than the prior year. Bookings during 2011, including the large International contract in the Sultanate of Oman, received during the fourth quarter of 2011, resulted in a backlog for Engineered Systems of $986.1 billion to start 2012. Enerflex exited 2012 with a backlog of $683.2 million, the decrease attributable to lower bookings in all segments and higher revenue conversion in 2012.

The Canada and Northern U.S. segment experienced a downturn in activity levels during 2012 as a result of weak natural gas prices. Natural gas prices dropped below $2.00/million cubic feet ("mcf") during the first half of 2012 but showed an upward trend during the second half of the year. Prices in the early part of 2013 continued to be weak at around $3.50/mcf. North America experienced a very mild winter to start 2012, which increased storage levels well above the five year average. Absent a material short term increase in demand or decrease in current production levels, Enerflex expects natural gas storage levels to remain above the five year average during 2013, which will in turn keep natural gas prices low or range bound. This continues to create uncertainty for producers and results in downward pressure on capital spending directed at dry gas exploration and production, a trend that was witnessed in this region during 2012. This negatively impacted bookings for Enerflex's Engineered Systems business and revenues for the Service and Rentals businesses during 2012. Enerflex expects this trend for the region to continue during the first half of 2013, unless there is significant improvement in natural gas supply and demand fundamentals, or until LNG projects in Western Canada progress.

The performance of the Southern U.S. and South America segment has been largely dependent on activity in liquids-rich U.S. gas basins, which give rise to new orders for compression and processing 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 can be realized for the NGL. Activity levels remain strong in these basins as long as the frac spread (the differential between NGL prices and natural gas prices) remains high. NGL prices have weakened during 2012, and Enerflex experienced a corresponding drop in bookings, inquiry levels and capital spending from producers during the third quarter of 2012. This trend reversed during the fourth quarter with a significant increase in bookings that have continued to be robust to start 2013 in this region. Despite the stronger bookings, Enerflex remains optimistic yet cautious with respect to this region. Weaker NGL prices, lower activity levels for dry gas exploration and uncertainty around timing of capital expenditures could lead to similar activity levels in 2013 as were experienced in 2012. Enerflex remains well positioned in this segment given backlog levels, which stood at $227.6 million at the end of the fourth quarter of 2012.

The International segment continues to hold considerable long-term opportunity and benefited from strong bookings and backlog during the twelve months of 2011. Bookings in the twelve months of 2012 were $231.2 million, which is lower than the $456.0 million during the same period in 2011, which included a large order of $228.0 million USD for a gas processing plant awarded to the Company in the fourth quarter of 2011. Activity in this segment is driven by increased activity in the natural gas industry in both Australia and the MENA region. In Australia, there are numerous LNG projects in various stages of development with the potential for additional phases to be developed in the future. In the MENA region, Enerflex has adopted a targeted approach to mitigate exposure to political unrest. The Company's primary areas of focus are Bahrain, Oman and the UAE. Enerflex commenced commercial activities on some key projects in the region during 2012 including the gas processing plant currently being constructed in Oman. Domestic demand for gas in this region remains strong and the Company is well positioned to compete for future projects in the UAE, Oman and Bahrain for compression, processing equipment and after-market service support. Project tendering, bid evaluation and contract award have longer lead times in the International region due to projects being larger in scale and scope. Enerflex remains well positioned in this segment given backlog levels, which stood at $348.7 million at the end of the fourth quarter of 2012.

FINANCIAL HIGHLIGHTS

	Three months ended December 31,		Twelve months ended December 31,	
($ Canadian thousands)	**2012**	2011	**2012**	2011
Revenue				
Canada and Northern U.S.	**$ 117,441**	$ 151,844	**$ 509,359**	$ 524,235
Southern U.S. and South America	**154,453**	109,664	**512,145**	342,335
International	**149,696**	122,294	**480,180**	360,567
Total revenue	**421,590**	383,802	**1,501,684**	1,227,137
Costs of goods sold	**344,019**	315,180	**1,228,529**	1,001,261
Gross margin	**77,571**	68,622	**273,155**	225,876
Selling and administrative expenses	**41,117**	42,113	**158,598**	145,790
Operating income	**36,454**	26,509	**114,557**	80,086
Loss (gain) on disposal of property, plant and equipment	**61**	82	**(951)**	(3,594)
Equity earnings	**(367)**	(354)	**(1,833)**	(1,161)
Earnings before finance costs and taxes	**36,760**	26,781	**117,341**	84,841
Finance costs and income	**1,368**	1,201	**5,661**	7,011
Earnings before taxes	**35,392**	25,580	**111,680**	77,830
Income tax expense	**8,388**	7,860	**29,427**	21,089
Gain on sale of discontinued operations	**–**	–	**–**	1,430
Loss from discontinued operations	**(639)**	(6,963)	**(10,479)**	(65,470)
Net earnings (loss)	**$ 26,365**	$ 10,757	**$ 71,774**	$ (7,299)
Key Financial Performance Indicators [1]				
Bookings	**$ 242,558**	$ 453,260	**$ 875,477**	$ 1,242,850
Backlog	**$ 683,206**	$ 986,105	**$ 683,206**	$ 986,105
Recurring revenue as a percentage of revenue	**20.6%**	21.4%	**21.5%**	26.2%
Gross margin as a percentage of revenue	**18.4%**	17.9%	**18.2%**	18.4%
Selling and administrative expenses as a percentage of revenue	**9.8%**	11.0%	**10.6%**	11.9%
Earnings before finance costs and taxes as a percentage of revenue	**8.7%**	7.0%	**7.8%**	6.9%
Earnings before interest, tax, depreciation and amortization ("EBITDA")	**$ 47,073**	$ 36,646	**$ 156,828**	$ 127,012
Return on capital employed	**16.7%**	11.1%	**13.3%**	8.8%
Net (cash) debt to EBITDA ratio	**(0.26):1**	0.26:1	**(0.31):1**	0.30:1

[1] Key financial performance indicators used by Enerflex to measure its performance include revenue and earnings before finance costs and taxes.

DEFINITIONS

The success of the Company and its business unit strategies is measured using a number of key financial performance indicators, some of which are outlined below. A number of these indicators do not have a standardized meaning as prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These non-GAAP measures are bookings and backlog, recurring revenue as a percentage of revenue, earnings before interest (or finance) costs (net of interest income), taxation, depreciation and amortization ("EBITDA"), net (cash) debt to EBITDA ratio, and return on capital employed ("ROCE"). Further information on these Non-GAAP measures is provided in the section, *Non-GAAP measures.*

Operating Income and Operating Margin

Operating income and margin assists the reader in understanding the net contributions made from the Company's core businesses after considering all selling, general and administrative ("SG&A") expenses. 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 (or finance) costs (net of interest income), 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 the Engineered Systems product line. Bookings are recorded in the period when a firm commitment or order is received from customers. Bookings increase backlog in the period that they are received. Revenue recognized on Engineered Systems products decreases 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.

Recurring Revenue

Recurring revenue is defined as revenue from the Service and Rental product lines, and provides a measure of the Company's revenue that is probable to recur into the future.

EBIT

EBIT provides the results generated by the Company's primary business activities prior to consideration of how those activities are financed or taxed in the various jurisdictions that the Company operates in.

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.

ROCE

ROCE is a measure that management uses to analyze operating performance and efficiency of the Company's capital allocation process. The ratio is calculated by taking annualized earnings before finance costs and income (or interest) and tax ("EBIT") divided by capital employed. Capital employed is the average of four previous quarters plus current month balance (short-term debt + long-term debt + equity – cash).

Net (Cash) Debt to EBITDA

Net (cash) debt is defined as short and long-term debt less cash and cash equivalents at the end of the period divided by the annualized EBITDA.

FINANCIAL RESULTS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2012

During the fourth quarter of 2012, the Company generated $421.6 million in revenue, as compared to $383.8 million in the fourth quarter of 2011. During the year ended December 31, 2012, the Company generated $1,501.7 million compared to $1,227.1 million in 2011. The increases of $37.8 million and $274.6 million, respectively, were due to increased revenue in the Southern U.S. and South America, and International segments, partially offset by lower revenue in Canada and the Northern U.S. As compared to the three and twelve months periods ended December 31, 2011:

- Canada and Northern U.S. segment revenue decreased by $34.4 million during the fourth quarter of 2012 as a result of lower Engineered Systems and Rental revenue, partially offset by an increase in Service revenue compared with the prior period of 2011. For the year ended December 31, 2012, revenue was $14.9 million lower due to a decrease in Engineered Systems and Rental revenue, with Service revenue comparable with the 2011 year. Despite a higher 2012 opening backlog and stronger Engineered Systems revenue in the first nine months of 2012, the lower opening backlog to start the fourth quarter of 2012, coupled with lower rental sales, resulted in lower revenues for the three and twelve months ended December 31, 2012;

- Southern U.S. and South America segment revenue increased in 2012 by $44.8 million and $169.8 million, respectively, as a result of increased Engineered Systems revenue, and increased Service revenue during the fourth quarter of 2012. The increase in Engineered Systems revenue was caused by higher opening backlog to start 2012 and the expansion of the Houston manufacturing facility. Service revenue for the 2012 and 2011 years was comparable; and

- International segment revenue increased by $27.4 million and $119.6 million, respectively, on account of increased Engineered Systems and Service revenue during the fourth quarter and year ended December 31, 2012, which was partially offset by lower Rental revenue in the 2012 year. Rental revenue in the fourth quarters of 2012 and 2011 was comparable. Higher Engineered Systems revenue was attributable to higher opening backlog, and higher activities levels in Australia and the MENA region. The higher activity levels in these regions in 2012 also led to an increase in Service revenue as Enerflex continues to expand its service infrastructure in this segment. International revenue in 2011 included $22.6 million with respect to approved variation claims and the completion of a project on more favourable terms than originally anticipated in the MENA region.

Gross Margin for the three months ended December 31, 2012 was $77.6 million or 18.4 percent of revenue as compared to $68.6 million or 17.9 percent of revenue for the three months ended December 31, 2011. Gross margin for the year ended December 31, 2012 was $273.2 million or 18.2 percent of revenue as compared to $225.9 million or 18.4 percent of revenue for the year ended December 31, 2011. The increase in gross margin during the fourth quarter of 2012 of $9.0 million was primarily due to strong gross margin performance in the Southern U.S. and South America, and International segments, partially offset by lower gross margin in the Canada and Northern U.S. segment as a result of the decrease in Engineered Systems and Rental revenues. The increase in gross margin of $47.3 million during 2012 was a result of strong gross margin performance in the Southern U.S. and South America, and International segments, partially offset by lower gross margin in the Canada and Northern U.S. segment compared to 2011. In addition, during 2011, gross margin included $16.5 million with respect to approved variation claims and the completion of a project on more favourable terms than originally anticipated in the MENA region.

The stronger gross margin performance in 2012 in the Southern U.S. and South America segment was attributable to higher revenues and better project execution. In the International segment, stronger plant utilization and project execution in 2012, coupled with increased revenues, drove an increase in gross margin. In Canada and the Northern U.S., however, gross margin was lower in 2012 due to lower revenues, weaker plant utilization and project execution challenges in Casper, Wyoming.

SG&A expenses were $41.1 million or 9.8 percent of revenue during the three months ended December 31, 2012, compared to $42.1 million or 11.0 percent of revenue in the same period of 2011. SG&A expenses were $158.6 million or 10.6 percent of revenue during the year ended December 31, 2012, compared to $145.8 million or 11.9 percent of revenue in 2011. The increase in SG&A expenses during the 2012 year was a result of higher compensation and incentive costs due to an increase in headcount, and partially offset by lower facility costs.

Operating Income during the fourth quarter of 2012 was $36.5 million or 8.6 percent of revenue compared to $26.5 million or 6.9 percent of revenue in the same period of 2011. Operating income during the 2012 year was $114.6 million or 7.6 percent of revenue compared to $80.1 million or 6.5 percent of revenue in 2011. The increase in operating income was due to the same factors contributing to the increased revenue and gross margin, which was partially offset by the higher SG&A expenses for the year ended December 31, 2012.

Income Tax Expense totalled $8.4 million or 23.7 percent of earnings before tax for the three months ended December 31, 2012 compared to an expense of $7.9 million or 30.7 percent of earnings before tax in the same period of 2011. Income tax expense totalled $29.4 million or 26.3 percent of earnings before tax for the year ended December 31, 2012 compared with an expense of $21.1 million or 27.1 percent of earnings before tax in 2011. The increases in income tax expense were due to higher pre-tax earnings. Enerflex's effective tax rate was impacted by a reduction in the Canadian statutory rate, the impact of deferred income tax rate adjustments in the fourth quarter of 2011 that did not recur in 2012, and variations in the mix of earnings in foreign operations for the comparative periods.

Net Earnings from continuing operations for the fourth quarter of 2012 were $27.0 million or $0.35 per share, compared to $17.7 million or $0.22 per share in the same period of 2011. Net earnings from continuing operations for the 2012 year were $82.3 million or $1.06 per share, compared to $56.7 million or $0.73 per share in 2011. The increase in net earnings was a result of the increase in gross margin, partially offset by higher SG&A and income tax expenses.

