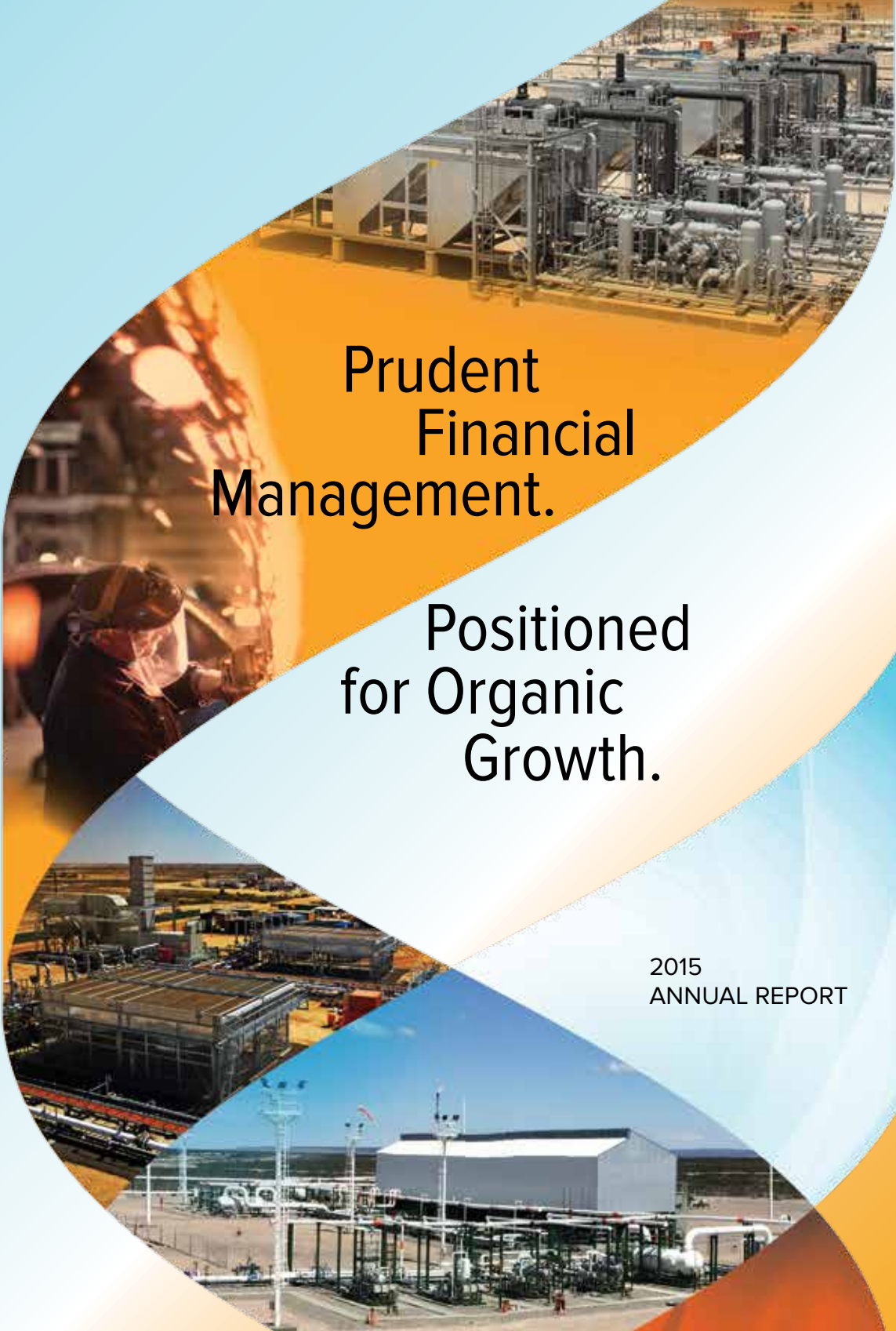


# ENERFLEX



Prudent  
Financial  
Management.

Positioned  
for Organic  
Growth.

2015  
ANNUAL REPORT

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Amidst declining commodity prices and regional economic adversity, Enerflex continued to demonstrate strong financial and operational performance in 2015. The Company's global business, strategically assembled for long-term profitable growth through its vertically integrated offering of products and services positioned along the natural gas value chain, proved resilient in the face of macro-economic challenges. Enerflex's diversified and mutually complementary solutions platform, with its common offering of products and services across seven regions worldwide, enabled the Company to pursue multiple opportunities, adding high-margin business in growth markets while reducing costs and building on areas of strength in weaker markets.





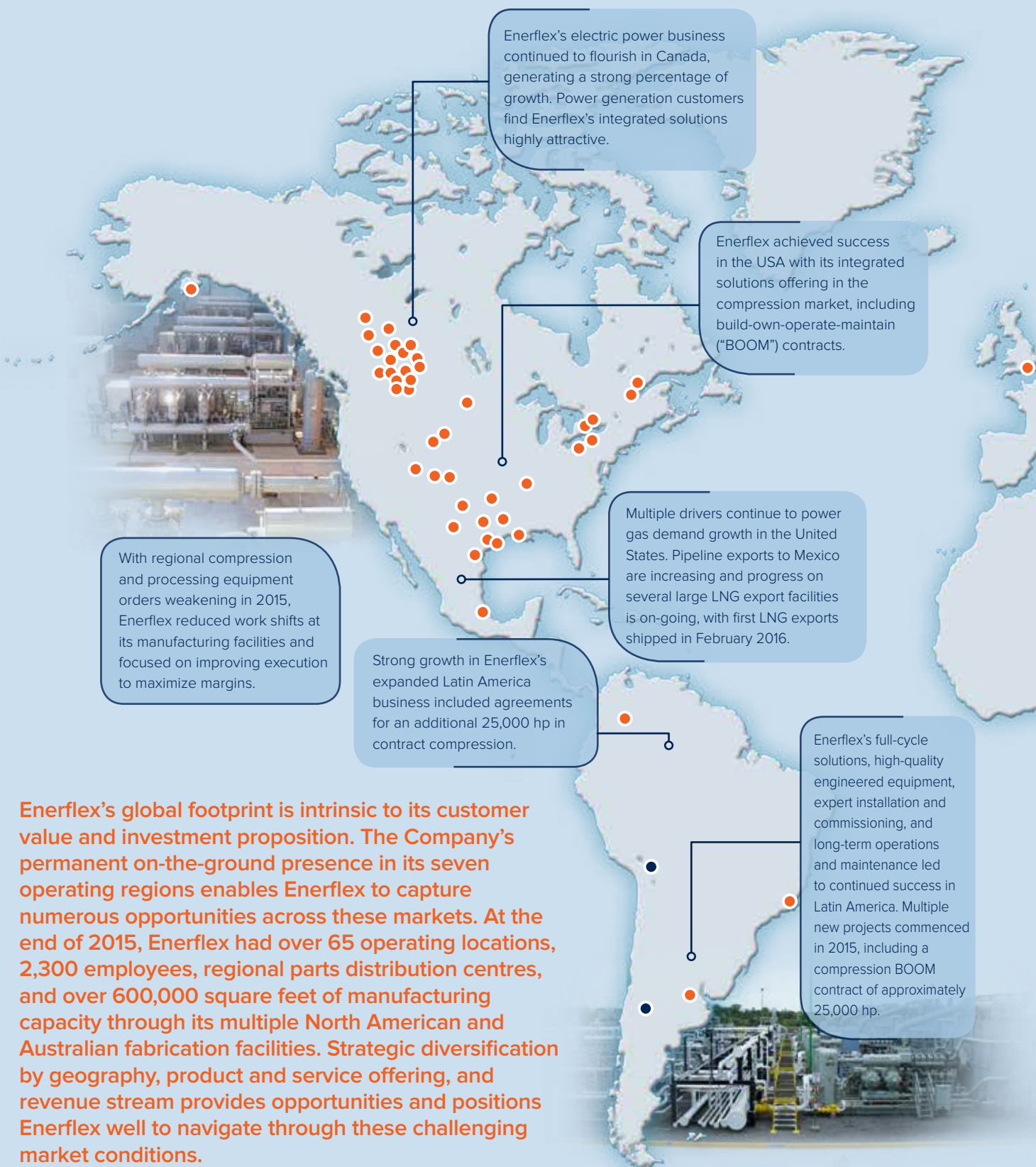
# A GLOBAL PLATFORM THAT DELIVERS

Prudent management and the Company's business model proved resilient through these challenging times. Enerflex's financial performance exceeded expectations for the global energy services sector. The Company generated:

- » 10.5 percent **growth in recurring revenue** from its Service and Rentals business to a total of \$537.2 million for 33.0 percent of total Company revenue;
- » 12.7 percent year-over-year **revenue growth in its Rest of World segment**, primarily due to the success in the Company's Middle East / Africa ("MEA") region and a full year of results from an expanded Latin America business;
  - » 17.3 percent year-over-year **growth in EBITDA<sup>1</sup>**;
  - » **Growth in the EBIT margin** to 9.6 percent<sup>1</sup>;
  - » A continuing **dividend of \$0.085 per share** annually;
  - » **Organic growth in the rental fleet**, through \$167.3 million in capital expenditures, to approximately 480,000 hp at year-end; and
  - » **Continued balance sheet strength**, with careful management of free cash flow and a slight year-over-year increase in leverage.

<sup>1</sup> EBITDA and EBIT excluding the impacts of goodwill impairment, severance and restructuring, customer legal disputes, acquisition-related transaction costs and the devaluation of the Argentine peso.

# DIVERSIFIED OPERATIONS AND REVENUE



Enerflex's global footprint is intrinsic to its customer value and investment proposition. The Company's permanent on-the-ground presence in its seven operating regions enables Enerflex to capture numerous opportunities across these markets. At the end of 2015, Enerflex had over 65 operating locations, 2,300 employees, regional parts distribution centres, and over 600,000 square feet of manufacturing capacity through its multiple North American and Australian fabrication facilities. Strategic diversification by geography, product and service offering, and revenue stream provides opportunities and positions Enerflex well to navigate through these challenging market conditions.

Enerflex proactively implemented measures to streamline its business, control costs, and continue towards its EBIT margin goal of 10 percent. Measures included headcount reductions, the closure of the oil sands business unit in Nisku, as well as service branches, and improved margins on manufactured equipment through better execution.

Multiple rental projects in the MEA region totalling an incremental 103,000 hp have been or are being built, contributing to results in 2015 and beyond.

Extensions to long-term service contracts, new recurring revenue opportunities, and equipment supply contributed to the MEA region's 2015 performance.

The Company invested \$167.3 million to construct new rental equipment, contributing to its record \$537.2 million in annual recurring revenue.

Enerflex worked closely with Australia's largest LNG producers to provide long-term service to the country's vast installed gas-handling infrastructure.

Enerflex right-sized its Australian process construction business and re-oriented its focus from EPC projects to integrated turnkey solutions.

- Enerflex location
- New Enerflex location

# THE ENERFLEX VALUE-CREATING CYCLE

Enerflex's platform delivers a value-creating array of natural gas and oil infrastructure solutions. Our lineup rests on a strong foundation of capabilities. Our carefully assembled global operations engineer, design, procure, fabricate, deliver, install, commission, and support the products and services that meet the natural gas processing or midstream sector's requirements along the natural gas value chain. Each of these mutually supporting phases provides unique value to the customer and generates revenue for Enerflex.

## CONCEPTS

Customers require a broad spectrum of solutions. Gas compression can range from 50 hp units to multi-skid 10,000 hp units with electric drives or gas engines. Processing can vary from straightforward gas and liquids separation at the wellhead to large-scale refrigeration systems at petro-chemical facilities. Whatever the requirement, Enerflex responds with creative thinking and a fit-for-purpose solution that meets the customer's needs.

## ENGINEERING AND DESIGN

Enerflex has the in-house capability in each of its seven operating regions to provide the expertise and experience that is directly relevant to that region's operating conditions and requirements. Enerflex can efficiently draw upon regional specialized expertise – such as the USA team's knowledge in cryogenic processing – to help design a project that may be fabricated in one region and installed in another.

## MANUFACTURING

Enerflex has extensive manufacturing capabilities. Modern tooling and processes used in the Company's state-of-the-art manufacturing centres provide efficient, large-scale fabrication capability. Enerflex's facilities have over 600,000 square feet of combined manufacturing space and over 100 assembly bays. The Houston-area facility is situated near tidewater for efficient transport to international markets. Enerflex can also supplement its organic capacity with carefully vetted and qualified third-party fabricators in the Middle East and Asia.

