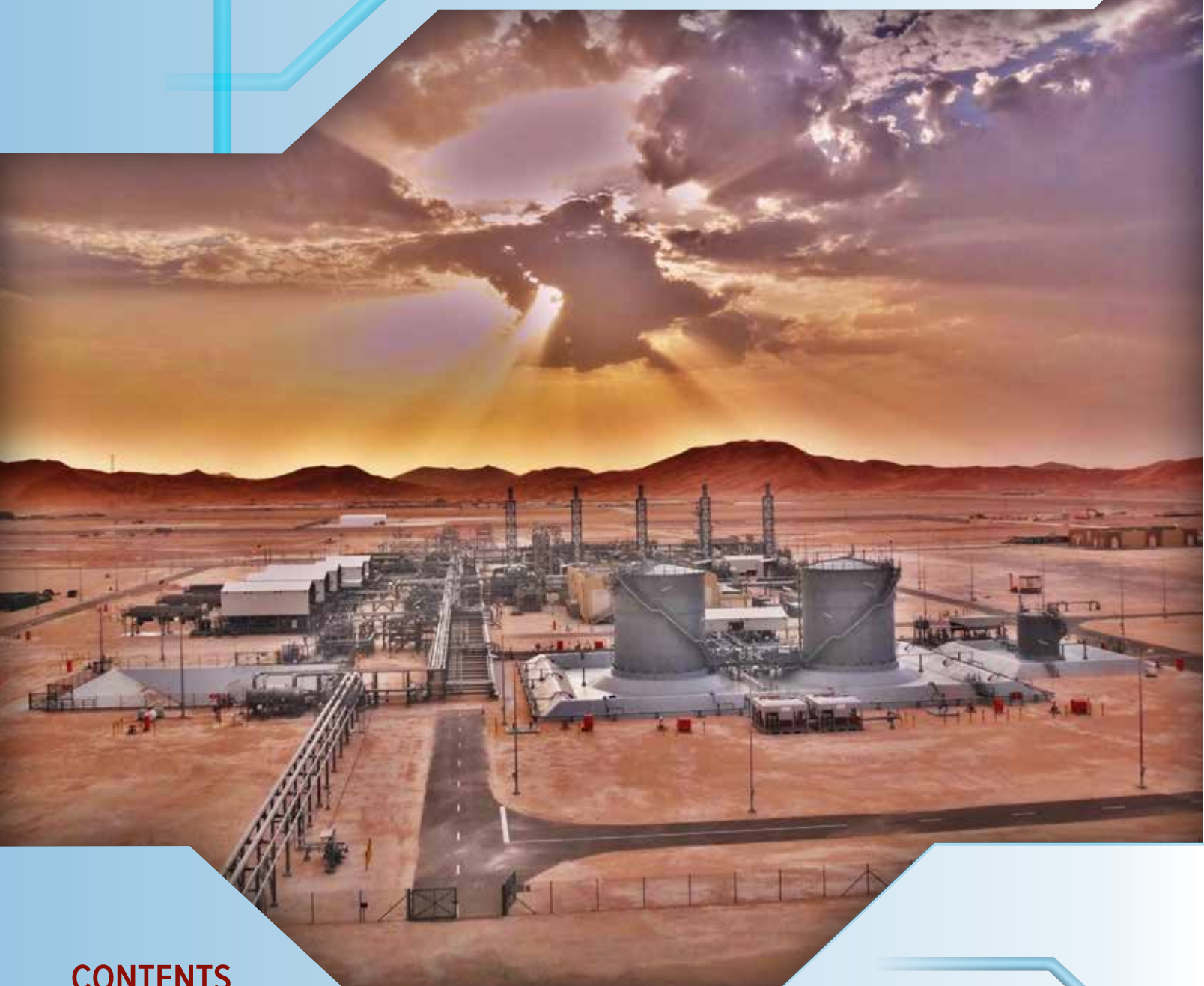




**ENERFLEX**

IMPROVED CAPABILITIES. NEW OPPORTUNITIES.

2014 ANNUAL REPORT



# CONTENTS

Financial Highlights .....	8	Governance .....	30
Letter to Shareholders .....	10	Management's Discussion and Analysis .....	32
Latin America Report .....	16	Consolidated Financial Statements .....	64
Regional Reports .....	20	Notes to the Consolidated Financial Statements .....	69
Corporate Responsibility .....	28	Shareholders' Information .....	102



## A YEAR OF GROWTH

Enerflex's global integrated solutions platform delivered strong operating and financial results in 2014. The Company's strategic positioning along the natural gas value chain provided on-going exposure to the long-term growth of global gas demand, enabling the capture of numerous opportunities and maximizing added value. A permanent on-the-ground presence in seven regions, all capable of delivering the Company's offering, gave Enerflex access to a range of customers and projects in growing markets. Standard processes in modernized facilities improved operating efficiency and project execution. A strong balance sheet powered a significant acquisition.

The results were clear: Enerflex delivered record annual revenue and EBIT, an improved EBIT margin, an increased dividend, and a strong backlog entering 2015. Enerflex's strengthened global business – including the expansion in Latin America, liquids-rich plays in Canada and the United States, electric power opportunities, after-market service growth, and international integrated projects – position the Company well as we navigate through the market uncertainties of 2015.

## EXPANDING OUR REACH AND IMPROVING OUR BUSINESS

In 2014 Enerflex expanded on many levels, including geographical footprint, revenue, profitability, facilities, systems, people, services, and customers, while improving internal processes and efficiencies. Following our expansion in Latin America, in January 2015 the Americas operations were re-organized into three regions: Canada, the United States of America, and Latin America. Expanding horizons worldwide led to the broadening of our regional businesses in Asia and the Middle East/Africa.

Consolidation of manufacturing capacity in Calgary, Alberta increased overall space by 180,000 net square feet.

Enerflex added 360 employees in the USA region in 2014 and started its first-ever night assembly shift in the Houston, Texas facility, which achieved record throughput of finished packages.

The 35-bay Houston facility added 30 acres of land, facilitating additional expansion in the future.

Enerflex's US\$431.0 million acquisition at mid-year of a large international contract compression, processing and after-market services business added recurring revenue and 285,000 in compression horsepower.

The Company's transformed presence throughout Latin America provides a competitive presence in key, long-term growth markets in Mexico, Brazil, and Argentina.

With record gas processing orders, a flourishing service business and strong electric power sales, revenues in Canada increased year-over-year.

Fulfillment of multi-year gas processing orders plus record sales of compression packages drove the USA region's annual sales up in 2014.

In Oman, Enerflex brought its largest-ever project, the turnkey OOCPE facility, to substantial completion in the fourth quarter, initiating plant throughput of natural gas and condensate before year-end.

**NEW**

**NEW**

**NEW**

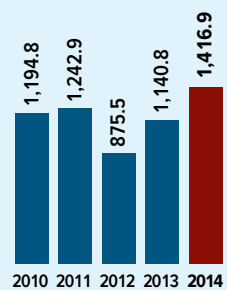
**NEW**

Organic growth and the Axiom Energy Services, LP ("Axiom") acquisition drove recurring revenue from after-market service, contract operations, parts, and rentals to a record \$486.4 million in 2014, or 27.3 percent of consolidated revenue.

● Enerflex location  
● New Enerflex location

## BOOKINGS

(\$Millions at December 31)



# ADDING VALUE FROM THE WELLHEAD TO THE PIPELINE

After gas leaves the wellhead, it must be handled safely, processed to remove impurities, then moved in bulk or transported through gathering lines. Producers work with Enerflex to extract valuable products from the gas such as ethane, propane, butane, and condensate before sending the sales gas to market or re-injection for future market development. This transformation can take place over several stages, long distances, and multiple owners. Enerflex is there every step of the way, providing equipment and systems that help the natural gas owner handle gas efficiently and extract the greatest value.

## The Natural Gas Value Chain



### Wellhead

**USE OF GAS:** “Raw” natural gas takes many forms and requires a variety of equipment to handle it safely, remove impurities such as water vapour and begin moving it towards processing facilities. A portion of wellhead gas is sometimes used to provide on-site electric power. Low-pressure wells require immediate compression.

**ENERFLEX'S ROLE:** Enerflex provides a suite of wellhead systems including dehydration, separation, heating and refrigeration, compression, electric power, and complete early production facilities.



### Gathering Systems

**USE OF GAS:** The numerous wells in typical natural gas fields are linked to processing facilities by small-diameter pipelines known as gathering systems.

**ENERFLEX'S ROLE:** Enerflex provides field compression for gathering systems, as well as initial processing facilities where gathering lines meet.



### Other Midstream Activity

**USE OF GAS:** Liquids-rich gas can offer additional value-creating opportunities, often in strategic locations farther downstream. Liquids fractionation and “straddle” plants on trunk pipelines are only two examples.

**ENERFLEX'S ROLE:** Enerflex's decades of experience and engineering depth enable the Company to devise customized solutions for the required application.



### Field Processing and Treating

**USE OF GAS:** Larger, centralized processing plants remove some of the typical impurities such as CO<sub>2</sub>, H<sub>2</sub>S, mercury, water and condensate, then bring the gas to “pipeline spec” and, depending on the raw gas's composition, extract natural gas liquids. This can be a critical value-creating stage.

**ENERFLEX'S ROLE:** The Company engineers, designs, manufactures, installs and operates gas plants of any configuration across a wide capacity range. Enerflex has delivered hundreds of gas processing systems.

## ENERFLEX'S BUSINESS

Enerflex has built a global platform to engineer, design, procure, fabricate, and deliver products and services that meet the natural gas production and processing or “midstream” sector’s requirements all along the natural gas value chain, anywhere worldwide, onshore and offshore. Enerflex’s systems are installed in more than 70 countries worldwide. The Company’s complementary lineup of products and services comprises:

- Natural gas compression in various configurations across a large horsepower range;
- Processing systems of all types, from simple dehydration to specialized refrigeration systems for various applications;
- Electric power solutions from 250 kW to 50 MW;
- Compression and processing equipment rentals;
- Comprehensive after-market service worldwide, no matter how remote the location;
- Global parts distribution;
- Turnkey project delivery; and
- Long-term operations and maintenance capabilities.



### Storage

**USE OF GAS:** Storing gas underground to meet fluctuating demand and reduce price volatility is a critical function in a mature gas system.

**ENERFLEX'S ROLE:** Enerflex manufactures and installs compression and treating systems for gas storage facilities.



### Electric Power

**USE OF GAS:** Gas-fired generating plants are a growing source of electric power around the world. Gas is also extremely useful for niche applications where grid power is unreliable or unavailable.

**ENERFLEX'S ROLE:** Enerflex designs, packages, installs, maintains and operates turnkey 250 kW to 50 MW electric power facilities. The Company provides systems to compress and treat gas supply for large natural gas-fired power stations.



### Manufacturing and Export

**USE OF GAS:** Export facilities for natural gas liquids are being constructed in areas of ample supply to serve a myriad of worldwide needs, from cooking and heating to manufacturing fertilizer, plastics, and synthetics.

**ENERFLEX'S ROLE:** Enerflex designs, builds, and constructs gas processing facilities.



### LNG

**USE OF GAS:** Gas arrives at liquefied natural gas facilities as nearly pure methane.

**ENERFLEX'S ROLE:** Enerflex is involved in the upstream and midstream stages from the wellhead to the LNG facility.



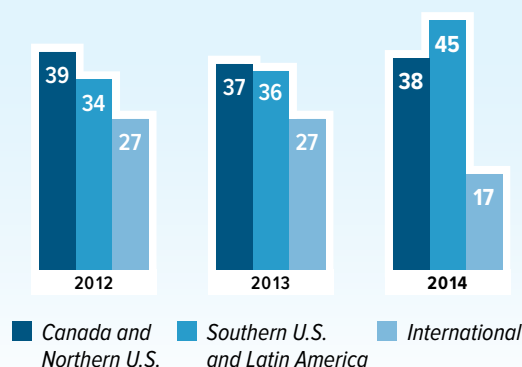
# HOW ENERFLEX'S BUSINESS MODEL GENERATES MORE VALUE

Enerflex's business is driven fundamentally by global and regional demand for natural gas. Diversification across regions, customers and project types, and exposure to demand-driven natural gas projects, is the strategic foundation. Achieving success year-by-year and over the long-term rests upon Enerflex's business model, key advantages of which are described on these pages. Enerflex continues to be an operationally focused, financially strong, dividend-paying Company delivering profitable growth.

## Market Growth

Enerflex's vertically integrated global platform creates new opportunities within existing markets. The enlarged geographical footprint spanning Latin America provides exposure to new customers and projects. Additional sales build up the overall installed base, generating opportunities for further after-market service work.

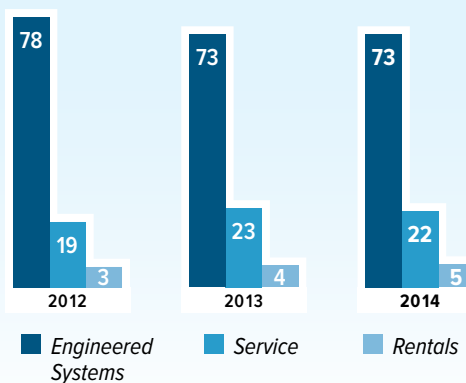
### REVENUE BY REGION (%)



## Diversified Products and Services

Enerflex provides integrated solutions spanning the entire project life-cycle. Our products and services form a complementary lineup, each element of which strengthens or is strengthened by other elements.

### REVENUE BY PRODUCT LINE (%)

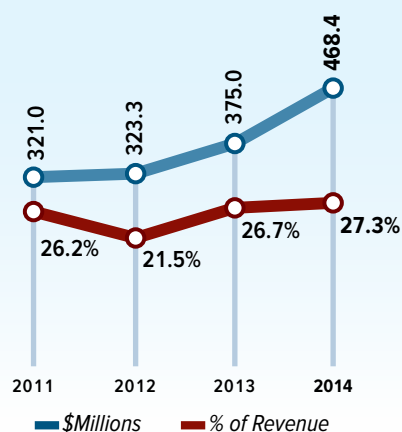




## Growing Recurring Revenue

The Axiom acquisition added revenues consisting of recurring rental and after-market service business. Combined with organic growth in Enerflex's service business, recurring revenue increased to 27.3 percent of overall 2014 revenue and the Company made progress to its long-term target of 35 to 40 percent.

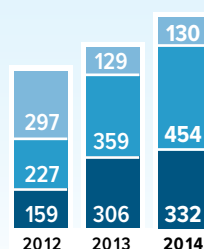
### RECURRING REVENUE



## Reduced Volatility

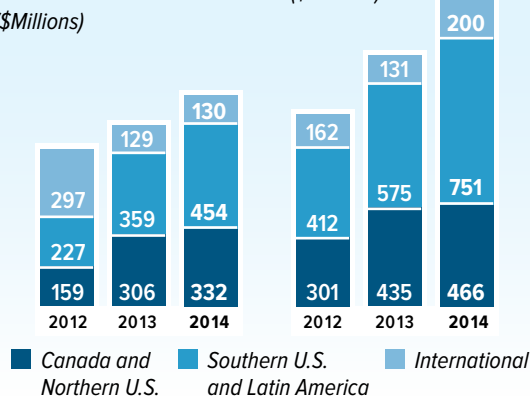
Enerflex's compelling offering and vertically integrated, geographically diversified business enables delivery of all phases of a project's life-cycle and maximizes sales opportunities. The Company entered 2015 with a strong backlog of \$916.5 million, 15.4 percent higher than in the prior year. A large backlog provides steadier year-ahead work, reducing volatility during uncertain periods.

### ENDING BACKLOG BY REGION (\$Millions)



Canada and Northern U.S.

### BOOKINGS BY REGION (\$Millions)



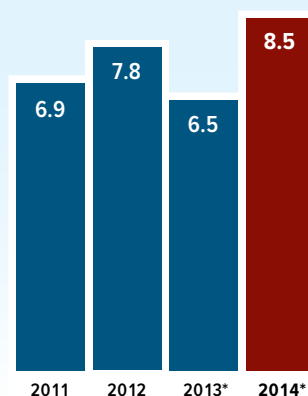
Southern U.S. and Latin America

International

## EBIT %

Improved project execution through a focus on standard operating initiatives, the acquisition of the high-margin Axiom business and the growing proportion of recurring revenue all contributed to a marked improvement in Enerflex's EBIT margin in 2014.

### EBIT (%)



\* Normalized EBIT percentage has been adjusted for acquisition-related transaction costs, severance, and restructuring costs and losses associated with the Alberta oil sands business.

# 2014 HIGHLIGHTS

For the years ended December 31,

(Thousands of dollars, except percent and per share) (Unaudited)

	2014 <sup>3</sup>	2013 <sup>3</sup>	2012	2011 <sup>1</sup>
Revenue	\$ 1,780,730	\$ 1,405,022	\$ 1,501,684	\$ 1,227,137
Normalized gross margin	333,544	245,905	273,155	225,876
Normalized operating income	141,165	86,290	114,557	80,086
Normalized earnings before finance costs and taxes	150,612	91,601	117,341	84,841
Normalized net earnings – continuing operations	97,762	60,912	82,253	56,741
Normalized net loss – discontinued operations	–	(1,852)	(10,479)	(64,040)
	97,762	59,060	71,774	(7,299)
Normalized earnings per share (basic)				
– continuing operations	1.25	0.78	1.06	0.73
Normalized loss per share (basic)				
– discontinued operations	–	(0.02)	(0.14)	(0.83)
	1.25	0.76	0.92	(0.10)
Dividends per share	0.310	0.285	0.25	0.18
<b>Key Financial Performance Indicators<sup>2</sup></b>				
Bookings	1,416,880	1,140,801	875,477	1,242,850
Backlog	916,484	793,977	683,206	986,105
Recurring revenue as a percentage of revenue	27.3%	26.7%	21.5%	26.2%
Normalized selling and administrative expenses as a percentage of revenue	10.8%	11.4%	10.6%	11.9%
Normalized earnings before finance costs and taxes as a percentage of revenue	8.5%	6.5%	7.8%	6.9%
Normalized earnings before finance costs, taxes, depreciation and amortization	207,411	131,196	156,828	127,012
Normalized return on capital employed	13.4%	10.2%	13.3%	8.8%
Normalized net debt (cash) to EBITDA ratio	1.67:1	(0.68):1	(0.31):1	0.30:1

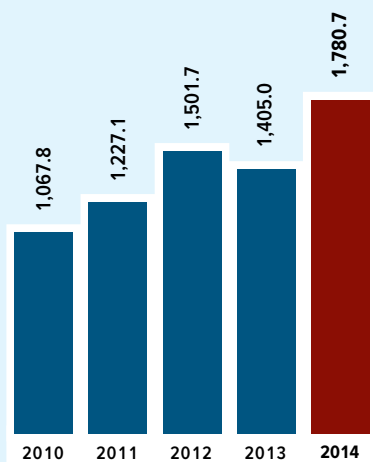
<sup>1</sup> Results through May 31, 2011 have been prepared on a carve-out basis. Enerflex became an independently operated and TSX-listed Company on June 1, 2011.

<sup>2</sup> 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 47.

<sup>3</sup> Normalized gross margin, normalized EBIT, normalized EBIT percentage, and normalized EBITDA have been adjusted for acquisition-related transaction costs, severance, and restructuring costs and losses associated with the Alberta oil sands business.

## REVENUE

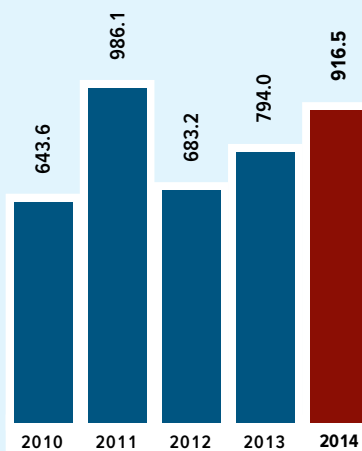
(\$Millions)



Overall revenue increased year-over-year due to stronger activity in the Americas; this was partially offset by slower activity in the International region.

## ENDING BACKLOG

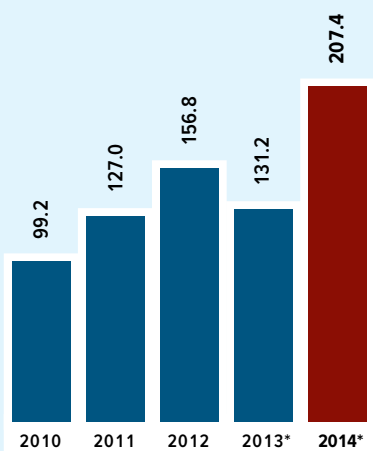
(\$Millions at December 31)



The 2014 increase was due to higher bookings in all segments, most notably in North America, where there were higher domestic bookings.

## EBITDA

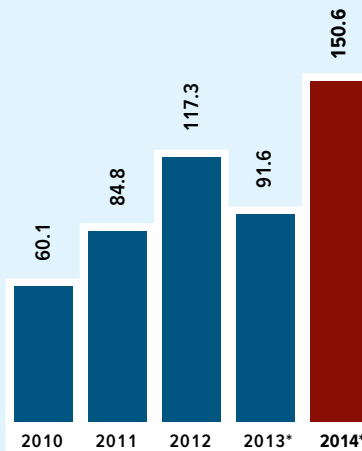
(\$Millions)



Increases in EBITDA are due to higher EBIT, which includes six months of contribution from the Axiom acquisition and higher depreciation and amortization driven by a larger capital base.

## EBIT

(\$Millions)



The increase in EBIT was attributable to the higher operating income and higher earnings from associates and joint ventures.

\* Normalized EBITDA and normalized EBIT have been adjusted for acquisition-related transaction costs, severance, and restructuring costs and losses associated with the Alberta oil sands business.

# LETTER TO SHAREHOLDERS

Enerflex achieved its stated objective of growing its traditional business lines in 2014 while also completing a large acquisition without jeopardizing its strong financial position. Acquiring the international contract compression, processing, and after-market services business of Azip Energy Services, LP (“Azip”) was a significant achievement for the Company.

I am very pleased with the quality of employees and senior management who have become part of the Enerflex family, and excited at the new possibilities that this highly strategic acquisition brings to our Company. The US\$431.0 million transaction brought significant revenues, is accretive to our EBIT margin and earnings, and opens growth opportunities in Latin America and other international markets. The immediate business synergies were evidenced by Enerflex being able to book approximately 88,000 horsepower in new contract compression orders before year-end.

Enerflex had entered 2014 expecting some weakness in the year's first half, followed by a stronger second half, and that is exactly what transpired. The Company exited 2014 with a backlog of \$916.5 million, up by over 15.4 percent year-over-year. We achieved solid financial results, including higher revenue, EBIT, and EBIT margin.

## THE AZIP ACQUISITION

Having signalled to the capital markets our openness to growing through acquisition – while remaining patient and firm in our valuation criteria – we examined various candidates before learning of the pending disposition by Azip, a private equity company, of its international contract operations business. The available assets met key criteria: geographical coverage of a market we wished to grow into, a focus on rentals and after-market service work, relatively young fleet equipment, and an experienced and dynamic management team.

The acquisition advances our strategy of providing comprehensive product and service line coverage wherever we operate, as well as increasing recurring

revenue from the service, parts, and rental businesses. The acquisition was financed using a portion of the Company's cash and by drawing on an amended, US\$675.0 million credit facility. Enerflex's ability to finance this transaction without difficulty demonstrated the benefits of our increased scale and close attention to the balance sheet. The acquisition closed on June 30, 2014, providing Enerflex with approximately 285,000 compression horsepower plus some processing assets, nine locations in Latin America, Asia, and the Middle East, as well as 173 employees.

Bringing together the two businesses has generated clear revenue synergy, with Enerflex becoming a compression and processing equipment supplier to the new rental market in Latin America. Meanwhile, Azip's strong in-country presence allows Enerflex to pursue direct compression, processing, and electric power sales, and after-market service opportunities in the region.

Beyond these short-term benefits, our greatly enlarged Latin America business is of genuine strategic importance. It positions us as a market leader in multiple countries with significant long-term opportunity. Mexico, Brazil, and Argentina, in particular, are undergoing major change in their energy sectors.

Across Latin America, industrialization and economic development are driving domestic demand for natural gas in uses such as electric power, petrochemical manufacture, and general industrial and residential uses. The development of gas infrastructure in these countries is somewhat decoupled from short-term commodity price swings in other markets.



**\$80.8** million

in equipment bookings  
in Latin America



Pan American Energy, Turnkey Compression Station,  
Neuquén, Argentina.

In Argentina, for example, it is expected that domestic gas sources such as the enormous Vaca Muerta shale can displace imported LNG, at significantly lower prices than current LNG contracts. Argentina's regulated price for newly drilled unconventional gas is approximately \$7.50 per mcf\* (compared to below \$3 per mcf in Alberta as of mid-February). In Mexico, constitutional reform of energy laws enabling direct participation by foreign energy producers will be of profound long-term importance. Despite its enormous gas resources, Mexico is importing approximately 3.5 bcf per day from the United States, a trend that Mexico wishes to reverse. Mexico's growing gas demand creates opportunity to sell and install natural gas-related infrastructure.

We have succeeded in entering the Latin America market and establishing ourselves as a reliable supplier, with skilled and experienced people on the ground who understand the business. The long-term opportunity is significant, and Enerflex is in the business for the long-term. We are going to use this new platform to grow.

## GLOBAL OPERATIONS

Enerflex had a successful year that demonstrated the benefits of operating a global business diversified by geography, products, and services. With Enerflex's much stronger Latin American business, it made sense to re-organize our regions slightly. Commencing in the first quarter of 2015, Canada, the United States of America, and Latin America each became their own operating region. Expanding horizons worldwide led to the broadening of our International regions.

Significant investments were made over several years into improved internal processes, such as standard lean manufacturing processes, the SAP ERP system,

and state-of-the-art automation investments to drive efficiency and improve quality, to name three important examples. Each of these have helped our sales, design, fabrication, and construction teams around the world execute projects efficiently and to the highest standards of quality. The year's positive results were principally driven by robust sales of gas compression and processing equipment across North America, plus growth in Canadian electric power sales, and service growth in the U.S., Australia, and the Middle East/Africa. Recurring revenue increased to 27.3 percent of Enerflex's total revenue – progress toward our goal of 35 to 40 percent.

*We have succeeded in entering the Latin America market and establishing ourselves as a reliable supplier, with skilled and experienced people on the ground who understand the business.*

## CANADA

Entering 2014 with a strong backlog, the Canadian team focused on effective execution of projects for the unconventional liquids-rich gas and light oil plays in northwest Alberta, particularly the Montney, Duvernay, and Deep Basin.

Enerflex's value chain is wider than that of many competitors, with a maturing reputation for delivering turnkey solutions, and these strengths are clearly benefiting us. With weakened natural gas prices, producers remained focused on maximizing value by extracting natural gas liquids, especially condensate, requiring a variety of gas processing solutions. The Canadian team passed a new milestone with record bookings of gas processing equipment.

In Canada, operating effectiveness was further enhanced by consolidating overall manufacturing and service capacity from five facilities to two

\* Source: Wood Mackenzie

state-of-the-art facilities, adding approximately 180,000 net square feet to our overall space. Over the past two years, electric power sales have grown from infancy to approximately \$40.2 million last year, drawing on Waukesha's gas-fuelled engines and through Enerflex's authorized distributorship of Jenbacher and MAN gas-fuelled engines.