Loss from discontinued operations reflects the results of Enerflex Environmental Australia ("EEA") during 2011 and Enerflex Europe ("EE") during 2011 and 2012. These business units recorded a net loss from discontinued operations of $0.6 million ($0.01 per share) and $7.0 million ($0.09 per share) in the fourth quarter of 2012 and 2011, respectively, and $10.5 million ($0.14 per share) and $64.0 million ($0.83 per share) in the 2012, and 2011 years, respectively. As discussed in the overview section, Enerflex recorded an impairment of $54.0 million in 2011, of which $52.0 million was recorded during the third quarter of 2011, and additional reorganization costs of $5.9 million were recorded during the second quarter of 2012 for the European Service and CHP operations.

SEGMENTED RESULTS

Enerflex operates three business segments: Canada and Northern U.S., Southern U.S. and South America, and International, which operate as follows:

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

- Compression and Process, with business units operating in Canada and the Northern U.S., which provides custom and standard compression packages for reciprocating and screw compressor applications, Production and Processing which designs, manufactures, constructs and installs modular natural gas processing equipment, and Retrofit which operates from plants located in Calgary, Grande Prairie and Red Deer, Alberta and Casper, Wyoming;

- Service (Gas Drive), which provides mechanical services and parts as the authorized distributor of GE's Waukesha gas engines to the oil and gas industries, focusing in Canada and the Northern U.S., and as the authorized distributor and service provider of Jenbacher engines and parts in Canada. Enerflex re-branded its service business as Gas Drive during the fourth quarter of 2011 and was awarded new service territories within the U.S. All parts sales and service revenue are now conducted under the Gas Drive banner; and

- Rentals, which provides natural gas compression and power generation equipment rentals in Canada and the Northern U.S.

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

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

> Gas Processing, which engineers, designs, manufactures, constructs and installs modular natural gas processing equipment, refrigeration systems and turnkey deep cut cryogenic gas processing facilities; and

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

3. International is comprised of five divisions:

Continuing Operations

> AustralAsia division, which provides process facility 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;

> Southeast Asia division, including a recently launched operation in Singapore which provides compression and processing solutions to customers in the region. Service capabilities are also provided to Southeast Asia through the Indonesian operations in AustralAsia;

> MENA, which provides engineering, procurement and construction services, compression and process package sales, as well as operating and maintenance services for gas compression and processing facilities in the region; and

> Production and Processing ("P&P") which 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 provides CHP generator products and mechanical service to the CHP product line. Enerflex has announced its intention to exit this business and as a result of this decision, the Europe division is reported as a discontinued operation.

Effective January 1, 2013, the reporting for the P&P division was changed from the International business segment to the Canada and Northern U.S. segment. The change in reporting was to focus the division on expansion into Alberta's oil sands, and to better align Enerflex's North American manufacturing facilities.

Enerflex has three main product lines as defined under the section, *The Company*. These are Engineered Systems, Service and Rental.

CANADA AND NORTHERN U.S.

($ Canadian thousands)	Three months ended December 31, 2012	2011	Twelve months ended December 31, 2012	2011
Segment revenue	**$ 146,275**	$ 191,032	**$ 586,849**	$ 641,459
Intersegment revenue [1]	**(28,834)**	(39,188)	**(77,490)**	(117,224)
Revenue	**$ 117,441**	$ 151,844	**$ 509,359**	$ 524,235
Revenue – Engineered Systems	**$ 63,327**	$ 96,943	**$ 302,532**	$ 307,452
Revenue – Service	**$ 45,254**	$ 42,067	**$ 171,452**	$ 171,553
Revenue – Rental	**$ 8,860**	$ 12,834	**$ 35,375**	$ 45,230
Operating income	**$ 7,764**	$ 12,093	**$ 32,843**	$ 38,849
Segment revenue as a % of total revenue	**27.9%**	39.6%	**33.9%**	42.7%
Service revenue as a % of segment revenue	**38.5%**	27.7%	**33.7%**	32.7%
Operating income as a % of segment revenue	**6.6%**	8.0%	**6.4%**	7.4%

[1] Intersegment revenue includes revenue on contracts relating to CSG projects in Queensland, Australia.

Canada and Northern U.S. revenue totalled $117.4 million and $509.4 million in the fourth quarter of 2012 and the 2012 year, respectively, compared to $151.8 million and $524.2 million for the same periods of 2011.

The decrease in revenue of $34.4 million in the fourth quarter of 2012 was a result of lower Engineered Systems revenue caused by lower backlog to start the fourth quarter of 2012, and lower Rental revenue as a result of continuing weak natural gas prices. Service revenue was slightly higher when compared with the same period of 2011 as a result of increased parts and engine sales.

In the 2012 year, revenue was $14.8 million lower with a reduction in revenue from Engineered Systems and lower Rental revenue. Engineered Systems had higher opening backlog for 2012 compared to 2011, which was due to high activity levels in the Montney and Horn River resource basins throughout 2011 resulting in strong bookings in the latter half of the year. Engineered Systems revenue was strong for the first nine months of 2012 relative to 2011 but was lower in the fourth quarter of 2012 as the backlog depleted. Rental revenue decreased as a result of lower rental sales during 2012 compared to 2011. Weak natural gas prices have resulted in dry gas production being curtailed by certain producers which in turn impacted activity levels in Enerflex's Service and Rental business in this region. Service revenue in 2012 and 2011 was comparable.

Operating income decreased by $4.3 million to $7.8 million in the fourth quarter of 2012 when compared to the fourth quarter of 2011. The decrease was due to lower revenues and weaker gross margin performance resulting from lower overhead absorption on Engineered Systems jobs, caused by lower manufacturing utilization rates in Enerflex facilities. This was partially offset by lower SG&A expenses due to cost savings from lower compensation costs.

Operating income was $6.0 million lower during the 2012 year at $32.8 million, due to weaker gross margin performance compared to the same period in 2011. SG&A expenses were comparable with 2011 despite costs of $1.5 million in reorganizing the Canadian Service operations during the second quarter of 2012, and increased costs associated with growing the U.S. Service operations. The deterioration in gross margin in the 2012 year was attributable to slightly lower Engineered Systems revenue, significantly lower overhead absorption, cost overruns and warranty claims on certain compression and process projects in Casper, Wyoming, and lower realized margins on the sale of rental units.

SOUTHERN U.S. AND SOUTH AMERICA

($ Canadian thousands)	Three months ended December 31, 2012	2011	Twelve months ended December 31, 2012	2011
Segment revenue	**$ 159,465**	$ 110,359	**$ 517,574**	$ 343,596
Intersegment revenue	**(5,012)**	(695)	**(5,429)**	(1,261)
Revenue	**$ 154,453**	$ 109,664	**$ 512,145**	$ 342,335
Revenue – Engineered Systems	**$ 142,072**	$ 99,342	**$ 468,960**	$ 299,470
Revenue – Service	**$ 12,381**	$ 10,322	**$ 43,185**	$ 42,865
Operating income	**$ 20,174**	$ 10,906	**$ 55,937**	$ 33,191
Segment revenue as a % of total revenue	**36.6%**	28.6%	**34.1%**	27.9%
Service revenue as a % of segment revenue	**8.0%**	9.4%	**8.4%**	12.5%
Operating income as a % of segment revenue	**13.1%**	9.9%	**10.9%**	9.7%

Southern U.S. and South America revenue totalled $154.5 million in the fourth quarter of 2012, and $512.1 million for the year compared to $109.7 million and $342.3 million, respectively, in the three and twelve months of 2011.

The increase in revenue of $44.8 million in the fourth quarter of 2012 was the result of higher Engineered Systems revenue compared to 2011 due to the expansion of the Houston manufacturing facility, completed in the second quarter of 2012. Service revenue in the fourth quarter of 2012 was also slightly higher due to increased service calls and parts sales, compared to the same period in 2011.

The increase in revenue of $169.8 million in 2012 was the result of higher opening backlog for Engineered Systems and the expansion of the Houston facility. The liquids-rich resource basins such as the Eagle Ford, Marcellus, Woodford and Permian have remained active into 2012 which has resulted in strong backlog levels. Service revenue was comparable with 2011.

Operating income increased from $10.9 million in the fourth quarter of 2011 to $20.2 million in the fourth quarter of 2012 due to the higher revenue in 2012 and associated higher gross margin. These increases were partially offset by lower absorption of labour hours on Engineered Systems jobs, and higher SG&A expenses compared to the fourth quarter of 2011 as a result of an increase in compensation and incentive costs, and costs related to the expansion of the Houston facility.

Operating income increased from $33.2 million in 2011 to $55.9 million in 2012, due to the higher revenue in 2012 and associated gross margin. These increases were partially offset by lower absorption on Engineered Systems jobs, and higher SG&A expenses compared to 2011 as a result of an increase in compensation and incentive costs, and the costs related to the Houston facility expansion.

INTERNATIONAL

($ Canadian thousands)	Three months ended December 31, 2012	2011	Twelve months ended December 31, 2012	2011
Segment revenue	**$ 149,764**	$ 122,496	**$ 482,825**	$ 365,198
Intersegment revenue	**(68)**	(202)	**(2,645)**	(4,631)
Revenue	**$ 149,696**	$ 122,294	**$ 480,180**	$ 360,567
Revenue – Engineered Systems	**$ 129,367**	$ 105,504	**$ 406,885**	$ 299,171
Revenue – Service	**$ 19,379**	$ 15,830	**$ 69,521**	$ 47,799
Revenue – Rental	**$ 950**	$ 960	**$ 3,774**	$ 13,597
Operating income	**$ 8,516**	$ 3,510	**$ 25,777**	$ 8,046
Segment revenue as a % of total revenue	**35.5%**	31.9%	**32.0%**	29.4%
Service revenue as a % of segment revenue	**12.9%**	12.9%	**14.5%**	13.3%
Operating income as a % of segment revenue	**5.7%**	2.9%	**5.4%**	2.2%

Continuing Operations

International revenue totalled $149.7 million in the fourth quarter of 2012, and $480.2 million in the twelve months ended December 31, 2012, compared to $122.3 million and $360.6 million, respectively, in the same periods of 2011.

The $27.4 million increase in revenue in the fourth quarter of 2012 was due to higher activity levels in Australia for Engineered Systems and Service revenue for CSG to LNG projects, and higher activity levels in the MENA region for Engineered Systems and Service revenue for gas processing and compression projects. These increases were partly offset by lower revenue for International P&P and lower Rental revenue.

The increase in revenue of $119.6 million in the 2012 year was due to an increase in Engineered Systems and Service revenue compared to the same period in 2011. Engineered Systems revenue increased as a result of higher opening backlog. Service revenue increased due to the higher activity levels in Australia and the MENA region. Revenue in 2011 included $22.6 million resulting from approved variation claims and the completion of a project on more favourable terms than originally anticipated in the MENA region.

Operating income for the fourth quarter of 2012 was $8.5 million, compared to operating income of $3.5 million in the fourth quarter of 2011. The $5.0 million increase in operating income was due to the higher revenue and associated gross margin. This was partially offset by higher SG&A expenses related to higher compensation costs.

Operating income for the 2012 year was $25.8 million, compared to operating income of $8.0 million in 2011. The $17.8 million increase in operating income was due to higher gross margins in backlog, stronger plant utilization and better project execution, partially offset by higher SG&A expenses resulting from an increase in compensation costs and a loss on the sale of PDIL. During the twelve months of 2011, gross margin included $16.5 million with respect to approved variation claims and the completion of a project on more favourable terms than originally anticipated in the MENA region.

Discontinued Operations

Loss from discontinued operations reflects the results of EEA during 2011 and EE during 2011 and 2012. These business units recorded a net loss from discontinued operations of $0.6 million and $7.0 million in the fourth quarter of 2012 and 2011, respectively, and $10.5 million and $64.0 million in 2012, and 2011, respectively. As discussed in the overview section, Enerflex recorded an impairment of $54.0 million during 2011, of which $52.0 million was recorded during the third quarter of 2011, and recorded additional reorganization costs of $5.9 million during the second quarter of 2012 for the European Service and CHP operations.

BOOKINGS AND BACKLOG

The Company records bookings and backlog when a firm commitment 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)	Three months ended December 31, **2012**	2011	Twelve months ended December 31, **2012**	2011
Canada and Northern U.S.	**$ 52,816**	$ 78,758	**$ 232,329**	$ 348,849
Southern U.S. and South America	**117,988**	76,630	**411,981**	437,953
International	**71,754**	297,872	**231,167**	456,048
Total bookings	**$ 242,558**	$ 453,260	**$ 875,477**	$ 1,242,850

Backlog

($ Canadian thousands)	As at December 31, **2012**	2011
Canada and Northern U.S.	**$ 106,854**	$ 177,056
Southern U.S. and South America	**227,643**	284,622
International	**348,709**	524,427
Total backlog	**$ 683,206**	$ 986,105

Backlog in the Canada and Northern U.S. segment was $70.2 million lower in 2012. The decrease is a result of low natural gas prices reducing producer activity levels, which in turn reduced booking opportunities. This region also experienced a $13.7 million project cancellation during the fourth quarter of 2012. The Southern U.S. and South America backlog was $57.0 million lower at the end of 2012 as a result of lower bookings for the year. After increased activity in the first half of 2012 in the liquids-rich shale resources in the Eagle Ford, Marcellus, Permian, and Woodford resource basins, bookings slowed in the third quarter of 2012 as a result of lower NGL prices in 2012 compared to the same period in 2011, before recovering in the fourth quarter of 2012. The International backlog was $175.7 million lower in 2012 compared to 2011. The decrease is attributable to the Company's partial fulfillment of the equipment orders destined for Australia (project awarded in 2010) and the gas processing plant contract in the Sultanate of Oman (awarded in 2011).