## MANUFACTURING



## CONCEPTS

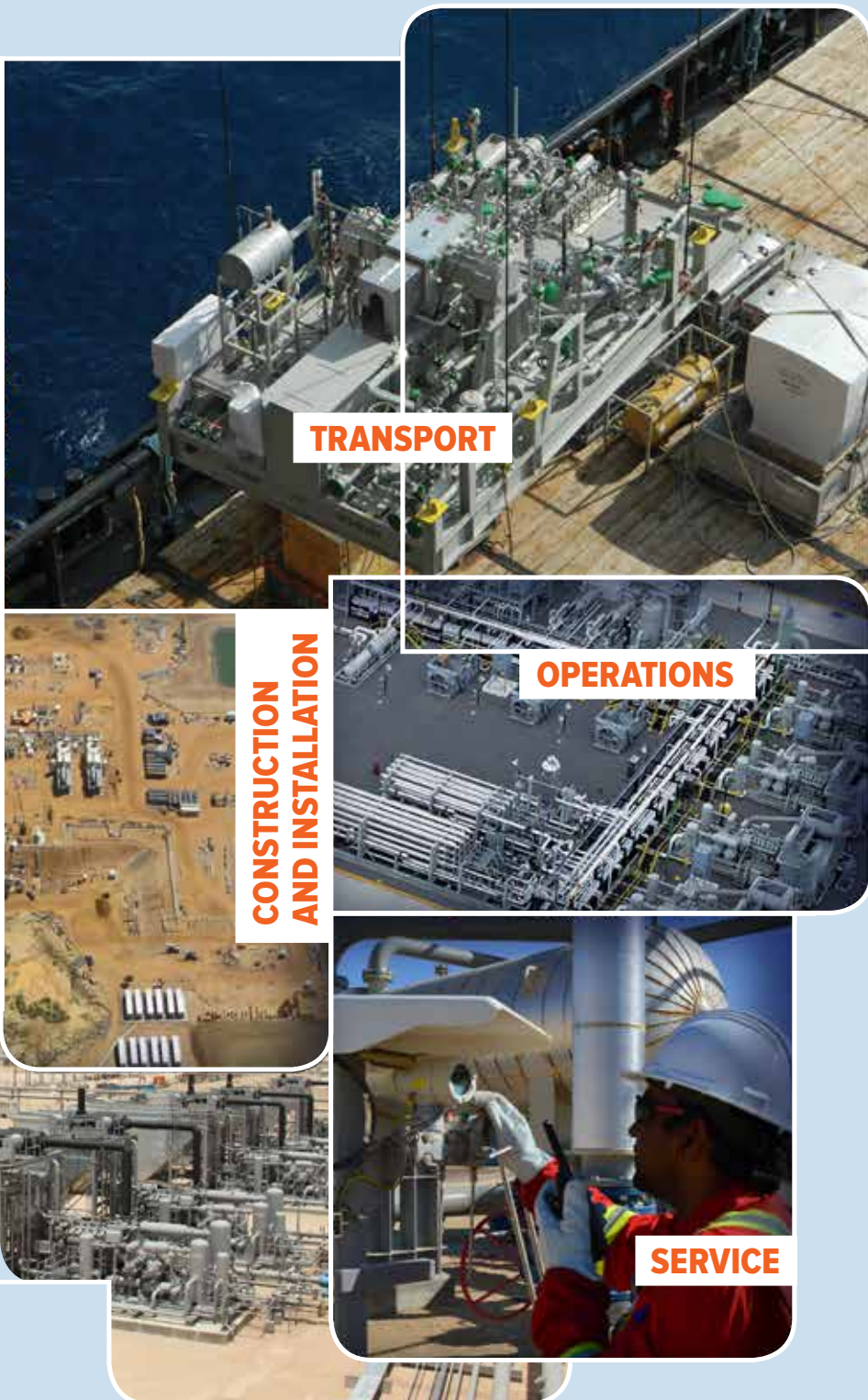


## ENGINEERING



## RENTAL EQUIPMENT





## TRANSPORT

Thousands of Enerflex's systems are installed in more than 70 countries worldwide. The Company designs and fabricates skid-mounted packages for cost-effective shipping, and has extensive experience at arranging transport by air, sea, and ground anywhere worldwide. Enerflex's global logistics proficiency is an important advantage in its parts business, which is supported by well-stocked distribution centres across its regions.

## CONSTRUCTION AND INSTALLATION

Enerflex can execute all scopes of work associated with the construction, installation, and commissioning of any compression, processing, or electric power system. Turnkey delivery is a substantial advantage to customers in several regions where operating sites are remote, logistics are challenging, or the energy services infrastructure is limited. Enerflex provides time and cost certainty.

## OPERATIONS AND MAINTENANCE

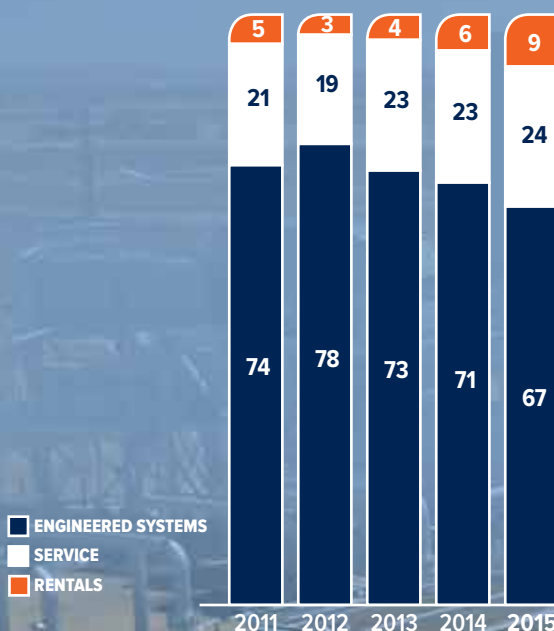
In some markets, asset owners prefer having their facilities operated by expert third-party suppliers. Enerflex provides the complete solution, including training and managing teams that operate facilities 24 hours per day, year-round. Contract operations are also common in the rental business outside of North America. Enerflex operates a large percentage of the approximately 480,000 hp of rental compression equipment it had at year-end 2015.

## AFTER-MARKET SERVICE

Enerflex is leveraging the legacy of its over 35 years of experience in the service business by aggressively expanding its ability to provide maintenance, parts, repair, overhauls, and optimization services worldwide. This key source of the Company's growing recurring revenue continues to be a strong focus for the organization.

# HOW ENERFLEX'S PRUDENT MANAGEMENT AND BUSINESS MODEL GENERATES VALUE

REVENUE BY PRODUCT LINE  
PERCENTAGE



RECURRING REVENUE<sup>1</sup>



## FINANCIAL DASHBOARD

Diversification of revenue sources across regions, among customers, and through exposure to a variety of natural gas project types is the strategic foundation of Enerflex's business. The fundamental driver is the growth in global demand for natural gas and the associated investments in natural gas infrastructure. Enerflex achieves profitable growth by increasing its business organically and making strategic investments while safeguarding its balance sheet.

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

<sup>2</sup> EBIT excluding the impacts of goodwill impairment, severance and restructuring, customer legal disputes, acquisition-related transaction costs and the devaluation of the Argentine peso.

<sup>3</sup> SG&A excluding the impacts of severance and restructuring, customer legal disputes, acquisition-related transaction costs and the devaluation of the Argentine peso.

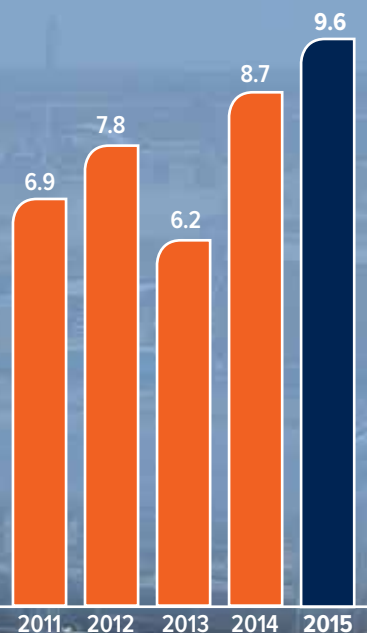
## DIVERSIFICATION CREATES A MORE RESILIENT REVENUE BASE

Enerflex's vertically integrated, geographically diversified business enables the delivery of all phases of a project's life-cycle. This creates a compelling offering that maximizes sales opportunities for Enerflex's products and services in its seven operating regions. Together, the diversified offerings also provide intrinsic downside revenue protection.

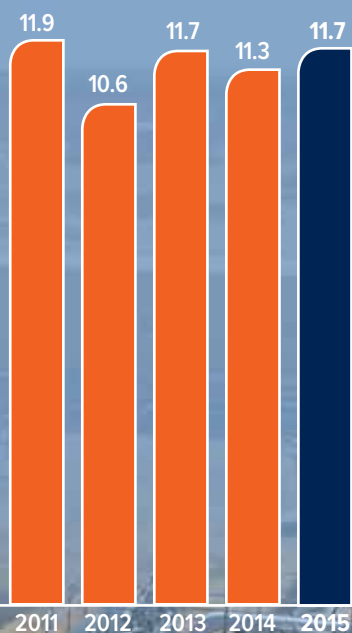
## FIVE YEARS OF RECURRING REVENUE GROWTH

Recurring revenues from service work and rentals deliver higher margins that reduce volatility and provide stability in the Company's financial performance. Enerflex's concentrated effort to increase recurring revenue by adding service capabilities in targeted markets and becoming a leading rental provider, all while continuing to build-up the installed base through on-going equipment sales, has had outstanding results. Capital expenditures in 2015 focused on financing equipment builds for new contracts. The Company's medium-term goal is to generate 35 to 40 percent of its revenue from recurring sources.