The only significant weakness came in the oil sands division. Following a number of orders in 2013, we felt customers were looking for oil sands modules packaged as complete engineered solutions. In 2014, oil sands fabrication opportunities, including repeat orders, became highly price-sensitive. In early February 2015, Enerflex announced its exit from the oil sands module fabrication business and the closing of its Nisku, Alberta manufacturing facility. Enerflex will continue to remain focused on producing gas processing equipment for domestic and international applications through its Calgary and Houston manufacturing facilities.

### UNITED STATES OF AMERICA

The region exceeded its plan financially and operationally. The business entered the year with a strong backlog of compression and processing projects, and exited 2014 with an even larger backlog.

Enerflex's Houston engineering, design, and manufacturing facility serves domestic and international markets. The facility added its first night assembly shift last year and shipped almost 600 packages in 2014. This remarkable achievement re-confirms our decision to continue to improve the

facility and expand the Houston team's scope of work. The enhanced capabilities enabled us to meet the needs of producers and midstream operators for processing solutions ranging from refrigeration and dew point hydrocarbon recovery to propane export. The Marcellus shale remained an active area of infrastructure build-out, with the service business growing alongside the region's installed base. The primary source of business growth in 2014, however, was the Permian Basin in Texas. It is primarily an oil play that produces large volumes of "associated" or solution gas that must be separated, compressed, and processed.

### INTERNATIONAL

International revenue was lower year-over-year but project execution improved with increasing margins.

Australia exceeded its 2014 plan. Impressed by our strong field performance, customers responded by increasing our scope of work. The service business grew to 150 personnel as we provided long-term servicing of equipment previously fabricated for some of Australia's large LNG exporters.

The Asia region's sales were below expectations amidst a very competitive market. A highlight was establishing the engineering and project management team in Kuala Lumpur, Malaysia. This step creates "virtual capacity" enabling Enerflex to quickly scale up its output using third-party facilities in Asian countries, while retaining control over engineering, design, and product quality. With the Axiom acquisition Enerflex also gained two Thailand offices, an office in Malaysia, and regional rental assets serving major energy producers, bringing opportunity to add revenue beyond Latin America.

*The region exceeded its plan financially and operationally. The business entered the year with a strong backlog of compression and processing projects, and exited 2014 with an even larger backlog.*

26.7%

increase in  
total revenue



Santos GLNG, Screw Compressors,  
Queensland, Australia.

*Enerflex's revenue was \$1,780.7 million, year-over-year growth of 26.7 percent due mainly to robust activity across North America and six months of new revenue from the Axiom acquisition.*

In the Middle East/Africa region, Enerflex's track record and reputation are unlocking new opportunities. The compressors from our previous, successful BP Oman project are being re-purposed along with new equipment for a significant turnkey rental contract for the installation, and five-year operations and maintenance contract on the Oxy Block 62 project in Oman.

In completing its largest-ever project, the Oman Oil Company Exploration and Production LLC ("OOCEP") gas processing and condensate extraction facility, Enerflex delivered world-class products and services. We logged 5 million man-hours of work without a lost-time incident. We attained mechanical completion in the fourth quarter and initiated export of natural gas and condensate by year-end. Recovery of the costs for project variances and scope changes are being pursued vigorously with the customer.

In Europe/CIS, the U.K.-based sales and design team is pursuing projects across this broad market. The team's strategic importance lies in identifying opportunities with EPC companies whose offices or headquarters are in the European region that are engaged in large international projects. This makes the Europe team part of Enerflex's global delivery platform, in which multiple teams and locations contribute to success.

24.2%

increase in bookings

## FINANCIAL PERFORMANCE

Enerflex's 2014 financial results exceeded expectations, as demonstrated by the following:

- Revenue of \$1,780.7 million, year-over-year growth of 26.7 percent due mainly to robust activity across North America and six months of new revenue from the Axiom acquisition;
- Recurring revenue of \$486.4 million or 27.3 percent of total revenue, up from \$375.0 million or 26.7 percent in 2013;
- A normalized EBIT of \$150.6 million, year-over-year growth of 64.4 percent;
- A normalized EBIT margin of 8.5 percent, solid growth from 6.5 percent in 2013;
- Normalized return on capital employed of 13.4 percent, lagging behind the target;
- Bookings of \$1,416.9 million, an increase of 24.2 percent over 2013. This drove a 15.4 percent increase in our year-end backlog from \$794.0 million in 2013 to \$916.5 million in 2014;
- An increase in the dividend to \$0.34 per share annually, announced in November. This was the third increase in as many years. Thanks to Enerflex's continued financial growth, the increased dividend incurs a lower payout ratio; and
- Continued balance sheet strength. Following the drawing of \$331.0 million in available debt capacity to fund the Axiom transaction, Enerflex has a responsible and comfortably manageable leverage ratio. At December 31, 2014, we had net debt of \$347.0 million and a normalized debt to EBITDA ratio of 1.67:1. Enerflex's balance sheet provides continued flexibility and freedom of action.

## TRENDS IN LIQUEFIED NATURAL GAS

Last year I discussed how the improving economics of transporting natural gas in liquefied form to populous and economically growing markets, particularly in Asia, should be the key facilitator of long-term growth in global gas demand. Enerflex is determined to participate, having positioned itself as a provider of the equipment needed in treating, processing, and transporting natural gas between the wellhead and the export pipeline in three important LNG supply growth areas: the United States, Australia, and Canada.

Progress is continuing in all three markets. Regulatory approvals continued to be issued for liquefaction/export facilities in the U.S. Gulf and Pacific coasts. Several of these projects involve reversing previously approved or partially built import facilities, accelerating the approval and construction cycle. The vast U.S. gas producing sector and associated network of pipelines and processing facilities create diverse and competitively priced supply for LNG exporters.

*Although our increasing geographical and business diversification reduces business volatility, we will still remain prudent and careful.*

Australia is already supplying the world with LNG, and it continues to expand its export infrastructure. Queensland Curtis LNG is the world's first project to transform coal seam gas into LNG and loaded its first LNG tanker in late December. Enerflex supplied 71 compression packages for this project, followed by a long-term service agreement. Meanwhile, the Santos GLNG project is expected to begin loading gas before the second quarter of this year. As these projects ramp up, the producers will continue development of their upstream assets and Enerflex has a role to play with both products and services.

In Canada, the natural gas sector's long-term health depends on LNG due to the supply glut and low pricing in Canada's traditional export market, the U.S. Numerous projects have been proposed and critical approvals have been issued. To date, however, none of the proposed LNG projects has received a final investment decision. LNG customers in Asia are intent on transitioning to a regime of lower gas-to-gas

pricing from the traditional oil-indexed pricing. There are concerns that high construction costs for gas pipelines and LNG export facilities could erode the competitiveness of Canadian gas, or that projects will experience spiralling costs.

## CORPORATE MATTERS

Health and safety are critical, culturally as well as corporately. In 2014, Enerflex achieved a Total Recordable Injury Rate ("TRIR") of 1.71, an 8.6 percent improvement from the 2013 rate of 1.87. We strive to improve on this performance every year.

Applying the high safety standards and sophisticated management systems familiar in jurisdictions like Alberta to a global business with dozens of operating locations across our seven regions requires the sincere commitment and continued engagement of the executive leadership team, guided by a vision and a set of values that is understood and embraced by all. We are united around our values, we believe in the same things and we invest continually to keep this culture strong. Enerflex employees receive training in values-based decision making and our managers receive values-based leadership training. This foundation sets up our managers and employees for success in applying all the detailed procedures and processes and achieving strong Health, Safety and Environment ("HSE") performance.

As a global company, we continue to work on risk management. Our new risk management committee, made up of senior management members, continually evaluates and makes decisions about Enerflex's top identified risks. I am pleased at Enerflex's progress in establishing risk mitigation strategies for each of the identified risks. Our strengthened legal department, including regionalized legal support, has improved our contract reviews, reducing contract-related risks.

At the same time, our risk exposure grows as we add operations in new countries. Enerflex has always had a targeted approach with respect to new jurisdictions. We carefully evaluate the geopolitical environment of any region that we may consider entering prior to expanding into that region. We are positioned in countries that we deem are reasonably safe and we operate an employee security monitoring program.





Tres Hermanos, 20 mmscf/d  
Gas Treating Facility, Mexico.

## 2015 OUTLOOK

The Enerflex executive management team will prudently manage the Company in 2015. The solid opening backlog provides good visibility for first-half revenue. Second-half results will hinge on commodity prices. In the context of this outlook we have already responded with immediate cost savings initiatives including staff reductions, a hiring freeze, salary increase deferrals, business travel expense limitations and reduced marketing expenditures. We will also make significant reductions in capital and maintenance expenditures, except where essential. These initiatives will be regularly reviewed throughout the year and adjusted as the market evolves and as we continue to evaluate the impact of low commodity prices on our business. Although our increasing geographical and business diversification reduces business volatility, we will still remain prudent and careful. Management will continuously evaluate every business unit's cost structure and financial performance.

Regionally, North America is the most exposed to low commodity prices. In Canada the large opening backlog will ensure robust activity through the first half of the year, with the rest of the year dependent on bookings.

In the U.S., the remarkable growth in domestic gas production amidst low prices confirms Enerflex's view that maintaining conditions conducive to demand growth – including the confidence of large-scale natural gas users – is more important than short-term profits through spiking gas prices. Four of five previously discussed factors – greater electric power generation, including fuel switching from coal to natural gas, petrochemical development, exports to Mexico, and LNG export development – continue to drive demand for U.S. gas, while LNG for transportation has taken a pause.

In 2014 the U.S. grew into the world's number-one producer of crude oil and natural gas liquids, and is looking to become a net exporter of natural gas in the long-term. Oil and gas prices have been driven down not by slumping demand due to economic weakness, but by oversupply. A supply-driven price

decline amidst general economic growth is conducive to stimulating demand. That is good for Enerflex's business. While our bookings and backlog may fall in the short-term, growing demand is highly positive for the medium- and long-terms.

Enerflex's best regional growth prospects for 2015 lie in Latin America, where natural gas development is not governed by North American gas prices. This market is characterized more by turnkey projects than equipment sales, and we intend to lever our capabilities and growing reputation as we continue to be a market leader across this region.

A \$2-billion-per-year business requires a long-term customer strategy. This year we are emphasizing business development that enhances high-level executive relationships in the global marketplace. Enerflex's organizational culture is solid, and we consider the executive management team's strategic understanding as thorough as it has ever been.

Enerflex's investment proposition continues to be built around the Company's strong positioning in natural gas. We believe we are the industry's best provider in the compression, processing, electric power solutions and after-market services of the associated equipment and systems in niche areas. The strategic rationale for our business positioning has shown remarkable continuity – which itself is part of our investment proposition. We have repeatedly demonstrated that our diversified operations and complementary internal strengths enable the Company to flourish amid inconsistent market conditions. We continue to broaden our diversification, while working toward complete product and service coverage in every region. We remain committed to further sustainable growth in the dividend.

On behalf of the Board of Directors,

[signed] "J. Blair Goertzen"

**J. Blair Goertzen**

President, Chief Executive Officer and Director

February 26, 2015

## ENERFLEX'S EXPANDED LATIN AMERICA BUSINESS

The US\$431.0 million acquisition in June 2014 of the international contract compression, processing, and after-market service business of Axiop transformed Enerflex's Latin America business. The Company became a regional market leader with the ability to provide complete turnkey solutions on a rental or sales basis, including the traditional Enerflex competencies of expert engineering, design and fabrication, followed by in-country turnkey installation and long-term operations and maintenance agreements, throughout this vast region of nearly 595 million people in 21 countries.

Enerflex's acquisition is strategic in multiple ways:

**Scale** – Enerflex gained an experienced in-country network with an established reputation and 2013 pro-forma annual revenue of approximately \$142.1 million\*, enabling the Company to offer its full suite of engineered systems and services throughout this large market.

**Recurring revenue** – The acquired assets' revenues are comprised of rental equipment and after-market service, advancing Enerflex's drive to increase its proportion of recurring revenues.

**Synergies** – Enerflex's Houston manufacturing facility provides expert engineering, design and fabrication capability, thereby vertically integrating the rental offering. The acquired business provides strong in-country presence and customer relationships. Enerflex will leverage its strong global supply chain to support the region with OEM parts and services.

**Near-term business development** – The regional network makes Enerflex a strong competitor in pursuing immediate opportunities for compression and processing turnkey sales, in a large market where we now have a strong presence to pursue these opportunities.

**Long-term regional growth** – Three key regional countries – Mexico, Brazil, and Argentina – are undergoing significant changes in their energy markets. These changes are expected to facilitate long-term growth throughout the energy sector – from the wellhead to the end-user. This should

generate broad opportunities for Enerflex's entire offering of engineered systems, electric power, after-market service, parts, and rentals.

Enerflex's focus in Latin America in 2014 was to integrate the new team of managers and employees into the Company's values-based culture and to introduce the wider Enerflex offering to regional customers while exceeding its forecasted budget in the first six months, making it immediately accretive to Enerflex and its shareholders.



Tres Hermanos, 20 mmscf/d Gas Treating Facility, Mexico.

\* Pro-forma results are for the combined Latin America and International business acquired from Axiop.

### Manufacturing Centre of Excellence in Houston, Texas

- Provides complete engineering, design and fabrication for compression and processing solutions.
- 35 assembly bays and 250,000 square feet of space on a 59-acre site near tidewater on the Gulf of Mexico.

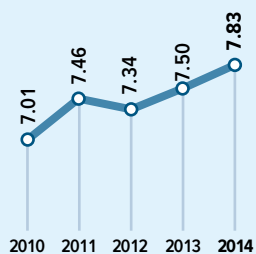
### LATIN AMERICA KEY FACTS\*

Population	595 million
GDP	US\$5.7 trillion
GDP growth	1.3%
Natural gas production	9.1 tcf
Natural gas consumption	7.8 tcf

\*Estimates for 2014.

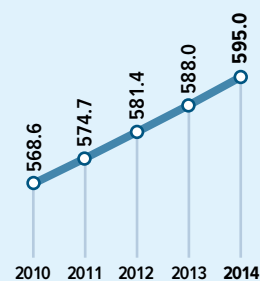
### REGIONAL GAS CONSUMPTION

(Trillion Cubic Feet)



### POPULATION

(Millions)



### Enerflex's Presence in Latin America

- Five regional locations.
- Manufacturing centre in Houston, Texas.
- Approximately 140 employees plus third-party service contractors.
- Wellhead to pipeline equipment and systems competency.
- Full life-cycle offering, from concept through long-term operations and maintenance.
- Equipment sales and rentals.

### KEY GOALS FOR 2015

- Expand the regional offering to include engineered systems and electric power equipment.
- Maintain regional rental fleet utilization along with industry-leading run-time.
- Strengthen Enerflex's global ability to execute turnkey rental offerings.
- In addition to its main focus on Mexico, Brazil, and Argentina, Enerflex intends to pursue opportunities in Peru, Bolivia, and Colombia.

- Enerflex location
- Transportation route
- ▲ Major port

# THE LONG-TERM OPPORTUNITY IN LATIN AMERICA

## Top Three Focus Countries

- Enerflex location
- Current pipeline
- - - Planned pipeline
- Major unconventional basin

### UNCONVENTIONAL DEVELOPMENT

Mexico's once-formidable conventional oil and gas production has been in decline for a decade, making revitalization of legacy fields critical. In addition, Mexico has significant unconventional potential, including estimates of having the world's sixth-largest shale resources. This notably includes the Burgos Basin shale, which abuts the US border and is considered a geological extension of the prolific Eagle Ford shale in Texas. The Burgos shale is estimated to hold most of Mexico's 545 tcf of technically recoverable gas, although barely 25 wells had been drilled into the Burgos shale by mid-2014, with another 75 planned through mid-2015.

COUNTRY SNAPSHOT MEXICO*	
Population	122 million
GDP	US\$1.3 trillion
GDP growth rate	2.7%
Natural gas production	5.2 bcf/d
Natural gas consumption	6.9 bcf/d
*Estimates for 2014	

**75%** Electricity price disadvantage faced by Mexican vs. U.S. industry

**68%** Expected growth in electricity demand through 2030\*

**3.3 BCF/D** Forecast increase in natural gas imports through 2030

### ENERFLEX'S CURRENT ACTIVITIES IN MEXICO

The majority of Enerflex's current business in Mexico is with Pemex, the national oil company. Recent activities have mainly consisted of compression rental equipment.

### REGIONAL OPPORTUNITY

The main driver of long-term opportunity is Mexico's constitutional and legal reform over its entire energy sector, which includes allowing foreign companies to develop and operate oil and natural gas fields. The capital-starved energy sector requires overhaul and expansion of

virtually everything, from revitalized conventional production, to drilling for shale resources, to gas pipelines, and electric power. Enerflex foresees opportunity in numerous areas, including compression to revive legacy gas fields, a variety of processing facilities for treating onshore and offshore gas, and electric power. Alleviating bottlenecks in the national gas pipeline grid is a particular concern. Reform-driven energy development will be a long-term process. The next milestone is the announcement of the winners of round one development bidding, which is expected in spring 2015.

### UNCONVENTIONAL DEVELOPMENT

Argentina holds immense shale gas potential, second in the Americas only to the U.S. The Vaca Muerta shale play in the Neuquén is the most advanced and considered the world's most successful shale play outside North America. Hundreds of wells have been drilled since commercial production commenced in 2009. The main Vaca Muerta producer was running 20 drilling rigs in 2014 and had announced plans to drill nearly 1,500 wells over the following three years.\* Interest from a mix of domestic and foreign companies of varying sizes is significant in Argentina. Argentina's overall resource base is large, with demonstrated potential for both unconventional development and revitalization of long-declining legacy fields like the Loma La Lata. The primary uncertainty in the nation is government policy.

COUNTRY SNAPSHOT ARGENTINA*	
Population	42 million
GDP	US\$610 billion
GDP growth rate	-0.5%
Natural gas production	3.8 bcf/d
Natural gas consumption	4.9 bcf/d
*Estimates for 2014	

**35,000 BOE/D** Vaca Muerta shale production in 2014\*

**800 TCF** Estimated technically recoverable shale gas in Argentina

**US\$10 billion** Three-year investment plan by the largest Vaca Muerta producer\*

\* Source: Wood Mackenzie



## ENERFLEX'S CURRENT ACTIVITIES IN ARGENTINA

Recent activities have mainly consisted of long-term operations and maintenance contracts, and after-market services such as overhauls and turnkey sales opportunities.

## REGIONAL OPPORTUNITY

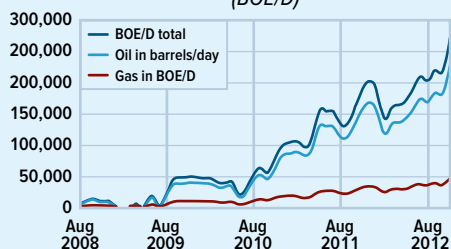
Argentina has a long history of conventional oil and natural gas production, which has been declining since 2002. Somewhat more favourable recent government energy and fiscal policies (including a

natural gas price on new production of US\$7.50 per mcf) open up a broad scope for revitalizing Argentina's oil and gas sector and reducing reliance on expensive imported gas costing billions per year.\* Enerflex considers Argentina a "right now" opportunity that includes field compression and processing, liquids extraction, pipeline compression, and electric power, mainly on a sales basis, as well as aggressively developing the after-market service business throughout Argentina's producing sector. Enerflex anticipates significant new market activity within the short-term.

## UNCONVENTIONAL DEVELOPMENT

In addition to Brazil's moderate legacy oil production and modest natural gas production, the country's national oil company, Petrobras, is developing an immense deep offshore reservoir. It is known as the "pre-salt" as it lies beneath salt layers more than 2,000 metres thick. The pre-salt may hold up to 36 billion boe of oil and associated gas, making it Brazil's largest-ever hydrocarbon discovery. Following its discovery in 2006, production from this extremely challenging reservoir covering approximately 149,000 square km and lying about 250 km off Rio de Janeiro grew to 500,000 barrels per day by the end of 2014, plus nearly 1 bcf per day of natural gas. Gas production is expected to grow significantly as the gas is brought onshore. This will offer Enerflex some medium-to long-term opportunities for gas processing plants.

**BRAZILIAN PRE-SALT PRODUCTION (BOE/D)**



**5,000<sup>MW</sup>**

Amount of new electricity generating capacity required in Brazil each year

### COUNTRY SNAPSHOT

#### BRAZIL\*

Population	203 million
GDP	US\$2.2 trillion
GDP growth rate	0.0%
Natural gas production	1.8 bcf/d
Natural gas consumption	3.3 bcf/d

\*Estimates for 2014



**5%**

Brazil's annual electricity consumption growth

## ENERFLEX'S CURRENT ACTIVITIES IN BRAZIL

Recent activities have mainly consisted of long-term rental compression contracts.

## REGIONAL OPPORTUNITY

Pre-salt production creates opportunity for the complete spectrum of hydrocarbon-related development throughout Brazil, including spin-offs like industrial development. This ranges from treating and processing the primary production, to pipeline compression, to gas-fired electric power, both large-scale on-grid and stand-alone production in niche areas.

All of the associated gas produced by the pre-salt will require treatment, compression, and processing. Enerflex anticipates the need for a relatively large number of medium-sized gas processing facilities. Electricity being chronically scarce, unreliable, and extremely expensive in Brazil, exacerbated by a multi-year drought that has depressed hydroelectric production, there is demand for gas-fired electric power. Enerflex anticipates significant market activity within the medium-term from gas processing facilities required for the gas-fired power demand in the country.

\* Source: Wood Mackenzie

## CANADA

46,000 BBLS/D

Duvernay liquids production in 2014

1,000,000 BOE/D

Projected Duvernay production in 2024

● Enerflex location

Enerflex's global headquarters, nearly half of its 3,500 employees, two large manufacturing facilities, an extensive service footprint, and its global parts distribution centre are all located within this region. Customer orders increased dramatically in the second half of 2014 and annual revenue grew. This included record bookings in natural gas processing sales plus increases in service and rental revenue.

Throughout 2014, producers remained focused on recovering natural gas liquids such as propane and condensate, which are processed into marketable commodities. Enerflex supported this transformation by providing natural gas sweetening systems utilizing amine solutions and a range of mechanical refrigeration and hydrocarbon dew point processing control systems including fractionation and stabilization.

The large scale of the region's unconventional plays drove orders for substantial gas processing trains of typically 50 to 100 mmcf per day. Compression sales also increased year-over-year. In 2014 Enerflex rolled out multiple standardized "core" compression package designs in the 1,500 to 4,800 horsepower range, providing customers with efficient, cost-competitive solutions in a difficult commodity price environment.

The producing sector's activity centred on continued investment in gathering and processing infrastructure to handle production growth from liquids-rich

unconventional gas and oil reservoirs, chiefly the Montney, Deep Basin, and Duvernay, as well as other unconventional plays using similar technology. This activity has essentially replaced western Canada's historical focus on conventional gas reservoirs.

The enormous Montney tight siltstone has proved to be an incredible resource. Its best areas are economically break-even with gas priced as low as \$2.65 per mcf. Production has grown dramatically and some forecasts call for Montney production to reach 4 bcf per day plus 200,000 bbls per day of liquids by 2020 even without LNG export facilities proceeding, and 6.4 bcf per day if LNG projects are built.\*

The vast, 58,000-square-mile and technically complex Duvernay shale is at a much earlier stage of development. Approximately 260 high-impact wells were on production in 2014, of which 120 had public production data. These wells were producing 46,000 bbls per day of liquids and 154 mmcf per day of gas. These figures indicate that the capital-intensive Duvernay has reached commerciality, a crucial milestone in its evolution. This also signals the prospect of growing demand for Enerflex compression and processing equipment. In 2014, the research firm Wood Mackenzie publicly forecast that the Duvernay's combined gas, liquids, and oil production could grow to an incredible 1 million boe per day by 2024.\*

\* Source: Wood Mackenzie

## LNG UPDATE

Some of western Canada's upstream activity is related to supply development for LNG export facilities on Canada's West Coast. Much remains uncertain, including the competitive market impact of British Columbia's planned tax on LNG facility revenues, and of the high construction costs of LNG liquefaction facilities. Still, the producing sector's overall confidence that LNG development will occur increased. One to three facilities are expected to be constructed, with the first LNG loadings realistically occurring after 2020. Each LNG facility will require a large increment of gas production, with the required supply needing to be available ahead of time. A number of proposed projects made progress throughout 2014, although none of them has received the formal final investment decision.

## OIL SANDS UPDATE

The decline in crude oil prices and tightening capital budgets created unexpected challenges for Enerflex's oil sands business. There had been strong initial response to Enerflex's engineered solutions of well-pair and central processing facility modules, assembled in a controlled indoor setting. In 2014, however, customers became more focused on low prices, making less capital-intensive outdoor "mod yards" more competitive. In February 2015, Enerflex announced its exit from the oil sands module fabrication business and the closing of its Nisku, Alberta manufacturing facility.

## GAS DRIVE

Enerflex's electric power business positioned as a turnkey provider of sophisticated "gas-to-wire" solutions utilizing modelling software delivered excellent results in 2014. Numerous projects were underway and bookings were strong. In Canada, the engineering, design, manufacture, installation, and after-market service of electric power solutions is completed by Enerflex's subsidiary, Gas Drive. Gas Drive has access to a wide range of equipment suppliers, as well as being the authorized distributor of the industry-leading Jenbacher gas-fuelled engines in Canada for GE's Distributed Power business. Growth in this business was among the motivators for Enerflex to reorganize its manufacturing facilities in Calgary, Alberta, as described below.

Last year, Gas Drive became responsible for Enerflex's entire outside operations business in Canada, including electric power, equipment rentals, retrofits, equipment service, and parts. The parts and service business had its strongest year ever, driven by activity in northwest Alberta and northeast B.C. Despite low gas prices and reduced drilling for new gas reserves, customers

remained intent on proper maintenance to ensure safety and maximum uptime in producing already-drilled gas and liquids.

## FACILITIES

Following its multi-year investments in improved manufacturing equipment and working processes, last year Enerflex reorganized its Calgary manufacturing facilities with a greater focus on automation. Calgary-based manufacturing and service was consolidated from five locations totalling 190,000 square feet of indoor space to two state-of-the-art locations totalling 370,000 square feet. One facility will focus on compression and processing equipment and the other on electric power, rental equipment, retrofits, and after-market service.

## OUTLOOK

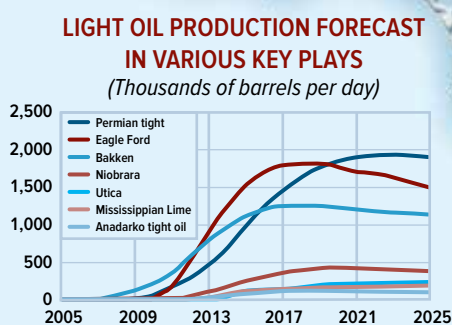
Entering 2015 with a significant manufacturing backlog, the Canadian business is having an active first quarter. The region is vulnerable to short-term commodity price volatility. By the fourth quarter of 2014, some large producers had announced reductions in capital spending. Greater clarity is expected around mid-year. Continued growth in electric power, after-market service, and rental equipment is expected as producers look to maximize asset utilization during uncertain market conditions.