QUARTERLY AND ANNUAL SUMMARY

($ Canadian thousands)	Revenue [1]	Net earnings [1]	Earnings per share – basic [1,2]	Earnings per share – diluted [1,2]
December 31, 2012	**$ 421,590**	**$ 27,004**	**$ 0.35**	**$ 0.35**
September 30, 2012	369,727	20,950	0.27	0.27
June 30, 2012	354,636	19,401	0.25	0.25
March 31, 2012	355,731	14,898	0.19	0.19
December 31, 2011	383,802	17,720	0.22	0.22
September 30, 2011	282,335	16,979	0.22	0.22
June 30, 2011	246,491	12,210	0.16	0.16
March 31, 2011	314,509	9,832	0.13	0.13
December 31, 2010	347,616	8,319	0.11	0.11
September 30, 2010	270,859	5,062	0.06	0.06
June 30, 2010	244,502	3,686	0.05	0.05
March 31, 2010	204,806	13,195	0.18	0.18

1 Amounts presented are from continuing operations.

2 Enerflex shares were issued pursuant to the Arrangement on June 1, 2011; as a result, per share amounts for comparative periods prior to June 30, 2011 are based on Toromont's common shares at the time of initial exchange.

($ Canadian thousands)	Total Assets	Total Non-Current Financial Liabilities	Cash Dividends Declared Per Share
December 31, 2012	**$ 1,389,264**	**$ 96,469**	**$ 0.25**
December 31, 2011	1,351,618	118,963	0.18
December 31, 2010	1,377,556	215,000	0.00

NON-GAAP MEASURES

The success of the Company and its business unit strategies is measured using a number of key performance indicators, some of which do not have a standardized meaning as prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These non-GAAP measures are also used by management in its assessment of relative investments in operations and include bookings and backlog, recurring revenue as a percentage of revenue, EBITDA, net (cash) debt to EBITDA ratio, and ROCE. They should not be considered as an alternative to net income or any other measure of performance under GAAP. The reconciliation of these non-GAAP measures to the most directly comparable measure calculated in accordance with GAAP is provided below where appropriate. Bookings and backlog do not have a directly comparable GAAP measure.

Definitions of the non-GAAP measures are provided in the section, *Definitions*.

($ Canadian thousands)	Three months ended December 31, **2012**	2011	Twelve months ended December 31, **2012**	2011
EBITDA				
Earnings before finance costs and taxes	**$ 36,760**	$ 26,781	**$ 117,341**	$ 84,841
Depreciation and amortization	**10,313**	9,865	**39,487**	42,171
EBITDA	**$ 47,073**	$ 36,646	**$ 156,828**	$ 127,012
Net (Cash) Debt				
Short and long-term debt, net of deferred transaction costs	**$ 96,469**	$ 118,963	**$ 96,469**	$ 118,963
Less: Cash and cash equivalents	**(144,988)**	(81,200)	**(144,988)**	(81,200)
Net (Cash) Debt	**$ (48,519)**	$ 37,763	**$ (48,519)**	$ 37,763
Net (Cash) Debt to EBITDA				
Net (Cash) Debt	**$ (48,519)**	$ 37,763	**$ (48,519)**	$ 37,763
Annualized EBITDA	**188,292**	146,584	**156,828**	127,012
Net (Cash) Debt to EBITDA ratio	**$ (0.26)**	$ 0.26	**$ (0.31)**	$ 0.30
Recurring Revenue				
Service	**$ 77,014**	$ 68,219	**$ 284,158**	$ 262,217
Rental	**9,810**	13,794	**39,149**	58,827
Total Recurring Revenue	**$ 86,824**	$ 82,013	**$ 323,307**	$ 321,044

($ Canadian thousands)	Three months ended December 31, **2012**	2011	Twelve months ended December 31, **2012**	2011
ROCE				
Annualized EBIT	**$ 147,040**	$ 107,124	**$ 117,341**	$ 84,841
Capital Employed – beginning of twelve month period				
Net Debt	**$ 37,763**	$ 200,000	**$ 37,763**	$ 200,000
Shareholders' equity	**836,262**	839,132	**836,262**	839,132
	$ 874,025	$ 1,039,132	**$ 874,025**	$ 1,039,132
Capital Employed – end of twelve month period				
Net (Cash) Debt	**$ (48,519)**	$ 37,763	**$ (48,519)**	$ 37,763
Shareholders' equity	**886,679**	836,262	**886,679**	836,262
	$ 838,160	$ 874,025	**$ 838,160**	$ 874,025
Average Capital Employed	**$ 880,524**	$ 966,996	**$ 880,524**	$ 966,996
Return on Capital Employed	**16.7%**	11.1%	**13.3%**	8.8%

FINANCIAL POSITION

The following table outlines significant changes in the Consolidated Statements of Financial Position as at December 31, 2012 as compared to December 31, 2011:

($ Canadian millions)	Increase (Decrease)		Explanation
Assets:			
Cash	$	63.8	Cash increased due to lower levels of debt repayment and higher revenues, which more than offset the increased levels of capital spending and higher dividend payments.
Accounts receivable	$	32.9	The increase in accounts receivable is due to higher trade receivables from customers consistent with increased revenues, and greater earnings in excess of billings on manufacturing contracts in progress.
Inventories	$	(28.8)	The decrease in inventories reflects the increased recognition into cost of sales of project costs accumulated in work-in-process, as a result of higher opening backlog.
Other current assets	$	(5.4)	The decrease in other current assets is due to the reduction of receivables associated with finance leases.
Property, plant and equipment	$	6.3	The increase in property, plant and equipment is attributable to the expansion of the Houston manufacturing facility, offset by the current period depreciation charge.
Rental equipment	$	(10.8)	The decrease in rental equipment reflects the sale of units from the fleet, in addition to the current period depreciation charge, partially offset by new additions to the rental fleet.
Deferred tax asset	$	(6.8)	The decrease in deferred tax assets reflects the utilization of tax loss carry forward balances to reduce current year taxes payable.
Assets held for sale	$	(5.9)	The decrease in assets held for sale is due to the collection of trade receivables, the completion of jobs previously in progress, and the sale and use of inventory held by the European discontinued operations.
Liabilities:			
Accounts payable and accrued liabilities	$	15.3	The increase in accounts payable and accrued liabilities is due to higher spending levels and purchase commitments associated with projects in the Southern U.S. and South America, and International segments, and higher profit based incentive cost accruals.
Deferred revenue	$	(22.4)	The decrease in deferred revenue is attributable to the recognition in revenue of previously issued billings on Engineered Systems projects.
Long-term debt	$	(22.5)	The decrease in long-term debt is due to repayments of borrowings on the Company's Bank Facilities.
Liabilities held for sale	$	6.2	The increase in liabilities associated with assets held for sale is due to increased reorganization costs and accruals associated with exiting long-term service contracts.

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)	Three months ended December 31, **2012**	2011	Twelve months ended December 31, **2012**	2011
Cash, beginning of period	**$ 125,620**	$ 52,666	**$ 81,200**	$ 15,000
Cash provided by (used in):				
Operating activities	**58,541**	49,999	**134,208**	134,795
Investing activities	**(9,541)**	(2,781)	**(31,509)**	32,177
Financing activities	**(29,756)**	(17,498)	**(38,484)**	(101,438)
Exchange rate changes on foreign currency cash	**124**	(1,186)	**(427)**	666
Cash, end of period	**$ 144,988**	$ 81,200	**$ 144,988**	$ 81,200

Operating Activities

Cash provided by operating activities totalled $58.5 million and $134.2 million in the fourth quarter of and twelve months ended December 31, 2012, respectively, compared to $50.0 million and $134.8 million for the same periods of 2011. The increase in cash from operations for the fourth quarter of 2012 compared to the same quarter of the prior year is due to improved operating results and stronger management of working capital. For the 2012 year, cash provided by operating activities was comparable with 2011, as a result of improvements in operating results being offset by increased working capital resulting from increases in accounts receivable and parts inventory.

Investing Activities

Cash used in investing activities totalled $9.5 million and $31.5 million in the fourth quarter of and twelve months ended December 31, 2012, respectively, compared to $2.8 million in cash used and $32.2 million in cash provided by investing activities for the same periods of 2011. In 2012, Enerflex continued to invest in the expansion of the Company's Houston manufacturing facility ($17.3 million) and the Enterprise Resource Planning system conversion ($5.2 million), compared to 2011 when spending levels were lower and the Company generated $61.9 million more in cash from the sale of non-core assets and non-core operations.

Financing Activities

Cash used in financing activities totalled $29.8 million and $38.5 million in the fourth quarter of and twelve months ended December 31, 2012, respectively, compared to $17.5 million and $101.4 million for the same periods of 2011. The $12.3 million increase in cash used in financing activities for the quarter was due primarily to higher repayment of long-term debt, which was $25.2 million in 2012 compared to $14.1 million in 2011. For the full year, although Enerflex paid four quarterly dividends in 2012 totalling $18.6 million, compared to two cash dividends totalling $9.3 million in 2011, this increase in use of cash was offset by lower repayment of long-term debt. For the 2011 year, Enerflex repaid $96.2 million in notes payable and long-term debt, compared to repayments of $23.3 million in 2012.

The Company expects that continued cash flows from operations in 2013, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

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 foreign exchange rates and interest rates. The Company does not enter into derivative financial agreements for speculative purposes.

Project Execution Risk

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. The Company's ability to profitably execute on these solutions for customers is dependent on numerous factors which include, but are not limited to, changes in project scope, the availability and timeliness of external approvals and other required permits, skilled labour availability and productivity, availability and cost of material and services, design, engineering and construction errors, and the availability of contractors to deliver on commitments. A number of these risks are discussed in more detail below.

The Company is making significant progress on a multi-year initiative to integrate its systems and processes, while bringing its facilities to world-class standards. In addition, continuous improvement initiatives are in place to achieve accurate, complete and timely provision of deliverables. Nonetheless, project risks can translate into performance issues and project delays, as well as project costs being in excess of cost estimates. While the Company will assess the recoverability of these cost overruns where based on customer requested change orders, there can be no assurance that these costs will be reimbursed.

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.

In order to retain skilled professionals, reward high performing employees, and create alignment between employee performance and business objectives, Enerflex's global compensation philosophy is to provide competitive pay for competitive performance.

Compensation is designed to reinforce Enerflex's values and culture and reflect market practices, as well as best practices. Enerflex strives to provide a compensation program that is externally competitive and internally equitable. Elements include base salary, a bonus for certain employees that is tied to corporate and business segment performance, share options and share units that vest over future periods, and an employee share purchase plan. In addition, as part of its total rewards strategy, Enerflex offers a comprehensive benefits program, which allows employees to tailor their retirement, wellness, health and dental, and work-life balance benefits to their needs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

In addition, 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.

While the Company attempts to diversify its exposure to energy price and industry conditions, and changing political, economic or military circumstances, any such changes could have a significant effect on its results of operations and financial condition.

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.

Climatic Factors and Seasonal Demand

Demand for natural gas fluctuates largely with the heating and power 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.

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.

Enerflex exercises caution with respect to the countries in which it chooses to operate, and expand into, through a thorough assessment of the operational and political risks, but recognizes that conditions can change quickly.

Distribution Agreements

One of Enerflex's strategic assets is its distribution and original equipment manufacturer agreements with leading manufacturers, notably for GE's Waukesha gas engines and parts, and for Jenbacher gas engines and parts. Enerflex is also the authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems in Australia, New Zealand, 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. Enerflex and its people make it a priority to maintain and enhance these strategic relationships.

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 GE Gas Engines, through an original equipment manufacturer agreement with Finning (Caterpillar) and authorized Caterpillar distributors in the U.S. 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 Howden Compressors Ltd., 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 timetables from these suppliers affect 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 engineering and other technical skills in foreign locations, develop web-based applications and monitoring products, and improve its business software applications, information technology assets and protocols 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 ("GHGs") into the atmosphere. Although the Company is not a large producer of GHGs, 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 GHGs, may adversely impact the demand for hydrocarbons and ultimately, the demand for the Company's products and services.

Insurance

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.

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.

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 percent, due on June 22, 2016 and $40.0 million, at a fixed interest rate of 6.011 percent, due on June 22, 2021. The Credit Facility is subject to floating rates of interest, is due on June 1, 2016 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.

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 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. 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 also sells compression and processing packages in foreign currencies, primarily the U.S. dollar, the Australian dollar and the Euro. Most of Enerflex's international orders are manufactured by its 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. The Company 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, the Company may hedge input costs that are paid in a currency other than the home currency of the subsidiary executing the contract. The Company 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 subject to mark-to-market at the end of each period with the changes in fair value recognized in current period net earnings. The Company does apply hedge accounting to the majority of its forward contracts. As such, the gains or losses on the forward contracts are deferred to accumulated other comprehensive income and reclassified to the statement of earnings when the hedged transaction affects the statement of earnings. Any hedge ineffectiveness is recognized immediately in net earnings. However, there can be no assurance that the Company will apply or qualify for hedge accounting in the future. As such, the use of currency forwards may introduce significant volatility to the Company's reported earnings.