EBIT PERCENTAGE<sup>1,2</sup>



SG&A AS A  
PERCENTAGE OF REVENUE<sup>1,3</sup>



TOTAL RENTAL HORSEPOWER<sup>1</sup>



RENTAL REVENUE (\$Millions)



## GROWING THE EBIT MARGIN

In a year of economic challenges, Enerflex was able to increase its most critical financial measure, the EBIT margin, and continue towards its medium-term strategic goal of 10 percent. The year's result demonstrates Enerflex's drive to grow its Service and Rental business – and to deliver these offerings efficiently. Despite lower revenue, Engineered Systems continued to contribute to profitability as well, with lower warranty claims and improved execution leading to materially higher margins.

## CONTROLLING COSTS SAFEGUARDS THE BALANCE SHEET

Enerflex is a disciplined, operationally focused, financially strong, dividend-paying Company committed to profitable growth. Costs continued to be carefully managed and are reduced as needed. In addition, the Company strategically apportions its capital investments, using free cash flow and prudent borrowing to fund acquisitions and organic growth projects that pass its hurdles for revenue margins and investment returns. The overall result is a balance sheet that preserves the Company's financial flexibility.

## STRATEGIC EXPANSION INTO THE RENTAL MARKET

Enerflex's strategic decision to be on-the-ground with a capable presence in every region in which the Company operates has had cascading benefits. It has lifted the Company into a larger operating league, facilitated effective delivery of complex projects, and along with bidding leads generates opportunities for cross-selling and long-term agreements. The benefits are reflected in Enerflex's growth in the rental market. The high-margin rental business has not only become a material portion of overall revenue, but makes a significant contribution to profitability.

# 2015 HIGHLIGHTS

For the years ended December 31,

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

	2015	2014	2013 <sup>2</sup>	2012 <sup>2</sup>	2011 <sup>2,3</sup>
Revenue	\$ 1,629,032	\$ 1,696,200	\$ 1,405,022	\$ 1,501,684	\$ 1,227,137
Gross margin	326,189	330,414	245,905	273,155	225,876
Operating income	121,759	129,488	82,030	114,557	80,086
Earnings before finance costs and taxes <sup>4</sup>	94,877	138,922	87,341	117,341	84,841
Net earnings – continuing operations	48,890	81,097	57,718	82,253	56,741
Loss – discontinued operations	(845)	(9,879)	(1,852)	(10,479)	(64,040)
	48,045	71,218	55,866	71,774	(7,229)
Earnings per share (basic)					
– continuing operations	0.62	1.03	0.78	1.06	0.73
Loss per share (basic)					
– discontinued operations	(0.01)	(0.12)	(0.02)	(0.14)	(0.83)
	0.61	0.91	0.76	0.92	(0.10)
Dividends per share	0.340	0.310	0.285	0.250	0.180
<b>Key Financial Performance Indicators<sup>1</sup></b>					
Bookings	635,059	1,416,880	1,140,801	875,477	1,242,850
Backlog	427,204	916,484	793,977	683,206	986,105
Recurring revenue as a percentage of revenue	33.0%	28.7%	26.7%	21.5%	26.2%
Selling and administrative expenses as a percentage of revenue <sup>5</sup>	12.5%	11.8%	11.7%	10.6%	11.9%
Earnings before finance costs and taxes as a percentage of revenue <sup>4</sup>	5.8%	8.2%	6.2%	7.8%	6.9%
Earnings before finance costs, taxes, depreciation and amortization <sup>6</sup>	176,771	193,740	126,936	156,828	127,012
Return on capital employed	6.2%	12.4%	9.7%	13.3%	8.8%
Net debt (cash) to EBITDA ratio <sup>7</sup>	2.38:1	1.79:1	(0.70):1	(0.31):1	0.30:1

<sup>1</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>2</sup> In June 2015, the Company closed its Production and Processing ("P&P") manufacturing facility in Nisku, Alberta. The 2013, 2012, and 2011 results have not reclassified P&P's results to discontinued operations.

<sup>3</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>4</sup> EBIT excluding the impacts of goodwill impairment, severance and restructuring, customer legal disputes, acquisition-related transaction costs and the devaluation of the Argentine peso is \$156.0 million or 9.6 percent in 2015 (2014 – \$148.0 million or 8.7 percent).

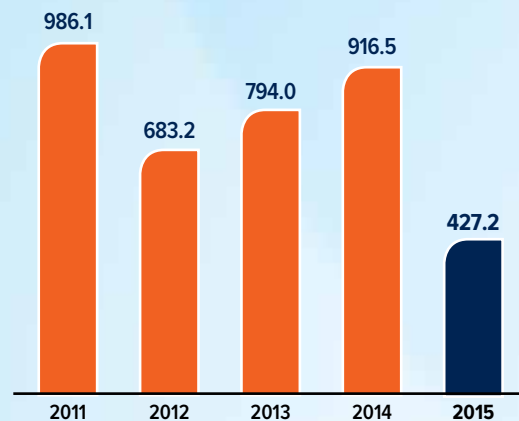
<sup>5</sup> SG&A as a percentage of revenue excluding the impacts of severance and restructuring, customer legal disputes, acquisition-related transaction costs and the devaluation of the Argentine peso is 11.7 percent in 2015 (2014 – 11.3 percent).

<sup>6</sup> EBITDA excluding the impacts of goodwill impairment, severance and restructuring, customer legal disputes, acquisition-related transaction costs and the devaluation of the Argentine peso is \$237.9 million in 2015 (2014 – \$202.8 million).

<sup>7</sup> Net debt to EBITDA reported does not equate to the calculation for bank covenant purposes, which is prepared on a trailing 12-month basis. Additional adjustments are made for covenant purposes, as agreed under the bank facilities. Net debt to EBITDA, for the year ended December 31, 2015, for covenant purposes was 1.84:1.

**REVENUE** (\$Millions)

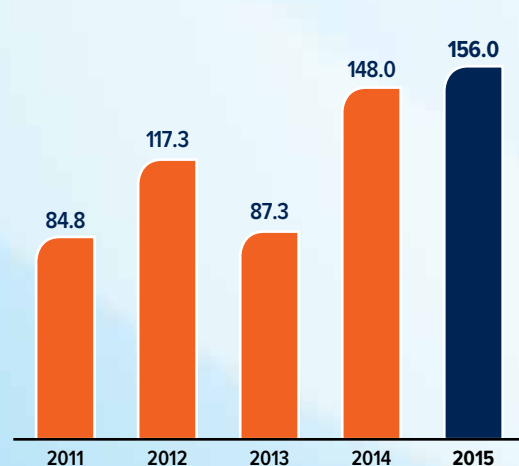
Slightly declining year-over-year revenue resulted from weakness in the Canada and USA segments. This was partially offset by a full year's revenue from the mid-2014 acquisition plus growth in the Rest of World segment.

**ENDING BACKLOG** (\$Millions at December 31)

Declining capital investment by customers led to lower bookings in 2015, accounting for the sharp decline in the ending backlog.

**EBITDA<sup>1,2</sup>** (\$Millions)

A greater proportion of higher-margin Service and Rental revenue, combined with timely global cost reductions, delivered year-over-year growth in operating income and EBITDA.

**EBIT<sup>1,2</sup>** (\$Millions)

The increase in EBIT was attributable to higher operating income, partially offset by higher depreciation and amortization expenses related to the increased recurring revenue streams.

<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> EBITDA and EBIT excluding the impacts of goodwill impairment, severance and restructuring, customer legal disputes, acquisition-related transaction costs and the devaluation of the Argentine peso.

# LETTER TO SHAREHOLDERS

The volatility in the global energy industry, as well as challenges and opportunities in 2015 made diversification critical to success in the energy services sector.

Enerflex's diversification by geography, product and service offering, customer, and revenue stream is an important factor enabling the Company not only to survive the prolonged global downturn, but to generate growth in EBITDA and recurring revenue in 2015. This was further aided by Enerflex's financial discipline and the regional expansion facilitated by the mid-2014 acquisition.