## WASTE GAS COMBINED HEAT AND POWER SLAVE LAKE PULP MILL, CANADA

Gas Drive's innovative combined heat and power solution enables self-generation for a north-central Alberta pulp mill. The new system uses biogas produced from the anaerobic treatment of wastewater collected from the conversion of wood into pulp. The owner can supplement the biogas with natural gas to increase plant output. The plant has three JGS620 Jenbacher bio-gensets to produce 9 MW of electricity. The heat from the engine exhaust is used to dry the pulp. For approximately \$13 million, Gas Drive provided a complete turnkey solution: design, procurement, fabrication, installation, and general contracting. Gas Drive also anticipates providing engine maintenance services. The owner expects to save hundreds of thousands of dollars per year in electricity costs. The project was initiated in April 2013 and the engines began to produce power in November 2014.

# UNITED STATES OF AMERICA



\* Source: Rystad Energy NASCube

● Enerflex location

Entering 2014 with a strong backlog, the USA region's sales increased significantly. Increased activity came in gas compression packages and after-market service.

The USA team added approximately 360 personnel in 2014 and topped the 1,000-employee mark in September. Many new hires in the Houston manufacturing facility were deployed on the facility's first-ever night assembly shift. The Houston facility assembled almost 600 packages in 2014, including executing numerous international compression and processing orders. Enerflex's regional model internationally allows the Houston facility to supply product through the Company's strong regional footprint or supply to the region as part of Enerflex's expanding turnkey rental business.

Enerflex USA delivered a variety of compression and processing systems for customers developing unconventional reservoirs including the Eagle Ford, Marcellus, Permian, Bakken, and Woodford. Producers focused heavily on adding infrastructure in oil-producing fields, such as the Permian, that also produce large volumes of solution gas (gas dissolved in the oil).

The technology-driven revival of the historical Permian Basin in Texas helped fuel the USA's growth into the world's number-one producer of crude oil and natural gas liquids in 2014. In addition to its large volume of legacy production, the Permian's unconventional (tight sands and shale) production surpassed 500,000 bbls per day in 2014 and is projected to reach 2 million bbls per day by 2021. Gas production is also growing. The Permian was the largest recipient of Enerflex processing systems in 2014.

Although upstream activity typically focuses on gas resources rich in natural gas liquids, the essentially "dry" Marcellus has grown into the country's number-one producing gas field because of its lower drilling costs and proximity to the Northeast region's large consuming markets. The new ethane pipeline constructed from the region to Mont Belvieu, Texas, has given customers a direct connection to ethane markets, encouraging additional gas to be brought on-stream, which is good for Enerflex's sales and after-market service business. Enerflex's service business generated year-over-year growth of more than 35 percent, focusing on strong management, paying attention to customers' needs, and providing consistent results.



Natural gas compression sales were particularly strong in 2014. Multiple customers placed orders for one to 20 compressor packages at a time. Compression packages require shorter lead times, so in many cases Enerflex was fabricating 2014 compression orders even as it was fulfilling processing orders from the previous year.

### LNG UPDATE

Federal regulatory approval of LNG export projects was streamlined in early 2014, signalling that the American government regards LNG exports as acceptable. LNG operators signed numerous supply agreements with international customers, by year-end having contracted for approximately 8 bcf per day of LNG. The planned liquefaction facilities will draw on the U.S.'s dynamic gas-producing and midstream processing sector. U.S. LNG pricing is based on the domestic gas price plus a series of fees and returns, and therefore U.S. LNG becomes more competitive against international LNG suppliers as commodity prices drop. Even with additional logistics costs for transportation to markets, the expansion of the Panama Canal to LNG shipments is expected to further reduce the cost of getting U.S. LNG to market.

Four LNG facilities were under construction in 2014, with Cheniere Energy Partners, L.P.'s Sabine Pass facility being the farthest advanced. It is expected to begin loading LNG ships by the end of this year, and could grow into the world's largest LNG export facility. Enerflex anticipates approximately 8 to 9 bcf per day of LNG capacity being constructed in the U.S., driving an increase of approximately 12 percent in demand for U.S. gas. While the Company does not construct the LNG facilities themselves, gas demand growth will benefit every area of Enerflex's business, from upstream gas compression, through gas processing and liquids extraction, to liquids export facilities.

### OUTLOOK

Enerflex USA entered 2015 with a high backlog, ensuring strong activity through mid-year. The regional outlook is clouded by low commodity prices. While lower crude oil prices will reduce oil drilling, lower gas prices will encourage natural gas demand. With its ability to scale activity according to demand, Enerflex is well-positioned to navigate through these difficult periods.



### HD-5 PROPANE TERMINAL PROJECT GULF COAST, TEXAS

In response to growing worldwide demand for petrochemical-grade propane, LPG export terminals have seen strong resurgence along the U.S. Gulf Coast, the epicentre of the country's hydrocarbon exports. Enerflex was contracted to construct a grassroots propane export terminal in the lower Texas Gulf Coast region. Enerflex's design includes a propane refrigeration system and a propane liquid re-generable desiccant dehydration system. The terminal was built in 12 modules and will be served by a dedicated propane pipeline from Mont Belvieu. The terminal will have high speed ship-loading capability and on-site storage. Fabrication of components in Enerflex's Houston facility began in January 2014. The facility is expected to begin loading propane in 2015.

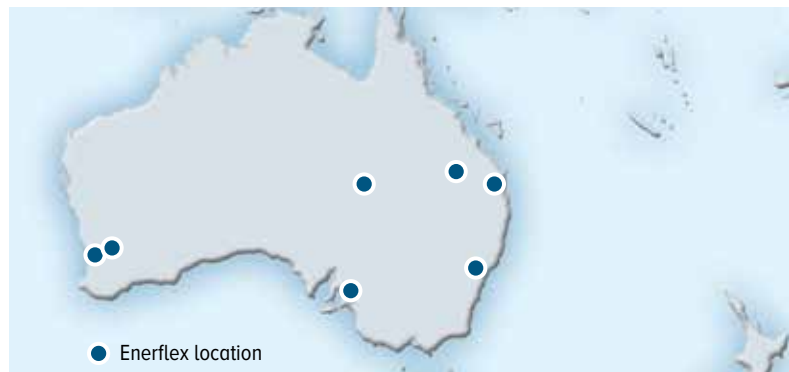
# AUSTRALIA

Enerflex operates a diversified business in Australia, offering its complete suite of products and service capabilities across this large market, with multiple locations, manufacturing facilities and a team of approximately 470. The region achieved improved results in 2014. HSE performance also improved significantly over 2013, with a number of initiatives aimed at further improvements in 2015 and beyond.

Two main trends drove 2014 performance. The first was continued expansion of Enerflex's service business with the overall growth of the installed base of compression and processing assets across Australia. Second was the strong field performance on a number of compression and processing projects, which led to improved margins and, in some cases, enlarged scope of work and higher revenue for Enerflex. Slightly offsetting the positive trends was declining turnkey construction work on compression and processing facilities. Previously the backbone of Enerflex's Australian activities, this continued to fall in 2014 due to reduced industry investment in new field infrastructure.

Enerflex provides a comprehensive after-market service offering of parts, maintenance, equipment overhaul and, as producing assets mature, field optimization in Queensland and South Australia, including the Cooper Basin. In more remote areas of Australia, such as portions of Western Australia, Enerflex has fly-in teams to service isolated facilities, onshore as well as offshore.

Following approximately 20 percent growth in service revenue in 2013, Enerflex's Australian service business grew by another 16.7 percent last year, with the team having 150 service personnel. Australia's gas market is



driven largely by LNG development, and the main focus of Enerflex's service activity is on the two large onshore LNG projects, Queensland Curtis LNG and Santos GLNG. Each project has dedicated supply areas with thousands of producing gas wells requiring dewatering, gathering, and compression. Exports from QCLNG were initiated before year-end 2014, with Santos expected to begin exporting LNG in the first half of this year.

In 2014, several service contracts were rolled-over into new, three- to five-year agreements, ensuring healthy recurring revenue. As Australia's mega-projects continue to shift from field development and construction to commercial operation, Enerflex foresees a further shift in its business from large project construction work to the sustaining work associated with an operating gas field. The Company is well positioned for this transition and regards it as a strong opportunity to continue building its recurring revenue. There should also be continued opportunity for smaller-scale supply and installation of compression and processing systems.

## NATURAL GAS COMPRESSOR STATION, APA MOOMBA, AUSTRALIA



In 2014 Enerflex completed construction of additional compressor facilities at APA Group's Moomba compressor station, located 770 kilometres northeast of Adelaide, South Australia. This significant project consisted of the construction management, offsite fabrication and site installation of three Solar Mars 90 gas turbine centrifugal compressor sets, together with filtration, conditioning and all associated utilities. The expansion project enables APA to increase the capacity of its gas

transmission into both New South Wales and Queensland, facilitating eastern haul transportation services on APA's South West Queensland Pipeline and pipeline bi-directional capability. The project peaked at approximately 100 personnel working on-site, totalling in excess of 265,000 man hours, with zero lost-time incidents. A collaborative approach between APA Group and Enerflex resulted in the project being completed safely and ahead of schedule.

# MIDDLE EAST / AFRICA

The Middle East/Africa region had a strong year in 2014, something Enerflex anticipates will be repeated in 2015 due to multiple new project awards and a buoyant regional market. Robust investments in gas infrastructure development for a variety of primarily domestic uses are continuing, with no significant sign of weakness due to low crude oil prices.

The year's highlight was completing the gas processing and condensate extraction facility for OOCEP. Following mechanical completion in the fourth quarter, the facility began delivering processed gas and condensate in December, and the official opening ceremony was in January 2015. The project is a resounding technical success and the owner is pleased with its operation and product quality.

Enerflex anticipates deriving lasting benefits from the OOCEP project, including developing technical and management skills in key areas, strengthening its business systems and, most important, as a reference for demonstrating the Company's enhanced capabilities.

In 2014, the Middle East/Africa team also secured three exciting new projects, one in Bahrain and two in Oman. All are comprised of compression and processing equipment in which Enerflex will engineer, design, fabricate, and install the equipment under four- to five-year rental, and operations and maintenance contracts. This creates a large new forward stream of recurring revenue, making the Middle East/Africa a strong region for recurring revenue. Associated with the Axiom acquisition, Enerflex also acquired an additional rental contract in this region.

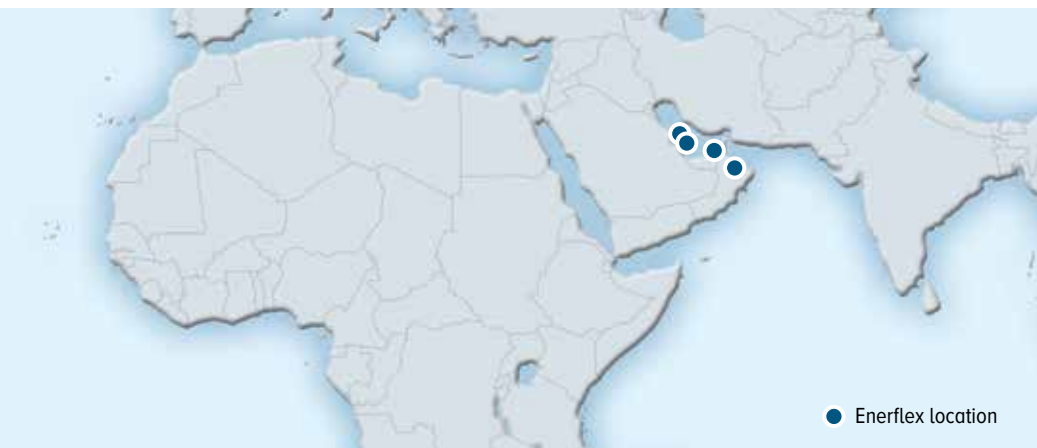
Enerflex's business in Africa has grown into a strong flow of product sales into Nigeria and Angola. The equipment



## GAS COMPRESSION FACILITY, TURNKEY INSTALLATION AND LONG-TERM OPERATIONS AND MAINTENANCE

This US\$75 million, fast-track contract compression project in the Middle East includes three 35 mmscf per day trains of compression comprising eight Waukesha 7044 drivers and Ariel JGT/4 compressors. The compression packages are being manufactured in Enerflex's Houston, Texas facility, with the balance of plant fabrication, project management, and installation performed by Enerflex's Abu Dhabi team, which will also carry out the four-year operations and maintenance contract. The project has a tight time-frame, with less than nine months from the project award in early August 2014 to the planned start-up of the first train in mid-April 2015. Installation of the gas compression trains will make Enerflex a leading rental compression provider in the region.

comprises Enerflex's core product lines of compression and processing systems, constructed in Houston, Texas and Calgary, Alberta.



● Enerflex location

Regional HSE performance was excellent in 2014, without a single lost-time incident. This was led by the 5 million man-hours worked without a lost-time incident on the OOCEP project. With so much work in this region being project-based, Enerflex's focus is on establishing a thorough HSE system for each project, followed by continuous stewardship throughout its life-cycle.



# ASIA

Sales in this large but price-competitive market were below expectations in 2014. Enerflex established its in-country applications, engineering, and project management teams, based on highly skilled, experienced, and cost-competitive regional talent. This important initiative enabled the region to bid on projects, located both within and outside the region, based on third-party fabrication using cost-competitive providers in Malaysia, while ensuring high standards of engineering and finished quality. Last year Enerflex began using this approach to supply simpler packages for compression, dehydration, and separation.

Another strategic goal was to build relationships with large South Korean EPC companies. The Asia team completed multiple pre-qualifications last year and is now on the bid list of targeted EPC companies. These companies are globally active and aggressively seeking new business.

Enerflex continues to expand recurring revenue in Asia, built on the strong presence and solid performance of its Indonesian service business, which has been operating for over a decade. The Company intends to build on this platform throughout Asia, beginning with expanded activities in Malaysia and Thailand.



The region also operates a modest rental business in Thailand and east Malaysia, acquired along with the Axiap transaction, adding recurring revenue and providing a foothold to expand this business. Enerflex anticipates that the Asia region will generate higher overall revenue in 2015, as well as a positive contribution to operating margin.

## DEEP CUT TURBO-EXPANDER LPG PROCESSING FACILITY PALEMBANG, SUMATRA, INDONESIA



Enerflex recently supplied the equipment to expand a natural gas liquids processing and compression facility originally built by the Company in 2006. Owned by PT Surya Esa Perkasa, Tbk, a locally based producer of natural gas liquids, the facility separates propane, butane, and condensate from liquids-rich gas produced locally, and processes the propane and butane into petrochemical- and consumer-grade LPG. The US\$14 million expansion was awarded in May 2013, with the equipment delivered the following May. Its purpose is to increase the proportion of liquids recovered from the gas stream from 60 percent to 90-95 percent. Enerflex's Kuala Lumpur and Jakarta offices provided engineering and commissioning services. Equipment was manufactured and provided by Enerflex's USA and Canadian facilities.

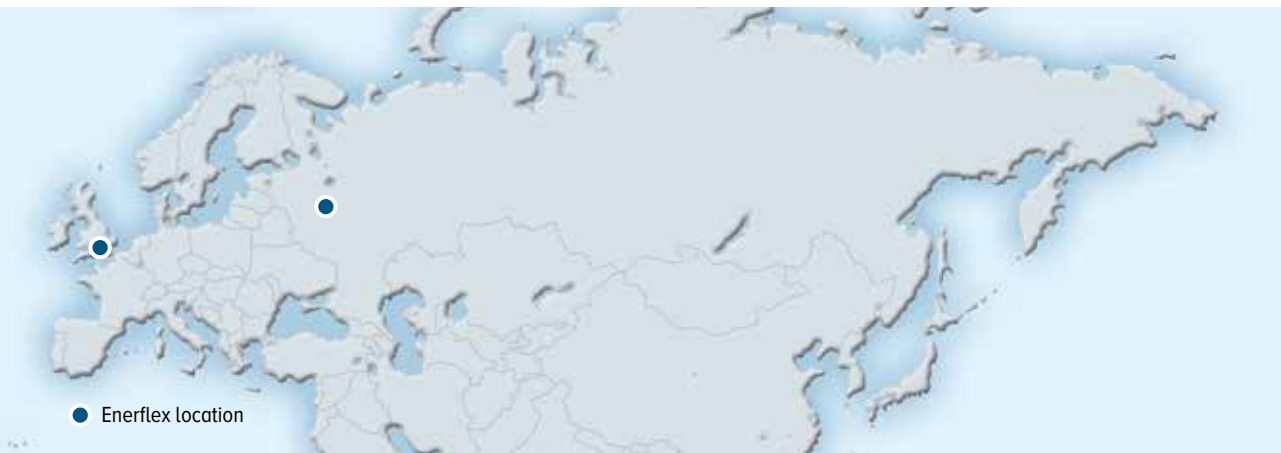
# EUROPE / CIS

This geographically large and culturally diverse region holds long-term opportunities for growth in the supply of customized compression, processing, and high-end refrigeration systems. Regional sales in 2014 were modest, but the team achieved strong technical success on a high-end refrigeration project in Germany, assisting in the project's operational launch and providing initial operations and maintenance support for the customer.

The Europe/CIS team's experienced specialists, based in the United Kingdom, were instrumental in gaining a large, multi-year compression and processing project in

Kazakhstan (see project profile below). They represent a strategic window for Enerflex to bid on projects delivered elsewhere around the world, including the Middle East, by major European-based companies.

The Company maintained its joint venture in Russia with Energoservice, which enables Enerflex to access sales opportunities in the Russian market by providing logistics, installation, and construction work. Russia's weakening economy due to low commodity prices and political uncertainty resulted in minimal activity in this market last year.



## REFRIGERATION, GAS GATHERING AND PLANT COMPRESSION SYSTEMS ZHAIKMUNAI PROJECT, KAZAKHSTAN

This US\$50 million, three-year project for the third train of a gas processing facility in northwest Kazakhstan was bid by the United Kingdom office in late 2013, illustrating the critical role that in-region sales teams play in Enerflex's International business. The end-user, Nostrum Oil and Gas PLC, is traded on the London Stock Exchange. The project is part of Nostrum's plan to double its production by the end of 2016.

Enerflex's Houston facility designed and manufactured the custom refrigeration solution, using three packaged Howden 510 screw compressors each driven by a 3,700-horsepower Caterpillar 3612 motor with a step-up gearbox spinning the compressor at 2,000 rpm, demonstrating Enerflex's global leadership in refrigeration systems. The project required three of these screw compression units including the associated refrigeration plant, as well as gas gathering compression plus overhead compression for the processing plant. The equipment was packaged by the end of 2014 and was shipped in February 2015. The facility is expected to be operational in the second half of 2016, with rated throughput of 350 mmscf per day.





# CORPORATE RESPONSIBILITY

## GLOBAL SAFETY STEWARDSHIP

Consistent safety performance throughout a global company's operations requires far more than adherence to regulations in the home jurisdiction. It requires building a global safety culture followed by continuing careful stewardship in every operating location and on every project. That is Enerflex's mission. It begins with values-based decision making training and is implemented through a strong regional focus that includes having in-country talent and experience, backed by the right internal structure and capabilities to manage safety effectively. Part of the value that Enerflex brings to its customers is the knowledge of international standards and best practices to apply to maximize safety results.

In 2014, Enerflex achieved a number of safety highlights in its global operations. In Australia, the leadership team implemented a targeted plan based on consequence management, pre-safety rules, and visible safety leadership requiring safe working behaviour. By year-end key performance indicators had improved past the targets set for 2014. In the Middle East/Africa region, Enerflex's project-based work resulted in a safety management approach focused on developing safety systems governing each project, including all sub-contractors, followed by careful stewardship.

The USA region added 360 workers in 2014, most of them in manufacturing and some of them new to the energy sector. Despite this, the region achieved a Total Recordable Injury Rate ("TRIR") of 1.50, up somewhat from 2013's performance but still below the corporate target of 1.80. The Northern United States service team as of May 2014 had achieved three years of operation without a lost-time injury – the best such performance in Enerflex's history.



As a Company headquartered in Alberta, Canada, Enerflex is regulated by the advanced safety management requirements of this jurisdiction. The primary regulatory document is called the Certificate of Recognition ("COR"), which attests that an organization operates a recognized safety management system. Virtually all customers in the Canadian energy sector require their suppliers to have a COR. Companies are audited externally every three years, with scores influencing Workers' Compensation Board premiums. Enerflex's three-year COR audit of its Canadian operations took place in 2014, with the business scoring an average of over 90 percent.

In its Company-wide safety performance, Enerflex outperformed its TRIR target of 1.80 in 2014, its third consecutive year of improvement. Among the standout performers was Canadian manufacturing, which improved to 1.12 for 2014, logging over 1 million exposure-hours throughout the year without a lost-time injury.

Enerflex's approach to safety management is founded upon the Company's integrated loss management system. Supported by detailed data collection and statistical analysis, the program identifies potential losses and seeks corrective measures by analyzing causes and effects. Among the key tactics to assess safety performance and identify areas for improvement are continuous inspections carried out at various intervals and scopes at the employee, team, and management levels.

## CONTINUED STRENGTHENING OF OUR SAFETY CULTURE

The Aware Card Program for workers was introduced to strengthen the hazard identification, assessment, and control program. Response was strong, with identified hazards being thoroughly described and well-presented.

The management of sub-contractors was significantly strengthened in 2014 to motivate providers to update their safety programs, comply with reporting requirements, and participate in Enerflex's on-site safety orientations.

Enerflex's service business, including Gas Drive, continued its *"Everyone Home. Every Night."* initiative and its high-risk task profile campaign. Enerflex's service personnel log tens of millions of kilometres of motor vehicle travel every year, often in remote areas and inclement weather. The motor vehicle safety program began in 2013, which included wildlife collision prevention training and progressive discipline of high-risk drivers. This cut motor vehicle incidents almost in half that year and was continued in 2014 with a focus on Canada. Employees drove the region's motor vehicle incident rate down to 0.18, well below the corporate average of 1.0.

In 2015, Enerflex's safety focus will be on injury reduction and continued improvement of our performance globally.



Enerflex employees serving ice cream at the Kids Cancer Care, Camp Kindle, Alberta.

## ENVIRONMENTAL MANAGEMENT

As a responsible environmental steward, Enerflex works to meet or exceed industry guidelines and government requirements in all operating areas. Areas of the environmental management program include material and waste management, energy and water conservation, spill prevention and response, air emissions reduction, and environmental auditing.

## COMMUNITY ENGAGEMENT

Strengthening and helping to shape the future of the communities in which we operate is important to our people and the Company. This is in keeping with Enerflex's goal to be a partner of choice and its desire to foster pride among its employees and sustained relationships with 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. These include the Multiple Sclerosis Society in Australia, the Alberta Junior Hockey League, Kids Cancer Care of Alberta, the Children's Protective Services in Houston, Habitat for Humanity and other initiatives in nearly all of our operating regions worldwide.



Enerflex employees volunteering for Habitat for Humanity, Northwest Harris County, Texas, U.S.

# GOVERNANCE

## GOVERNANCE AT WORK

The Board of Directors and management team of Enerflex believe that for the Company to achieve its full potential, Enerflex must have a strong and effective corporate governance program while promoting adherence to the Company's vision and values.

Enerflex's vision and values are exemplified by management across the Company's seven regions, through leadership and education at all Company levels. One method by which the Company reinforces its values is circulating a quarterly article called *Ethics 101*, in which employees are presented with an ethical dilemma and solution, thereby communicating and reinforcing Enerflex's values. In 2014, Enerflex provided leadership and values-based decision making training to many of its employees. The focus was to ensure employees have the tools required to make ethical decisions based on Enerflex's values. To do this requires asking the right questions and always doing the right thing. In 2014, the Company also conducted a series of internal presentations at each Enerflex location to promote the 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. Consistent with the Board's fiduciary duty to shareholders, its primary role is to foster Enerflex's long-term success. The Board oversees corporate performance and provides judgement, experience, and continuity of guidance to help achieve the Company's strategic objectives.

## COMMITTEES AND BOARD MANDATE

Enerflex has constituted three standing committees, to ensure full accountability of the Board and the Company by focusing the detailed attention of experienced Board members on key aspects of the business. The three standing committees are the Audit Committee, the Human Resources and Compensation Committee, and the Nominating and Corporate Governance Committee. All committees are comprised solely of directors who are independent of management.

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 Schedule "A" in Enerflex's Management Information Circular. It is also available on the Company's website at [www.enerflex.com](http://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	10 of 10	—	4 of 4	2 of 2
W. Byron Dunn	10 of 10	—	4 of 4	2 of 2
J. Blair Goertzen <sup>1</sup>	10 of 10	6 of 6	4 of 4	2 of 2
Wayne S. Hill	10 of 10	6 of 6	—	2 of 2
H. Stanley Marshall	10 of 10	—	4 of 4	—
Stephen J. Savidant <sup>1</sup>	10 of 10	6 of 6	4 of 4	2 of 2
Michael A. Weill	10 of 10	6 of 6	—	—
Helen J. Wesley	10 of 10	6 of 6	—	—

<sup>1</sup> 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. Mr. Boswell holds a B.Sc. from Vanderbilt University and an MBA from the University of Texas.



**W. Byron Dunn**  
*Director*

Mr. Dunn is the Chief Executive Officer 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 gas industry. Prior thereto, Mr. Dunn had a 32 year career with Lone Star Steel Company, of which he was CEO, President and a Director from 1997 to 2007. Mr. Dunn is also a Director of Quicksilver Resources Inc., a public company. Mr. Dunn holds a Bachelor of Arts in Management from Texas Christian University and an Executive MBA from the Edwin L. Cox School of Business at Southern Methodist University.



**J. Blair Goertzen**  
*Director, President and Chief Executive Officer*

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



**Wayne S. Hill**  
*Director*

Mr. Hill is currently a director and a former Executive Vice President and Chief Financial Officer of Toromont Industries Ltd. He joined Toromont in 1985 as Vice President, Finance and Chief Financial Officer and became Executive Vice President and Chief Financial Officer in 2002. He retired on May 31, 2006, but was re-appointed as Executive Vice President on August 28, 2006. He subsequently retired in May 2008. He holds a B.Comm. (Hons) from Queen's University and is a Chartered Accountant.



**H. Stanley Marshall**  
*Director*

Mr. Marshall was the President and Chief Executive Officer of Fortis Inc. from 1996 until 2014. He is a former director of Fortis Inc. and several of its subsidiaries. Mr. Marshall holds a Bachelor of Applied Science in Chemical Engineering from the University of Waterloo and a LL.B. from Dalhousie University.



**Stephen J. Savidant**  
*Chairman*

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



**Michael A. Weill**  
*Director*

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



**Helen J. Wesley**  
*Director*

Ms. Wesley joined Spencer Stuart, an executive search firm, in November 2014. She has over 20 years of experience in the international oil and gas industry. Most recently, she was the Executive Vice-President, Corporate Services for Talisman Energy Inc. Prior thereto, she spent seven years with Petro-Canada/Suncor, where she served in a variety of senior strategic and operational leadership positions. Ms. Wesley earned her Bachelor of Commerce in Marketing degree from the University of Calgary in 1991, and her Master of Business Administration in International Business from Boston's Bentley College in 1993. She also received her Chartered Financial Analyst (CFA) designation in 1998.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2014 and 2013, and the Business Acquisition Report, relating to an Arrangement with Axiom Energy Services, LP ("Axiom") dated September 5, 2014.