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 British Pound.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Non-monetary assets and liabilities measured at historical cost are translated using the rates of exchange at the date of the transaction. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. The cumulative currency translation adjustments are recognized in earnings 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 earnings. Such exchange rate fluctuations have historically not been material year-over-year relative to the overall earnings or financial position of the Company. As such, the Company does not hedge its exposure to net investments in foreign subsidiaries.

Exchange gains and losses on net investments in foreign subsidiaries are accumulated in accumulated other comprehensive income (loss). The accumulated comprehensive income at the end of 2011 of $7.9 million was adjusted to an accumulated comprehensive income of $1.1 million at December 31, 2012. 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 U.S. dollar appreciated against the Canadian dollar by 2 percent in 2012 versus a depreciation of 2 percent in 2011. The Australian dollar appreciated by 1 percent against the Canadian dollar during 2012, compared to a 2 percent depreciation in 2011. The Euro appreciated against the Canadian dollar by 1 percent during 2012, consistent with an appreciation of 1 percent in 2011.

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, 2012 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 percent change in the rate of interest on the Bank Facilities, the change in interest expense would be approximately $0.1 million. All interest charges are recorded on the statement of earnings 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. The Company has entered into a number of significant projects through to 2013 with one specific customer; however, no single operating unit is reliant on any single external customer. The Company monitors its credit exposure to its customers by business segment.

The credit risk associated with net investment in sales-type lease arises from the possibility that the counterparties may default on their 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 their 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, 2013, Enerflex had 77,705,681 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 2012, the Company increased its quarterly dividend by 17 percent to $0.07 per share.

The Company has credit facilities with a syndicate of banks ("Bank Facilities") totaling $345.0 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 $40.0 million Australian operating facility (the "Australian Operator") and two committed 4-year $12.5 million bi-lateral letter of credit facilities (the "LC Bi-Laterals"). The Revolver, Operator, Australian Operator and LC Bi-Laterals 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, 2016 ("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 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 weighted average interest rate on the Bank Facilities for the year ended December 31, 2012 was 2.99 percent (December 31, 2011: 3.17 percent).

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, 2014, 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, U.S. Base Rate loans and letters of credit. During the year, the Company negotiated an extension of the U.S. Facility to July 1, 2015. The U.S. 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 U.S. Facility.

The Company has, by way of private placement, $90.5 million of Unsecured Notes ("Notes") issued and outstanding. The Notes mature on two separate dates with $50.5 million, with a coupon of 4.841 percent, maturing on June 22, 2016 and $40.0 million, with a coupon of 6.011 percent, maturing on June 22, 2021.

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 U.S. Facility and the Notes. As at December 31, 2012, the Company was in compliance with these covenants.

At December 31, 2012, the Company had $8.8 million cash drawings against the Bank Facilities (December 31, 2011 – $31.3 million).

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

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

Contractual Obligations

($ Canadian thousands)	Payments due by period 2013	2014-2015	2016-2017	Thereafter	Total
Leases	$ 11,352	$ 16,294	$ 9,266	$ 2,698	$ 39,610
Purchase obligations	85,961	3,058	826	–	89,845
Total	$ 97,313	$ 19,352	$ 10,092	$ 2,698	$ 129,455

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

Related parties include Total Production Services Inc. ("Total"), the Company's 45 percent equity investment. The Company has a 51 percent joint venture interest in Enerflex-ES, established in the fourth quarter of 2011. During the third quarter of 2012, Enerflex sold its 50 percent joint venture interest in PDIL to its joint venture partner Descon Engineering Ltd. Toromont was a related party until June 1, 2011, when Enerflex began independent operations.

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. All related party transactions are settled in cash. A summary of the financial statement impacts of all transactions with all related parties are as follows:

		Revenue	Management fee expense	Purchases	Interest expense	Accounts receivable
Associates:						
Total	**2012**	**$ 286**	**$ –**	**$ 347**	**$ –**	**$ 73**
	2011	212	–	526	–	–
Joint Ventures:						
Enerflex-ES	**2012**	**–**	**–**	**36**	**–**	**–**
	2011	–	–	–	–	–
PDIL	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	–	–	–	–	44
Parent:						
Toromont	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	–	4,299	–	1,902	–

The above noted management fee expense and interest expense were paid to Toromont; there are no related party payables due to Toromont as at December 31, 2012.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 4 of the audited consolidated financial statements dated December 31, 2012. The preparation of financial statements in conformity with generally accepted accounting principles 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

Property, plant and equipment is 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 items of property, plant and equipment are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment items requires judgment and is based on currently available information. Property, plant and equipment is 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 items of property, plant and equipment 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 Inventory

The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of inventory items based on historical usage patterns, known changes to equipment or processes and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of inventory impairment.

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. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from each asset or CGU and also to determine a suitable discount rate in order to calculate the present value of those cash flows.

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 CGUs 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 CGUs and also to determine a suitable discount rate in order to calculate the present value of those cash flows.

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.

Stock Options and Share-Based Compensation

The Company employs the fair value method of accounting for stock options and phantom share appreciation rights. The determination of the share-based compensation expense for stock options and phantom shares requires the use of estimates and assumptions based on exercise prices, market conditions, vesting criteria, length of employment and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation. Details concerning the assumptions used are shown in the Notes to the Consolidated Financial Statements.

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 used in determining whether certain assets should be reclassified to assets held for sale on the Consolidated Statements of Financial position. Judgment is applied in determining the carrying value of assets and related liabilities held for sale, and whether the results of operations associated with the assets should be recorded in discontinued operations on the Consolidated Statements of Earnings.

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:

IFRS 7	Disclosure of Financial Instruments – Rights of Offset	Effective January 1, 2013
IFRS 9	Financial Instruments	Effective January 1, 2015
IFRS 10	Consolidated Financial Statements	Effective January 1, 2013
IFRS 11	Joint Arrangements	Effective January 1, 2013
IFRS 12	Disclosures of Interests in Other Entities	Effective January 1, 2013
IFRS 13	Fair Value Measurement	Effective January 1, 2013
IAS 1	Presentation of Items of Other Comprehensive Income	Effective January 1, 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	Effective January 1, 2014

Amendments to IFRS 7 and IAS 32 *Offsetting Financial Assets and Financial Liabilities and Related Disclosures*

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement". The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments of IAS 32 are effective for annual periods beginning on or after January 1, 2014, with retrospective application required. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 including interim periods. The Company anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosure being made with regard to offsetting financial assets and financial liabilities in the future.

IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, including derecognition. IFRS 9 requires all recognized financial assets under the scope of the current IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. In addition, IFRS 9 requires that changes in fair value attributable to a financial liability's credit risk must be presented in other comprehensive income, rather than in profit or loss.

The Company will conduct a detailed review of the potential impacts on amounts reported in financial assets and liabilities; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

New Standards on Consolidation, Joint Arrangements, Associates and Disclosures

IFRS 10 *Consolidated Financial Statements* replaces the current IAS 27 *Consolidated and Separate Financial Statements* and establishes a single basis for consolidation, that is, control. IFRS 10 provides a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee and (c) the ability to use its power over the investee to affect the amount of the investor's return.

IFRS 11 *Joint Arrangements* replaces the current IAS 31 *Interests in Joint Ventures* and establishes new classifications rules for joint arrangements into joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, IFRS 11 requires joint ventures to be accounted for under the equity method of accounting, thereby eliminating the option of accounting for joint ventures under the proportionate consolidation.

IFRS 12 *Disclosures of Interests in Other Entities* sets out the disclosure requirements for interests in subsidiaries, joint arrangements and associates, which are considered to be more extensive than the disclosure requirements in the current standards.

The adoption of IFRS 10 and 11 had no impact on the classification and accounting for the Company's investment in Total Production Services and its joint venture, Enerflex-ES. Under IFRS 11, both investments will be accounted for under the equity method with the Company's proportionate share of profit or loss included in the Consolidated Statement of Earnings under "Equity Earnings" and presented on the Consolidated Statement of Financial Position as "Other Long-term Assets". The Company will update its financial statement disclosures as required in 2013 in accordance with IFRS 12.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The scope of IFRS 13 applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements.

The Company has reviewed the requirements of IFRS 13 and has determined that the standard will not have a significant impact on existing fair value measurements, and will update its financial statement disclosures as required in 2013.

IAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 introduce new terminology to the Statement of Earnings and Statement of Comprehensive Income, and require additional disclosures in other comprehensive income. Under the revised requirements of IAS 1, items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met.

The Company will update the presentation of the Statement of Other Comprehensive Income as required in 2013 in accordance with IAS 1.

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, 2012, 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, 2012, 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, 2012, 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, 2012 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, 2012, the Company declared a dividend of $0.07 per share, payable on April 3, 2013, to shareholders of record on March 14, 2013.

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 28, 2013

INDEPENDENT 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, 2012 and 2011 and the consolidated statements of earnings (loss), comprehensive income, changes in equity and cash flows for the years then ended, 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 from 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 risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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, these consolidated financial statements present fairly, in all material respects, the financial position of Enerflex Ltd. as at December 31, 2012 and 2011 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
February 28, 2013

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)	**December 31, 2012**	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	**$ 144,988**	$ 81,200
Accounts receivable (Note 8)	**287,387**	254,482
Inventories (Note 9)	**192,704**	221,477
Income taxes receivable	**–**	2,800
Derivative financial instruments (Note 26)	**1,737**	2,136
Other current assets	**9,839**	15,220
Total current assets	**636,655**	577,315
Property, plant and equipment (Note 10)	**129,383**	123,130
Rental equipment (Note 10)	**91,117**	101,908
Deferred tax assets (Note 18)	**32,786**	39,581
Other assets (Note 11)	**8,803**	8,167
Intangible assets (Note 12)	**29,137**	31,528
Goodwill (Note 13)	**457,208**	459,935
	1,385,089	1,341,564
Assets held for sale (Note 6)	**4,175**	10,054
Total assets	**$ 1,389,264**	$ 1,351,618
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	**$ 169,275**	$ 153,980
Provisions (Note 15)	**17,169**	12,953
Income taxes payable	**5,410**	2,410
Deferred revenues	**193,401**	215,814
Derivative financial instruments (Note 26)	**596**	455
Total current liabilities	**385,851**	385,612
Long-term debt (Note 16)	**96,469**	118,963
Deferred tax liability (Note 18)	**410**	–
Other liabilities	**3,478**	590
	486,208	505,165
Liabilities related to assets held for sale (Note 6)	**16,377**	10,191
Total liabilities	**$ 502,585**	$ 515,356
Shareholders' equity		
Share capital (Note 19)	**212,875**	207,409
Contributed surplus (Note 20)	**655,879**	656,536
Retained earnings (deficit)	**16,826**	(35,540)
Accumulated other comprehensive income	**1,099**	7,857
Total shareholders' equity	**886,679**	836,262
Total liabilities and shareholders' equity	**$ 1,389,264**	$ 1,351,618

Guarantees, commitments and contingencies (Note 17)

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

($ Canadian thousands, except per share amounts)	Years ended December 31, **2012**	2011
Revenues (Note 21)	**$ 1,501,684**	$ 1,227,137
Cost of goods sold	**1,228,529**	1,001,261
Gross margin	**273,155**	225,876
Selling and administrative expenses	**158,598**	145,790
Operating income	**114,557**	80,086
Gain on disposal of property, plant and equipment	**(951)**	(3,594)
Equity earnings from associates and joint ventures	**(1,833)**	(1,161)
Earnings before finance costs and income taxes	**117,341**	84,841
Finance costs (Note 24)	**6,761**	8,954
Finance income (Note 24)	**(1,100)**	(1,943)
Earnings before income taxes	**111,680**	77,830
Income taxes (Note 18)	**29,427**	21,089
Net earnings from continuing operations	**$ 82,253**	$ 56,741
Gain on sale of discontinued operations (Note 7)	**–**	1,430
Loss from discontinued operations (Note 7)	**(10,479)**	(65,470)
Net earnings (loss)	**$ 71,774**	$ (7,299)
Net earnings (loss) attributable to:		
Controlling interest	**$ 71,774**	$ (6,983)
Non-controlling interest	**$ –**	$ (316)
Earnings (loss) per share – basic (Note 25)		
Continuing operations	**$ 1.06**	$ 0.73
Discontinued operations	**$ (0.14)**	$ (0.83)
Earnings (loss) per share – diluted (Note 25)		
Continuing operations	**$ 1.06**	$ 0.73
Discontinued operations	**$ (0.14)**	$ (0.83)
Weighted average number of shares – basic	**77,590,203**	77,221,440
Weighted average number of shares – diluted	**77,685,770**	77,335,232