2015 was a challenging and difficult year; however, I am pleased with the Company's financial and operational performance and the commitment of Enerflex's employees. The Company's results speak to Enerflex's business model, strategic and timely implementation of cost-savings initiatives, and prudent management at all levels. Employees once again exemplified hard work and continually adapted to focus on growth opportunities, and I thank them for their extraordinary efforts.

Enerflex's business continues to be based on the concept that has guided the Company for years – that natural gas is an energy source that will power a growing proportion of the global economy, and a company that positions itself along the natural gas value chain will thrive. Enerflex's focus remains on harnessing growth opportunities on a global scale and further diversifying the business.

## Diversification

At no time was it more important for an energy services company to be diversified than in 2015. Enerflex's long-term and strategic drive to differentiate itself has served the organization well and includes:

- » Operating with an on-the-ground presence in seven regions worldwide;
- » Positioning along the natural gas value chain through its equipment and service offering;
- » Providing our entire suite of offerings in each region;
- » A customer base spanning global majors, National Oil Companies, smaller public and private companies, and midstream operators; and
- » Revenue drawn from a mix of equipment sales and recurring services.

The benefits of the business model further became evident with the drastic fall in commodity prices. Weaknesses in North America were offset by Rest of World revenue growth to a record proportion of the Company's overall revenue. With equipment sales flat or decreasing in all segments, the strategic objective of achieving 35 to 40 percent recurring revenue ratio gained further momentum. Through improved service activity in the United States and Rest of World segments, increased rental revenue, and new after-market service contracts, Enerflex increased its recurring revenue from \$321.0 million in 2011 to \$537.2 million in 2015, a 67.4 percent increase.

The Company's results speak to Enerflex's business model, strategic and timely implementation of cost-savings initiatives, and prudent management at all levels.

## Financial Discipline

The Company's financial discipline centres on a conservative balance sheet, prudent dividend planning, careful liquidity management, disciplined capital allocation, and timely cost-cutting initiatives. Enerflex's balance sheet results from years of:

- » Deploying free cash flow towards repaying debt or prudent investments such as rental assets that generate strong returns;
- » Aggressively managing working capital, including rigorous management of receivables;
- » Strategically sound capital investments that meet financial requirements and hurdle rates for investment returns;

Gas compression, processing, and liquids extraction facility, Oman.

# 17.3%

YEAR-OVER-YEAR GROWTH  
IN EBITDA<sup>1</sup>

# 33.0%

TOTAL RECURRING  
REVENUE

- » Maintaining a scalable business which allows for proactively adopting cost-saving measures to protect shareholders' capital;
- » Managing maturing debt early and expanding the borrowing base to increase access to capital (the current credit facility totals CAD\$775.0 million); and
- » Growing the dividend at a conservative and sustainable rate.

The Company has experienced multiple industry downturns over the past 35 years and in November 2014 it became apparent that another one was upon us. Enerflex acted decisively with numerous cost-saving measures to streamline its business, control costs, and continue towards its 10 percent EBIT goal. Key measures included exiting the oil sands business and winding down the manufacturing facility in Nisku, Alberta. Headcount reductions of approximately 1,100 employees, a salary and hiring freeze, business travel expense limitations, and reduced marketing, facilities, and IT expenditures were also implemented. Mandatory time off was introduced with corresponding salary reductions, and man-hours were decreased in the manufacturing facilities, all contributing to the Company's profitability in 2015.

## Expansion

The acquisition of the international contract compression, processing, and after-market service business of Axiom Energy Services, LP ("Axiom") was a significant addition making Enerflex a stronger, more diversified, and more profitable organization.

The acquisition met Company expectations by providing immediate growth and long-term opportunities. In 2015, Enerflex made significant capital investments in new turnkey contract compression and processing projects, adding to the acquisition's effective value and increasing recurring revenue. The Company saw the benefits of these capital investments in late 2015 as the projects began to come online.

The integration of the Latin American employees was exceptional. The ability and dedication of the team to adopt Enerflex's culture and values while contributing their know-how made this a seamless and successful transition. The acquisition also created immediate revenue synergies – the new operating presence and personnel expertise enabled Enerflex to secure projects in a region where it had long struggled to gain a foothold.

## Canada

A strong first half was powered by Enerflex's opening backlog in our traditional business and growth in electric power opportunities. This was followed by a weak second half. The prolonged slump in commodity prices, sub-economic pricing for natural gas liquids, and capital scarcity made it hard for producers to bring on new production, and the 2016 outlook is weak.

Regional revenue was down \$35.2 million or 6.6 percent year-over-year. During 2015, compression and process orders declined sharply as producers remained focused on capital discipline, which caused investment delays. The second-half slowdown ended with backlog falling by 54.5 percent and the parts and service business declining by 31.0 percent year-over-year.

<sup>1</sup> EBITDA excluding the impacts of goodwill impairment, severance and restructuring, customer legal disputes, acquisition-related transaction costs and the devaluation of the Argentine peso.

Sour gas processing facility, Canada.

On the positive side, the electric power offering experienced year-over-year growth. Multiple, new long-term service and maintenance agreements were signed. Improvements to compression and processing project execution materially improved margins. Consolidating Canadian operations from numerous divisions eliminated administrative redundancies and created a common group of shared services. This opened avenues for cross-selling and raised Enerflex's position from simply bidding on equipment or services to offering integrated solutions.

Canada's natural gas sector will remain weak until significant new export capacity for oil and natural gas is added. On the gas side, large LNG export facilities from Canada's west coast are essential. As of this date, there has been no final investment decision for an LNG project announced. Regulatory, tax, and environmental issues create on-going uncertainty. On the other hand, with the Canadian dollar at an 11-year low, skilled labour costs falling, and labour availability improving, the economics associated with executing a major capital project have improved significantly.

## United States of America

Following increased sales growth in 2014, revenues in the USA were down by 11.0 percent in 2015. Enerflex's marked transition from stand-alone compression sales to the provision of integrated solutions was positive, including four turnkey compression projects, of which two are build-own-operate-maintain ("BOOM") contracts. The service business also demonstrated improved performance, growing from \$117.2 million in 2014 to \$127.9 million in 2015, a 9.2 percent growth rate.

The USA region's drive to improve project execution had positive results, with profit margins improving in the second half of the year. Deteriorating commodity prices, however, drove down new bookings by approximately 58.6 percent and the 2015 ending backlog by 62.9 percent. With orders slowing, the Company reduced regional employee headcount, as well as work shifts in the manufacturing facility.

Enerflex's investment in well-equipped, well-situated service facilities, such as our new operations in Odessa, Texas, along with expert technicians positioned the region to aggressively focus on increasing its market share of after-market service and maintenance. Enerflex is on-the-ground in all of the major natural gas plays across the United States, including the Marcellus and Permian Basin.

The lack of activity in gas processing facility sales was disappointing in 2015. In 2016, the Company will be looking to emulate its success in turnkey compression on the gas processing side.

The five broad gas demand drivers discussed in previous reports continue to lift U.S. gas consumption and exports. We are at a truly historic juncture in that the first large LNG export plant, Cheniere Energy's Sabine Pass facility, commenced gas injection for liquefaction last fall and shipped its first LNG tanker at the end of February 2016. Recently submitted expansion proposals for several planned LNG export facilities reinforce our view of long-term U.S. LNG exports being in the range of 8 to 10 bcf per day. Increases in gas demand are positive for Enerflex's business, as the Company provides the equipment needed for treating, processing, and compressing natural gas between the wellhead and the export pipeline or LNG facility.