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 26, 2015 and focuses on information and key statistics from the audited annual consolidated financial statements, and pertains to known risks and uncertainties relating to the oil and gas services 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 is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company completed the purchase of the international contract compression and processing, as well as the after-market services business of Axiom ("the Axiom Business") on June 30, 2014. Results from operations for the year ended December 31, 2014 include the results of the Axiom Business for the six months ended December 31, 2014. Also see Note 7 to the 2014 consolidated financial statements.

## FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, which are based on certain assumptions and analyses made by the Company derived from its experience and perceptions. 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 developments, results and events, which will or may occur in the future, constitute "forward-looking statements". 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; and other such matters.

The forward-looking statements in this MD&A, primarily in the Enerflex Strategy and Outlook for Markets sections, are subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations. The critical risks, uncertainties, and assumptions relating to these sections, include, without limitation: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids, interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; and political unrest. 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 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 is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems and electric power 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<sub>2</sub> processing plants, refrigeration systems and electric power equipment serving the natural gas production industry.

Headquartered in Calgary, Canada, Enerflex has approximately 3,500 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint-ventures, operate in Canada, the United States of America, Argentina, Brazil, Colombia, Mexico, Peru, Australia, the United Kingdom, Russia, the United Arab Emirates ("UAE"), Oman, Bahrain, Indonesia, Malaysia, Singapore and Thailand.

Enerflex operates three business segments: Canada and Northern U.S., Southern U.S. and Latin America, and International. Each regional business segment has three main product lines: Engineered Systems, Service and Rentals. A summary of the business segments and product lines is provided below.

### Canada and Northern U.S.

- Compression and Process provides custom and standard compression packages for reciprocating and screw compressor applications. Retrofit provides re-engineering, reconfiguration and repackaging of compressors for various field applications. The manufacturing facility is located in Calgary, Alberta and Retrofit facilities are located in Calgary, Grande Prairie and Red Deer, Alberta and Casper, Wyoming;
- Production and Processing ("P&P") designs, manufactures, constructs and installs modular processing equipment, and waste gas systems, for the natural gas, heavy oil steam assisted gravity drainage ("SAGD") and heavy mining segments of the market. In February 2015, the Company announced its intention to close its P&P manufacturing facility in Nisku, Alberta and exit the oil sands modular fabrication business;
- Service (Gas Drive) provides mechanical services and parts as a Power Packager of GE's Waukesha gas engines to the oil and gas industries, focusing on Canada and the Northern U.S., and as the authorized distributor and service provider of Jenbacher engines and parts in Canada. Service branches are located in British Columbia, Alberta, Ontario, Quebec, Alaska, Michigan, North Dakota, Ohio, Wyoming, Colorado and Utah; and
- Rentals provides natural gas compression and electric power equipment rentals, from its locations in Calgary, Alberta and Casper, Wyoming.

### Southern U.S. and Latin America

- Compression and Process provides custom and standard compression packages for reciprocating and screw compressor applications from a facility located in Houston, Texas, and construction and installation locally in Argentina and Brazil;
- Gas Processing engineers, designs, manufactures, constructs and installs modular natural gas processing equipment, refrigeration systems and turnkey deep cut cryogenic gas processing facilities packages from the Houston facility;
- Service provides mechanical services and products to the oil and gas industries in the Southern U.S., Eastern U.S. and Latin America. Service branches are located in Pennsylvania, Missouri, Oklahoma, Texas, Louisiana and Bogota, Colombia. Service also provides parts and components, as well as operating, maintenance and overhaul services to customers who own compression, production, processing, gas treating and other equipment in Argentina, Brazil and Mexico; and
- Rentals provides natural gas compression equipment, and production and processing equipment for rental to oil and gas customers in Mexico, Argentina, Brazil, Colombia and Peru.

## International

### Continuing Operations

- The Process Construction business unit in the AustralAsia region designs, installs and commissions compression and gas processing systems. The Service division provides aftermarket parts and service, including as a GE Power Packager, throughout the region with locations in Queensland, New South Wales, Southern Australia and Western Australia;
- Southeast Asia division, with locations and operations in Indonesia, Singapore, Thailand and Malaysia, provides processing and compression solutions, including rentals, to customers in the region. Service capabilities are also provided to Southeast Asia through the Indonesia, Malaysia and Thailand operations;
- Middle East and North Africa ("MENA") division provides engineering, procurement and construction services, compression and process package sales, as well as rentals, and operating and maintenance services for gas compression and processing facilities in the region. The division has locations in Bahrain, UAE and Oman; and
- Europe/Commonwealth of Independent States ("CIS") division provides customized compression, processing and high-end refrigeration solutions including CO<sub>2</sub> compression and liquefaction. The division has locations in the United Kingdom and Russia.

### Discontinued Operations

- Enerflex Europe provided Service and Combined Heat and Power ("CHP") products to the region and has been reported as a discontinued operation since the third quarter of 2011. This business was sold in the second quarter of 2013.

On June 30, 2014, Enerflex purchased the Azip Business for USD \$431.0 million in cash, inclusive of closing purchase price adjustments. The acquisition did not include Azip's U.S. assets. Headquartered in Houston, Texas, the Azip Business had 173 employees with operations in Argentina, Brazil, Colombia, Mexico, Peru, Indonesia, Malaysia, Thailand and Bahrain. Its energy infrastructure assets included a 448 unit compression fleet totaling approximately 285,000 hp and gas treating facilities in Mexico, Argentina and Peru. All members of the current Azip international senior management team remained with the business following the closing of the acquisition. The acquisition included a backlog of \$29.5 million for an engineered system project in Latin America.

### *Reporting Segment Change*

Effective January 1, 2015, the Company realigned its reporting segments into Canada, United States and Rest of World segments. The reporting for the Service (Gas Drive) Northern United States business, as well as the Retrofit and Rentals operations based out of Casper, Wyoming and currently reported in the Canada and Northern United States segment, will be transferred to the United States segment commencing in 2015. The reporting for the engineered systems, after-market service and rental businesses in Latin America will be combined with the existing International segment, and renamed the "Rest of World" segment.

## Engineered Systems

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 turnkey deep cut cryogenic gas processing packages; and electric power systems.

## Service

The Service business unit includes support services, labour and parts sales to the oil and gas industry. Enerflex, directly or through its wholly-owned Gas Drive Global LP ("Gas Drive") subsidiary, is a Global Platinum Power Packager of GE's, which allows the Company to package and service Waukesha engines for its customer base worldwide. Gas Drive remains the authorized distributor for Jenbacher engines and parts, as well as the authorized distributor of MAN engines and parts, in Canada. The Company is also the exclusive distributor for Altronic, a leading manufacturer of electric ignition and control systems in Canada. Outside of Gas Drive's designated distribution/service areas, after-market service is provided under the Enerflex name. Service also provides parts and components, as well as operating, maintenance and overhaul services to customers who own compression, production, processing, gas treating and other equipment throughout Enerflex's regions.

## Rentals

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 deployed in Western Canada, the Northern U.S., Argentina, Brazil, Colombia, Mexico, Peru, Bahrain, Oman, Indonesia, Malaysia and Thailand. The Rentals product line encompasses 424,175 hp of equipment either on rental or available for rental globally.

## ENERFLEX STRATEGY

Enerflex's vision is to be the leader at delivering innovative natural gas compression, processing and electric power solutions throughout the world. Enerflex's strategy to support this vision centres on being an operationally focused, financially strong, dividend-paying company that delivers profitable growth by serving an expanding industry in six gas producing regions worldwide. Enerflex believes that worldwide growth enhances shareholder value.

Across the Company, Enerflex looks to leverage its international positioning to provide exposure to projects in growing natural gas markets; to offer integrated solutions spanning all phases of a project life-cycle from engineering and design through to after-market service; and to leverage the synergies from being active in multiple regions to deploy key expertise worldwide and generate repeat business from globally active customers. Enerflex has developed regional strategies to support its Company-wide goals.

Enerflex has focused its efforts in Canada on leveraging its capabilities and expertise to continue to maintain its momentum in the traditional natural gas business particularly in liquids-rich reservoirs, and to support the development of liquefied natural gas ("LNG") infrastructure. In addition, the Company has looked to build on its 2013 successes in the electric power market, where a number of key bids for innovative power solutions were awarded.

In the Southern U.S. and Latin America segment, Enerflex has concentrated its efforts on expanding its business in the region, driven by continuing growth in the U.S.'s increasingly sophisticated natural gas sector. The Company has looked to build in particular on successes for gas processing solutions for liquids-rich plays in the region, and the development of LNG infrastructure in the U.S. In addition, the focus has been on building out the service business across the region as the installed base continues to grow in size and sophistication.

Enerflex has focused its International efforts on growing in nearly all regions through the sales and service of its products. In AustralAsia, Enerflex has seen sustained opportunity in gas compression, processing, and field construction related to coal seam gas ("CSG") to LNG projects, and long-term service contracts to support the growing installed equipment base. In the MENA region, the focus has been on integrated solutions supporting growth in gas consumption as countries transform vast indigenous gas reserves into power generation, desalination plants, cooling and LNG exports. In Southeast Asia, the focus has been on Singapore as a hub for the final assembly and distribution of natural gas equipment, and for floating production, storage and offloading ("FPSO"), and for collaborating with the regional arms of major South Korean EPC companies. Enerflex's operations in Europe have sought to expand beyond the traditional focus on compression, and pursue opportunities in CIS countries.

With the acquisition of the Axiom Business, Enerflex has progressed significantly on a number of its strategic objectives, as indicated in the table below. The Company has successfully integrated Axiom's activities and has turned its focus to implementing the required changes to its long-term strategy. An immediate area of focus is the growth expected in Mexico as a result of the ongoing energy reform, and growing operations in Argentina and Brazil, as well as equipment sales into other parts of Latin America. In 2014, there have already been early successes.

Enerflex seeks to continue to diversify its revenue streams from multiple markets, to maintain a strong global backlog and to ensure profitable margins globally, with a medium-term goal of achieving a 10% earnings before interest and tax ("EBIT") margin. In addition, Enerflex seeks to expand the diversification of its product lines, with a goal to achieve 35%-40% recurring revenue (revenue from the service and rental product lines). The chart and table on the following page demonstrates that the Company has achieved, or in some cases exceeded, its 2014 strategic objectives.

2014 Strategic Objective	Performance to December 31, 2014	Status
Participating in global LNG growth in our three key LNG markets of Canada, the United States and AustralAsia.	Progress has been made in increasing LNG growth in the global markets, particularly in Australia, where bookings are primarily LNG related. In Canada, the delay in the final investment decision on LNG terminals on the West Coast of Canada has slowed the development of the market, however Enerflex has participated in natural gas gathering in British Columbia where opportunities have arisen. In the U.S., terminals are under construction but the Company has not yet booked any LNG related work in 2014.	On target
Expanding our product offering in the United States by building on the improving picture for liquids-rich gas plays.	During 2014, the Company has been able to expand its product offerings in the area of natural gas compression and processing. Bookings were \$750.5 million for the year-ended December 31, 2014 compared to \$574.8 million in the same period of 2013, an increase of \$175.7 million.	Above target
Levering the improving economic picture in Canada entering 2014, as well as growing our oil sands and electric power offerings.	Despite recent headwinds in the Canadian economy, domestic Canada bookings increased to \$466.0 million for the 2014 year compared to \$434.8 million in the same period of 2013. The Company recorded \$29.3 million in electric power bookings during 2014 compared to \$46.4 million in 2013. Declining oil prices, the competitive landscape for oil sands projects, and operational challenges have resulted in the announced closure of the Nisku facility early in 2015.	On target
Continuing to grow our international operations while addressing ongoing project-related challenges.	International bookings, primarily in the AustralAsia and MENA regions, increased in the fourth quarter of 2014 and finished the year at \$200.3 million compared to \$131.2 million for the 2013 year. Project related challenges in Oman have been addressed, with mechanical completion achieved and variation claim discussions continuing. The 2014 appointment of a President, International located in the UAE is intended to drive growth in the region. The acquisition of the rental and service business of Axiop has significantly expanded operations internationally, and already realized construction, rental and service opportunities in the region.	On target
Continue progress in safety management programs and improve the Company-wide total recordable injury rate ("TRIR") to 1.80 in 2014.	The TRIR at December 31, 2014 was at 1.71, which is 8.6% below the December 31, 2013 rate of 1.87 and ahead of the 2014 goal of 1.80.	Above target
Further building the service and rental businesses in progressing towards the goal of 35-40% recurring revenue.	Recurring revenue as a percentage of revenue for the period ended December 31, 2014 increased to 27.3% compared to 26.7% for the period ended December 31, 2013, calculated on a trailing 12-month basis. Inclusion of a full year of the Axiop Business in 2015 will increase recurring revenue further.	On target
Make measurable progress towards the medium-term objective of a 10% EBIT margin.	EBIT margin increased to 7.1% for the year ended December 31, 2014 compared to 6.2% in 2013, calculated on a trailing 12 month basis. The EBIT margin normalized for one time transaction expenses associated with the acquisition, severance and restructuring costs, and losses associated with the oil sands business was 8.5% for the year ended December 31, 2014.	On target

The Company has identified the key performance drivers required to achieve its Company-wide goals and monitors performance against these goals through the use of key performance indicators. The key performance drivers include a highly qualified and motivated workforce, integrated systems and processes, world class design and manufacturing capabilities, excellent safety performance, a strong financial footing, and a global reach across the product life-cycle. Further information and discussion on the key performance indicators used to monitor performance is provided in the *Financial Highlights, Canada and Northern U.S. Segment Results, Southern U.S. and Latin America Segment Results, International Segment Results*, and *Liquidity* sections.

## 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 Latin 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.

Despite challenging commodity price conditions, the Company has been able to convert opportunities in liquids-rich plays in Canada and the U.S., and other opportunities in the MENA region, resulting in bookings in the fourth quarter of 2014 being \$36.1 million higher than the same period of 2013.

Financial results for the quarter were in line with expectations, and significantly improved on the same period last year. Notwithstanding the excellent contribution from the six months' inclusion of the Axiom Business, and much improved revenues, earnings for the year remained below expectations, largely due to the cost increases in the International segment on the Oman project, and the related impact on gross margin, and an increase in SG&A expenses. The increase in SG&A expenses was in large part driven by the growth in the business, both organic and through acquisition, and non-recurring costs associated with severance and restructuring, and costs associated with the purchase of the Axiom Business.

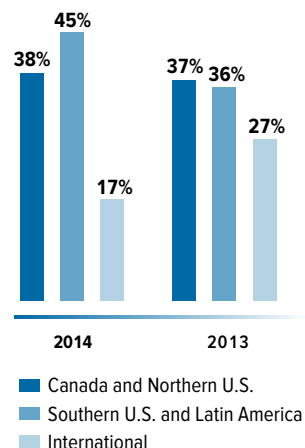
For the year ended December 31, 2014, results for the Canada and Northern U.S. and Southern U.S. and Latin America segments, as well as overall results for the Company, have improved when compared to the same period in 2013. Results normalized for one time transaction expenses associated with the purchase of the Axiom Business, non-recurring severance and restructuring costs, and losses associated with the Alberta oil sands business, were significantly improved compared with the prior year when looking at 2014.

During the fourth quarter of 2014, Enerflex recorded strong bookings totalling \$422.5 million compared to \$386.4 million during the same period in 2013, an increase of \$36.1 million. During the year ended December 31, 2014, bookings were \$1,416.9 million compared to \$1,140.8 million during 2013, an increase of \$276.1 million.

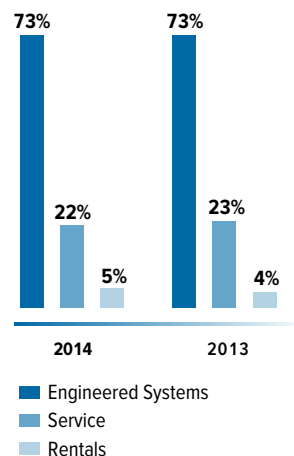
The increase in the fourth quarter was due to higher bookings in the Southern U.S. and Latin America, and International segments, with Canada and Northern U.S. bookings slightly lower than 2013 levels. For the 2014 year, bookings were higher in all segments compared to 2013.

Manufacturing activity levels for the Engineered Systems product line, and correspondingly revenue, increased in the fourth quarter of 2014 to \$372.4 million from \$244.8 million in the fourth quarter of 2013. For the year ended December 31, 2014, Engineered Systems revenue was \$264.4 million higher at \$1,294.4 million compared to \$1,030.0 million for the 2013 year. The higher revenue was primarily a result of a higher backlog in the Canada and Northern U.S. and Southern U.S. and Latin America regions, which at the start of 2014 were \$306.5 million and \$358.9 million, respectively, compared to \$158.8 million and \$227.6 million, respectively, at the start of 2013. This was partially offset by lower backlog in the International segment, which was \$128.6 million at the start of 2014 compared to \$296.8 million for 2013. With higher booking levels, which have exceeded the higher Engineered Systems revenue, the backlog has increased to \$916.5 million as at December 31, 2014 from \$794.0 million at the start of 2014, an increase of \$122.5 million.

**REVENUE BY SEGMENT (%)**  
**TWELVE MONTHS ENDED**  
**DECEMBER 31,**



**REVENUE BY PRODUCT LINE (%)**  
**TWELVE MONTHS ENDED**  
**DECEMBER 31,**





During the early part of 2014, two international projects in the AustralAsia region, which had experienced margin erosion in 2013, were completed with no material additional cost increases. In the first half of 2014, Enerflex made leadership changes with the appointment of Mr. James K. Rodgers as Managing Director for AustralAsia, and Mr. Phil Pyle as President, International. Both leaders are addressing the challenges faced in the region with respect to customer contract and project timing issues, and are taking the lead in returning the region to acceptable profitability.

Mechanical completion on a third international project in Oman has been achieved and certified by the customer, and the plant is exporting gas and condensate to specification. Work on the project continued to experience customer driven scope and schedule challenges, with cost increases identified during the 2014 year with a total gross margin impact of \$25.6 million. The Company has submitted and continues discussions with the customer around variation claims for cost increases on the project. Variation claims are filed once forecast costs on a fixed price project exceed budgeted costs, as a result of increased scope or design and schedule changes to the project. To the extent these cost increases are subsequently recovered from customers through approved variation claims, revenue will be recognized in the corresponding period. Variation claims are typically approved at the completion of the project. This results in volatility in gross margins as costs are recognized as incurred on these projects, while revenue resulting from variation claims is recognized in the period that these claims are approved.

Service activity levels in 2014 improved over 2013 in all segments, with the Company continuing to benefit from increased activity in the Canada, United States and Latin America, MENA and AustralAsia regions. Company-wide, revenues from the Service product line in 2014 have increased 16.4% from \$92.1 million to \$107.2 million in the fourth quarter of 2014, and 19.2% from \$325.4 million to \$387.9 million in the 2014 year, compared to the same periods in 2013.

On a global basis, the Company has a rental fleet of 424,175 horsepower. North American rental utilization levels increased from 70% in the fourth quarter of 2013 to 74% at the end of 2014, but resulted in lower Rental revenue as a result of a decrease in the total horsepower under rental contracts. North American Rental revenue was also lower due to a decrease in rental unit sales compared to 2013. Rental revenue for the International segment in the fourth quarter of 2014 increased from the same period in 2013, largely as a result of rental contracts acquired with the Axiom business. Rental revenues in the Southern U.S. and Latin America, and International segments increased from \$0.7 million in the fourth quarter of 2013 to \$30.5 million in the fourth quarter of 2014.

In February 2015, the Company announced its intention to close its P&P manufacturing facility in Nisku, Alberta. The closure is as a result of the current outlook for oil sands projects in a low oil price environment, an inability to successfully penetrate the highly competitive modular fabrication market, and challenges in achieving bid margins on oil sands projects, which resulted in margin erosion and ultimately losses for the P&P business. P&P will complete oil sands projects currently in process, at which time the assets will be held for sale and the business reported as a discontinued operation. The backlog for traditional gas processing work has either been moved or is in the process of being moved to other Enerflex manufacturing facilities in Calgary, Alberta. The Company accrued termination benefits and restructuring costs of \$4.3 million in the fourth quarter of 2014 as a result of the decision being made to close the facility and steps being taken to implement the detailed plan. For the year ended December 31, 2014, the P&P business unit generated \$85.8 million in revenue (2013 – \$71.0 million) and a loss before interest and taxes of \$12.5 million (2013 – Loss before interest and taxes of \$1.3 million).

## OUTLOOK FOR MARKETS

Over the past several months, significantly lower commodity prices have resulted in a number of companies implementing capital budget cuts and cost reduction initiatives both in North America and globally. Many of these companies are customers, which in turn will impact demand for Enerflex products and services during 2015. Enerflex has already seen some minor project deferrals and cancellations. Further capital reductions are expected as the commodity price challenges continue, and as customers seek to preserve financial flexibility and protect their long-term businesses. While Enerflex has strong backlog levels entering 2015, several long-term rental and service contracts and a geographically diversified business, which provide some protection for revenue in the near term, the current market conditions create significant uncertainty for bookings and activity levels in the first half of 2015, and therefore backlog and revenue over the remainder of 2015.

Enerflex has been proactive in response to this reduction in business activity and has begun implementing measures to streamline its business and control costs in order to achieve its EBIT goal of 10%. Late in 2014, the Company commenced steps to close its manufacturing business in Nisku given the impact of recent market conditions on its oil sands business, the competitive landscape and the operational challenges at the facility in achieving bid margins. In January 2015, immediate cost savings initiatives were

implemented, including a Company-wide hiring freeze, salary increase deferrals, business travel expense limitations, reduced marketing expenditures and significant reductions in capital expenditures for facilities, IT infrastructure and maintenance, except where critical. These initiatives will be regularly reviewed throughout the year and adjusted as the market evolves and as Enerflex continues to evaluate the impact low commodity prices will have to its business.

### **Canada and Northern U.S.**

After a spike in gas prices in the early part of 2014, gas prices steadily declined during the first half of 2014, and held relatively flat at around USD \$4.00/mcf into November 2014 before experiencing a sharp drop to current levels below USD \$3.00/mcf. North American working gas in storage is up year-over-year but is still below the five year average, where it has been since the beginning of 2014. Storage levels remain sufficiently high to put downward pressure on natural gas prices, which may recover slightly during early 2015 depending on weather and fundamentals. Natural gas fundamentals improve as LNG projects in Western Canada progress, and as the development of the Duvernay shale play expands. Enerflex continued to see good activity levels in compression and process equipment related to natural gas liquids opportunities such as in the Alberta Deep Basin, Duvernay and Montney reservoirs through to the end of 2014. However, the current commodity price environment is anticipated to result in a slowdown in activity levels in at least the first two quarters of 2015. There is significant uncertainty as to the extent and duration of the slowdown. Backlog in this segment remained strong during 2014 and as such Enerflex is still well positioned for 2015. Backlog stood at \$332.3 million at December 31, 2014, compared to \$306.5 million at December 31, 2013.

### **Southern U.S. and Latin America**

The performance of the Southern U.S. and Latin 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 typically remains strong in these basins as long as the frac spread (the differential between NGL prices and natural gas prices) remains high. In 2014, activity has been strong despite weaker NGL prices, and as a result of increased oil exploration and production, and the associated gas that results. That said, NGL prices have further weakened over the fourth quarter, given their dependency on oil prices. The significant decrease in oil prices, the impact on production levels and therefore associated gas levels, and the impact on NGL prices is expected to result in a slowdown in activity in at least the first half of 2015. There is still significant uncertainty as to the extent and duration of the slowdown. Despite the anticipated slowdown, Enerflex remains well-positioned given strong backlog levels, which stood at \$454.5 million at the end of 2014, compared to \$358.9 million at December 31, 2013.

Enerflex is optimistic about the outlook in the Latin America region given the pace of the Energy Reform in Mexico and the development of the Vaca Muerta shale play in Argentina, which could generate unprecedented opportunities for Enerflex products and services. In Brazil, the Company is seeing an increased demand for natural gas fuelled projects as a means to reduce dependency on hydroelectric power. This demand, coupled with the associated gas expected from pre salt oil production presents interesting opportunities for surface facilities. Additionally, infrastructure developments in Colombia, Peru and Bolivia, are expected to result in an increased Enerflex presence in these countries.

### **International**

The International segment holds considerable long-term opportunity and experienced higher bookings activity during 2014. Bookings for the 2014 year were \$200.3 million, compared to \$131.2 million during the same period in 2013. Enerflex remains adequately positioned in this segment given backlog levels, which stood at \$129.7 million at the end of the fourth quarter of 2014, compared to \$128.6 million at December 31, 2013. In addition, largely as a result of the Axip acquisition, Enerflex has secured a number of, and continues to pursue, rental and service opportunities in the International segment, most notably in the MENA region.

Generally, bookings are reflected within the contracting entity. Therefore in assessing international prospects, consideration should also be given to bookings recorded in the Canada and Northern U.S., and Southern U.S. and Latin America segments, which are destined for international markets but are not presented in the International segment. Bookings for compression and processing equipment, destined for international markets, which were recorded and will be fabricated in the Canada and Northern U.S., and Southern U.S. and Latin America segments, totalled \$9.6 million for the fourth quarter of 2014 and \$28.0 million for the twelve months of 2014 compared to \$113.5 million and \$231.2 million for the same periods in 2013.

## FINANCIAL HIGHLIGHTS

	Three months ended December 31,		Twelve months ended December 31,	
(\$ Canadian thousands)	2014	2013	2014	2013
<b>Revenue</b>				
Canada and Northern U.S.	\$ 187,658	\$ 147,572	\$ 682,755	\$ 524,892
Southern U.S. and Latin America	274,481	125,192	799,056	503,758
International	61,148	77,302	298,919	376,372
Total revenue	523,287	350,066	1,780,730	1,405,022
Cost of goods sold	429,959	290,925	1,457,780	1,159,117
Gross margin	93,328	59,141	322,950	245,905
Selling and administrative expenses	56,515	44,908	206,663	163,875
Operating income	36,813	14,233	116,287	82,030
Loss on disposal of property, plant and equipment	(131)	(122)	62	(79)
Equity earnings from associates and joint ventures	(2,781)	(2,141)	(9,509)	(5,232)
Earnings before finance costs and taxes	39,725	16,496	125,734	87,341
Finance costs, net of finance income	4,333	1,249	9,771	5,518
Earnings before taxes	35,392	15,247	115,963	81,823
Income tax expense	9,598	4,487	44,745	24,105
Loss from discontinued operations	—	92	—	1,852
Net earnings	\$ 25,794	\$ 10,668	\$ 71,218	\$ 55,866
<b>Key Financial Performance Indicators<sup>1</sup></b>				
Bookings	\$ 422,490	\$ 386,409	\$ 1,416,880	\$ 1,140,801
Backlog	\$ 916,484	\$ 793,977	\$ 916,484	\$ 793,977
Recurring revenue as a percentage of revenue <sup>2</sup>	27.3%	26.7%	27.3%	26.7%
Gross margin as a percentage of revenue	17.8%	16.9%	18.1%	17.5%
Normalized gross margin as a percentage of revenue <sup>3</sup>	18.8%	16.9%	18.7%	17.5%
Selling and administrative expenses as a percentage of revenue	10.8%	12.8%	11.6%	11.7%
EBIT as a percentage of revenue <sup>2</sup>	7.1%	6.2%	7.1%	6.2%
Normalized EBIT <sup>3</sup>	\$ 49,897	\$ 20,288	\$ 150,612	\$ 91,601
Normalized EBIT as a percentage of revenue <sup>2,3</sup>	8.5%	6.5%	8.5%	6.5%
Earnings before interest, tax, depreciation and amortization ("EBITDA")	56,956	26,217	182,533	126,936
Normalized EBITDA <sup>3</sup>	67,128	30,009	207,411	131,196
Return on capital employed	11.2%	9.7%	11.2%	9.7%
Net debt (cash) to EBITDA ratio	1.52:1	(0.85):1	1.90:1	(0.70):1
Cash from operations	\$ 2,952	\$ 79,419	\$ 64,611	\$ 69,024

<sup>1</sup> Key financial performance indicators used by Enerflex to measure its performance include revenue and EBIT. Certain of these key performance indicators are non-GAAP measures and certain are additional GAAP measures. Further detail is provided in the Definitions and Non-GAAP Measures sections.