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ Canadian thousands)	Years ended December 31, **2012**	2011
Net earnings (loss)	**$ 71,774**	$ (7,299)
Other comprehensive (loss) income:		
Change in fair value of derivatives designated as cash flow hedges net of income tax expense (2012: $116; 2011: $14)	**523**	721
(Loss) gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax (recovery) expense (2012: $(130); 2011: $77)	**(389)**	199
Unrealized (loss) gain on translation of financial statements of foreign operations, net of amounts transferred to net earnings on disposal	**(6,892)**	17,782
Other comprehensive (loss) income	**$ (6,758)**	$ 18,702
Total comprehensive income	**$ 65,016**	$ 11,403

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Canadian thousands)	Years ended December 31, **2012**	2011
Operating Activities		
Net earnings (loss)	**$ 71,774**	$ (7,299)
Items not requiring cash and cash equivalents:		
Impairment of assets held for sale	**–**	54,030
Depreciation and amortization	**39,487**	42,171
Equity earnings from associates and joint ventures	**(1,833)**	(1,161)
Deferred income taxes (Note 18)	**6,992**	3,796
Share-based compensation expense (Note 22)	**3,167**	1,081
Gain on sale of:		
Discontinued operations	**–**	(2,471)
Property, plant and equipment	**(910)**	(3,595)
	118,677	86,552
Net change in non-cash working capital and other	**15,531**	48,243
Cash provided by operating activities	**$ 134,208**	$ 134,795
Investing Activities		
Additions to:		
Rental equipment (Note 10)	**$ (11,385)**	$ (12,634)
Property, plant and equipment (Note 10)	**(31,524)**	(22,040)
Proceeds on disposal of:		
Rental equipment	**7,548**	11,802
Property, plant and equipment	**2,655**	56,865
Disposal of discontinued operations, net of cash	**–**	3,389
Change in other assets	**1,197**	2,103
	(31,509)	39,485
Net change in non-cash working capital and other	**–**	(7,308)
Cash (used in) provided by investing activities	**$ (31,509)**	$ 32,177
Financing Activities		
Repayment of note payable	**$ –**	$ (215,000)
(Repayment of) proceeds from long-term debt	**(23,275)**	118,781
Dividends	**(18,606)**	(9,266)
Stock option exercises	**3,397**	1,250
Equity from parent	**–**	2,797
Cash used in financing activities	**$ (38,484)**	$ (101,438)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (427)**	$ 666
Increase in cash and cash equivalents	**63,788**	66,200
Cash and cash equivalents, beginning of period	**81,200**	15,000
Cash and cash equivalents, end of period	**$ 144,988**	$ 81,200

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 earnings (deficit)	Foreign currency translation adjustments	Hedging reserve	Total accumulated other comprehensive (loss) income	Non-controlling interest	Total
At January 1, 2011	$ 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
Net earnings	–	–	–	71,774	–	–	–	–	71,774
Other comprehensive (loss) income	–	–	–	–	(6,892)	134	(6,758)	–	(6,758)
Effect of stock option plans	–	5,466	(657)	–	–	–	–	–	4,809
Dividends	–	–	–	(19,408)	–	–	–	–	(19,408)
At December 31, 2012	**$ –**	**$ 212,875**	**$ 655,879**	**$ 16,826**	**$ (11)**	**$ 1,110**	**$ 1,099**	**$ –**	**$ 886,679**

See accompanying Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in 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.

On May 16, 2011 Toromont shareholders approved the Plan of Arrangement ("the Arrangement " or "Bifurcation Transaction") that would establish Enerflex as a standalone 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 became a standalone public company with the June 1, 2011 spin out from Toromont.

Headquartered in Calgary, the registered office is located at 904, 1331 Macleod Trail SE, Calgary, Canada. Enerflex has approximately 3,300 employees worldwide. Enerflex, its subsidiaries, affiliates and joint ventures operate in Canada, the United States, Argentina, Colombia, Australia, the United Kingdom, Russia, the United Arab Emirates, Oman, Egypt, Bahrain, Indonesia and Singapore.

NOTE 2. BASIS OF PRESENTATION

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and were approved and authorized for issue by the Board of Directors on February 28, 2013. Certain prior year amounts have been reclassified to conform with the current period's presentation.

(b) Basis of Measurement

The consolidated financial statements are prepared on a historical cost basis except as detailed in the accounting policies disclosed in Note 3. The accounting policies described in Note 3 have been applied consistently to all periods presented in these financial statements. Standards and guidelines not effective for the current accounting period are described in Note 5.

(c) Functional Currency and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of Estimates and Judgment

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the financial statements are described in Note 4.

(e) 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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Investments in Associates and Joint Ventures

The Company uses the equity method to account for its 45 percent investment in Total Production Services Inc., an investment subject to significant influence, and its 51 percent interest in the Enerflex-ES joint venture.

Under the equity method, the investments are 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 or joint venture.

The consolidated statement of earnings (loss) reflects the Company's share of the results of operations of the associate and joint venture. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate or joint venture.

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

(b) 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 that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. 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 (loss) 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 assets and liabilities on the statements of financial position of foreign subsidiaries are translated into Canadian dollars at the rates of exchange prevailing at the period end date. The consolidated statements of earnings (loss) of foreign subsidiaries 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 (loss) income.

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

(c) Assets Held for Sale

Non-current assets and disposal groups are classified 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 and disposal groups held for sale are carried at the lesser of the 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 consolidated statement of earnings (loss).

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognized loss. Cost comprises the purchase price or construction cost and any costs directly attributable to making the asset capable of operating as intended. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets and commences when the assets are ready for intended use.

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 operations 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 the consolidated statement of earnings (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.

(e) 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 major 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. 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.

(f) Goodwill

Goodwill arising on an acquisition of a business is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill allocated to a group of cash generating units ("CGUs") is reviewed for impairment at least annually, or when there is an indication that a related group of cash generating units may be impaired. If the recoverable amount of the CGU is less than its carrying amount, then an impairment loss for goodwill is recognized in the consolidated statement of earnings (loss). Impairment is determined by assessing the recoverable amount of the group of CGUs to which the goodwill relates. Where the recoverable amount of the group of CGUs is less than the carrying amount of the CGUs and related goodwill, an impairment loss is recognized in the consolidated statement of earnings (loss). Impairment losses on goodwill are not reversed.

(g) Intangible Assets

Intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with a finite life are amortized on a straight-line basis over management's best estimate of their expected useful lives. The amortization charge in respect of intangible assets is included in the selling, general and administrative expense line in the consolidated statement of earnings (loss). The expected useful lives and amortization method are reviewed on an annual basis with any change in the useful life or pattern of consumption adjusted at financial year end. 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

(h) Impairment of Assets (Excluding Goodwill)

At each reporting 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. A corresponding impairment loss is recognized 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. Any impairment reversal is recognized in the consolidated statement of earnings (loss).

(i) 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 first-in first-out 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, based on normal operating capacity.

Cost of inventories include the transfer from accumulated other comprehensive income 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.

(j) Trade Receivables

Trade receivables are recognized and carried at the 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.

(k) Cash

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

(l) 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.

(m) 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.

(n) 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 earnings in the period in respect of which contributions become payable.

(o) Share-Based Payments

Equity-Settled Share-Based Payments

Equity-settled share-based payments to employees and non-employee directors are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 22 under Stock Options.

The fair value of equity-settled share-based payments is expensed over a five-year vesting period with a corresponding increase in equity. Stock options have a seven-year expiry 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 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.

Cash-Settled Share-Based Payments
The Company offers a Deferred Share Unit ("DSU"), Performance Share Unit ("PSU"), and Restricted Share Unit ("RSU") plan to certain employees and non-employee directors (in the case of the DSUs only). For each cash-settled share-based payment plan, a liability is recognized at the fair value of the liability. At the end of the each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with changes in fair value recognized in the consolidated statement of earnings (loss).

The Company also offers a Phantom Share Appreciation Rights Plan ("SAR") to certain employees and directors of affiliates located in Australia, the UAE and Singapore. SARs are measured at the fair value of the equity instrument at the grant date and expensed over a five-year vesting period and expire on the fifth anniversary. 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. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with changes in fair value recognized in the consolidated statement of earnings (loss). The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

(p) Leases

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.

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 the consolidated statement of earnings (loss).

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(q) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and is reduced for 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:

> 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.

- 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).

(r) Construction Contracts

Revenues from the supply of equipment systems involving design, manufacture, installation and start-up are considered accounted for as construction contracts. When the outcome of a construction contract can be estimated reliably, revenue and costs pertaining to the contract are recognized at the end of the reporting period, measured based on the proportion of costs incurred to date relative to estimated total contract costs. Variations in contract work are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the excess is shown on the consolidated statement of financial position as other receivables. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the excess is shown on the consolidated statement of financial position as deferred revenue.

(s) Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, and classified into one of the five following categories: held-for-trading, loans and receivables, held-to-maturity investments, available-for-sale investments or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in the consolidated statement of earnings (loss). Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

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 the consolidated statement of earnings (loss);

> Accounts receivable is classified as loans and receivables and is recorded at amortized cost using the effective interest rate method; and

> Accounts payable, accrued liabilities, long-term debt and other long-term liabilities 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 related to other financial liabilities are added to the value of the instrument at acquisition and taken into the consolidated statement of earnings (loss) using the effective interest rate method.

(t) Derivative Financial Instruments and Hedge Accounting

The Company formally documents its risk management objectives and strategies to manage exposures to fluctuations in foreign currency exchange rates. The risk management policy permits the use of certain derivative financial instruments, including forward foreign exchange contracts, to manage these fluctuations. 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 are remeasured to their fair value at the end of each reporting period. The fair value of quoted derivatives is equal to their positive or negative market value. 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 (loss) income, net of taxes. The ineffective portion of the fair value changes is recognized in the consolidated statement of earnings (loss). Amounts charged to accumulated other comprehensive (loss) income are reclassified to the consolidated statement of earnings (loss) when the hedged transaction affects the consolidated statement of earnings (loss).

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.

(u) 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 earnings differs from earnings 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 at the reporting date.

Deferred income tax is recognized on all temporary differences at the reporting date based on the difference between the carrying amounts of assets and liabilities in the financial 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 reporting 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 reporting 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 reporting 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).

(v) Discontinued Operations

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

(w) Earnings Per Share

Basic earnings per share is calculated by dividing the net earnings for the period by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive common shares related to the Company's share-based compensation plans.

(x) Finance Costs and Income

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

Finance costs comprise interest expense on borrowings.

NOTE 4. 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*
Property, plant and equipment 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 property, plant and equipment are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment requires judgment and is based on currently available information. Property, plant and equipment 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 property, plant and equipment or future cash flows constitute a change in accounting estimate and are applied prospectively.

> *Allowance for Doubtful Accounts*
An allowance 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 Inventory*
The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of inventory items based on historical usage patterns, known changes to equipment or processes and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of inventory impairment.

> *Impairment of Non-Financial Assets*

Impairment exists when the carrying value of an asset or 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, which requires the Company to estimate future cash flows and determine a suitable discount rate to calculate the present value of those cash flows.

> *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 CGUs 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 CGUs and also to determine a suitable discount rate in order to calculate the present value of those cash flows.

> *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.

> *Stock Options and Share-Based Compensation*

The Company employs the fair value method of accounting for stock options and phantom share appreciation rights. The determination of the share-based compensation expense for stock options and phantom shares requires the use of estimates and assumptions based on exercise prices, market conditions, vesting criteria, length of employment and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation. Details concerning the assumptions used are shown in the notes to the financial statements.

> *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 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).

NOTE 5. 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:

IFRS 7	Disclosure of Financial Instruments – Rights of Offset	Effective January 1, 2013
IFRS 9	Financial Instruments	Effective January 1, 2015
IFRS 10	Consolidated Financial Statements	Effective January 1, 2013
IFRS 11	Joint Arrangements	Effective January 1, 2013
IFRS 12	Disclosures of Interests in Other Entities	Effective January 1, 2013
IFRS 13	Fair Value Measurement	Effective January 1, 2013
IAS 1	Presentation of Items of Other Comprehensive Income	Effective January 1, 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	Effective January 1, 2014

Amendments to IFRS 7 and IAS 32 *Offsetting Financial Assets and Financial Liabilities and Related Disclosures*

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, with retrospective application required. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 including interim periods. The Company anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosure being made with regard to offsetting financial assets and financial liabilities in the future.

IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, including derecognition. IFRS 9 requires all recognized financial assets under the scope of the current IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. In addition, IFRS 9 requires that changes in fair value attributable to a financial liability's credit risk must be presented in other comprehensive income, rather than in profit or loss.

The Company will conduct a detailed review of the potential impacts on amounts reported in financial assets and liabilities; however, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

New Standards on Consolidation, Joint Arrangements, Associates and Disclosures

IFRS 10 *Consolidated Financial Statements* replaces the current IAS 27 *Consolidated and Separate Financial Statements* and establishes a single basis for consolidation, that is, control. IFRS 10 provides a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee and (c) the ability to use its power over the investee to affect the amount of the investor's return.

IFRS 11 *Joint Arrangements* replaces the current IAS 31 *Interests in Joint Ventures* and establishes new classifications rules for joint arrangements into joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, IFRS 11 requires joint ventures to be accounted for under the equity method of accounting, thereby eliminating the option of accounting for joint ventures under the proportionate consolidation.

IFRS 12 *Disclosures of Interests in Other Entities* sets out the disclosure requirements for interests in subsidiaries, joint arrangements and associates, which are considered to be more extensive than the disclosure requirements in the current standards.