## Latin America

The 2014 acquisition transformed Enerflex in Latin America from a minor player with immaterial revenue into a strong regional competitor. Our long-term outlook centres on the regional development of gas markets, requiring construction of gas infrastructure, to replace imported LNG or supplement hydroelectricity production straining under drought and declining water supply.

The Company made progress in 2015. Expiring compression rental contracts were renewed, securing Enerflex's base revenues, and the region's impressive compression fleet runtime was maintained. New contract compression orders were signed and Enerflex secured its first project in Bolivia.

## The Company is positioned for growth and is focused on further developing its offerings within its operating regions.

Regional activity was strongest in Argentina as development of that country's immense shale resources reached an unprecedented pace. The industry was even more receptive to Enerflex as a new regional supplier than expected. Argentina's fiscal reforms following its recent elections, which notably include the easing of currency controls, should spur even greater energy sector investment.

Enerflex is uniquely positioned to capture growth opportunities in the region, through focusing on overall energy market development and expanding the Company's market share. Emphasis will continue to be on Argentina, Mexico, Brazil, Peru, Colombia, and Bolivia. The Company will pursue turnkey and BOOM projects and further grow its after-market service business across the region.

### International

In the Middle East / Africa region, Enerflex experienced increased activity in equipment sales and rentals, as well as after-market service. The build-up of Enerflex's service infrastructure in Bahrain and Oman has improved regional recurring revenue and strengthened the Company's competitiveness on new projects. Equipment sales into West Africa remained steady.

Asia's regional market has been slow but we are pleased with our Kuala Lumpur-based engineering team. The group's skill, expertise, and ability to source certain advantageously priced, locally fabricated equipment makes Enerflex a cost-effective competitor across this vast region.

In response to the on-going market conditions, Enerflex announced the restructuring and downsizing of its construction business in Australia. The Company will complete the existing projects in backlog and will re-align its focus on the management of integrated turnkey products with a smaller team in place. Australia's service operations continued to perform well and are leveraging long-term service agreements with major producers into new opportunities.

Enerflex is strategically situated across this region to capture equipment sales opportunities and continue to grow recurring revenue.

### Financial Results

Last year I indicated that Enerflex had good visibility for first-half business conditions but that second-half results would hinge on commodity prices. Due to the opening backlog in Engineered Systems, the first half was indeed healthy while the second half weakened. The brief commodity price uptick in June soon evaporated and prices exiting 2015 were approximately US\$35 per barrel WTI crude oil and barely over \$2.30 per mcf for natural gas in North America. Despite this, Enerflex not only demonstrated strong financial performance but achieved growth in several financial benchmarks. The Company substantially increased its percentage of recurring revenue, our balance sheet ended the year strong, and Enerflex was among a select few Canadian energy services companies that did not require debt-related covenant relief.

Gas storage facility construction, Western Australia.



Enerflex employee at a customer site, MEA.

Enerflex's 2015 financial results included:

- » Revenue of \$1,629.0 million compared to \$1,696.2 million in 2014;
- » Recurring revenue of \$537.2 million or 33.0 percent of consolidated revenue, compared to \$486.4 million or 28.7 percent of consolidated revenue in 2014;
- » EBIT<sup>1</sup> of \$156.0 million compared to \$148.0 million in 2014, a 5.4 percent increase;
- » EBIT margin<sup>1</sup> of 9.6 percent, up from 8.7 percent in 2014;
- » Bookings of \$635.1 million, a decrease of 55.2 percent from 2014, and a 53.4 percent decrease in the year-end backlog from \$916.5 million in 2014 to \$427.2 million in 2015;
- » No change to the dividend; and
- » Following significant capital expenditures in 2015 Enerflex had net debt of \$420.6 million and a net debt to EBITDA ratio of 2.38:1 as at December 31, 2015<sup>2</sup>. Enerflex's balance sheet provides continued flexibility.

We are proud of these results and believe they provide a solid basis for shareholder confidence.

## Enerflex as a Global Competitor

Enerflex is a strong global competitor in the natural gas compression, processing, power generation, after-market service, and contract operations market. The Company is positioned for growth and is focused on further developing its offerings within its operating regions. Enerflex's extensive history in the Canadian service business has demonstrated the value of recurring revenue in a cyclical industry and has seen success in the build-out of its service capabilities in the global market. The management team and employees are experienced and possess a breadth of skills which allows Enerflex to stand atop the changing competitive landscape. The Company also increased its financial flexibility and access to capital, so that it could complete the Axip acquisition, which positioned Enerflex for long-term growth. The associated diversification and revenue stability provided inherent downside protection, strengthening Enerflex's ability not only to weather the current downturn but to become a stronger company.

Enerflex continues to improve its risk assessment and mitigation. The risk management committee established in 2014 was tested throughout 2015 in evaluating large or complex projects and contracts. It functioned well and demonstrably averted risks to the Company. Corporate safety performance improved for the fifth consecutive year with Enerflex's total recordable injury rate ("TRIR") falling to 1.15, down almost 30 percent from 1.71 in 2014 and below the 2015 target of 1.50.

Enerflex not only demonstrated strong financial performance but achieved growth in several financial benchmarks.

## 2016 Outlook and Priorities

The Enerflex management team's short-term outlook is less optimistic than one year ago. It appears commodity prices will remain lower for longer and equipment sales will continue to decline. North American activity will remain weak. With business conditions constantly changing, Enerflex is continually reviewing the business environment, assessing bookings and backlog, and looking for new sales opportunities and further cost reductions, as required. Enerflex will operate with caution, continuously evaluate regional costs and financial performance, and above all will safeguard the Company.

<sup>1</sup> EBIT excluding the impacts of goodwill impairment, severance and restructuring, customer legal disputes, acquisition-related transaction costs and the devaluation of the Argentine peso.

<sup>2</sup> Net debt to EBITDA reported does not equate to the calculation for bank covenant purposes, which is prepared on a trailing 12-month basis. Additional adjustments are made for covenant purposes, as agreed under the bank facilities. Net debt to EBITDA, for the year ended December 31, 2015, for covenant purposes was 1.84:1.

Enerflex will operate with caution, continuously evaluate regional costs and financial performance, and above all will safeguard the Company.

Enerflex's 2016 priorities are to:

- » Align costs with revenues to achieve a 10 percent EBIT margin;
- » Allocate free cash flow to debt reduction and organic recurring revenue growth opportunities that pass risk management and investment return hurdles;
- » Continue to take steps to increase recurring revenue as a percentage of total revenue;
- » Continue to evaluate strategic acquisition opportunities;
- » Increase our global market share in gas processing equipment; and
- » Further improve our safety performance to a worldwide TRIR of 1.0.

Our long-term view of the role of global natural gas is more positive than ever. Global demand continues to track upwards, driven by numerous uses for gas and accentuated by regulatory and environmental trends ratcheting down coal. LNG is transitioning from a mainly intra-oceanic to a truly global commodity. The greater trading and transportation liquidity will benefit the demand side, contributing to long-term growth. Consuming markets including developing countries are increasing gas consumption and building the required infrastructure, making gas an increasingly important input for global growth.

Increased global gas demand translates into increased gas production, processing, and transportation, which means a greater requirement for Enerflex's offerings. We compress, process, and treat natural gas. We provide full life-cycle service of the associated equipment and systems. We provide gas-fuelled electric power for the gas industry and in niche areas, and we believe we are the industry's best at this. We continue to broaden our diversification while working toward complete product and service coverage in every region. We have repeatedly demonstrated that our diversified operations and complementary internal strengths enable us to flourish through varying market conditions. If you agree, then Enerflex is your investment choice.