<sup>2</sup> Determined by taking the trailing 12-month period.

<sup>3</sup> Normalized gross margin, normalized EBIT, normalized EBIT percentage, and normalized EBITDA have been adjusted for acquisition-related transaction costs, severance and restructuring costs and losses associated with the Alberta oil sands business.

## 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. Some 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, 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 EBIT are both considered additional GAAP measures, and are presented in the Statement of Earnings, but may not be comparable with similar additional GAAP measures used by other entities.

### Operating Income

Operating income 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 earnings 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.

### Normalized Gross Margin, EBIT and EBITDA

Normalized Gross Margin, EBIT and EBITDA provides the results of the Company adjusted for the impact of acquisition-related transaction costs, severance and restructuring costs, and losses associated with the oil sands business.

### ROCE

ROCE is a measure to analyze operating performance and efficiency of the Company's capital allocation process. The ratio is calculated by taking EBIT for the 12-month trailing period 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 Debt to EBITDA

Net 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.

## CONSOLIDATED RESULTS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2014

During the fourth quarter of 2014, the Company generated \$523.3 million in revenue compared to \$350.1 million in the fourth quarter of 2013. For the year ended December 31, 2014, revenue was \$1,780.7 million compared to \$1,405.0 million in 2013. The increases of \$173.2 million and \$375.7 million, respectively, were due to higher revenue in the Canada and Northern U.S., and Southern U.S. and Latin America segments, partially offset by lower International segment revenue. As compared to the three and twelve months period ended December 31, 2013:

- Canada and Northern U.S. segment revenue increased by \$40.1 million during the fourth quarter of 2014, and by \$157.9 million for the year ended December 31, 2014, as a result of an increase in Engineered Systems and Service revenues, and for the year ended December 31, 2014, partially offset by lower Rental revenue;
- Southern U.S. and Latin America segment revenue increased by \$149.3 million in the fourth quarter of 2014, and by \$295.3 million for the year ended December 31, 2014, due to higher Engineered Systems, Service and Rental revenues; and
- International segment revenue decreased by \$16.2 million in the fourth quarter of 2014, and by \$77.5 million for the year ended December 31, 2014, on account of lower Engineered Systems revenue, partially offset by higher Rental revenue, and for the year ended December 31, 2014 by higher Service revenue.

**Gross Margin** for the three months ended December 31, 2014 was \$93.3 million or 17.8% of revenue compared to \$59.1 million or 16.9% of revenue for the same period of 2013. Gross margin for the year ended December 31, 2014 was \$323.0 million or 18.1% of revenue compared to \$245.9 million or 17.5% of revenue for the year ended December 31, 2013. The increases were due to higher gross margin in all three segments.

**SG&A** expenses were \$56.5 million or 10.8% of revenue during the three months ended December 31, 2014, compared to \$44.9 million or 12.8% of revenue in the same period of 2013. SG&A expenses were \$206.7 million or 11.6% of revenue during the year ended December 31, 2014, compared to \$163.9 million or 11.7% of revenue in 2013. The increases were a result of restructuring costs associated with the decision to close the Nisku facility in Alberta, higher compensation expense, higher office and occupancy costs, and higher depreciation and amortization expense, partially offset by favourable foreign exchange movements, and for the twelve months ended December 31, 2014, due to higher third party services associated with the Axip acquisition. Higher compensation expense reflects increased headcount to support the Company's growth, together with the acquisition of the Axip Business, increased incentive bonuses commensurate with improved results and modest salary increases, partially offset for the fourth quarter of 2014 by mark to market adjustments on share based payment expense arising from the decrease in the share price.

**Operating Income** during the fourth quarter of 2014 was \$36.8 million or 7.0% of revenue compared to \$14.2 million or 4.1% of revenue in the same period of 2013. Operating income during the 2014 year was \$116.3 million or 6.5% of revenue compared to \$82.0 million or 5.8% of revenue in 2013. The increases were attributable to the higher gross margin due partly to the contribution from the newly acquired Axip Business, partially offset by higher SG&A expenses.

**EBIT** for the fourth quarter of 2014 was \$39.7 million or 7.6% of revenue compared to \$16.5 million or 4.7% of revenue in the same period of 2013. EBIT for the 2014 year was \$125.7 million or 7.1% compared to \$87.3 million or 6.2% of revenue in 2013. The increases were due to the higher operating income and, for the 2014 year, higher earnings from associates and joint ventures. Equity earnings increased slightly from \$2.1 million in the fourth quarter of 2013 to \$2.8 million in the fourth quarter of 2014, and increased from \$5.2 million for the year ended December 31, 2013 to \$9.5 million in 2014. Normalized EBIT for the 2014 year was \$150.6 million or 8.5% of revenue.

**Income Tax Expense** totalled \$9.6 million or 27.1% of earnings before tax for the three months ended December 31, 2014 compared to \$4.5 million or 29.4% of earnings before tax in the same period of 2013. Income tax expense totalled \$44.7 million or 38.6% of earnings before tax for the year ended December 31, 2014 compared to an expense of \$24.1 million or 29.5% of earnings before taxes in the same period of 2013. The increase in income tax expense for the fourth quarter was as a result of higher earnings before tax. The increase in income tax expense and the effective tax rate for the year ended December 31, 2014, was due to higher earnings before taxes, withholding taxes incurred on dividends received from foreign subsidiaries, the impact of earnings taxed in foreign jurisdictions, and acquisition related expenses not deductible for tax purposes. After normalizing EBIT and income tax expense for one time transaction expenses associated with the acquisition, the tax impact of repatriating cash to Canada to partially finance the acquisition, severance and restructuring costs, and losses associated with the oil sands business income tax totalled \$43.1 million or 30.6% of normalized earnings before tax for the twelve months of 2014.



**Net Earnings** from continuing operations for the fourth quarter of 2014 were \$25.8 million or \$0.33 per share, compared to \$10.8 million or \$0.14 per share in the same period of 2013. Net earnings from continuing operations for 2014 were \$71.2 million or \$0.91 per share, compared to \$57.7 million or \$0.74 per share in 2013. For the fourth quarter and for 2014 the increase in net earnings was a result of higher EBIT, partially offset by higher income tax expense. Earnings normalized for severance and restructuring costs, acquisition-related transaction costs, losses from the oil sands business and the tax impacts of partially funding the acquisition internally, were \$97.8 million, or \$1.25 per share for 2014, compared to \$60.9 million, or \$0.78 per share in 2013.

Loss from discontinued operations in 2013 reflects the results of Enerflex Europe.

## CANADA AND NORTHERN U.S. SEGMENT RESULTS

The momentum in liquids-rich plays in Canada, and with respect to electric power opportunities, slowed into the fourth quarter of 2014, with bookings \$12.0 million lower than in the fourth quarter of 2013. For the 2014 year, however, bookings were \$31.2 million higher than in 2013. Financial results for the Canada and Northern U.S. segment in the fourth quarter of 2014, and for the 2014 year, improved compared with the same periods in 2013, on increased revenues and gross margin, partially offset in the three months ended December 31, 2014 by higher SG&A expenses.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Segment revenue	\$ 192,529	\$ 153,934	\$ 694,564	\$ 594,510
Intersegment revenue	(4,871)	(6,362)	(11,809)	(69,618)
Revenue	\$ 187,658	\$ 147,572	\$ 682,755	\$ 524,892
Revenue – Engineered Systems	\$ 119,112	\$ 80,775	\$ 440,219	\$ 287,086
Revenue – Service	\$ 55,336	\$ 54,301	\$ 202,575	\$ 191,263
Revenue – Rental	\$ 13,210	\$ 12,496	\$ 39,961	\$ 46,543
Operating income	\$ 5,398	\$ 5,438	\$ 26,752	\$ 21,937
EBIT	\$ 8,194	\$ 7,737	\$ 36,305	\$ 27,268
Segment revenue as a % of total revenue	35.9%	42.1%	38.3%	37.4%
Recurring revenue as a % of segment revenue	36.5%	45.3%	35.5%	45.3%
Operating income as a % of segment revenue	2.9%	3.7%	3.9%	4.2%
EBIT as a % of segment revenue	4.4%	5.2%	5.3%	5.2%

Canada and Northern U.S. revenue totalled \$187.7 million and \$682.8 million in the fourth quarter of and 2014 year, respectively, compared to \$147.6 million and \$524.9 million for the same periods of 2013. The increases in revenue of \$40.1 million and \$157.9 million, respectively, were a result of higher Engineered Systems revenue due to higher opening backlog, and during the year ended December 31 2014, due to higher Service revenue on increased parts sales, partially offset by lower Rental revenue as a result of a decrease in the total horsepower under rental contracts and a decrease in rental unit sales.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
<b>Revenue</b>				
Canada and United States	\$ 181,395	\$ 136,259	\$ 650,249	\$ 498,505
International <sup>1</sup>	6,263	11,313	32,506	26,387
	\$ 187,658	\$ 147,572	\$ 682,755	\$ 524,892

<sup>1</sup> International revenue represents revenue from equipment manufactured in this segment and delivered to international markets that Enerflex services.

Operating income decreased by \$0.1 million to \$5.4 million in the fourth quarter of 2014 compared to the same period of 2013 as a result of higher gross margin, which was more than offset by higher SG&A expenses in the quarter. For 2014 operating income increased by \$4.8 million to \$26.8 million due to higher gross margin, which was partially offset by an increase in SG&A expenses compared to the prior year. The higher gross margin resulted from the positive impact of higher revenue, lower warranty expense and stronger plant utilization, partially offset by lower project margins and project execution challenges. The higher SG&A in the fourth quarter and the 2014 year was due to termination and restructuring costs associated with the closure of the Nisku facility in Alberta, an increase in compensation expense, higher office and occupancy costs, and higher depreciation and amortization expense, partially offset by favourable foreign exchange movements.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
<b>Bookings</b>				
Canada and United States	<b>\$ 154,364</b>	\$ 136,523	<b>\$ 462,398</b>	\$ 360,642
International <sup>1</sup>	<b>714</b>	30,507	<b>3,620</b>	74,190
	<b>\$ 155,078</b>	\$ 167,030	<b>\$ 466,018</b>	\$ 434,832

<sup>1</sup> International bookings represent orders for equipment that will be manufactured in this segment and delivered to international markets that Enerflex services.

Backlog in the Canada and Northern U.S. segment was \$332.3 million at December 31, 2014 compared to \$306.5 million at December 31, 2013, an increase of \$25.8 million. The increase in bookings during 2014 was due to an increase in domestic activity levels, despite continued weakness in natural gas prices and the impact of lower oil prices on customers, partially offset by higher revenue during the same period, resulting in the increase in backlog at December 31, 2014.

## SOUTHERN U.S. AND LATIN AMERICA SEGMENT RESULTS

Market fundamentals in the Southern U.S. were steady for 2014 despite weaker NGL prices. Domestic bookings were significantly higher in the fourth quarter and full 2014 year, but were partially offset by lower bookings destined for international markets, when compared to the same periods in 2013. Financial results improved in the three months and year ended December 31, 2014, building on successive years of growth, resulting in improved revenues and gross margin, partially offset by higher SG&A expenses. The results also benefitted from the contribution of the acquired Axiom business in Latin America during the second half of 2014.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Segment revenue	<b>\$ 288,498</b>	\$ 128,947	<b>\$ 818,063</b>	\$ 522,008
Intersegment revenue	<b>(14,017)</b>	(3,755)	<b>(19,007)</b>	(18,250)
Revenue	<b>\$ 274,481</b>	\$ 125,192	<b>\$ 799,056</b>	\$ 503,758
Revenue – Engineered Systems	<b>\$ 215,667</b>	\$ 106,744	<b>\$ 654,945</b>	\$ 443,527
Revenue – Service	<b>\$ 34,176</b>	\$ 18,448	<b>\$ 96,543</b>	\$ 60,231
Revenue – Rental	<b>\$ 24,638</b>	\$ –	<b>\$ 47,568</b>	\$ –
Operating income	<b>\$ 32,139</b>	\$ 16,965	<b>\$ 92,542</b>	\$ 59,765
EBIT	<b>\$ 32,270</b>	\$ 16,964	<b>\$ 92,504</b>	\$ 59,762
Segment revenue as a % of total revenue	<b>52.5%</b>	35.8%	<b>44.9%</b>	35.8%
Recurring revenue as a % of segment revenue	<b>21.4%</b>	14.7%	<b>18.0%</b>	12.0%
Operating income as a % of segment revenue	<b>11.7%</b>	13.6%	<b>11.6%</b>	11.9%
EBIT as a % of segment revenue	<b>11.8%</b>	13.6%	<b>11.6%</b>	11.9%

Southern U.S. and Latin America revenue totalled \$274.5 million and \$799.1 million, respectively, in the fourth quarter and year ended December 31, 2014, compared to \$125.2 million and \$503.8 million in the same periods of 2013. The increases in revenue of \$149.3 million and \$295.3 million, respectively, were attributable to higher Engineered Systems revenue as a result of higher opening backlog, higher Service revenue on increased service calls and parts sales and the contribution of the business acquired from Axiom, compared to the same periods in 2013, and higher Rental revenue from the Axiom Business acquired on June 30, 2014.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
<b>Revenue</b>				
United States and Latin America	<b>\$ 217,690</b>	\$ 109,944	<b>\$ 681,633</b>	\$ 423,612
International <sup>2</sup>	<b>56,791</b>	15,248	<b>117,423</b>	80,146
	<b>\$ 274,481</b>	\$ 125,192	<b>\$ 799,056</b>	\$ 503,758

<sup>2</sup> International revenue represents revenue from equipment manufactured in this segment and delivered to international markets that Enerflex services.

Operating income increased by \$15.2 million in the fourth quarter of 2014 to \$32.1 million, and by \$32.8 million to \$92.5 million for the year ended December 31, 2014, compared to the same periods of 2013, due to higher gross margin, partially offset by higher SG&A expenses. The increases in gross margin were attributable to higher revenues, and significantly improved plant utilization, partially offset by lower warranty releases and lower project execution efficiencies, and for the fourth quarter of 2014, lower project margins. SG&A expenses were higher in 2014 compared to 2013 as a result of higher compensation expense, higher office and occupancy costs, higher depreciation and amortization expense, and for the twelve months ended December 31 2014, increased third party services related to the acquisition of the Axip Business. These increases were partially offset by favourable foreign exchange movements in the three months and year ended December 31, 2014.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
<b>Bookings</b>				
United States and Latin America	<b>\$ 188,843</b>	\$ 102,807	<b>\$ 726,163</b>	\$ 417,786
International <sup>1</sup>	<b>8,887</b>	82,993	<b>24,370</b>	156,967
	<b>\$ 197,730</b>	\$ 185,800	<b>\$ 750,533</b>	\$ 574,753

<sup>1</sup> International bookings represent orders for equipment that will be manufactured in this segment and delivered to international markets that Enerflex services.

Southern U.S. and Latin America backlog was \$454.5 million at the end of 2014 compared to \$358.9 million at December 31, 2013, an increase of \$95.6 million. The increase in backlog was a result of bookings exceeding Engineered Systems revenue in 2014. Bookings for the quarter ended December 31, 2014 increased on significantly higher domestic bookings on weak but stable market fundamentals, partially offset by lower bookings destined for international markets. The backlog at December 31, 2014 also benefitted from bookings in Latin America.

## INTERNATIONAL SEGMENT RESULTS

In the International segment, increased activity in the AustralAsia and MENA regions led to an increase in bookings in 2014 compared to 2013. Service activity in both MENA and AustralAsia improved during 2014, although activity levels were slightly lower in the fourth quarter of 2014.

The results for the fourth quarter of 2014 were an improvement over the same period in 2013, but primarily due to higher cost increases on international projects in the fourth quarter of 2013 that negatively impacted gross margin and operating income, partially offset by higher 2014 SG&A expenses. The results for the 2014 year were lower than 2013 due to higher SG&A expenses, partially offset by higher gross margin.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Segment revenue	<b>\$ 61,345</b>	\$ 77,408	<b>\$ 301,960</b>	\$ 376,763
Intersegment revenue	<b>(197)</b>	(106)	<b>(3,041)</b>	(391)
Revenue	<b>\$ 61,148</b>	\$ 77,302	<b>\$ 298,919</b>	\$ 376,372
Revenue – Engineered Systems	<b>\$ 37,626</b>	\$ 57,249	<b>\$ 199,209</b>	\$ 299,417
Revenue – Service	<b>\$ 17,697</b>	\$ 19,329	<b>\$ 88,815</b>	\$ 73,934
Revenue – Rental	<b>\$ 5,825</b>	\$ 724	<b>\$ 10,895</b>	\$ 3,021
Operating (loss) income	<b>\$ (724)</b>	\$ (8,170)	<b>\$ (3,007)</b>	\$ 328
EBIT	<b>\$ (739)</b>	\$ (8,205)	<b>\$ (3,075)</b>	\$ 211
Segment revenue as a % of total revenue	<b>11.7%</b>	22.1%	<b>16.8%</b>	26.8%
Recurring revenue as a % of segment revenue	<b>38.5%</b>	25.9%	<b>33.4%</b>	20.4%
Operating (loss) income as a % of segment revenue	<b>(1.2)%</b>	(10.6)%	<b>(1.0)%</b>	0.1%
EBIT as a % of segment revenue	<b>(1.2)%</b>	(10.6)%	<b>(1.0)%</b>	0.1%

International revenue totalled \$61.1 million and \$298.9 million, respectively, in the fourth quarter of and 2014 year, compared to \$77.3 million and \$376.4 million in the same periods of 2013. The decreases of \$16.2 million and \$77.5 million, respectively, were a result of lower Engineered Systems revenue due to lower opening backlog. These decreases in revenue for the three months and year ended December 31, 2014 were partially offset by higher Rental revenue due to the contribution of the rental business acquired from Axiom, and for the 2014 year due to higher Service revenue resulting from increased activity in the AustralAsia and MENA regions.

Operating loss was \$0.7 million for the fourth quarter of 2014, compared to \$8.2 million operating loss in the same period of 2013, on improved gross margin, partially offset by higher SG&A expenses. For the fourth quarter, higher gross margin was due to improved project margins and fewer project execution challenges, partially offset by the impact of lower revenues and the corresponding impact on gross margin. SG&A expenses were higher in 2014 compared to 2013 on higher compensation expense, partially offset by favourable foreign exchange movements.

For the year ended December 31, 2014, operating loss was \$3.0 million compared to \$0.3 million operating income for the same period in 2013. The decrease in operating income was attributable to higher SG&A expenses, partially offset by higher gross margin. Higher gross margin in the year was a result of fewer project execution challenges on international projects in 2014 when compared to 2013, which was partially offset by the impact of lower revenues in 2014 on gross margin. In 2014, the Company experienced cost increases on the Oman project due to scope and design variations, and schedule delays, resulting in a gross margin erosion of \$25.6 million. The project has now achieved mechanical completion and is exporting gas and condensate to specification. The Company is advancing claims for time and cost impacts (resulting from variations and delays), which are being vigorously pursued with the customer. In 2014, the Company achieved project execution efficiencies, particularly in Australia, which only partially offset the Oman project and other minor project execution challenges, resulting in a gross margin erosion for the year of \$12.8 million. This compares to margin erosion in 2013 of \$20.0 million on international projects. SG&A increased due to higher compensation expense and higher third party services related to the Axiom acquisition, partially offset by favourable foreign exchange movements.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
<b>Bookings</b>				
International <sup>1</sup>	\$ 69,682	\$ 33,579	\$ 200,329	\$ 131,216

<sup>1</sup> International bookings for the three and twelve months ended December, 2014 do not include orders of \$9.6 million and \$28.0 million, respectively, for equipment that will be manufactured in the Canada and Northern U.S., and Southern U.S. and Latin America segments, and be delivered to international markets that Enerflex services (December 31, 2013: \$113.5 million and \$231.2 million, respectively).

International backlog was \$129.7 million at December 31, 2014 compared to \$128.6 million at December 31, 2013. The increase was primarily due to booking levels being marginally higher than the conversion of backlog in 2014, despite higher booking levels. The higher booking levels for the full year of 2014 resulted from increased activity in the AustralAsia and MENA regions.

## QUARTERLY SUMMARY

(\$ Canadian thousands, except per share amounts)	Revenue <sup>1</sup>	Net earnings <sup>1</sup>	Earnings per share – basic <sup>1</sup>	Earnings per share – diluted <sup>1</sup>	Normalized earnings per share – basic <sup>2</sup>
<b>December 31, 2014</b>	<b>\$ 523,287</b>	<b>\$ 25,794</b>	<b>\$ 0.33</b>	<b>\$ 0.33</b>	<b>\$ 0.43</b>
September 30, 2014	478,960	30,229	0.39	0.38	0.41
June 30, 2014	446,063	11,148	0.14	0.14	0.34
March 31, 2014	332,420	4,047	0.05	0.05	0.07
December 31, 2013	350,066	10,760	0.14	0.13	0.17
September 30, 2013	390,657	13,174	0.16	0.16	0.17
June 30, 2013	311,037	18,405	0.24	0.24	0.24
March 31, 2013	353,262	15,379	0.20	0.20	0.20
December 31, 2012	421,590	27,004	0.35	0.35	0.35

<sup>1</sup> Amounts presented are from continuing operations.

<sup>2</sup> Earnings per share for the periods presented have been adjusted for the impact of one-time acquisition-related transaction costs, severance and restructuring costs, and losses associated with the oil sands business.

(\$ Canadian thousands, except per share amounts)	Total assets	Total non-current financial liabilities	Cash dividends declared per share
<b>December 31, 2014</b>	<b>\$2,144,988</b>	<b>\$ 505,076</b>	<b>\$ 0.31</b>
December 31, 2013	1,416,079	92,935	0.285
December 31, 2012	1,389,264	96,469	0.25
December 31, 2011	1,351,618	118,963	0.18

## 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 normalized EBIT, 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 earnings 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 Definitions section.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
<b>Normalized Gross Margin</b>				
Gross margin	\$ 93,328	\$ 59,141	\$ 322,950	\$ 245,905
Losses from oil sands business	4,996	–	10,594	–
<b>Normalized Gross Margin</b>	<b>\$ 98,324</b>	<b>\$ 59,141</b>	<b>\$ 333,544</b>	<b>\$ 245,905</b>
<b>Normalized Gross Margin %</b>	<b>18.8%</b>	<b>16.9%</b>	<b>18.7%</b>	<b>17.5%</b>
<b>Normalized EBIT</b>				
Earnings before finance costs and taxes	\$ 39,725	\$ 16,496	\$ 125,734	\$ 87,341
Acquisition-related transaction costs	–	2,610	9,108	2,610
Severance and restructuring costs	5,176	1,182	5,176	1,650
Losses from oil sands business	4,996	–	10,594	–
<b>Normalized EBIT</b>	<b>\$ 49,897</b>	<b>\$ 20,288</b>	<b>\$ 150,612</b>	<b>\$ 91,601</b>
<b>EBITDA</b>				
Earnings before finance costs and taxes	\$ 39,725	\$ 16,496	\$ 125,734	\$ 87,341
Depreciation and amortization	17,231	9,721	56,799	39,595
<b>EBITDA</b>	<b>\$ 56,956</b>	<b>\$ 26,217</b>	<b>\$ 182,533</b>	<b>\$ 126,936</b>



(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
<b>Normalized EBITDA</b>				
Normalized EBIT	\$ 49,897	\$ 20,288	\$ 150,612	\$ 91,601
Depreciation and amortization	17,231	9,721	56,799	39,595
Normalized EBITDA	\$ 67,128	\$ 30,009	\$ 207,411	\$ 131,196
<b>Normalized Earnings per Share</b>				
Normalized EBIT	\$ 49,897	\$ 20,288	\$ 150,612	\$ 91,601
Finance costs, net of finance income	4,333	1,249	9,771	5,518
Normalized Earnings Before Tax	\$ 45,564	\$ 19,039	\$ 140,841	\$ 86,083
Income taxes	9,598	4,487	44,745	24,105
Withholding tax on non-deductible internal dividends	–	–	(5,653)	–
Tax effect of severance and restructuring costs	1,339	296	1,339	413
Tax effect of acquisition-related transaction costs	–	653	–	653
Tax effect of losses from oil sands	1,249	–	2,648	–
Normalized Net Earnings	\$ 33,378	\$ 13,603	\$ 97,762	\$ 60,912
Normalized Net Earnings per Share	\$ 0.43	\$ 0.17	\$ 1.25	\$ 0.78
<b>Net Debt</b>				
Short and long-term debt, net of deferred transaction costs	\$ 505,076	\$ 92,935	\$ 505,076	\$ 92,935
Less: Cash and cash equivalents	158,069	181,973	158,069	181,973
Net Debt (Cash)	\$ 347,007	\$ (89,038)	\$ 347,007	\$ (89,038)
<b>Net Debt (Cash) to EBITDA</b>				
Net Debt (Cash)	\$ 347,007	\$ (89,038)	\$ 347,007	\$ (89,038)
Annualized EBITDA	227,824	104,868	182,533	126,936
Net Debt (Cash) to EBITDA Ratio	1.52:1	(0.85):1	1.90:1	(0.70):1
<b>Recurring Revenue</b>				
Service	\$ 107,209	\$ 92,078	\$ 387,932	\$ 325,428
Rental	43,673	13,220	98,425	49,564
Total Recurring Revenue	\$ 150,882	\$ 105,298	\$ 486,357	\$ 374,992
<b>ROCE</b>				
Trailing 12-month EBIT	\$ 125,734	\$ 87,341	\$ 125,734	\$ 87,341
Capital Employed – beginning of period				
Net (Cash) Debt	\$ 335,984	\$ (13,333)	\$ (89,038)	\$ (48,519)
Shareholders' equity and Non-controlling interest	976,731	915,891	931,662	886,679
	\$ 1,312,715	\$ 902,558	\$ 842,624	\$ 838,160
Capital Employed – end of period				
Net Debt	\$ 347,007	\$ (89,038)	\$ 347,007	\$ (89,038)
Shareholders' equity and Non-controlling interest	1,019,982	931,662	1,019,982	931,662
	\$1,366,989	\$ 842,624	\$ 1,366,989	\$ 842,624
Average Capital Employed	\$ 1,123,057	\$ 897,042	\$ 1,123,057	\$ 897,042
Return on Capital Employed	11.2%	9.7%	11.2%	9.7%

## FINANCIAL POSITION

The following table outlines significant changes in the Consolidated Statements of Financial Position as at December 31, 2014 as compared to December 31, 2013, which are inclusive of the balances acquired from Axiip, as detailed in Note 7 to the 2014 consolidated financial statements.