The adoption of IFRS 10 and 11 had no impact on the classification and accounting for the Company's investment in Total Production Services and its joint venture, Enerflex-ES. Under IFRS 11, both investments will be accounted for under the equity method with the Company's proportionate share of profit or loss included in the consolidated statement of earnings (loss) under 'Equity Earnings' and presented on the consolidated Statement of Financial Position as 'Other Long-term Assets'. The Company will update its financial statement disclosures as required in 2013 in accordance with IFRS 12.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The scope of IFRS 13 applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements.

The Company has reviewed the requirements of IFRS 13 and has determined that the standard will not have a significant impact on existing fair value measurements, and will update its financial statement disclosures as required in 2013.

IAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 introduce new terminology to the statement of earnings and statement of comprehensive income, and require additional disclosures in other comprehensive income. Under the revised requirements of IAS 1, items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met.

The Company will update the presentation of the Statement of Other Comprehensive Income as required in 2013 in accordance with IAS 1.

NOTE 6. ASSETS AND RELATED LIABILITIES HELD FOR SALE

During 2011, the Company reclassified its European operations to assets and related liabilities held for sale 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. Accordingly, the assets and liabilities have been reflected in assets and related liabilities held for sale on the consolidated statement of financial position.

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

	December 31, 2012	December 31, 2011
Assets		
Accounts receivable	**$ 3,935**	$ 5,474
Inventories	**–**	3,621
Other current assets	**184**	901
Property, plant and equipment	**56**	58
Assets held for sale ("AHFS")	**$ 4,175**	$ 10,054
Liabilities		
Accounts payable, accrued liabilities and provisions	**$ 15,390**	$ 9,428
Deferred revenues	**987**	763
Liabilities related to AHFS	**$ 16,377**	$ 10,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. DISCONTINUED OPERATIONS

As disclosed in Note 6, the Company reclassified its European operations to assets and related liabilities held for sale during 2011. 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 consolidated statement of earnings (loss).

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.

The following tables summarize the revenues, loss from operations, impairments and income taxes from discontinued operations. The operations presented below had all been part of the International reporting segment.

	December 31, 2012		December 31, 2011	
	Enerflex Europe	**Enerflex Environmental Australia Pty ("EEA")**	Enerflex Europe	EEA
Revenue	**$ 27,564**	**$ –**	$ 39,532	$ 2,653
Loss from operations	**$ (10,479)**	**$ –**	$ (11,276)	$ (239)
Impairment	**$ –**	**$ –**	$ (51,012)	$ –
Income tax	**$ –**	**$ –**	$ (3,018)	$ 75

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 total $8.0 million.

The following table summarizes cash used in discontinued operations for the years ended December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Enerflex Europe	**EEA**	Enerflex Europe	EEA
Cash used in operating activities	**$ (338)**	**$ –**	$ (442)	$ (1,407)
Cash used in investing activities	**$ (355)**	**$ –**	$ (562)	$ (67)
Cash used in financing activities	**$ –**	**$ –**	$ –	$ –

NOTE 8. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	December 31, 2012	December 31, 2011
Trade receivables	**$ 227,717**	$ 198,165
Less: allowance for doubtful accounts	**1,369**	3,761
Trade receivables, net	**226,348**	194,404
Other receivables [1]	**61,039**	60,078
Total accounts receivable	**$ 287,387**	$ 254,482

[1] Included in Other receivables at December 31, 2012 is $56.4 million relating to amounts due from customers under construction contracts (December 31, 2011 – $43.1 million).

Aging of trade receivables:

	December 31, 2012	December 31, 2011
Current to 90 days	**$ 196,318**	$ 186,046
Over 90 days	**31,399**	12,119
	$ 227,717	$ 198,165

Movement in allowance for doubtful accounts:

	2012	2011
Balance, beginning of year	**$ 3,761**	$ 6,217
Impairment provision (reversed) recognized on receivables	**(1,901)**	490
Adjustment due to AHFS revaluation (Note 6)	**–**	(1,283)
Amounts written off during year as uncollectible	**(482)**	(1,657)
Foreign exchange movement	**(9)**	(6)
Balance, end of year	**$ 1,369**	$ 3,761

NOTE 9. INVENTORIES

Inventories consisted of the following:

	December 31, 2012	December 31, 2011
Equipment	**$ 8,671**	$ 13,153
Repair and distribution parts	**41,411**	32,985
Direct materials	**30,108**	33,918
Work-in-process	**112,514**	141,421
Total inventories	**$ 192,704**	$ 221,477

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold during 2012 was $1,228.5 million (2011 – $1,001.3 million). Cost of goods sold includes inventory write-downs 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 $2.3 million (2011 – $2.1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment
Cost						
January 1, 2012	$ 26,499	$ 87,894	$ 47,239	$ 12,968	$ 174,600	$ 132,753
Additions	–	902	4,655	25,967	31,524	11,385
Reclassification	–	18,374	7,915	(35,615)	(9,326)[1]	–
Disposals	(346)	(1,482)	(2,894)	–	(4,722)	(12,492)
Currency translation effects	(151)	(944)	(506)	(197)	(1,798)	(763)
December 31, 2012	**$ 26,002**	**$ 104,744**	**$ 56,409**	**$ 3,123**	**$ 190,278**	**$ 130,883**
Accumulated depreciation						
January 1, 2012	$ –	$ (21,247)	$ (30,223)	$ –	$ (51,470)	$ (30,845)
Depreciation charge	–	(5,742)	(7,227)	–	(12,969)	(14,050)
Disposals	–	698	2,279	–	2,977	4,943
Currency translation effects	–	244	323	–	567	186
December 31, 2012	**$ –**	**$ (26,047)**	**$ (34,848)**	**$ –**	**$ (60,895)**	**$ (39,766)**
Net book value – December 31, 2012	**$ 26,002**	**$ 78,697**	**$ 21,561**	**$ 3,123**	**$ 129,383**	**$ 91,117**

[1] Total reclassifications relate to balance transferred to Intangibles at December 31, 2012, refer to Note 12.

	Land	Building	Equipment	Assets under construction	Total 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
Assets held for sale	–	–	(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

Depreciation of property, plant and equipment and rental equipment included in net earnings for the year ended December 31, 2012 was $27.0 million (December 31, 2011 – $32.7 million) of which $19.8 million was included in the cost of goods sold and $7.2 million was included in selling and administrative expenses (December 31, 2011 – $23.6 million and $9.1 million respectively).

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 was reflected in the consolidated statement of earnings (loss).

NOTE 11. OTHER ASSETS

	December 31, 2012	December 31, 2011
Investment in associates and joint ventures	**$ 6,347**	$ 3,317
Net investment in finance leases	**2,456**	4,850
	$ 8,803	$ 8,167

During 2012, the Company increased its ownership interest in its investment in associate, Total Production Services Inc., by 5 percent to 45 percent.

(a) Net Investment in Finance Leases

The Company entered into finance lease arrangements for certain of its rental assets. Leases are denominated in Canadian or U.S. 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,	**2012**	2011	**2012**	2011
Less than one year	**$ 2,609**	$ 10,717	**$ 2,559**	$ 10,271
Between one and five years	**2,456**	4,850	**2,021**	3,983
	$ 5,065	$ 15,567	**$ 4,580**	$ 14,254
Less: unearned finance income	**(485)**	(1,313)	**–**	–
	$ 4,580	$ 14,254	**$ 4,580**	$ 14,254

The average interest rates inherent in the leases are fixed at the contract date for the entire lease term and are approximately 9 percent per annum (December 31, 2011 – 9 percent). The finance lease receivables at the end of the reporting period are neither past due nor impaired.

NOTE 12. INTANGIBLE ASSETS

December 31, 2012	**Acquired value**	**Accumulated amortization and impairment**	**Net book value**
Customer relationships	**$ 36,100**	**$ 21,940**	**$ 14,160**
Software and other [1]	**24,858**	**9,881**	**14,977**
	$ 60,958	**$ 31,821**	**$ 29,137**

[1] Included in the intangible balance are SAP costs transferred from property, plant and equipment of $9.3 million at December 31, 2012 (December 31, 2011 – $8.6 million).

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

NOTE 13. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

	December 31, 2012	December 31, 2011
Balance, beginning of year	**$ 459,935**	$ 482,656
Impairment recognized on assets held for sale (Note 6)	**–**	(31,200)
Foreign currency translation adjustment	**(2,727)**	8,479
Balance, end of year	**$ 457,208**	$ 459,935

Goodwill acquired through business combinations has been allocated to the Canada and Northern U.S., Southern U.S. and South America and International business segments, and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. The Company did not record any impairment of goodwill during 2012.

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.

The recoverable amounts for the segments have been determined based on value-in-use calculations, using discounted cash flow projections. Management has adopted a four-year projection period to assess each segment's value-in-use. The cash flow projections are based on financial budgets approved by the Board of Directors covering a three-year period, extrapolated thereafter at a growth rate of 2.1 percent 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 segment.

Key Assumptions Used in Value-In-Use Calculations:

The calculation of value-in-use for the Company's segments is most sensitive to the following assumptions:

> Earnings Before Finance Costs and Taxes: management has made estimates relating to the amount and timing of revenue recognition for projects included in backlog, and the assessment of the likelihood of maintaining and growing market share. For each 1 percent change in earnings before finance costs and taxes, the value-in-use of all three of the Company's segments would be impacted by $15.9 million; and

> Discount Rate: management has used an average pre-tax discount rate of 10.4 percent 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. For each 1 percent change in the discount rate, the value-in-use of all three of the Company's segments would be impacted by $144.9 million.

NOTE 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2012	December 31, 2011
Accounts payable and accrued liabilities	**$ 163,672**	$ 149,119
Accrued dividend payable	**5,436**	4,638
Cash-settled share-based payments	**167**	223
	$ 169,275	$ 153,980

NOTE 15. PROVISIONS

	December 31, 2012	December 31, 2011
Warranty provision	**$ 14,669**	$ 12,345
Legal provision	**2,500**	608
	$ 17,169	$ 12,953

December 31, 2012	**Warranty provision**	**Legal provision**	**Total**
Balance, beginning of year	**$ 12,345**	**$ 608**	**$ 12,953**
Additions (reversals) during the year	**15,876**	**(15)**	**15,861**
Reclassification from accrued liabilities	**–**	**2,000**	**2,000**
Amounts paid in the year	**(13,359)**	**(91)**	**(13,450)**
Currency translation adjustment	**(193)**	**(2)**	**(195)**
Balance, end of year	**$ 14,669**	**$ 2,500**	**$17,169**

NOTE 16. LONG-TERM DEBT

The Company has, by way of private placement, $90.5 million of Unsecured Notes ("Notes") issued and outstanding, of which $50.5 million, with a coupon of 4.841 percent, matures on June 22, 2016 and of which $40.0 million, with a coupon of 6.011 percent, matures on June 22, 2021.

The Company has syndicated revolving credit facilities ("Bank Facilities") with an amount available of $345.0 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 $40.0 million Australian operating facility (the "Australian Operator") and two committed 4-year $12.5 million bi-lateral letter of credit facilities (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 weighted average interest rate on the Bank Facilities for the year ended December 31, 2012 was 2.99 percent (December 31, 2011: 3.17 percent).

The Bank Facilities have a maturity date of June 1, 2016 ("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, London Interbank Offered Rate ("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 a consolidated net debt to earnings before finance costs, 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, 2014, 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, U.S. Base Rate loans and letters of credit. During the year, the Company and U.S. lender agreed to amend the maturity date to July 1, 2015, which may be extended annually at the request of the Company, subject to the U.S. lender's 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 U.S. Facility and the Notes. As at December 31, 2012, the Company was in compliance with these covenants.

At December 31, 2012, the Company had $8.8 million cash drawings against the Bank Facilities (December 31, 2011 – $31.3 million).

The composition of the December 31, 2012 borrowings on the Bank Facilities and the Notes was as follows:

	December 31, 2012	December 31, 2011
Drawings of Bank Facilities	**$ 8,835**	$ 31,348
Notes due June 22, 2016	**50,500**	50,500
Notes due June 22, 2021	**40,000**	40,000
Deferred transaction costs	**(2,866)**	(2,885)
	$ 96,469	$ 118,963

At December 31, 2012, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $59.3 million, and $40.0 million thereafter.

NOTE 17. GUARANTEES, COMMITMENTS AND CONTINGENCIES

At December 31, 2012, the Company had outstanding letters of credit of $74.5 million (December 31, 2011 – $102.2 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 one to ten 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:

2013	$ 11,352
2014	9,105
2015	7,189
2016	5,561
2017	3,705
Thereafter	2,698
Total	$ 39,610

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

2013	$ 85,961
2014	2,295
2015	763

NOTE 18. INCOME TAXES

(a) Income Tax Recognized in Consolidated Statement of Earnings (Loss)

Years ended December 31,	2012	2011
Total income tax expense was attributable to:		
Continuing operations	$ 29,427	$ 21,089
Discontinued operations (Note 7)	–	3,937
	$ 29,427	$ 25,026

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

	2012	2011
Current tax	$ 22,435	$ 17,293
Deferred income tax	6,992	3,796
	$ 29,427	$ 21,089

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,	2012	2011
Earnings before income taxes from continuing operations	$ 111,680	$ 77,830
Canadian statutory rate	25.0%	26.6%
Expected income tax provision	27,920	20,703
Add (deduct)		
Earnings taxed in foreign jurisdictions	1,578	(535)
Expenses not deductible for tax purposes	427	656
Impact of deferred income tax rate adjustments	–	606
Other	(498)	(341)
Income tax expense from continuing operations	$ 29,427	$ 21,089

The applicable tax rate is the aggregate of the Canadian Federal income tax rate of 15.0 percent (2011 – 16.5 percent and the Provincial income tax rate of 10.0 percent (2011 – 10.1 percent).