On behalf of the Board of Directors,

[signed] "J. Blair Goertzen"

**J. Blair Goertzen**

President, Chief Executive Officer, and Director

February 25, 2016

*Gas compression facility, Queensland, Australia.*



## FOCUS ON INTERNATIONAL GROWTH

# LATIN AMERICA

### 2015 Highlights

- » Regional performance contributed to Enerflex's recurring revenue percentage and profitability.
- » More than 25,000 hp of new operated rental compression was installed in the Latin America region.
- » Renewal of 85,000 hp in contracted compression in Mexico.
- » Expanded regional presence in Bolivia with the award of new projects.
- » Opened a fully-equipped, 9,600-square-foot service and overhaul facility in Neuquén City, situated in Argentina.

In 2015, Enerflex's profitable growth in Latin America met the Company's targets. New equipment sales, turnkey and BOOM projects, and increased development of the region's after-market service capabilities were the main driving forces. The region's performance is of strategic importance, resulting in increases to consolidated revenue, operating margin, and the overall recurring revenue percentage. Latin America offers visibility for continued performance and further growth in 2016.

The regional focus was primarily on Argentina, Mexico, and Brazil, with additional opportunities in Bolivia, Peru, and Colombia. The global energy sector slowdown began to change Latin America's competitive landscape in 2015. Formerly characterized by a select group of equipment packagers, additional foreign competitors have entered the market while some regional EPC companies are attempting to transition into full life-cycle or BOOM providers.

Despite these competitive challenges, Enerflex achieved increased success in the region. New contracts awarded since the acquisition in mid-2014 have demonstrated the Company's regional track record and reputation. During 2015, further focus on providing high-quality execution of new projects reduced warranty claims and improved the region's revenue. Capitalizing on Enerflex's manufacturing strengths allowed for the delivery of high-quality fabricated equipment on-time and on-budget.

**Enerflex's strategic growth in Latin America has met expectations, increased the diversification of Enerflex's offering, contributed to profitability, and increased the Company's recurring revenue.**

**Argentina** – Despite the significant scale-back in the global energy sector's capital investment in 2015, activity increased sharply in Argentina. Domestic exploration and the development of Argentina's enormous shale reservoirs reached a record pace, with multiple international companies investing in the region. During the year, Enerflex signed a long-term BOOM contract for a turnkey compression facility, which was delivered on-time and on-budget. The construction of a new service facility in Neuquén City served to elevate Enerflex's local service business from field technicians into a fully equipped competitor providing customers with parts, service, and equipment solutions. In addition to the standard parts and service offering, the Neuquén facility can perform engine overhauls and minor skid-mounted equipment packaging.



**Mexico** – The national energy reform proceeded slower than initially expected, domestic gas production fell, and low oil prices caused Pemex, the state oil company, to reduce capital expenditures. Enerflex renewed all 85,000 hp of maturing operated rental compression contracts, generating significant recurring revenue. Enerflex remains well-positioned to participate in the long-term expansion of Mexico's gas-handling infrastructure, whether supply- or demand-driven. Opportunities could include compression for smaller lateral pipelines as gas delivery infrastructure is built-out to support increasing gas imports from the U.S.

Enerflex's after-market service capabilities were further strengthened in Latin America, specifically in Mexico during the year. The team formed a maintenance department with the goal of ensuring reliability, run time, and long-term integrity of Enerflex's equipment.

**Brazil** – This was a quiescent market in 2015. There continues to be long-term potential associated with providing gas infrastructure required to take advantage of associated gas produced from Brazil's gigantic Pre-Salt offshore oil development, which has long-term resource potential of over 55 billion boe. Brazil's longer-term gas infrastructure expansion will be both supply- and demand-driven and will include compression, treating/conditioning, processing, pipeline transport, and power generation.

## 2016 Outlook

Latin America provides growth visibility in 2016, driven by a combination of overall development in national gas markets and Enerflex increasing its presence in the region. The Company continues to focus on securing additional BOOM and integrated turnkey projects and expanding the after-market service business based on the strengths of its employees. Maintaining fleet utilization remains a continuing priority. The already intense pace of activity in Argentina is expected to accelerate further. The Company is optimistic about leveraging its new after-market service strengths into an increased revenue stream from field services, parts sales, and new long-term service agreements. Enerflex's overall vision for Latin America remains one of long-term growth achieved through its commitment of people, capital, and infrastructure.

## 35 MMSCF PER DAY COMPRESSION FACILITY

### Vaca Muerta Unconventional Play, Neuquén Province, Argentina

Enerflex was awarded the contract to provide engineering, design, procurement, and construction of the equipment for a sweet gas compression facility in Argentina. The project consists of five reciprocating compressors totalling 8,400 hp driven by Waukesha 7044 GSI engines, a dehydration system, inlet separation, fuel gas treatment, flare system, and a control system designed to meet Safety Integrity Level 2 requirements. The engineering, design, and majority of the fabrication were completed in Houston with the piping pre-fabricated in Neuquén City using a modular design. The equipment was shipped in May 2015, followed by field construction. The project was completed on-time and on-budget with zero lost-time incidents.



## FOCUS ON INTERNATIONAL GROWTH

# MIDDLE EAST / AFRICA

### 2015 Highlights

- » Regional revenue exceeded the year's plan.
- » Delivered two significant rental compression projects on or ahead of schedule and on-budget.
- » A large BOOM project was awarded and expanded in scope during the year and remains on-schedule for mid-2016 commissioning.
- » All expiring operated rental contracts were renewed on multi-year terms.
- » New long-term operations and maintenance contracts were awarded on rental assets.
- » Following year-end, the Company opened its fifth regional branch location, in Sharjah, UAE, strategically situated to support long-term service work.

Amidst extensive capital expenditure reductions in the energy sector, the Middle East was one of the world's few regions where the energy industry investment was estimated to have risen in 2015. Enerflex's MEA region delivered excellent results, exceeding the year's plan with additional project sales and growth in recurring revenue from Company-operated rental assets and long-term service agreements, facilitated by important additions to the Company's operating infrastructure.

The regional performance is of strategic importance, increasing Enerflex's overall diversification, adding to its recurring revenue percentage, and contributing materially to Company profitability. The region offers visibility for continued performance strength and further organic growth in 2016.

Enerflex's success is based on a regional business model that strategically places the Company's facilities and expertise with the long-term goal of assembling the right number, nature, and location of resources to support the mix of customer needs. These often comprise end-to-end fulfillment from high-end engineering through long-term operations and servicing of remote equipment.

**The MEA region's performance is of strategic importance, increasing Enerflex's overall diversification, adding to its recurring revenue percentage, and contributing materially to Company profitability.**

Despite low oil and natural gas prices, regional governments continue to make capital investment decisions and have the financial resources to execute upon them. This has attracted numerous new competitors from weaker-performing regions. Enerflex has responded to the challenge by providing highly creative and competitive solutions based on excellent engineering and manufacturing by the North American team, supplemented by high-quality local third-party fabrication as needed, and maintaining strong vendor relationships.

During the year, the Company completed two integrated projects. The first, in Bahrain, encompasses three field compressor stations of Enerflex-owned equipment leased to the client for an enhanced oil recovery project. The project finished ahead of time and slightly under budget, with a great HSE record. The second project, in Oman, is a compression station



with a number of modules and entered service in September 2015. Both projects include operations and maintenance contracts, ranging from three to five years, which will contribute significantly to recurring revenue.

Customers in the MEA region favour the operated rental model for several reasons. They avoid tying up capital in early production/testing facilities by funding these out of their cash flow and they can better manage commercial risks when a large project is part of a consortium. The rental model also simplifies the disposal of equipment at the end of the project's life.