(\$ Canadian millions)	Increase (Decrease)	Explanation
<b>Assets:</b>		
Cash	\$ (23.9)	Higher working capital requirements for the expanded operations including the acquired Axiip Business, and higher levels of capital spending compared to the prior year, which more than offset the increase in net cash earnings in 2014.
Accounts receivable	\$ 117.1	Higher progress billings on Engineered Systems projects in the Southern U.S. and Latin America and International segments and also the trade and unbilled receivables for the acquired Axiip Business.
Inventories	\$ 114.4	In addition to the inventories from the Axiip Business, inventories increased as a result of stocking direct materials for use in manufacturing jobs, reflecting the strong booking activity in the second half of 2014. Work-in-process was higher due to a build-up of manufacturing projects that had not yet met revenue recognition thresholds, and an increase in Service activity.
Property, plant and equipment	\$ 19.0	The increase was due to increased investment in the Company's ERP system, partially offset by the annual depreciation charge.
Rental equipment	\$ 215.2	Rental equipment increased due primarily to the acquisition of fleet equipment from the Axiip Business, together with additional fleet purchases, partially offset by a decrease in rental equipment in Canada on account of rental equipment disposals and the annual depreciation charge.
Intangibles	\$ 18.2	Increase attributable to identifiable intangible assets recognized on the Axiip purchase price allocation, partially offset by the periodic amortization of intangible assets, inclusive of the Company's ERP system in use.
Goodwill	\$ 256.7	Goodwill increased due to the Axiip purchase price allocation and the impact of foreign exchange revaluation on goodwill allocated to the Southern U.S. and Latin America, and International segments.
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 101.4	The increase was partly due to the addition of the Axiip entities in 2014. In addition, trade payables were higher resulting from inventory purchases in late 2014, and stronger results drove a higher profit share accrual compared to 2013.
Income taxes payable	\$ 10.1	The increase in the balance is driven by the higher taxes payable on current period earnings in jurisdictions where the Company does not have tax loss carry-forward balances to apply.
Deferred revenue – current	\$ 59.9	The increase in deferred revenue is driven by the timing of progress billings and revenue recognition on Engineered Systems projects. Further, progress billings issued in the fourth quarter of 2014 were higher than the prior year, consistent with the increase in bookings over the same period of 2013. The Axiip entities acquired in 2014 also contribute to the increase in deferred revenue over the prior year.
Long-term debt	\$ 412.1	The increase in long-term debt is due to drawings on credit facilities to partially fund the June 30, 2014 acquisition of the Axiip Business and ongoing working capital requirements.
Deferred tax liability	\$ 35.1	Increase is due to deferred tax liabilities assumed on the acquisition of the Axiip Business, in addition to the tax impact of the purchase price allocation.

## 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.

The Company expects that continued cash flows from operations in 2014, 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.

### Summarized Statements of Cash Flow

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Cash, beginning of period	\$ 114,107	\$ 101,990	\$ 181,973	\$ 144,988
Cash (used in) provided by:				
Operating activities	2,952	79,419	64,611	69,024
Investing activities	(7,673)	(304)	(482,212)	(12,559)
Financing activities	48,911	(110)	393,072	(20,899)
Exchange rate changes on foreign currency cash	(228)	978	625	1,419
Cash, end of period	\$ 158,069	\$ 181,973	\$ 158,069	\$ 181,973

### Operating Activities

Cash provided by operating activities totalled \$3.0 million in the fourth quarter of 2014 compared to \$79.4 million in the same period in 2013. The decrease in cash from operations was due to higher working capital requirements driven by the growth in the business and to execute on projects currently sitting in backlog. This more than offset the increased cash earnings from operations for the quarter. Cash provided by operating activities totalled \$64.6 million in 2014 compared to \$69.0 million in the same period of 2013 as higher working capital requirements more than offset the improvement in net earnings.

### Investing Activities

Cash used in investing activities totalled \$7.7 million and \$482.2 million in the fourth quarter and 2014 year, respectively, compared to \$0.3 million and \$12.6 million used in investing activities for the same period of 2013. The Axiom acquisition represented a \$460.2 million use of cash in 2014. Net investment in property, plant and equipment and rental equipment for the fourth quarter and 2014 year was \$15.9 million and \$47.6 million, respectively, compared to net investment of \$9.4 million and \$36.7 million in the same periods of 2013.

### Financing Activities

Cash provided by financing activities totalled \$48.9 million and \$393.1 million in the fourth quarter and 2014 year, compared to \$0.1 million and \$20.9 million cash used in financing activities for the same periods of 2013. In the second quarter of 2014, the Company drew proceeds of \$331.0 from its credit facility in order to partially fund the acquisition of the Axiom Business. In the fourth quarter of 2014, the company drew amounts from its credit facility for working capital purchases. In addition, cash proceeds received from stock option exercises were \$1.0 million lower in the fourth quarter of 2014 compared to 2013, but \$0.6 million higher on a year-to-date basis.

At December 31, 2014, the net debt to EBITDA ratio was 1.90:1 compared to (0.70:1) at December 31, 2013. The increase in net debt was primarily due to drawings on credit facilities, used to fund the acquisition of the Axiom Business, despite higher EBITDA for compared to 2013.

## RISK MANAGEMENT

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

### Project Execution Risk

Enerflex engineers, designs, manufactures, constructs, commissions and services hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO<sub>2</sub> processing plants, refrigeration systems, and electric power equipment serving the natural gas production industry. Some of the projects that the Company participates in have a relatively larger size and scope than the majority of its projects, which may translate into more technically challenging conditions or performance specifications for its products and services. 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 has made 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 delays, as well as project costs being in excess of cost estimates, as evidenced by recent experience in the International segment and the Alberta oil sands business. The Company has introduced formal targets around project estimating and any deviations from the originally bid project margins. These targets include recovery of costs where driven by changes in the scope originally requested by the customer.

### 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. These capital expenditures, along with those of midstream companies who service these oil and gas producers and explorers, drive the demand for Enerflex equipment. Capital expenditure decisions are based on various factors, including but not limited to demand for hydrocarbon and prices of related products, 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, and therefore capital expenditures, which may negatively impact the demand for the products and services that Enerflex offers.

The demand for oil and gas is influenced by a number of factors, including the outlook for worldwide economies, as well as the activities of the Organization of Petroleum Exporting Countries ("OPEC"). Changing political, economic or military circumstances throughout the energy producing regions of the world may impact the demand for oil and natural gas for extended periods, which in turn impacts the price of oil and natural gas. If economic conditions or international markets decline unexpectedly, the Company's business may be adversely impacted should customers decide to cancel or postpone major capital expenditures. During periods of low oil and natural gas prices, production growth could decrease which may reduce the demand for Enerflex products and services.

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.

### International Operations

Enerflex operates in many countries outside of Canada and the United States, and these operations account for a significant amount of our revenue. The Company is exposed to risks inherent in doing business in each of the countries in which it operates, including but not limited to: recessions and other economic crises that may impact the Company's cost of doing business in those countries; difficulties in staffing and managing foreign operations including logistical, security and communication challenges; changes in foreign government policies, laws, regulations and regulatory requirements, or the interpretation, application and/or enforcement thereof; difficulty or expense of enforcing contractual rights due to the lack of a developed legal system or otherwise; renegotiation or nullification of existing contracts; the adoption of new, or the expansion of existing, trade or other restrictions; difficulties, delays and expense that may be experienced or incurred in connection with the movement and clearance of personnel

and goods through the customs and immigration authorities of multiple jurisdictions; embargoes; acts of war, civil unrest, force majeure and terrorism; social, political and economic instability; expropriation of property; tax increases or changes in tax laws, legislation or regulation or in the interpretation, application and/or enforcement thereof; and limitations on the Company's ability to repatriate cash, funds or capital invested or held in jurisdictions outside Canada.

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, and subsequently through ongoing risk monitoring of changing conditions. To the extent that conditions change quickly, the Company is therefore positioned to respond appropriately.

## **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 maintains a Total Rewards approach, which includes elements of compensation, benefits, work life balance, performance and recognition, and career development.

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. Enerflex requires the development and monitoring of performance goals for most employees and recognizes long-term service to the Company. Training and career development are a constant focus, with recent efforts including customer service training for many employees.

## **Credit Risk**

A substantial portion of Enerflex's accounts receivable balances are with customers involved in the oil and natural gas industry. Many customers finance their exploration and development activities through cash flow from operations, the incurrence of debt or the issuance of equity. During times when the oil or natural gas markets weaken, customers may experience decreased cash flow from operations, a reduction in their ability to incur debt or access equity financing. Enerflex may extend credit to certain customers for products and services that it provides during its normal course of business. Enerflex monitors its credit exposure to its customers, but there can be no certainty that a credit-related loss will not materialize or have a material adverse impact on the organization. The consolidation of energy producers and the developing trend for smaller start-up exploration corporations may alter Enerflex's exposure to credit risk. The financial failure of a customer may impair the Company's ability to collect on all or a portion of the accounts receivable balance due. For the twelve months ended December 31, 2014, the Company had no individual customer which accounted for more than 10% of its revenue.

## **Bank Facility and Senior Notes**

Enerflex relies on its cash as well as the credit and capital markets to provide some of the capital required to continue operations. Enerflex relies on its Bank 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 coupon of 4.8%, due on June 22, 2016 and \$40.0 million, at a coupon of 6.0%, due on June 22, 2021. The Bank Facility is unsecured, is subject to floating rates of interest, is due on June 1, 2018 and may be renewed annually with the consent of the lenders. Significant instability or disruptions to the capital markets, including the credit markets,



may impact the Company's ability to successfully re-negotiate all or part of its credit facilities prior to its due date, and the cash available for dividends to shareholders and to fund ongoing operations could be adversely affected. As of December 31, 2014, the Company had approximately \$184 million in available borrowing base.

The Bank Facility and Note Agreement also contain a number of covenants and restrictions. The company's ability to comply with these covenants and restrictions may be affected by events beyond its control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, Enerflex's ability to comply with these covenants may be impaired. Failure to meet any of these covenants, financial ratios or financial tests could result in events of default under each agreement and impair the Company's ability to access the capital markets for financing. 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 fund its operations, meet its obligations associated with financial liabilities or declare and pay dividends.

### **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 Company identifies and hedges all significant transactional currency risks and its hedging policy is unchanged in the current year. Further information on Enerflex's hedging activities is provided in Note 27 to the consolidated financial statements.

### **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 and the Australian dollar. Most of Enerflex's international orders are manufactured in the United States 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 applies 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.

Enerflex mitigates the impact of exchange rate fluctuations by matching expected future U.S. dollar denominated cash inflows with U.S. dollar liabilities, including foreign exchange contracts, bank debt, and accounts payable, and by manufacturing U.S. dollar denominated contracts at plants located in the United States.

### **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.

For the twelve months ended December 31, 2014, a 5% depreciation in the Canadian dollar against the U.S. dollar, Australian dollar and British pound would increase other comprehensive income by \$15.5 million. A 5% depreciation of the Canadian dollar against the U.S. dollar, Australian dollar and British pound would increase net earnings before tax by \$5.1 million.

Enerflex has entered into a hedge of its exposure to investments in certain foreign subsidiaries, using foreign currency denominated debt. Exchange gains and losses on net investments in foreign subsidiaries are included in accumulated other comprehensive income ("AOCI"), along with the translation gains and losses on the debt being used to hedge the net investments. The AOCI at December 31, 2013 was \$5.7 million, which increased to \$36.8 million at December 31, 2014 as a result of changes in the value of the Canadian dollar against the U.S. dollar, Australian dollar and British pound.

### **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 electric power 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 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.

### **Distribution Agreements**

One of Enerflex's strategic assets is its purchase and distribution agreements with leading manufacturers, notably for GE's Distributed Power business and for Jenbacher and MAN engines and parts in Canada. Enerflex is the exclusive distributor for Altronic, a leading manufacturer of electric ignition and control systems in Canada. Enerflex also has relationships and agreements with other key equipment manufacturers including Finning (Caterpillar) and Ariel Corporation.

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

### **Competition**

The business in which Enerflex operates in is highly competitive and there are low barriers to entry, especially the natural gas compression services and fabrication business. 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 division, are large, multi-national companies. The Company's competitors may be able to adapt more quickly to technological changes within the industry and changes in economic and market conditions, more readily take advantage of acquisitions and other opportunities, and adopt more aggressive pricing policies. In addition, the Company could face significant competition from new entrants into the compression services and fabrication business. Some of Enerflex's existing competitors or new entrants may expand or fabricate new compression units that would create additional competition for the products, equipment or services provided to customers.

### **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. Some of the components used in our products are obtained from a single source or a limited group of suppliers. Reliance on these suppliers involves several risks, including price increases, inferior component quality and a potential inability to obtain an adequate supply of required components in a timely manner. While Enerflex has long standing relationships with these companies, it does not have long-term contracts with some of these sources, and the partial or complete loss of certain of these sources could have a negative impact on results of operations and could damage customer relationships. Further, a significant increase in the price of one or more of these components could have a negative impact on results of operations.

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.

### **Cyber Attacks or Terrorism**

Enerflex may be threatened by problems such as cyber-attacks, computer viruses or terrorism that may disrupt operations and harm operating results. The industry requires the continued operation of sophisticated information technology systems and network infrastructure. Despite the implementation of security measures, technology systems are vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism and other causes. If Enerflex's information technology systems were to fail and it was unable to recover in a timely way, the Company might be unable to fulfill critical business functions, which could have a material adverse effect on the business, financial condition and results of operations.

In addition, the Company's assets may be targets of terrorist activities that could disrupt Enerflex's ability to service its customers. The Company may be required by regulators or by the future terrorist threat environment to make investments in security that cannot be predicted. The implementation of security guidelines and measures and maintenance of insurance, to the extent available, addressing such activities could increase costs. These types of events could materially adversely affect the Company's business and results of operations.

Enerflex uses the services of a third party specialist to monitor the threat of cyber attacks and has up-to-date tools in place to minimize the possibility of computer viruses disrupting operations. Enerflex monitors terrorism threats to its operations globally, and when entering new countries, is careful to assess initially and on an ongoing basis, potentially changing conditions.

### **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<sub>2</sub> and other greenhouse 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 a major source 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.

### **Liability Claims**

Enerflex's operations entail inherent risks, including equipment defects, malfunctions and failures and natural disasters, which could result in uncontrollable flows of natural gas or well fluids, fires and explosions. These risks may expose the Company 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 incidents, the Company could face litigation and may be held liable for those losses. The Company may not be able to adequately protect itself contractually and insurance coverage may not be available or adequate in risk coverage or policy limits to cover all losses or liabilities that it may incur. Moreover, the Company may not be able in the future to maintain insurance at levels of risk coverage or policy limits that management deems adequate. Any claims made under the Company's policies likely will cause its premiums to increase. Any future damages deemed to be caused by the Company's products or services that are not covered by insurance, or that are in excess of policy limits or subject to substantial deductibles, could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

## **Insurance**

The aforementioned inherent risks, to which Enerflex's operations are subject, could expose Enerflex to substantial liability for personal injury, loss of life, business interruption, property damage, pollution and other liabilities. Enerflex carries insurance to protect the Company against these unforeseen events, subject to appropriate deductibles and the availability of coverage. Executive liability insurance coverage is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. Extreme weather conditions, natural occurrences and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage.

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

## **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 non-compliance, 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 give rise to tax liabilities resulting from the 2011 Plan of Arrangement with Toromont Industries Limited ("Toromont"), which would require the Company to indemnify Toromont for the resulting tax.

## **Interest Rate Risk**

The Company's liabilities include long-term debt that may be subject to fluctuations in interest rates. The Company's Notes outstanding at December 31, 2014 are at fixed interest rates and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facility however, are subject to changes in market interest rates. The Company has entered into an interest rate swap to hedge a portion of the risk to which it is exposed, and to partially match the anticipated repayment of the borrowings. For each 1% change in the rate of interest on the remaining Bank Facility, the change in interest expense for the twelve months ended December 31, 2014 would be \$2.1 million. All interest charges are recorded in finance costs on the consolidated statements of earnings in finance costs.

## **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 45 days and will be satisfied from current working capital. Liquidity risk is managed through the use of credit facilities, with the Company having access to \$184.2 million for future drawings.

## CAPITAL RESOURCES

On January 31, 2015, Enerflex had 78,639,526 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. During the fourth quarter of 2014, the Company declared an increase to its quarterly dividend to \$0.085 per share, the third annual increase in the Company's dividend to shareholders since re-emerging as a publicly-traded entity in June 2011 and its fifteenth consecutive dividend.

During the second quarter of 2014, the Company's syndicated revolving credit facilities ("Bank Facility") were amended to increase the amount available under the facility from \$345.0 million to \$675.0 million. In addition, the maturity date of the Bank Facility was extended by one-year to June 30, 2018.

At December 31, 2014, the Company had drawn \$420.0 million against the Bank Facility (December 31, 2013 – \$5.0 million). The weighted average interest rate on the Bank Facility at December 31, 2014 was 2.3% (December 31, 2013 – 3.1%).

The composition of the borrowings on the Bank Facility and the Notes was as follows:

(\$ Canadian thousands)	December 31, 2014	December 31, 2013
Drawings on Bank Facility	\$ 419,968	\$ 5,000
Notes due June 22, 2016	50,500	50,500
Notes due June 22, 2021	40,000	40,000
Deferred transaction costs	(5,392)	(2,565)
	<b>\$ 505,076</b>	<b>\$ 92,935</b>

At December 31, 2014, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are \$470.5 million and \$40.0 million thereafter.

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

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

(\$ thousands)	Payments due by period				Total
Contractual Obligations	2015	2016-2017	2018-2019	Thereafter	
Leases	\$ 16,927	\$ 27,571	\$ 16,048	\$ 10,299	\$ 70,845
Purchase obligations	26,619	2,041	–	–	28,660
Total	\$ 43,546	\$ 29,612	\$ 16,048	\$ 10,299	\$ 99,505

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 have 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% equity investment, the Company's 51% joint venture interest in Enerflex-ES and the Company's 50% joint venture interest in Geogas.

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 is as follows:

December 31,	2014	2013
<b>Associate – Total</b>		
Revenue	\$ 8,343	\$ 7,107
Purchases	–	14
Accounts Receivable	1,215	157
<b>Joint Venture – Enerflex-ES</b>		
Revenue	\$ –	\$ 102
Purchases	–	–
Accounts Receivable	–	–
<b>Consortium – Geogas</b>		
Revenue	\$ –	\$ –
Purchases	11	–
Accounts Receivable	–	–

## SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2014. The preparation of financial statements in conformity with GAAP 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 and Service Contracts

The Company reflects revenues generated from the assembly and manufacture of projects long-term service contracts using the percentage-of-completion approach of accounting. 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 the probability of collection of amounts from customers.

#### **Impairment of Inventories**

The Company regularly reviews the nature and quantities of inventories on hand and evaluates the net realizable value of inventories 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 impairment recognized.

#### **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.

#### **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 Note 22 to the annual consolidated financial statements.

## Discontinued Operations

The Company applies judgment in determining whether the results of operations associated with the assets should be recorded in discontinued operations on the consolidated statements of earnings.

## NEW ACCOUNTING POLICIES

During the year, the Company adopted the following accounting policies:

### IFRS 3 Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition costs incurred are expensed and included in selling and administrative expenses, except for those associated with the issuance of debt, which are included in the initial carrying amount of the liability.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

### IAS 32 Offsetting Financial Assets and Financial Liabilities ("IAS 32")

The amendments to IAS 32 provide clarification on the application of the offsetting rules. The amendments have been adopted effective January 1, 2014. There were no changes to the consolidated financial statements as a result of the adoption.

## FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 9 *Financial Instruments* 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 new standard will be effective for annual periods beginning on or after January 1, 2018.

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.

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. Application of the standard is mandatory and early adoption is permitted.

The Company has not yet determined the impact of the above Standards on the Company's financial statements.

## RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying Interim Condensed 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 Interim Condensed 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").

## 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, 2014, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. 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, 2014, 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, 2014, 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 ICFR during the twelve month period ended December 31, 2014 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

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.

Management has limited the scope of the design of DC&P and ICFR to exclude the controls, policies and procedures of the Axiom Business acquired in 2014, the income statement and balance sheet of which is included in the December 31, 2014 audited consolidated financial statements of Enerflex. The scope limitation is in accordance with Section 3.3 of National Instrument 52-109, which allows an issuer to limit its design of ICFR and DC&P to exclude the controls, policies and procedures of a company acquired not more than 365 days before the end of the financial period to which the certificate relates. Enerflex intends to complete the design of DC&P and ICFR of the acquired Axiom operations by June 30, 2015. The table below shows a summary of the financial information for the acquired Axiom Business:

For the six months ended December 31, 2014

(\$ Canadian millions)

Revenue	\$	118.9
EBIT		23.0

As at December 31, 2014:

(\$ Canadian millions)

		Axiom
Current assets	\$	64.4
Non-current assets		507.7
Current liabilities		40.3
Non-current liabilities		48.8
Non-controlling interest		3.5

## SUBSEQUENT EVENTS

Subsequent to December 31, 2014, the Company announced a quarterly dividend of \$0.085 per share, payable on April 9, 2015, to shareholders of record on March 11, 2015.

# 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

February 26, 2015

[signed] "D. James Harbilas"

**D. James Harbilas**

Executive Vice President and Chief Financial Officer



# 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, 2014 and 2013 and the consolidated statements of earnings, 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

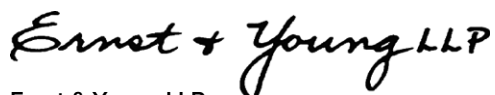
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

### Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Enerflex Ltd. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The signature of Ernst & Young LLP is written in a stylized, cursive script.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada

February 26, 2015

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2014	December 31, 2013
(\$ Canadian thousands)		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 158,069	\$ 181,973
Accounts receivable (Note 9)	448,228	331,170
Inventories (Note 10)	280,393	166,023
Income taxes receivable	2,118	320
Derivative financial instruments (Note 27)	416	358
Other current assets	9,557	9,368
Total current assets	898,781	689,212
Property, plant and equipment (Note 11)	152,898	133,933
Rental equipment (Note 11)	290,577	75,336
Deferred tax assets (Note 19)	34,086	31,999
Other assets (Note 12)	18,629	10,463
Intangible assets (Note 13)	42,104	23,922
Goodwill (Note 14)	707,913	451,214
Total assets	\$ 2,144,988	\$ 1,416,079
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 15)	\$ 257,864	\$ 156,484
Provisions (Note 16)	24,177	15,148
Income taxes payable	12,318	2,241
Deferred revenues	269,197	209,268
Derivative financial instruments (Note 27)	1,678	1,518
Total current liabilities	565,234	384,659
Long-term debt (Note 17)	505,076	92,935
Deferred revenues	6,004	–
Decommissioning liabilities	5,044	–
Deferred tax liabilities (Note 19)	35,068	–
Other liabilities	8,580	6,823
Total liabilities	\$ 1,125,006	\$ 484,417
Shareholders' equity		
Share capital (Note 20)	229,534	220,901
Contributed surplus (Note 21)	653,624	654,538
Retained earnings	96,503	50,476
Accumulated other comprehensive income	36,819	5,747
Total shareholders' equity before non-controlling interest	1,016,480	931,662
Non-controlling interest	3,502	–
Total shareholders' equity and non-controlling interest	1,019,982	931,662
Total liabilities and shareholders' equity	\$ 2,144,988	\$ 1,416,079

See accompanying Notes to the Consolidated Financial Statements, including guarantees, commitments and contingencies (Note 18).

## CONSOLIDATED STATEMENTS OF EARNINGS

(\$ Canadian thousands, except per share amounts)	Years ended December 31,	
	2014	2013
Revenue (Note 22)	<b>\$ 1,780,730</b>	\$ 1,405,022
Cost of goods sold	<b>1,457,780</b>	1,159,117
Gross margin	<b>322,950</b>	245,905
Selling and administrative expenses	<b>206,663</b>	163,875
Operating income	<b>116,287</b>	82,030
Loss (gain) on disposal of property, plant and equipment	<b>62</b>	(79)
Equity earnings from associates and joint ventures	<b>(9,509)</b>	(5,232)
Earnings before finance costs and income taxes	<b>125,734</b>	87,341
Net finance costs (Note 25)	<b>9,771</b>	5,518
Earnings before income taxes	<b>115,963</b>	81,823
Income taxes (Note 19)	<b>44,745</b>	24,105
Net earnings from continuing operations	<b>\$ 71,218</b>	\$ 57,718
Loss from discontinued operations (Note 8)	<b>–</b>	(1,852)
Net earnings	<b>\$ 71,218</b>	\$ 55,866
Net earnings attributable to:		
Controlling interest	<b>\$ 70,349</b>	\$ 55,866
Non-controlling interest	<b>869</b>	–
	<b>\$ 71,218</b>	\$ 55,866
Earnings (loss) per share – basic (Note 26)		
Continuing operations	<b>\$ 0.91</b>	\$ 0.74
Discontinued operations	<b>\$ –</b>	\$ (0.02)
Earnings (loss) per share – diluted (Note 26)		
Continuing operations	<b>\$ 0.90</b>	\$ 0.73
Discontinued operations	<b>\$ –</b>	\$ (0.02)
Weighted average number of shares – basic	<b>78,454,329</b>	77,923,314
Weighted average number of shares – diluted	<b>79,142,515</b>	78,243,929

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ Canadian thousands)	Years ended December 31,	
	2014	2013
Net earnings	\$ 71,218	\$ 55,866
Other comprehensive income:		
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:		
Change in fair value of derivatives designated as cash flow hedges, net of income tax recovery (2014: \$(585); 2013: \$(649))	(1,813)	(2,949)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense (2014: \$542; 2013: \$63)	1,423	283
Unrealized loss on translation of foreign denominated debt	(27,696)	–
Unrealized gain on translation of financial statements of foreign operations	58,789	7,314
Other comprehensive income	\$ 30,703	\$ 4,648
Total comprehensive income	\$ 101,921	\$ 60,514
Other comprehensive income attributable to:		
Controlling interest	\$ 31,072	\$ 4,648
Non-controlling interest	(369)	–
	\$ 30,703	\$ 4,648

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ Canadian thousands)	Years ended December 31,	
	2014	2013
<b>Operating Activities</b>		
Net earnings	\$ 71,218	\$ 55,866
Items not requiring cash and cash equivalents:		
Depreciation and amortization	56,799	39,595
Equity earnings from associates and joint ventures	(9,509)	(5,232)
Deferred income taxes (Note 19)	(1,204)	849
Share-based compensation expense (Note 23)	8,298	6,954
Loss (gain) on sale of property, plant and equipment	62	(79)
	125,664	97,953
Net change in non-cash working capital and other (Note 29)	(61,053)	(28,929)
Cash provided by operating activities	\$ 64,611	\$ 69,024
<b>Investing Activities</b>		
Acquisition (Note 7)	\$ (460,169)	\$ –
Additions to:		
Property, plant and equipment (Note 11)	(29,338)	(22,771)
Rental equipment (Note 11)	(18,277)	(13,888)
Proceeds on disposal of:		
Property, plant and equipment	298	619
Rental equipment	14,916	18,675
Change in other assets	10,358	4,806
Cash used in investing activities	\$ (482,212)	\$ (12,559)
<b>Financing Activities</b>		
Proceeds from (repayment of) long-term debt	\$ 410,822	\$ (4,287)
Dividends	(23,499)	(21,798)
Stock option exercises	5,749	5,186
Cash provided by (used in) financing activities	\$ 393,072	\$ (20,899)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	\$ 625	\$ 1,419
(Decrease) increase in cash and cash equivalents	(23,904)	36,985
Cash and cash equivalents, beginning of year	181,973	144,988
Cash and cash equivalents, end of year	\$ 158,069	\$ 181,973

See accompanying Notes to the Consolidated Financial Statements.