(b) Income Tax Recognized in Other Comprehensive (Loss) Income

Years ended December 31,	2012	2011
Deferred Tax		
Arising on income and expenses recognized in other comprehensive (loss) income:		
Fair value remeasurement of hedging instruments entered into for cash flow hedges	$ 116	$ 14
Arising on income and expenses reclassified from other comprehensive (loss) income to net earnings:		
Relating to cash flow hedges	$ (130)	(77)
Total income tax recognized in other comprehensive (loss) income	$ (14)	$ (63)

(c) Net Deferred Tax Assets (Liabilities) Arise from the Following

December 31, 2012	**Accounting provisions and accruals**	**Tax losses**	**Capital assets**	**Other**	**Cash flow hedges**	**Total**
Opening Balance, beginning of year	**$ 20,132**	**$ 26,652**	**$ (9,847)**	**$ 2,745**	**$ (101)**	**$ 39,581**
Charged to net earnings	**2,534**	**(9,772)**	**894**	**(648)**	**–**	**(6,992)**
Charged to other comprehensive (loss) income	**–**	**–**	**–**	**–**	**14**	**14**
Exchange differences	**86**	**(338)**	**95**	**–**	**(70)**	**(227)**
Closing balance, end of year	**$ 22,752**	**$ 16,542**	**$ (8,858)**	**$ 2,097**	**$ (157)**	**$ 32,376**

Net deferred tax assets at December 31, 2012 of $32.4 million consists of assets of $32.8 million net of liabilities of $0.4 million.

December 31, 2011	Accounting provisions and accruals	Tax losses	Capital assets	Other	C ash flow hedges	Total
Opening Balance, beginning of year	$ 25,259	$ 36,964	$ (17,469)	$ 3,394	$ (208)	$ 47,940
Charged to net earnings	(4,850)	(9,797)	7,563	(649)	–	(7,733)
Charged to other comprehensive income	–	–	–	–	63	63
Exchange differences	(277)	(515)	59	–	44	(689)
Closing balance, end of year	$ 20,132	$ 26,652	$ (9,847)	$ 2,745	$ (101)	$ 39,581

(d) Unrecognized Deferred Tax Assets

	December 31, 2012	December 31, 2011
The following deferred tax assets have not been recognized at the reporting date:		
Tax losses on European discontinued operations	**$ 11,349**	$ 9,118

NOTE 19. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares. Share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and a right to a dividend.

Issued and Outstanding

	2012		2011	
December 31,	**Number of common shares**	**Common share capital**	Number of common shares	Common share capital
Balance, beginning of year	**77,339,781**	**$ 207,409**	–	$ –
Bifurcation transaction	**–**	**–**	77,212,396	205,337
Exercise of stock options	**331,200**	**5,466**	127,385	2,072
Balance, end of year	**77,670,981**	**$ 212,875**	77,339,781	$ 207,409

Total dividends declared in the year were $19.4 million, or $0.06 per share for the first three quarters and $0.07 per share for the last quarter of 2012 (December 31, 2011 – $13.9 million and $0.06 per share for each quarter respectively).

Net Investment

For comparative periods, Toromont's Net Investment in Enerflex Ltd. prior to the Arrangement is presented as Owner's Net Investment in the Consolidated Statement of Changes in Equity. Total Net Investment consisted of Owner's Net Investment, Retained Earnings and Contributed Surplus.

Normal Course Issuer Bid ("NCIB")

On December 19, 2012, 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 percent 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 21, 2012. During the year ended December 31, 2012, Enerflex did not purchase any of its common shares.

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 percent 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.

NOTE 20. CONTRIBUTED SURPLUS

December 31,	**2012**	2011
Contributed surplus, beginning of year	**$ 656,536**	$ –
Reclassification of net investment in bifurcation transaction	**–**	656,500
Share-based compensation	**1,412**	858
Exercise of stock options	**(2,069)**	(822)
Contributed surplus, end of year	**$ 655,879**	$ 656,536

Contributed Surplus at January 1, 2010 was included in the balance of Toromont's Net Investment in Enerflex Ltd.

NOTE 21. REVENUE

Years ended December 31,	**2012**	2011
Engineered Systems	**$ 1,178,377**	$ 906,093
Service	**284,158**	262,217
Rentals	**39,149**	58,827
	$ 1,501,684	$ 1,227,137

Proceeds received and receivable from the sale of rental equipment included in revenue for the year ended December 31, 2012 was $8.2 million (2011 – $16.4 million).

Revenue by geographic location, which is attributed by destination of sale, was as follows:

Years ended December 31,	**2012**	2011
Australia	**$ 314,102**	$ 201,163
Canada	**438,478**	493,953
Nigeria	**35,828**	36,403
Oman	**99,862**	23,815
United States	**478,189**	368,458
Other	**135,225**	103,345
Total Revenue	**$ 1,501,684**	$ 1,227,137

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.

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.

		2012		2011
December 31,	**Number of options[1]**	**Weighted average exercise price**	Number of options[1]	Weighted average exercise price
Options outstanding, beginning of year	**2,563,985**	**$ 11.53**	2,030,030	$ 11.39
Granted	**486,915**	**11.78**	674,500	11.66
Exercised	**(331,200)**	**10.26**	(127,385)	9.82
Forfeited	**(62,700)**	**12.67**	(13,160)	11.52
Expired	**(1,425)**	**9.57**	–	–
Options outstanding, end of year	**2,655,575**	**$ 11.71**	2,563,985	$ 11.53
Options exercisable, end of year	**1,100,800**	**$ 11.60**	983,205	$ 11.16

[1] Stock options were assigned to Toromont employees as part of the bifurcation transaction.

The Company granted 486,915 stock options during 2012 (2011 – 674,500). No options were granted to non-employee directors during 2012 (2011 – 70,000). The weighted average fair value of stock options granted from the stock option plan during the year ended December 31, 2012 was $3.62 (December 31, 2011 – $3.58) per option at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used in the determination of fair value are noted below:

	2012	2011
Expected life (in years)	**5.0**	5.0
Volatility[1]	**47.25%**	48.19%
Dividend yield	**1.98%**	1.99%
Risk-free rate	**1.22%**	1.17%
Estimated forfeiture rate	**0.35%**	0.00%

[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, 2012:

	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
$9.61 – $11.75	1,376,817	4.00	$ 11.01	653,840	$ 10.81
$11.76 – $12.96	1,278,758	4.54	12.47	446,960	12.75
Total	2,655,575	4.26	$ 11.71	1,100,800	$ 11.60

(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 daily average of the high and low board lot trading prices of Enerflex shares on the TSX for the five trading days immediately preceding the grant.

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. Participants are not able to cash in their Enerflex DSUs until they are no longer employed by or cease to be directors of Enerflex. The Company satisfies its payment obligation through cash payments to the participant.

DSUs represent an indexed liability of the Company relative to the Company's share price. In 2012, the Board of Directors granted 6,213 DSUs to executives of the Company. For the year ended December 31, 2012, directors fees and executive bonuses elected to be received in deferred share units totalled $0.8 million (December 31, 2011 – $0.2 million). The carrying amount of the liability relating to DSUs at December 31, 2012 was $1.3 million (December 31, 2011 – $0.2 million).

December 31, 2012	**Number of DSUs**	**In lieu of distributons**	**Weighted average grant date fair value per unit**
DSUs outstanding, beginning of year	**18,703**	**40**	**$ 11.30**
Granted	**90,310**	**765**	**11.49**
DSUs outstanding, end of year	**109,013**	**805**	**$ 11.46**

(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, the UAE and Singapore, 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 2012, the Board of Directors granted 99,567 SARS (December 31, 2011 – 59,000). The carrying amount of the liability relating to the SARs at December 31, 2012 was $0.1 million (December 31, 2011 – nominal). The intrinsic value of the vested awards at December 31, 2012 was $0.1 million (December 31, 2011 – no SARs vested).

(d) Performance Share Units

The Company offers a Performance Share Unit ("PSU") plan for officers of the Company or its related entities. The PSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the number of vested PSUs multiplied by the weighted average price per share at which the shares of the Company have traded on the TSX during the last 5 trading days immediately preceding the grant. Vesting is based on the achievement of performance measures and objectives specified by the Board of Directors. The Board of Directors assesses performance of the officer to determine the vesting percentage, which can range from 0 percent – 200 percent. On the 14^{th} day after the determination of the vesting percentage, the holder will be paid for the vested PSUs either in cash or in shares of the Company acquired by the Company on the open market on behalf of the holder, at the discretion of the Company.

In 2012, the Board of Directors granted the following PSUs:

December 31, 2012	Number of PSUs	In lieu of distributons	Weighted average grant date fair value per unit
PSUs outstanding, beginning of year	**–**	**–**	**$ –**
Granted	**137,288**	**666**	**11.83**
PSUs outstanding, end of year	**137,288**	**666**	**$ 11.83**

The carrying liability relating to PSUs at December 31, 2012 was $0.6 million (December 31, 2011 – nil). No PSUs had vested at December 31, 2012 and 2011.

(e) Restricted Share Units

During 2012, the Company implemented a Restricted Share Unit ("RSU") plan. RSUs may be granted at the discretion of the Board of Directors to any officers or other key employees of the Company or its related entities. A RSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the number of vested RSUs multiplied by the weighted average price per share at which the shares of the Company have traded on the TSX during the last 5 trading days immediately preceding the vesting date. RSUs vest at a rate of one-third on the first, second and third anniversaries of the award date. Within 30 days of the vesting date, the holder will be paid for the vested RSUs either in cash or in shares of the Company acquired by the Company on the open market on behalf of the holder, at the discretion of the Company.

Additional Enerflex RSUs will be credited on the regular dividend payment dates as all dividends are assumed to be reinvested.

During 2012, the Board of Directors granted 226,447 RSUs to officers or key employees of the Company. The carrying liability relating to RSUs at December 31, 2012 was $0.1 million (December 31, 2011 – nil). No RSUs had vested at December 31, 2012 and 2011.

(f) 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 $1,000 per employee per annum based on contributions by the Company of $1 for every $3 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.

(g) Share-Based Compensation Expense

The share-based compensation expense included in the determination of net earnings was:

Years ended December 31,	**2012**	2011
Stock options	**$ 1,412**	$ 858
Deferred share units	**996**	210
Phantom share units	**128**	13
Performance share units	**556**	–
Restricted share units	**75**	–
Total	**$ 3,167**	$ 1,081

NOTE 23. RETIREMENT BENEFIT PLANS

The Company sponsors pension arrangements for substantially all of its employees through defined contribution plans in Canada, the Middle East 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,		**2012**		2011
Defined contribution plans	**$**	**10,324**	$	8,067
401(k) matched savings plan		**899**		764
Net pension expense	**$**	**11,223**	$	8,831

NOTE 24. FINANCE COSTS AND INCOME

Years ended December 31,		**2012**		2011
Finance Costs				
Long-term borrowings	**$**	**6,406**	$	7,243
Other interest, including short-term loans		**355**		1,711
Total finance costs	**$**	**6,761**	$	8,954
Finance Income				
Bank interest income	**$**	**554**	$	418
Income from finance leases		**546**		1,525
Total finance income	**$**	**1,100**	$	1,943

NOTE 25. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

			2012						2011
Years ended December 31,		**Net earnings**	**Weighted average shares outstanding**		**Per share**		Net (loss) earnings	Weighted average shares outstanding		Per share
Basic	**$**	**71,774**	**77,590,203**	**$**	**0.92**	$	(7,299)	77,221,440	$	(0.10)
Dilutive effect of stock option conversion		**–**	**95,567**		**–**		–	113,792		–
Diluted	**$**	**71,774**	**77,685,770**	**$**	**0.92**	$	(7,299)	77,335,232	$	(0.10)

NOTE 26. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

The Company has designated its financial instruments as follows:

December 31, 2012	**Carrying value**	**Estimated fair value**
Financial Assets		
Cash and cash equivalents	**$ 144,988**	**$ 144,988**
Derivative instruments in designated hedge accounting relationships	**1,737**	**1,737**
Loans and receivables:		
Accounts receivable	**287,387**	**287,387**
Financial Liabilities		
Derivative instruments in designated hedge accounting relationships	**596**	**596**
Other financial liabilities:		
Accounts payable and accrued liabilities	**169,275**	**169,275**
Long-term debt – Bank Facilities	**8,835**	**8,835**
Long-term debt – Notes	**90,500**	**97,808**
Other long-term liabilities	**3,478**	**3,478**

December 31, 2011	Carrying value	Estimated fair value
Financial Assets		
Cash and cash equivalents [1]	$ 81,200	$ 81,200
Derivative instruments in designated hedge accounting relationships	2,136	2,136
Loans and receivables:		
Accounts receivable	254,482	254,482
Financial Liabilities		
Derivative instruments in designated hedge accounting relationships	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	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.

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, 2012 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

	Carrying value		Faire value Level 2	
		Level 1		Level 3
Financial Assets				
Derivative financial instruments	$ 1,737	$ –	$ 1,737	$ –
Financial Liabilities				
Derivative financial instruments	$ 596	$ –	$ 596	$ –

Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities 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 determined on a discounted cash flow basis, using a weighted average discount rate of 3.85 percent, was $97.8 million at December 31, 2012.

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; but 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 and cash receipts 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, 2012:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**13,440**	January 2013 to July 2013
Sales contracts	USD	**72,960**	January 2013 to April 2014
	EUR	**6,378**	January 2013 to March 2013
	AUD	**14,100**	January 2013
Australian Dollar Denominated Contracts			
Purchase contracts	USD	**5,039**	January 2013
	EUR	**135**	March 2013
Sales contracts	EUR	**135**	March 2013
	USD	**23,050**	January 2013 to April 2014
British Pound Denominated Contracts			
Purchase contracts	USD	**1,774**	March 2013 to June 2013

Management estimates that a gain of $1.1 million would be realized if the contracts were terminated on December 31, 2012. Certain of these forward contracts are designated as cash flow hedges, and accordingly, a gain of $0.5 million has been included in other comprehensive (loss) income for the year ended December 31, 2012. These gains or losses are not expected to affect net earnings as the gains will be reclassified to net earnings 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 (loss) income during the year and included in the carrying amount of the hedged items as a basis adjustment for the year ended December 31, 2012 was a loss of $0.4 million (December 31, 2011 – gain of $0.2 million).

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 Translation Exposure

In the normal course of operations, the Company is exposed to movements in the U.S. dollar, the Australian dollar, the Euro 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, 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 also sells compression and processing packages in foreign currencies, primarily the U.S. dollar, the Australian dollar and the Euro. 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. The Company 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, the Company may hedge input costs that are paid in a currency other than the home currency of the subsidiary executing the contract. The Company utilizes a combination of foreign denominated debt and currency forward contracts to meet its hedging objective.

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 British pound.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rates in effect at the statement of financial position dates. Non-monetary assets and liabilities measured at historical cost are translated using the rates of exchange at the date of the transaction. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive (loss) income. The cumulative currency translation adjustments are recognized in earnings 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 earnings. 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 earnings before tax for the period ended December 31, 2012 of a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar and British pound, everything else being equal. A 5 percent 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 percent	USD	AUD	GBP
Net earnings before tax	$ 4,072	$ 988	$ 91

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, 2012 and for the period then ended. The following table shows the Company's sensitivity to a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound. A 5 percent strengthening of the Canadian dollar would have an equal and opposite effect.

Canadian dollar weakens by 5 percent	**USD**	**AUD**	**GBP**
Financial instruments held in foreign operations			
Other comprehensive (loss) income	**$ 9,195**	**$ 1,157**	**$ 560**
Financial instruments held in Canadian operations			
Net earnings	**1,313**	**–**	**–**
Other comprehensive income	**4**	**–**	**–**

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, 2012 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 percent change in the rate of interest on the Bank Facilities, the change in interest expense would be approximately $0.1 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 statement of financial position represents the maximum credit exposure.

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, 2012, the Company had no individual customers which accounted for more than 10 percent 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 at December 31, 2012 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 counterparties may default on their 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.

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 U.S. Facilities and Bank Facilities for future drawings to meet the Company's future growth targets. As at December 31, 2012, the Company held cash and cash equivalents of $145.0 million and had drawn $8.8 million against the Bank Facilities, leaving it with access to $301.3 million for future drawings.

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, as at December 31, 2012:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 596	$ –	$ –	$ 596
Accounts payable and accrued liabilities	$ 169,275	$ –	$ –	$ 169,275
Long-term debt – Bank Facilities	–	–	8,835	8,835
Long-term debt – Notes	–	–	90,500	90,500
Other long-term liabilities	–	–	3,478	3,478

The Company expects that continued cash flows from operations in 2012, 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 ongoing 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, 2012, the Net debt to equity ratio was (0.05):1 (December 31, 2011 – 0.05:1), calculated as follows:

December 31,	2012	2011
Long-term debt	**$ 96,469**	$ 118,963
Cash	**(144,988)**	(81,200)
Net debt	**$ (48,519)**	$ 37,763
Shareholders'/Owners' equity	**$ 886,679**	$ 836,262
Net debt to equity ratio	**(0.05):1**	0.05:1

Net Debt to EBITDA Ratio

The Company targets a Net debt to EBITDA ratio of less than 2.50:1. At December 31, 2012, the Net debt to EBITDA ratio was:

December 31,	2012	2011
Earnings before finance costs and income taxes	**$ 117,341**	$ 84,841
Depreciation and amortization	**39,487**	42,171
EBITDA	**$ 156,828**	$ 127,012
Net debt to EBITDA ratio	**(0.31):1**	0.30:1

NOTE 28. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,	2012	2011
Cash (used in) provided by changes in non-cash working capital		
Accounts receivable	**$ (23,261)**	$ (11,407)
Inventories	**51,336**	(15,811)
Accounts and taxes payable, accrued liabilities and deferred revenue	**(10,156)**	67,623
Foreign currency and other	**(2,389)**	530
	$ 15,531	$ 40,935

Cash paid and received during the period:

Years ended December 31,	2012	2011
Interest paid	**$ 6,520**	$ 8,864
Interest received	**164**	339
Taxes paid	**16,951**	27,134
Taxes received	**228**	1,492

NOTE 29. RELATED PARTIES

Enerflex transacts with certain related parties as a normal course of business. Related parties include Total Production Services Inc. ("Total"), the Company's 45 percent equity investment. The Company has a 51 percent joint venture interest in Enerflex-ES, established in the fourth quarter of 2011. During the third quarter of 2012, Enerflex sold its 50 percent joint venture interest in PDIL to its joint venture partner Descon Engineering Ltd. Toromont was a related party until June 1, 2011, when Enerflex began independent operations.

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 is as follows:

		Revenue	Management fee expense	Purchases	Interest expense	Accounts receivable
Associates:						
Total	**2012**	**$ 286**	**$ –**	**$ 347**	**$ –**	**$ 73**
	2011	212	–	526	–	–
Joint Ventures:						
Enerflex-ES	**2012**	**–**	**–**	**36**	**–**	**–**
	2011	–	–	–	–	–
PDIL	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	–	–	–	–	44
Parent:						
Toromont	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	–	4,299	–	1,902	–

All related party transactions are settled in cash.

The remuneration of directors and other key management personnel during the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Short-term compensation	**$ 4,617**	$ 4,876
Post-employment compensation	**357**	431
Other long-term compensation	**–**	1,269
Share-based payments	**3,758**	673
Termination payments	**–**	72

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

NOTE 30. SEASONALITY

The oil and natural gas service sector in Canada and Northern U.S. 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 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 operating 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. and South America 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.

	Canada and Northern U.S.		Southern U.S. and South America		International		Total	
Years ended December 31,	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Segment revenue	**$ 586,849**	$ 641,459	**$ 517,574**	$ 343,596	**$ 482,825**	$ 365,198	**$1,587,248**	$ 1,350,253
Intersegment revenue	**(77,490)**	(117,224)	**(5,429)**	(1,261)	**(2,645)**	(4,631)	**(85,564)**	(123,116)
External revenue	**$ 509,359**	$ 524,235	**$ 512,145**	$ 342,335	**$ 480,180**	$ 360,567	**$1,501,684**	$ 1,227,137
Operating income	**$ 32,843**	$ 38,849	**$ 55,937**	$ 33,191	**$ 25,777**	$ 8,046	**$ 114,557**	$ 80,086

	Canada and Northern U.S.		Southern U.S. and South America		International		Total	
Years ended December 31,	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Segment assets	**$ 388,040**	$ 516,135	**$ 273,458**	$ 219,931	**$ 335,546**	$ 255,673	**$ 997,044**	$ 991,739
Corporate	**–**	–	**–**	–	**–**	–	**(69,163)**	(110,110)
Goodwill	**198,456**	198,891	**53,220**	54,402	**205,532**	206,642	**457,208**	459,935
	$ 586,496	$ 715,026	**$ 326,678**	$ 274,333	**$ 541,078**	$ 462,315	**$1,385,089**	$ 1,341,564
AHFS	**–**	–	**–**	–	**4,175**	10,054	**4,175**	10,054
Total segment assets	**$ 586,496**	$ 715,026	**$ 326,678**	$ 274,333	**$ 545,253**	$ 472,369	**$1,389,264**	$ 1,351,618

NOTE 32. SUBSEQUENT EVENTS

Subsequent to December 31, 2012, the Company declared a dividend of $0.07 per share, payable on April 3, 2013, to shareholders of record on March 14, 2013.

QUARTERLY AND SHARE DATA

QUARTERLY DATA

(unaudited)	**2012**				2011			
($ millions, except per share data and percentages)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**421.6**	**369.7**	**354.6**	**355.7**	383.8	282.3	246.5	314.5
Operating income	**36.5**	**28.5**	**28.4**	**21.2**	26.5	22.0	16.3	15.3
Earnings before finance costs and taxes	**36.8**	**30.4**	**28.5**	**21.6**	26.8	24.6	17.3	16.3
Net earnings – continuing	**27.0**	**21.0**	**19.4**	**14.9**	17.7	17.0	12.2	9.8
Net earnings – discontinued operations	**(0.6)**	**(1.4)**	**(7.6)**	**(0.8)**	(7.0)	(54.3)	(2.9)	(0.1)
Earnings per share – continuing	**0.35**	**0.27**	**0.25**	**0.19**	0.22	0.22	0.16	0.13
Earnings per share – discontinued operations	**(0.01)**	**(0.02)**	**(0.10)**	**(0.01)**	(0.09)	(0.70)	(0.04)	0.00
Depreciation and amortization	**10.3**	**9.8**	**9.6**	**9.8**	9.9	11.5	10.4	10.9
Cash from operations	**43.6**	**28.1**	**24.4**	**22.6**	27.7	24.9	17.1	16.8
Capital expenditures, net								
Rental equipment	**3.4**	**(1.7)**	**2.8**	**(0.7)**	(2.7)	(1.8)	3.3	2.0
Property, plant and equipment	**5.0**	**3.8**	**8.6**	**11.5**	6.3	(36.6)	(4.3)	(0.2)
Dividends (declared)	**5.4**	**4.7**	**4.7**	**4.7**	4.6	4.6	4.6	–
Dividends per share	**0.07**	**0.06**	**0.06**	**0.06**	0.06	0.06	0.06	–
Pre-tax earnings (continuing) as a % of revenue	**8.4%**	**7.9%**	**7.6%**	**5.7%**	6.7%	8.0%	6.3%	4.4%

SHARE DATA

(unaudited)	**2012**				2011			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Trading price range of share ($):								
High	**12.44**	**13.18**	**12.60**	**13.50**	13.50	12.66	13.75	–
Low	**10.52**	**10.44**	**10.25**	**10.91**	7.65	8.48	11.90	–
Close	**11.98**	**12.45**	**10.70**	**11.20**	13.26	8.75	12.41	–
Trading volume *(millions)*	**6.40**	**6.38**	**6.23**	**7.10**	6.24	16.38	6.18	–
Shares *(millions)*								
Oustanding at end of period	**77.671**	**77.659**	**77.595**	**77.574**	77.340	77.215	77.215	–
Weighted average basic	**77.590**	**77.618**	**77.589**	**77.488**	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

Jerauld Fraelic
President, Americas
Houston, TX

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

William Moore
President, International
Calgary, AB

Greg Stewart
Vice President and
Chief Information Officer
Calgary, AB

Carol Ionel
Vice President,
Human Resources
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

Head Office
Enerflex Ltd.
Suite 904, 1331 Macleod Trail SE
Calgary, AB, T2G 0K3 Canada
Tel: +1.403.387.6377
Fax: +1.403.236.6816
Email: ir@enerflex.com
Web: www.enerflex.com

Whistleblower Contact
Tel: + 1.866.296.8654
Email: ener@openboard.info
Web: www.openboard.info/ener/

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:
Canadian Stock Transfer Company Inc.
320 Bay Street
Toronto, ON M5H 4A6 Canada

Mail:
PO Box 700
Station B
Montreal, QC H3B 3K3 Canada

Tel: +1.800.387.0825 or +1.416.682.3860
Fax: +1.888.249.6189 North America

Web: www.canstockta.com

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

Auditors

Ernst & 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.
Suite 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 18, 2013 at 4:00 p.m. MDT. The meeting will be held at the Marriott Hotel Calgary in the Acadia B Room, 110 9th Avenue SE, Calgary, Alberta. Those unable to attend are encouraged to sign and return the proxy form mailed to them.

ENERFLEX

Enerflex Head Office
Suite 904, 1331 Macleod Trail SE
Calgary, AB, T2G 0K3
Canada

Main Phone: +1.403.387.6377
Toll-Free Phone: +1.800.242.3178

www.enerflex.com