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Total accumulated other comprehensive income	Total shareholder's equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2013	\$ 212,875	\$ 655,879	\$ 16,826	\$ (11)	\$ 1,110	\$ 1,099	\$ 886,679	\$ –	\$ 886,679
Net earnings	–	–	55,866	–	–	–	55,866	–	55,866
Other comprehensive income (loss)	–	–	–	7,314	(2,666)	4,648	4,648	–	4,648
Effect of stock option plans	8,026	(1,341)	–	–	–	–	6,685	–	6,685
Dividends	–	–	(22,216)	–	–	–	(22,216)	–	(22,216)
At December 31, 2013	\$ 220,901	\$ 654,538	\$ 50,476	\$ 7,303	\$ (1,556)	\$ 5,747	\$ 931,662	\$ –	\$ 931,662
Net earnings	–	–	70,349	–	–	–	70,349	869	71,218
Non-controlling interest acquired	–	–	–	–	–	–	–	3,002	3,002
Other comprehensive income (loss)	–	–	–	31,462	(390)	31,072	31,072	(369)	30,703
Effect of stock option plans	8,633	(914)	–	–	–	–	7,719	–	7,719
Dividends	–	–	(24,322)	–	–	–	(24,322)	–	(24,322)
At December 31, 2014	\$ 229,534	\$ 653,624	\$ 96,503	\$ 38,765	\$ (1,946)	\$ 36,819	\$ 1,016,480	\$ 3,502	\$ 1,019,982

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") is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems and electric power 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<sub>2</sub> processing plants, refrigeration systems and electric power equipment serving the natural gas production industry.

Headquartered in Calgary, the registered office is located at 904, 1331 Macleod Trail SE, Calgary, Canada. Enerflex has approximately 3,500 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint-ventures, operate in Canada, the United States, Argentina, Brazil, Colombia, Mexico, Peru, Australia, the United Kingdom, Russia, the United Arab Emirates ("UAE"), Oman, Bahrain, Indonesia, Malaysia, Singapore and Thailand. Enerflex operates three business segments: Canada and Northern U.S., Southern U.S. and Latin America and International.

The following table represents material subsidiaries of the Company:

Name	Jurisdiction of Incorporation	Ownership	Operating Segment
Enerflex Ltd.	Canada	Public Shareholders	Canada and Northern U.S.
Enerflex Inc.	Delaware, U.S.	100.0 percent	Southern U.S. and Latin America
Gas Drive Global LP	Alberta, Canada	100.0 percent	Canada and Northern U.S.
Enerflex Energy Systems PTY Ltd.	Melbourne, Australia	100.0 percent	International

## NOTE 2. BASIS OF PRESENTATION

### (a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and were approved and authorized for issue by the Board of Directors on February 26, 2015. 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 and Note 4 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 6.

### (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 5.

### **(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.

As part of the acquisition of the Axiom Business, the Company acquired control over a joint venture in Brazil ("Geogas"), where its ownership interest is 50 percent. Under *IFRS 10 Consolidated Financial Statements*, the Company has determined that it has control of the arrangement as it controls the operating committee based on voting rights. As a result, the Company fully consolidates the arrangement and has recorded a non-controlling interest in equity and net earnings.

## **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. 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 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. 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**

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 with the exception of exchange differences arising on monetary assets and liabilities that form part of the Company's net investment in subsidiaries. These are taken directly to other comprehensive income until the disposal of the foreign subsidiary at which time the unrealized gain or loss is recognized in the consolidated statement of earnings.

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 reporting date. The consolidated statements of earnings 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 income.

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

### **(c) IFRS 3 Business Combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition costs incurred are expensed and included in selling and administrative expenses, except for those associated with the issuance of debt, which are included in the initial carrying amount of the liability.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

#### **(d) Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. 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 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 year end.

#### **(e) Rental Equipment**

Rental equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. 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 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 annually, or when there is an indication that a related group of CGUs may be impaired. 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. 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. 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 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 their estimated useful lives. Customer relationships, software and other intangible assets have an estimated useful life range of 3 to 8 years.

#### **(h) Impairment of Non-Financial Assets (Excluding Goodwill)**

At least annually, 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.

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.

#### **(i) Inventories**

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

Cost of equipment, repair and distribution parts and direct materials includes 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 includes 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 original invoice amount less an allowance for any amounts estimated to be uncollectible. An allowance for doubtful accounts is recorded when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Trade receivables 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) Decommissioning Liabilities**

The fair value of future obligations for property abandonment, site restoration and subsequent monitoring is recognized as a decommissioning liability on the consolidated statement of financial position with a corresponding increase to the carrying amount of the rental asset. The recorded liability increases over time to its future amount through accretion charges to net earnings.



Revisions to the estimated amount or timing of the obligations are reflected prospectively as increases or decreases to the recorded liability and the rental asset. Actual decommissioning expenditures, up to the recorded liability at the time, are charged against the liability as the costs are incurred. Amounts capitalized to the rental assets are amortized to net earnings consistent with the depreciation of the underlying assets.

#### **(n) 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.

#### **(o) 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.

#### **(p) Share-Based Payments**

##### **Equity-Settled Share-Based Payments**

The Company offers a Stock Option Plan to certain directors and key employees, measured at the fair value of the equity instrument at the grant date. In 2012, the Board of Directors ceased granting options to non-employee directors. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 23 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 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 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.

The Company also offers a Phantom Share Appreciation Rights Plan ("SAR") to certain employees 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. The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

#### **(q) 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.

The Company recognizes selling profit or loss in the period for outright sales relating to manufacturer type leases. Amounts due from 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**

The Company does not hold any assets under finance lease. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

### **(r) Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, and is reduced for discounts, rebates, sales taxes and duties. 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, revenue is recognized when the part is shipped to the customer. For servicing of equipment, revenue is recognized on a straight-line basis determined based on performance of the contracted upon service;
- Revenue from long-term service contracts is 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 expected losses on such projects are charged to operations when determined; and
- Revenue from equipment rentals is 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 in the consolidated statement of earnings.

### **(s) Construction Contracts**

Revenue from the supply of equipment systems involving design, manufacture, installation and start-up is accounted for as a construction contract. 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.

### **(t) 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.

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); and

- 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;
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest rate method; and
- Accounts payable, accrued liabilities and long-term debt 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 using the effective interest rate method.

#### **(u) 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 and interest rates. The risk management policy permits the use of certain derivative financial instruments, including forward foreign exchange contracts and interest rate swaps, to manage these fluctuations. The Company does not enter into derivative financial agreements for speculative purposes.

Derivative financial instruments 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 designated as cash flow hedges. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of taxes. The ineffective portion of the fair value changes is recognized in the consolidated statement of earnings. Amounts charged to accumulated other comprehensive income are reclassified to the consolidated statement of earnings when the hedged transaction affects the consolidated statement of earnings.

The Company's US dollar-denominated long-term debt has been designated as a hedge of net investment in self-sustaining foreign operations. As a result, unrealized foreign exchange gains and losses on the US dollar-denominated long-term debt are included in the cumulative translation account in other comprehensive income.

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.

#### **(v) 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 consolidated statement of earnings because it excludes temporary and permanent differences. 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.

#### **(w) Discontinued Operations**

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

#### **(x) 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 equity share-based compensation plan.

#### **(y) Finance Costs and Income**

Finance income comprises interest income on funds invested and finance income from leases. Finance 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. CHANGES IN ACCOUNTING POLICIES**

#### **(a) IAS 32 Offsetting Financial Assets and Financial Liabilities ("IAS 32")**

The amendments to IAS 32 provide clarification on the application of the offsetting rules. The amendments have been adopted effective January 1, 2014. There were no changes to the consolidated financial statements as a result of the adoption.

#### **(b) Amendments to IFRS 7 Financial Instruments: Disclosures ("IFRS 7")**

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 have been adopted effective January 1, 2014. There were no changes to the consolidated financial statements as a result of the adoption.

### **NOTE 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENT**

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. 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.

Uncertainty about these assumptions and estimates could however 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 – Construction and Long-Term Service Contracts***

The Company reflects revenues generated from the assembly and manufacture of projects and long-term service contracts using the percentage-of-completion approach of accounting. 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.

***Business Acquisitions***

In a business acquisition, the Company may acquire assets and assume certain liabilities of an acquired entity. Estimates are made as to the fair value of property, plant and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant and equipment and intangible assets acquired, the Company relies on independent third-party valuers. The determination of these fair values involves a variety of assumptions, including revenue growth rates, projected cash flows, discount rates, and earnings multiples.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and any 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 an annual 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 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 constitute a change in accounting estimate and are applied prospectively.

***Allowance for Doubtful Accounts***

An allowance for doubtful accounts is recorded 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 Inventories***

The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of 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 impairment recognized.

***Impairment of Non-Financial Assets***

Impairment exists when the carrying value of an asset or group of assets 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 use judgment to determine a suitable discount rate to calculate the present value of those cash flows.



### ***Impairment of Goodwill***

The Company tests goodwill for impairment 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 use judgment 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 taxable income. 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.

### ***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 described in Note 23.

### ***Discontinued Operations***

The Company applies judgment in determining whether the results of operations associated with the assets should be recorded in discontinued operations on the consolidated statements of earnings.

## **NOTE 6. 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 9 Financial Instruments ("IFRS 9")**

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 new standard will be effective for annual periods beginning on or after January 1, 2018.

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.

### **IFRS 15 Revenue from Contracts with Customers ("IFRS 15")**

IFRS 15 specifies how and when to recognize revenue, and introduces more informative, relevant disclosures. The standard supersedes *IAS 18 Revenue*, *IAS 11 Construction Contracts*, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. Application of the standard is mandatory and early adoption is permitted.

The Company has not yet determined the impact of the above standards on the Company's consolidated financial statements.

## NOTE 7. ACQUISITION

On June 30, 2014, Enerflex completed the acquisition of the international contract compression and processing, as well as the after-market services business of Azip Energy Services, LP (“Azip”) for approximately USD \$431.0 million (CAD \$460.2 million), including closing purchase price adjustments. Azip’s international contract compression, processing and after-market service business is a leading provider of global energy services. Headquartered in Houston, Texas, Azip had 173 employees with operations in Argentina, Brazil, Colombia, Mexico, Peru, Indonesia, Malaysia, Thailand and Bahrain. Azip’s energy infrastructure assets include a 448 unit compression fleet totaling approximately 285,000 hp and gas treating facilities in Mexico, Argentina and Peru. All members of the current Azip international senior management team have stayed with the business. The acquisition did not include Azip’s U.S. assets. The purchase of Azip was funded by \$128.0 million from cash-on-hand with the remaining balance funded by drawing on the Company’s credit facilities, as discussed in Note 17.

The fair value of the identifiable assets acquired and liabilities assumed as at June 30, 2014 were as follows:

Cash	\$ 7,080
Accounts receivable	46,912
Inventory	14,092
Property, plant and equipment	1,243
Rental equipment	221,836
Intangible assets	28,326
Accounts payable and accrued liabilities	(45,075)
Deferred revenue	(18,341)
Deferred tax liabilities	(37,358)
Other assets and liabilities	14,518
Non-controlling interest acquired	(3,002)
Total identifiable net assets	\$ 230,231
Excess consideration paid over identifiable net assets acquired allocated to goodwill	\$ 229,938

The fair value of the identifiable net assets and goodwill acquired effective June 30, 2014 was determined provisionally. The preliminary fair value of the rental assets was reduced by \$19.4 million to reflect the recoverability of certain assets under rental contract based on information regarding the renewability of those contracts, confirmed subsequent to the acquisition date.

Goodwill of \$229.9 million was recognized as the excess of the acquisition cost over the fair value of the identifiable net assets at the date of the acquisition. The goodwill recognized is attributable mainly to the expected future growth potential of the international contract compression and processing, and after-market services business, and the customer base of the acquired operations. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition costs relating to external legal, consulting, due diligence, financial advisory and other closing costs for the year were \$9.1 million and have been included in selling and administrative expenses in the Company’s consolidated statements of earnings.

Revenues and earnings before interest and taxes (“EBIT”) for the acquired business for the year ended December 31, 2014 were \$118.9 million and \$23.0 million, respectively. Revenue would have been approximately \$70.5 million higher and EBIT would have been approximately \$12.8 million higher if the business was acquired on January 1, 2014.

## NOTE 8. DISCONTINUED OPERATIONS

The European Service and Combined Heat and Power business has been reported as a discontinued operation since the third quarter of 2011. In the second quarter of 2013, Enerflex completed the sale of the European business. As part of the arrangement, Enerflex transferred specified maintenance contracts, and certain obligations associated with the contracts and employees. The resolution of uncertainties that arise from the terms of the disposal transaction, or from performance obligations existing prior to the sale, did not have an impact on net earnings in 2014.

The following table summarizes the revenue and loss from discontinued operations:

Years ended December 31,	2014	2013
Revenue	\$ –	\$ 10,229
Loss from operations	\$ –	\$ (1,852)

The following table summarizes cash from discontinued operations:

Years ended December 31,	2014	2013
Cash provided by operating activities	\$ –	\$ 268
Cash provided by investing activities	\$ –	\$ 590

## NOTE 9. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

December 31,	2014	2013
Trade receivables	\$ 320,933	\$ 232,992
Less: allowance for doubtful accounts	(1,573)	(1,093)
Trade receivables, net	319,360	231,899
Other receivables <sup>1</sup>	128,868	99,271
Total accounts receivable	\$ 448,228	\$ 331,170

<sup>1</sup> Included in Other receivables at December 31, 2014 is \$82.7 million relating to amounts due from customers under construction contracts (December 31, 2013 – \$87.8 million).

Aging of trade receivables:

December 31,	2014	2013
Current to 90 days	\$ 296,567	\$ 214,256
Over 90 days	24,366	18,736
	\$ 320,933	\$ 232,992

Movement in allowance for doubtful accounts:

December 31,	2014	2013
Balance, beginning of year	\$ 1,093	\$ 1,369
Impairment provision additions (reversals) on receivables	528	(402)
Amounts written off during the year as uncollectible	(181)	–
Currency translation effects	133	126
Balance, end of year	\$ 1,573	\$ 1,093

## NOTE 10. INVENTORIES

Inventories consisted of the following:

December 31,	2014	2013
Equipment	\$ 10,398	\$ 10,536
Repair and distribution parts	67,819	48,894
Direct materials	59,649	26,358
Work-in-process	142,527	80,235
Total inventories	\$ 280,393	\$ 166,023

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold during 2014 was \$1,457.8 million (December 31, 2013 – \$1,159.1 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 and included in cost of goods sold in 2014 was \$2.5 million (December 31, 2013 – \$1.6 million).

## NOTE 11. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment
<b>Cost</b>						
<b>January 1, 2014</b>	\$ 32,152	\$ 110,278	\$ 55,521	\$ 5,967	\$ 203,918	\$ 119,975
Business Combinations	–	–	1,243	–	1,243	221,836
Additions	–	66	1,817	27,455	29,338	18,277
Reclassification	1,654	7,896	11,722	(17,285)	3,987	–
Disposals	–	(103)	(6,147)	–	(6,250)	(23,817)
Currency translation effects	1,174	5,838	1,892	314	9,218	18,567
<b>December 31, 2014</b>	<b>\$ 34,980</b>	<b>\$ 123,975</b>	<b>\$ 66,048</b>	<b>\$ 16,451</b>	<b>\$ 241,454</b>	<b>\$ 354,838</b>
<b>Accumulated depreciation</b>						
<b>January 1, 2014</b>	\$ –	\$ (32,459)	\$ (37,526)	\$ –	\$ (69,985)	\$ (44,639)
Depreciation charge	–	(6,523)	(8,005)	–	(14,528)	(26,389)
Reclassification	–	(3,363)	(3,793)	–	(7,156)	–
Disposals	–	101	5,939	–	6,040	8,751
Currency translation effects	–	(1,625)	(1,302)	–	(2,927)	(1,984)
<b>December 31, 2014</b>	<b>\$ –</b>	<b>\$ (43,869)</b>	<b>\$ (44,687)</b>	<b>\$ –</b>	<b>\$ (88,556)</b>	<b>\$ (64,261)</b>
<b>Net book value – December 31, 2014</b>	<b>\$ 34,980</b>	<b>\$ 80,106</b>	<b>\$ 21,361</b>	<b>\$ 16,451</b>	<b>\$ 152,898</b>	<b>\$ 290,577</b>
	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment
<b>Cost</b>						
<b>January 1, 2013</b>	\$ 26,002	\$ 104,744	\$ 56,409	\$ 3,123	\$ 190,278	\$ 130,883
Additions	5,536	56	2,101	15,078	22,771	13,888
Reclassification	–	2,104	2,843	(12,279)	(7,332)	–
Disposals	–	(312)	(6,654)	–	(6,966)	(27,114)
Currency translation effects	614	3,686	822	45	5,167	2,318
<b>December 31, 2013</b>	<b>\$ 32,152</b>	<b>\$ 110,278</b>	<b>\$ 55,521</b>	<b>\$ 5,967</b>	<b>\$ 203,918</b>	<b>\$ 119,975</b>
<b>Accumulated depreciation January 1, 2013</b>						
<b>January 1, 2013</b>	\$ –	\$ (26,047)	\$ (34,848)	\$ –	\$ (60,895)	\$ (39,766)
Depreciation charge	–	(6,284)	(7,896)	–	(14,180)	(12,586)
Reclassification	–	556	169	–	725	–
Disposals	–	181	5,763	–	5,944	8,440
Currency translation effects	–	(865)	(714)	–	(1,579)	(727)
<b>December 31, 2013</b>	<b>\$ –</b>	<b>\$ (32,459)</b>	<b>\$ (37,526)</b>	<b>\$ –</b>	<b>\$ (69,985)</b>	<b>\$ (44,639)</b>
<b>Net book value – December 31, 2013</b>	<b>\$ 32,152</b>	<b>\$ 77,819</b>	<b>\$ 17,995</b>	<b>\$ 5,967</b>	<b>\$ 133,933</b>	<b>\$ 75,336</b>

Depreciation of property, plant and equipment and rental equipment included in net earnings for the year ended December 31, 2014 was \$40.9 million (December 31, 2013 – \$26.8 million) of which \$32.8 million was included in cost of goods sold and \$8.1 million was included in selling and administrative expenses (December 31, 2013 – \$18.4 million and \$8.4 million, respectively).

## NOTE 12. OTHER ASSETS

December 31,	2014	2013
Investment in associates and joint ventures	\$ 15,963	\$ 8,388
Other prepaid deposits	2,185	–
Net investment in finance leases	481	2,075
	<b>\$ 18,629</b>	<b>\$ 10,463</b>

### (a) Net Investment in Finance Leases

The Company entered into finance lease arrangements for certain of its rental assets. Leases are denominated in Canadian dollars. The terms of the leases entered into range from 3 to 5 years.

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

December 31,	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	2014	2013
Less than one year	\$ 379	\$ 1,338	\$ 371	\$ 1,284
Between one and five years	481	2,075	448	1,826
	<b>\$ 860</b>	<b>\$ 3,413</b>	<b>\$ 819</b>	<b>\$ 3,110</b>
Less: unearned finance income	(41)	(303)	–	–
	<b>\$ 819</b>	<b>\$ 3,110</b>	<b>\$ 819</b>	<b>\$ 3,110</b>

The average interest rates inherent in the leases are fixed at the contract date for the entire lease term and are approximately 3.9 percent per annum (December 31, 2013 – 7.8 percent). The finance lease receivables at the end of the reporting period are neither past due nor impaired.

## NOTE 13. INTANGIBLE ASSETS

	Customer relationships and other	Software	Total intangible assets
<b>Acquired value</b>			
<b>January 1, 2014</b>	\$ 32,069	\$ 31,869	\$ 63,938
Acquisition	28,326	–	28,326
Additions	–	188	188
Reclassification	–	1,592	1,592
Currency translation effects	2,072	569	2,641
<b>December 31, 2014</b>	<b>\$ 62,467</b>	<b>\$ 34,218</b>	<b>\$ 96,685</b>
<b>Accumulated amortization</b>			
<b>January 1, 2014</b>	\$ (24,871)	\$ (15,145)	\$ (40,016)
Amortization charge	(8,690)	(5,676)	(14,366)
Currency translation effects	–	(199)	(199)
<b>December 31, 2014</b>	<b>\$ (33,561)</b>	<b>\$ (21,020)</b>	<b>\$ (54,581)</b>
<b>Net book value – December 31, 2014</b>	<b>\$ 28,906</b>	<b>\$ 13,198</b>	<b>\$ 42,104</b>



	Customer relationships and other	Software	Total intangible assets
<b>Acquired value</b>			
<b>January 1, 2013</b>	\$ 35,769	\$ 25,189	\$ 60,958
Additions	–	51	51
Reclassification	–	6,607	6,607
Disposals	(3,700)	–	(3,700)
Currency translation effects	–	22	22
<b>December 31, 2013</b>	<b>\$ 32,069</b>	<b>\$ 31,869</b>	<b>\$ 63,938</b>
<b>Accumulated amortization</b>			
<b>January 1, 2013</b>	\$ (21,548)	\$ (10,273)	\$ (31,821)
Amortization charge	(7,023)	(5,052)	(12,075)
Disposals	3,700	–	3,700
Currency translation effects	–	180	180
<b>December 31, 2013</b>	<b>\$ (24,871)</b>	<b>\$ (15,145)</b>	<b>\$ (40,016)</b>
<b>Net book value – December 31, 2013</b>	<b>\$ 7,198</b>	<b>\$ 16,724</b>	<b>\$ 23,922</b>

## NOTE 14. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

	2014	2013
Balance, January 1	\$ 451,214	\$ 457,208
Acquisition	229,938	–
Currency translation effects	26,761	(5,994)
Balance, December 31	<b>\$ 707,913</b>	<b>\$ 451,214</b>

Goodwill acquired through business combinations has been allocated to the Canada and Northern U.S., Southern U.S. and Latin America and International business segments, and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. For the year ended December 31, 2014 goodwill was not impaired.

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 as at December 31, 2014. 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, extrapolated over a four-year period at a growth rate of 2.0 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 average impact on the value-in-use of the Company's three segments would be \$5.9 million; and
- Discount Rate: Management has used an average pre-tax discount rate of 9.4 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, the Company's cost of debt, and the tax rate in the local jurisdiction. For each 1 percent change in the discount rate, the average impact on the value-in-use of the Company's three segments would be \$83.3 million.

The 1 percent change in earnings before finance costs and taxes, as well as the 1 percent change in discount rate would not trigger an impairment.

## NOTE 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31,	2014	2013
Accounts payable and accrued liabilities	\$ 246,925	\$ 149,214
Accrued dividend payable	6,677	5,854
Cash-settled share-based payments	4,262	1,416
	<b>\$ 257,864</b>	<b>\$ 156,484</b>

## NOTE 16. PROVISIONS

December 31,	2014	2013
Warranty provision	\$ 19,392	\$ 14,645
Restructuring provision	4,275	–
Legal provision	510	503
	<b>\$ 24,177</b>	<b>\$ 15,148</b>

2014	Warranty provision	Legal provision	Restructuring Provision	Total
Balance, January 1	\$ 14,645	\$ 503	\$ –	\$ 15,148
Additions during the year	23,620	156	4,275	28,051
Amounts settled and released in the year	(20,020)	(150)	–	(20,170)
Currency translation effects	1,147	1	–	1,148
Balance, December 31	<b>\$ 19,392</b>	<b>\$ 510</b>	<b>\$ 4,275</b>	<b>\$ 24,177</b>

2013	Warranty provision	Legal provision	Total
Balance, January 1	\$ 14,669	\$ 2,500	\$ 17,169
Additions during the year	12,784	–	12,784
Amounts settled and released in the year	(13,642)	(2,000)	(15,642)
Currency translation effects	834	3	837
Balance, December 31	<b>\$ 14,645</b>	<b>\$ 503</b>	<b>\$ 15,148</b>

## NOTE 17. LONG-TERM DEBT

Through private placement, the Company has \$90.5 million of unsecured notes (“Notes”) issued and outstanding. These Notes consist of \$50.5 million, with a coupon of 4.8 percent, maturing on June 22, 2016 and \$40.0 million, with a coupon of 6.0 percent, maturing on June 22, 2021.

The Company has a syndicated revolving credit facility (“Bank Facility”) with an amount available of \$675.0 million. The Bank Facility have a maturity date of June 30, 2018 (“Maturity Date”), but may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facility may be increased by \$200.0 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 Facility.

Drawings on the Bank Facility are available by way of Prime Rate loans, U.S. Base Rate loans, London Interbank Offered Rate (“LIBOR”) loans, and Bankers’ Acceptance notes. The Company may also draw on the Bank Facility through bank overdrafts in either Canadian or U.S. dollars and issue letters of credit under the Bank Facility.

Pursuant to the terms and conditions of the Bank Facility, a margin is applied to drawings on the Bank Facility 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 Bank Facility is unsecured and ranks pari passu with the Notes. The Company is required to maintain certain covenants on the Bank Facility and the Notes. As at December 31, 2014, the Company was in compliance with these covenants.

The weighted average interest rate on the Bank Facility for the year ended December 31, 2014 was 2.3 percent (December 31, 2013 – 3.1 percent).

The composition of the borrowings on the Bank Facility and the Notes was as follows:

December 31,	2014	2013
Drawings on Bank Facility <sup>1</sup>	\$ 419,968	\$ 5,000
Notes due June 22, 2016	50,500	50,500
Notes due June 22, 2021	40,000	40,000
Deferred transaction costs	(5,392)	(2,565)
	<b>\$ 505,076</b>	<b>92,935</b>

<sup>1</sup> USD drawings on Bank Facility at December 31, 2014 were \$332.7 million (December 31, 2013 – nil).

At December 31, 2014, without considering renewal of similar terms, the Canadian dollar equivalent principal payments due over the next five years are \$470.5 million, and \$40.0 million thereafter.

## NOTE 18. GUARANTEES, COMMITMENTS AND CONTINGENCIES

At December 31, 2014, the Company had outstanding letters of credit of \$70.9 million (December 31, 2013 – \$87.9 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 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 and ten years. The material lease arrangements generally include renewal and escalation clauses.

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

2015	\$ 16,927
2016	14,649
2017	12,922
2018	9,187
2019	6,861
Thereafter	10,299
<b>Total</b>	<b>\$ 70,845</b>

Over the next three years, the Company has purchase obligations, primarily related to major equipment for Engineered Systems projects, as follows:

2015	\$ 26,619
2016	1,820
2017	221

## NOTE 19. INCOME TAXES

### (a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

Years ended December 31,	2014	2013
Current tax	\$ 45,949	\$ 23,256
Deferred income tax	(1,204)	849
	<b>\$ 44,745</b>	<b>\$ 24,105</b>

## Reconciliation of Tax Expense

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

Years ended December 31,	2014	2013
Earnings before income taxes from continuing operations	\$ 115,963	\$ 81,823
Canadian statutory rate	25.0%	25.0%
Expected income tax provision	\$ 28,991	\$ 20,456
Add (deduct)		
Earnings taxed in foreign jurisdictions	9,759	4,507
Withholding tax on dividends received from foreign subsidiaries	5,653	–
Expenses not deductible for tax purposes	2,788	504
Impact of equity-accounted earnings	(2,377)	(1,308)
Other	(69)	(54)
Income tax expense	\$ 44,745	\$ 24,105

The applicable tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2013 – 15.0 percent) and the provincial income tax rate of 10.0 percent (2013 – 10.0 percent).

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

Years ended December 31,	2014	2013
<b>Deferred Tax</b>		
Arising on income and expenses recognized in other comprehensive income:		
Fair value remeasurement of hedging instruments entered into for cash flow hedges	\$ (585)	\$ (649)
Arising on income and expenses reclassified from other comprehensive income to net earnings:		
Relating to cash flow hedges	542	63
Total income tax recognized in other comprehensive income	\$ (43)	\$ (586)

## (c) Net Deferred Tax Assets (Liabilities)

Deferred tax assets and liabilities arise from the following:

	Accounting provisions and accruals	Tax losses	Long-term assets	Other	Cash flow hedges	Total <sup>1</sup>
January 1, 2014	\$ 22,651	\$ 12,530	\$ (5,259)	\$ 1,653	\$ 424	\$ 31,999
Acquisitions	4,756	–	(42,114)	–	–	(37,358)
Charged to net earnings	978	(3,748)	4,319	(345)	–	1,204
Charged to other comprehensive income	–	–	–	–	43	43
Exchange differences	458	866	1,707	–	99	3,130
December 31, 2014	\$ 28,843	\$ 9,648	\$ (41,347)	\$ 1,308	\$ 566	\$ (982)

<sup>1</sup> Net deferred tax liabilities at December 31, 2014 of \$1.0 million consist of assets of \$34.1 million net of liabilities of \$35.1 million.

	Accounting provisions and accruals	Tax losses	Long-term assets	Other	Cash flow hedges	Total
January 1, 2013	\$ 22,752	\$ 16,542	\$ (8,858)	\$ 2,097	\$ (157)	\$ 32,376
Charged to net earnings	(664)	(3,641)	3,900	(444)	–	(849)
Charged to other comprehensive income	–	–	–	–	586	586
Exchange differences	563	(371)	(301)	–	(5)	(114)
December 31, 2013	\$ 22,651	\$ 12,530	\$ (5,259)	\$ 1,653	\$ 424	\$ 31,999

#### (d) Unrecognized Deferred Tax Assets

The Company has unused tax losses of \$56.4 million for the year ended December 31, 2014 (December 31, 2013 – \$56.7 million). Certain of these unrecognized tax losses are subject to expiration in the years 2017 through 2023. Deferred tax assets totaling \$14 million on these tax losses have not been recognized in the consolidated statements of financial position at December 31, 2014 (December 31, 2013 – \$14.2 million).

## NOTE 20. 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

	2014		2013	
	Number of common shares	Common share capital	Number of common shares	Common share capital
Balance, January 1	78,126,829	\$ 220,901	77,670,981	\$ 212,875
Exercise of stock options	491,197	8,633	461,980	8,026
Cancelled shares	–	–	(6,132)	–
Balance, December 31	78,618,026	\$ 229,534	78,126,829	\$ 220,901

Total dividends declared in the year were \$24.3 million, or \$0.075 per share for the first three quarters and \$0.085 per share for the last quarter of 2014 (December 31, 2013 – \$22.2 million, or \$0.07 per share for the first three quarters and \$0.075 per share for the last quarter of 2013).

## NOTE 21. CONTRIBUTED SURPLUS

Contributed surplus consists of accumulated stock option expense less the fair value of the options at the grant date that have been exercised and reclassified to share capital. Changes in contributed surplus were as follows:

	2014	2013
Balance, January 1	\$ 654,538	\$ 655,879
Share-based compensation	1,965	1,500
Exercise of stock options	(2,879)	(2,841)
Balance, December 31	\$ 653,624	\$ 654,538

## NOTE 22. REVENUE

Years ended December 31,	2014	2013
Engineered Systems	\$1,294,373	\$ 1,030,030
Service	387,932	325,428
Rentals	98,425	49,564
Total Revenue	\$1,780,730	\$ 1,405,022

Proceeds received and receivable from the sale of rental equipment included in revenue for the year ended December 31, 2014 was \$18.1 million (2013 – \$21.7 million).

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

Years ended December 31,	2014	2013
Australia	\$ 200,483	\$ 241,347
Canada	575,989	408,386
Mexico	62,982	242
Oman	67,176	101,162
United States	633,919	501,935
Other	240,181	151,950
Total Revenue	\$ 1,780,730	\$ 1,405,022

## NOTE 23. SHARE-BASED COMPENSATION

### (a) Share-Based Compensation Expense

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

Year ended December 31,	2014	2013
Stock options	\$ 1,965	\$ 1,500
Deferred share units	1,020	1,422
Phantom share units	332	534
Performance share units	1,819	1,477
Restricted share units	3,162	2,021
Total share-based compensation expense	\$ 8,298	\$ 6,954

### (b) Stock Options

The Company current stock option program provides grants to 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.

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, January 1	2,676,202	\$ 12.30	2,655,575	\$ 11.71
Granted	391,712	20.75	507,557	14.33
Exercised <sup>1</sup>	(488,197)	11.72	(461,980)	11.22
Forfeited	(27,493)	12.22	(17,600)	11.71
Expired	(2,000)	11.20	(4,350)	10.72
<b>Options outstanding, December 31</b>	<b>2,550,224</b>	<b>\$ 13.71</b>	<b>2,679,202</b>	<b>\$ 12.30</b>
<b>Options exercisable, December 31</b>	<b>1,121,193</b>	<b>\$ 12.04</b>	<b>1,109,253</b>	<b>\$ 11.82</b>

<sup>1</sup> The weighted average share price of options at the date of exercise for the year ended December 31, 2014 was \$17.39 (December 31, 2013 – \$13.48).

The Company granted 391,712 stock options during 2014 (2013 – 507,557). Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted during the year ended December 31, 2014 was \$5.28 per option (December 31, 2013 – \$3.81).



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

	2014	2013
Expected life (years)	5.3	5.0
Expected volatility <sup>1</sup>	29.4%	30.8%
Dividend yield	1.5%	2.1%
Risk-free rate	2.1%	2.6%
Estimated forfeiture rate	0.7%	0.4%

<sup>1</sup> Expected volatility is based on Enerflex and its 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, 2014:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number outstanding	Weighted average exercise price
\$9.61 - \$11.75	744,110	3.38	\$ 11.23	482,412	\$ 11.01
\$11.76 - \$13.65	913,100	3.12	12.37	538,525	12.53
\$13.66 - \$20.75	893,014	6.05	17.15	100,256	14.33
Total	2,550,224	4.22	\$ 13.71	1,121,193	\$ 12.04

### (c) Deferred Share Units

The Company offers a 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 specified component of non-employee directors' compensation must be received in DSUs. 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 weighted average price per share at which Enerflex's shares on the TSX for the five trading days immediately preceding the grant.

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

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 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 2014, no DSUs were granted to executives of the Company by the Board of Directors (December 31, 2013 – 5,096). For the year ended December 31, 2014, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled \$1.3 million (December 31, 2013 – \$1.4 million).

	Number of DSUs	Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2014	198,350	\$ 12.27
Granted or elected	76,521	17.39
In lieu of dividends	3,815	17.91
<b>DSUs outstanding, December 31, 2014</b>	<b>278,686</b>	<b>\$ 13.75</b>

The carrying amount of the liability relating to DSUs included in Other Long-Term Liabilities at December 31, 2014 was \$4.6 million (December 31, 2013 – \$3.0 million).

#### (d) Phantom Share Rights

The Company utilizes a SAR plan for 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 2014, the Board of Directors granted 101,159 SARs (December 31, 2013 – 110,349). The intrinsic value of the vested awards at December 31, 2014 was \$1.0 million (December 31, 2013 – \$0.7 million).

	Number of SARs	Weighted average grant date fair value per unit
SARs outstanding, January 1, 2014	268,916	\$ 12.54
Granted	101,159	20.75
Exercised	(34,907)	11.39
Forfeited	(96,875)	15.30
<b>SARs outstanding, December 31, 2014</b>	<b>238,293</b>	<b>\$ 15.07</b>

The carrying amount of the liability relating to the SARs as at December 31, 2014 included in Current Liabilities was \$0.5 million (December 31, 2013 – \$0.5 million) and in Other Long-Term Liabilities was \$0.2 million (December 31, 2013 – \$0.7 million).

#### (e) Performance Share Units

The Company offers a 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 to 200 percent. On the 14th 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.

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

	Number of PSUs	Weighted average grant date fair value per unit
PSUs outstanding, January 1, 2014	258,267	\$ 12.97
Granted	93,604	20.75
In lieu of dividends	4,190	18.15
<b>PSUs outstanding, December 31, 2014</b>	<b>356,061</b>	<b>\$ 14.86</b>

The carrying amount of the liability relating to PSUs as at December 31, 2014 included in Current Liabilities was \$2.3 million (December 31, 2013 – nil) and in Other Long-Term Liabilities was \$1.1 million (December 31, 2013 – \$1.7 million). No PSUs had vested at December 31, 2014 and 2013.

#### (f) Restricted Share Units

The Company offers an RSU plan to officers and other key employees of the Company or its related entities. RSUs may be granted at the discretion of the Board of Directors. An 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 2014, the Board of Directors granted 173,666 RSUs to officers or key employees of the Company (2013 – 223,713). The Company paid \$2.8 million for the period ended December 31, 2014 representing units vested in the year (December 31, 2013 – \$1.1 million).

	Number of RSUs	Weighted average grant date fair value per unit
RSUs outstanding, January 1, 2014	377,039	\$ 12.26
Granted	173,666	20.75
In lieu of dividends	5,206	18.20
Vested	(143,431)	19.28
Forfeited	(28,418)	12.61
<b>RSUs outstanding, December 31, 2014</b>	<b>384,062</b>	<b>\$ 13.53</b>

The carrying amount of the liability included in current liabilities relating to RSUs at December 31, 2014 was \$1.4 million (December 31, 2013 – \$1.0 million).

#### (g) 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. This plan is administered by a third party.

### NOTE 24. RETIREMENT BENEFIT PLANS

The Company sponsors 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,	2014	2013
Defined contribution plans	\$ 9,281	\$ 9,374
401(k) matched savings plan	1,495	1,124
Net pension expense	\$ 10,776	\$ 10,498

### NOTE 25. FINANCE COSTS AND INCOME

Years ended December 31,	2014	2013
<b>Finance Costs</b>		
Short and long-term borrowings	\$ 10,454	\$ 6,076
<b>Finance Income</b>		
Bank interest income	\$ 471	\$ 316
Income from finance leases	212	242
Total finance income	\$ 683	\$ 558
Net finance costs	\$ 9,771	\$ 5,518

## NOTE 26. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

Years ended December 31,	2014			2013		
	Net earnings	Weighted average shares outstanding	Per share	Net earnings	Weighted average shares outstanding	Per share
Basic	\$ 71,218	78,454,329	\$ 0.91	\$ 55,866	77,923,314	\$ 0.72
Dilutive effect of stock option conversion	–	688,186	(0.01)	–	320,615	(0.01)
Diluted	\$ 71,218	79,142,515	\$ 0.90	\$ 55,866	78,243,929	\$ 0.71

## NOTE 27. FINANCIAL INSTRUMENTS

### Designation and Valuation of Financial Instruments

The Company has designated its financial instruments as follows:

December 31, 2014	Carrying value	Estimated fair value
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 158,069	\$ 158,069
Derivative instruments in designated hedge accounting relationships	416	416
Loans and receivables:		
Accounts receivable	448,228	448,228
<b>Financial Liabilities</b>		
Derivative instruments in designated hedge accounting relationships	1,678	1,678
Other financial liabilities:		
Accounts payable and accrued liabilities	257,864	257,864
Long-term debt – Bank Facility	419,968	419,968
Long-term debt – Notes	90,500	97,135
Other long-term liabilities	8,580	8,580
December 31, 2013	Carrying value	Estimated fair value
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 181,973	\$ 181,973
Derivative instruments in designated hedge accounting relationships	358	358
Loans and receivables:		
Accounts receivable	331,170	331,170
<b>Financial Liabilities</b>		
Derivative instruments in designated hedge accounting relationships	1,518	1,518
Other financial liabilities:		
Accounts payable and accrued liabilities	156,484	156,484
Long-term debt – Bank Facilities	5,000	5,000
Long-term debt – Notes	90,500	95,021
Other long-term liabilities	6,823	6,823

## 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, 2014 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2014, there were no transfers between Level 1 and Level 2 fair value measurements.

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.

	Carrying Value	Level 1	Fair Value Level 2	Level 3
<b>Financial Assets</b>				
Derivative financial instruments	\$ 416	\$ –	\$ 416	\$ –
<b>Financial Liabilities</b>				
Derivative financial instruments	\$ 1,678	\$ –	\$ 1,678	\$ –

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and other long-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 3.3 percent, was \$97.1 million at December 31, 2014.

## 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, 2014:

		Notional amount	Maturity
<b>Canadian Dollar Denominated Contracts</b>			
Purchase contracts	USD	17,798	January 2015 – July 2015
	EUR	471	January 2015 – September 2015
Sales contracts	USD	(28,917)	January 2015 – September 2015
<b>U.S. Dollar Denominated Contracts</b>			
Purchase contracts	AUD	9,000	January 2015

Management estimates that a loss of \$1.3 million would be realized if the contracts were terminated on December 31, 2014. Certain of these forward contracts are designated as cash flow hedges and accordingly, a loss of \$1.8 million has been included in other comprehensive income for the 2014 year (December 31, 2013 – \$2.9 million). 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 income during the year and included in the carrying amount of the hedged items for the year 2014 was a gain of \$1.4 million (December 31, 2013 – \$0.3 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 and the British pound. 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, Mexico, Argentina and the United Arab Emirates.

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 and the Australian dollar. Most of Enerflex's international orders are manufactured in the United States 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.

#### **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 reporting 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. The following table shows the effect on net earnings before tax for the year 2014 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.

<b>Canadian dollar weakens by 5 percent</b>	<b>USD</b>	<b>AUD</b>	<b>GBP</b>
Net earnings before tax	\$ 3,715	\$ 1,171	\$ 202

### **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 other comprehensive income. Financial instruments affected by currency risk include cash and cash equivalents, accounts receivable, accounts payable and derivative financial instruments. 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. This sensitivity analysis relates to the position as at December 31, 2014 and for the year then ended.



<b>Canadian dollar weakens by 5 percent</b>	<b>USD</b>	<b>AUD</b>	<b>GBP</b>
Financial instruments held in foreign operations			
Other comprehensive income	\$ 13,047	\$ 2,154	\$ 306
Financial instruments held in Canadian operations			
Net earnings before tax	\$ 289	\$ –	\$ –

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.

### **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, 2014 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 Facility however, are subject to changes in market interest rates.

The Company has entered into an interest rate swap to exchange the floating rate interest payments for fixed rate interest payments, which fix the LIBOR components of its interest payments on USD \$210.0 million of its outstanding term debt until September 2015, USD \$140.0 million of its outstanding term debt until September 2016, and USD \$70.0 million of its outstanding term debt until September 2017.

Under the interest rate swap agreement, the Company pays a fixed rate of 0.785 percent per annum. The interest rate swap agreement has an aggregate notional principal amount of USD \$210.0 million, the principal balance of the Bank Facility being hedged. The fair value of the interest rate swap arrangement is the difference between the forward interest rates and the discounted contract rate. As at December 31, 2014, the fair value of the interest rate swap was nominal.

For each 1 percent change in the rate of interest on the remaining \$210.0 million Bank Facility, the change in interest expense for the year ended would be \$2.1 million (December 31, 2013 – nil). All interest charges are recorded on the annual consolidated statement of earnings as 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 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 years ended December 31, 2014 and 2013, 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 accounts is established based upon specific situations.

The Company evaluates the concentration of risk at December 31, 2014 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. Facility and Bank Facility for future drawings to meet the Company's future growth targets. As at December 31, 2014, the Company held cash and cash equivalents of \$158.1 million and had drawn \$420.0 million against the Bank Facility, leaving it with access to \$184.2 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, 2014:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	\$ 1,295	\$ 383	\$ –	\$ 1,678
Accounts payable and accrued liabilities	257,864	–	–	257,864
Long-term debt – Bank Facility	–	–	419,968	419,968
Long-term debt – Notes	–	–	90,500	90,500
Other long-term liabilities	–	–	8,580	8,580

The Company expects that cash flows from operations in 2015, 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.

## NOTE 28. CAPITAL DISCLOSURES

The capital structure of the Company consists of shareholders' equity plus net debt (cash). 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 makes adjustments to its capital structure 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 cost of capital and the risks associated with each class of capital are considered. In order to position itself to execute its long-term plan to maintain its status as 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 measure to monitor its capital structure:

### Net Debt (Cash) to EBITDA Ratio

Net debt (cash) to EBITDA is defined as short and long-term debt less cash and cash equivalents at the end of the period divided by annualized EBITDA. The Company targets a net debt to EBITDA ratio of less than 2.50:1. At December 31, 2014, the net debt (cash) to EBITDA ratio was:

December 31,	2014	2013
Short and long-term debt	\$ 505,076	\$ 92,935
Cash and cash equivalents	(158,069)	(181,973)
Net debt (cash)	\$ 347,007	\$ (89,038)
Earnings before finance costs and income taxes	\$ 125,734	\$ 87,341
Depreciation and amortization	56,799	39,595
EBITDA	\$ 182,533	\$ 126,936
Net debt (cash) to EBITDA ratio	1.90:1	(0.70):1

## NOTE 29. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,	2014	2013
<b>Cash (used in) provided by changes in non-cash working capital</b>		
Accounts receivable	\$ (70,146)	\$ (39,848)
Inventories	(100,278)	26,681
Accounts and taxes payable and accrued liabilities	75,411	(34,358)
Deferred revenue	47,592	15,867
Foreign currency and other	(13,632)	2,729
	<b>\$ (61,053)</b>	<b>\$ (28,929)</b>

Cash paid and received during the period:

Years ended December 31,	2014	2013
Interest paid	\$ 9,863	\$ 5,960
Interest received	864	552
Taxes paid	34,667	27,106
Taxes received	—	305

## NOTE 30. 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's 51 percent joint venture interest in Enerflex-ES, and the Company's 50 percent controlling interest in Geogas consortium.

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:

December 31,	2014	2013
<b>Associate – Total</b>		
Revenue	\$ 8,343	\$ 7,107
Purchases	—	14
Accounts receivable	1,215	157
<b>Joint Venture – Enerflex-ES</b>		
Revenue	\$ —	\$ 102
Purchases	—	—
Accounts receivable	—	—
<b>Consortium – Geogas</b>		
Revenue	\$ —	\$ —
Purchases	11	—
Accounts receivable	—	—

All related party transactions are settled in cash.

The remuneration of directors and other key management personnel was as follows:

Years ended December 31,	2014	2013
Short-term compensation	\$ 4,873	\$ 4,677
Post-employment compensation	509	453
Share-based payments	3,577	4,340

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 31. SEASONALITY

The oil and natural gas service sector in Canada and the 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 32. 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 Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis.

Effective January 1, 2013, the reporting for Enerflex's Production and Processing division was changed from the International reportable segment to the Canada and Northern U.S. segment. Prior period segmented information has been reclassified to conform with the current period's presentation.

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 Latin America generates revenue from the manufacture of natural gas compression equipment and process equipment in addition to generating revenue from product support services and rentals; and
- International generates revenue from manufacturing primarily process equipment, service and rentals.

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 Latin America		International		Total	
Years Ended December 31,	2014	2013	2014	2013	2014	2013	2014	2013
Segment revenue	\$ 694,564	\$ 594,510	\$ 818,063	\$ 522,008	\$ 301,960	\$ 376,763	\$ 1,814,587	\$ 1,493,281
Intersegment revenue	(11,809)	(69,618)	(19,007)	(18,250)	(3,041)	(391)	(33,857)	(88,259)
External revenue	\$ 682,755	\$ 524,892	\$ 799,056	\$ 503,758	\$ 298,919	\$ 376,372	\$ 1,780,730	\$ 1,405,022
Operating income/(loss)	\$ 26,752	\$ 21,937	\$ 92,542	\$ 59,765	\$ (3,007)	\$ 328	\$ 116,287	\$ 82,030

	Canada and Northern U.S.		Southern U.S. and Latin America		International		Total	
December 31,	2014	2013	2014	2013	2014	2013	2014	2013
Segment assets	\$ 549,334	\$ 461,205	\$ 672,679	\$ 300,162	\$ 296,089	\$ 226,166	\$ 1,518,102	\$ 987,533
Goodwill	249,261	249,261	322,598	77,821	136,054	124,132	707,913	451,214
Corporate	—	—	—	—	—	—	(81,027)	(22,668)
Total segment assets	\$ 798,595	\$ 710,466	\$ 995,277	\$ 377,983	\$ 432,143	\$ 350,298	\$ 2,144,988	\$ 1,416,079

### NOTE 33. SUBSEQUENT EVENTS

Subsequent to December 31, 2014, the Company declared a dividend of \$0.085 per share, payable on April 9, 2015, to shareholders of record on March 11, 2015.

On February 3, 2015, the Company announced its intention to close the P&P manufacturing facility in Nisku, Alberta and exit the oil sands modular fabrication business. The business unit will complete the projects currently on the manufacturing floor and all remaining backlog will be transferred to Calgary. In 2014, the Company accrued termination benefits and restructuring costs of \$4.3 million for the impacted employees. For the year ended December 31, 2014, the P&P business unit generated \$85.8 million in revenue (2013 – \$71.0 million) and a loss before interest and taxes of \$12.5 million (2013 – Loss before interest and taxes of \$1.3 million).

Results for the three and twelve months ended December 31, 2014 were as follows:

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Revenue	\$ 23,145	\$ 15,077	\$ 85,773	\$ 70,952
Loss before interest and taxes	(8,788)	(312)	(12,548)	(1,297)

# QUARTERLY AND SHARE DATA

## QUARTERLY DATA

(unaudited)

	2014				2013			
(\$ millions, except per share data and percentages)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	523.3	478.9	446.1	332.4	350.1	390.7	311.0	353.3
Operating income	36.8	43.8	28.3	7.4	14.2	19.5	26.2	22.0
Earning before finance cost and income taxes	39.7	45.5	30.4	10.1	16.5	21.0	27.1	22.8
Net earnings – continuing operations	25.8	30.2	11.1	4.1	10.8	13.2	18.4	15.4
Net earnings – discontinued operations	0.0	0.0	0.0	0.0	(0.0)	(0.0)	(1.2)	(0.5)
Earnings per share – continuing operations	0.33	0.39	0.14	0.05	0.14	0.16	0.24	0.20
Earnings per share – discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00	(0.01)	(0.01)
Depreciation and amortization	17.2	20.0	9.7	9.9	9.7	10.1	10.0	9.8
Cash from operations	33.1	53.1	27.4	12.1	18.9	25.2	28.7	25.2
Capital expenditure, net								
Property, plant and equipment	8.3	7.7	4.9	8.1	6.0	7.7	3.5	5.0
Rental equipment	1.5	4.4	2.7	(5.3)	(2.6)	(1.1)	5.5	(6.7)
Dividends (declared)	5.9	5.9	5.9	5.8	5.9	5.5	5.5	5.4
Dividends per share	0.085	0.075	0.075	0.075	0.075	0.07	0.07	0.07
Pre-tax earnings (continuing as % of revenue)	6.8%	8.9%	6.5%	2.7%	4.4%	5.0%	8.2%	6.1%

## SHARE DATA

(unaudited)

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of shares (\$)								
High	20.99	20.99	20.32	17.60	15.00	14.72	14.10	14.00
Low	14.64	13.48	13.16	12.89	12.00	10.93	10.77	10.40
Close	16.39	19.11	20.32	17.60	15.00	13.89	13.50	13.92
Trading volume (millions)	6.07	6.15	6.38	6.14	4.73	6.69	4.86	4.17
Shares (millions)								
Outstanding at the end of the period	78.618	78.592	78.539	78.364	78.127	78.016	77.910	77.861
Weighted averages-basic	78.337	78.321	78.298	78.234	78.049	77.828	77.791	77.755



# DIRECTORS AND EXECUTIVES

**Robert S. Boswell<sup>1,4</sup>**

Director  
Denver, CO

**W. Byron Dunn<sup>2,4</sup>**

Director  
Dallas, TX

**J. Blair Goertzen**

Director  
President and Chief Executive Officer  
Calgary, AB

**Wayne S. Hill<sup>2,5</sup>**

Director  
Toronto, ON

**H. Stanley Marshall<sup>3</sup>**

Director  
Paradise, NL

**Stephen J. Savidant**

Chairman  
Calgary, AB

**Michael A. Weill<sup>6</sup>**

Director  
Houston, TX

**Helen J. Wesley<sup>6</sup>**

Director  
Calgary, AB

**D. James Harbilas**

Executive Vice President and  
Chief Financial Officer  
Calgary, AB

**Jerauld Fraelic\***

President, Americas  
Houston, TX

**Bradley Beebe**

President, Canada  
Calgary, AB

**Marc Rossiter**

President, United States of America  
Houston, TX

**Patricia Martinez**

President, Latin America  
Houston, TX

**Phil Pyle**

President, International  
Abu Dhabi, UAE

**William Moore**

Senior Vice President,  
Business Development and Strategy  
Calgary, AB

**Greg Stewart**

Senior Vice President,  
Corporate Services and  
Chief Information Officer  
Calgary, AB

**Carol Ionel**

Vice President,  
Human Resources  
Calgary, AB

\* Jerauld Fraelic retired from the Company as of January 2, 2015

<sup>1</sup> Chair of the Nominating and Corporate Governance Committee

<sup>2</sup> Member of the Nominating and Corporate Governance Committee

<sup>3</sup> Chair of the Human Resources and Compensation Committee

<sup>4</sup> Member of the Human Resources and Compensation Committee

<sup>5</sup> Chair of the Audit Committee

<sup>6</sup> 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](mailto:ir@enerflex.com)  
Web: [www.enerflex.com](http://www.enerflex.com)

**Whistleblower Contact**

Tel: +1.866.296.8654  
Email: [whistleblower@enerflex.com](mailto:whistleblower@enerflex.com)  
[ener@openboard.info](mailto:ener@openboard.info)  
[ener.hr@openboard.info](mailto:ener.hr@openboard.info)  
Web: [www.openboard.info/ener/](http://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

### **CST Trust Company**

Calgary, AB Canada

For shareholder inquiries:

### **CST Trust Company**

2001 University Street, Suite 1600

Montreal, QC H3A 2A6 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

Email: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

Web: [www.canstockta.com](http://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  
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](mailto:ir@enerflex.com)

Requests for Enerflex's Annual Report, Quarterly Reports and other corporate communications should be directed to [ir@enerflex.com](mailto:ir@enerflex.com)

## ANNUAL GENERAL MEETING INFORMATION

Shareholders of Enerflex Ltd. are invited to attend the Annual General Meeting, which will be held on May 7, 2015 at 10:00 a.m. MDT. The meeting will be held at the Westin Hotel Calgary, Belaire Room (Conference Level), 320 4<sup>th</sup> Avenue SW, 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 Tel: +1.403.387.6377  
Toll-Free Tel: +1.800.242.3178

[www.enerflex.com](http://www.enerflex.com)