The Company's regional service footprint continues to grow. A new service branch in Sharjah, UAE, opened in 2016, complementing Enerflex's other facilities and allowing the Company to provide overhauls and major maintenance on long-term service agreements in the UAE, Oman, and Bahrain. In addition, Enerflex service technicians fan out to provide product support in numerous other countries in the Middle East and across Africa and Europe / CIS. In 2015, Enerflex's Service revenue in MEA also exceeded expectations, having rolled over all expiring operated rental contracts and gaining new long-term operations and maintenance contracts.

In 2015 Enerflex achieved ISO 9001 compliance for its Middle East team. This is an important qualification for doing business with international oil and EPC companies in this part of the world, positioning Enerflex to be even more competitive.

## 2016 Outlook

Business conditions remain positive in the MEA region, based on Enerflex's large installed rental fleet, long-term operations and maintenance contracts, leveraging of the Company's regional infrastructure, and the pursuit of several opportunities for large project and product sales.

Following the commissioning of the Oman Block 62 compression and processing project in mid-2016, Enerflex will have more than

100,000 hp

of operated rental compression equipment in the MEA region.

## GAS COMPRESSION, PROCESSING, AND LIQUIDS EXTRACTION FACILITY

### Block 62, Oman

This fast-track BOOM project illustrates the strengths of Enerflex's global delivery platform. It encompasses numerous capabilities, including in-house engineering and design, in-house and third-party manufacturing, the sale, as well as the rental of equipment, field construction, and long-term operations and maintenance. The project's scope was for 30,000 hp of compression, comprising both newly built and repurposed equipment.

During construction, better than expected well tests resulted in a significant expansion in scope, including greater compression horsepower and increased processing requirements. The processing equipment was fabricated in Kuala Lumpur and includes membrane-based nitrogen removal, TEG dehydration, hydrocarbon dew point control, tanks, stabilizers, and hot oil processing. The project is on-budget and on-schedule and is being delivered in two phases. The first phase operations commenced in March 2016 with the second phase planned for June 2016, following which Enerflex will begin a five-year operations and maintenance contract.



# OPERATIONS REVIEW

## EQUIPMENT

### 2015 Highlights

- » Engineered Systems revenue totalled \$1,091.8 million compared to \$1,209.8 million in 2014.
- » Bookings in the Canada and USA segments were strong in the first half of 2015, followed by a weakened second half.
- » Global headcount was reduced by over 1,100 employees, incurring severance costs of \$10.7 million.
- » Canadian manufacturing consolidated from five facilities to two in Calgary, Alberta.
- » Night shift and overtime cancelled in the manufacturing facilities.
- » Throughout 2015 the Australian process construction team was reduced by half to align with declining construction activity and in early 2016 the function was wound up with the termination or reassignment of the remaining personnel.

Enerflex supplies a wide range of equipment and innovative solutions to compress, treat, process, and transport natural gas between the wellhead and the gas pipeline, and to generate on-site electric power. The Company engineers, designs, and manufactures equipment for sale or lease and also provides a range of integrated solutions in which Enerflex completes the construction, installation, commissioning, and the operations and maintenance of the equipment and facilities (see Integrated Solutions on page 28).

**North American warranty claims were reduced extensively over the course of 2015, materially improving profit margins.**

The sharp decline in oil prices in late 2014 and further weakness in North American natural gas prices caused capital investment by energy producers and midstream operators to be significantly curtailed in nearly all markets worldwide in 2015, leading to a decrease in Engineered Systems revenue. Enerflex's opening backlog of \$916.5 million provided for a stronger first half, although new bookings fell in North America and the 2015 ending backlog was 53.4 percent lower than in 2014. Enerflex's Latin America business generated record new equipment orders, mainly as integrated solutions. Equipment orders also remained strong in the Middle East / Africa and electric power projects grew in Canada.

## KEY EQUIPMENT

### COMPRESSION

- » Wellhead, gathering system, pipeline, processing facility, and gas storage applications.
- » Reciprocating and rotary screw compressors.
- » Conventional and unconventional plays.
- » Small through large horsepower (200 hp to 10,000 hp).

### ELECTRIC POWER

- » 250 kW through 50 MW.
- » Various gas fuel sources – produced gas, LNG, biogas, and wastewater treatment gas.
- » Variety of niche applications serving numerous industries.

### PROCESSING

- » Gas treating
- » Dehydration
- » Separation
- » Refrigeration
- » Fractionation
- » Dew point (shallow cut) liquids extraction
- » Cryogenic (deep cut) liquids extraction



Natural gas compressor station, Australia.

## Engineering, Design, and Fabrication

Enerflex has complete in-house capabilities to engineer, design, and fabricate its entire product offering. Regional engineering teams are focused on the particular needs of their markets and providing specialized expertise on worldwide projects.

Calgary has extensive manufacturing capabilities, including the fabrication of heavy pressure vessels. In 2015, Enerflex closed its manufacturing facility in Nisku, Alberta (which had been focused on the Company's discontinued oil sands business) and relocated heavy vessel fabrication capability to its Barlow Trail facility in Calgary, Alberta. This facility provides indoor fabrication of vessels up to 20 feet wide, 100 feet long, and 6 inches thick. Enerflex has already seen an increase in bookings for heavy vessels in 2016. Fabrication of compression, process, and power generation equipment in Canada is performed at the 4700 and Barlow Trail facilities in Calgary.

### Continued enhancements to processes and procedures improved efficiencies in Enerflex's manufacturing facilities.

The Company's 44-bay, 150,000-square-foot facility in Houston, Texas has grown into Enerflex's global manufacturing centre of excellence. Engineered Systems equipment destined for the USA, Latin America, and International markets is driven out of this operation.

During 2015, operations in both major centres were scaled back from previous record levels in accordance with demand trends.

In the MEA and Asia regions, Enerflex has the ability through a number of trusted, carefully vetted, and qualified third-party fabrication facilities that manufacture to its extensive design specifications, enabling the Company to take advantage of regional labour costs and proximity to end-user clients.

## PROPYLENE REFRIGERATION SYSTEM

### Gulf Coast, Louisiana

Enerflex's extensive experience in supplying modular refrigeration systems helped secure a contract in mid-2014 to engineer, design, and manufacture a propylene refrigeration system for the expansion of ethylene propylene diene monomer (plastic) manufacturing at a large petro-chemical facility. The system includes a propylene receiver, high-pressure sub-cooler and knock-out drums, water chiller, relief and drain headers, suction and discharge piping rack, and propylene condenser. The completed system provides 6,800 tons of refrigeration from its three-stage, 12,000 hp electric motor driven centrifugal compressor, with a drive train of 12 modules on two levels.

The project involved some of the heaviest and largest equipment yet constructed by the Houston manufacturing facility. The assembled unit, without the drive train, stands approximately 86 feet long, 56 feet wide, and 44 feet high, and includes a 9,000 ton of refrigerant water-cooled condenser with 100 inch diameter shell and 5,800 tubes weighing over 105 tons. Enerflex's modularized approach included pre-assembly at the Houston manufacturing facility to minimize costs and maximize field installation efficiency. The equipment was completed on-time in late 2015.





Amine sweetening facility with an output of 2 x 95 mmscf per day, Oman.

power, industrial power, and municipal power from a variety of sources such as produced gas, wastewater, sewage, and landfill gas, biogas, and LNG. The Company's ability to provide a turnkey solution, price and schedule certainty, and top-quality, reliable after-market service has proved very attractive.

In 2015, Enerflex completed its heaviest and most sizable equipment constructed in both Calgary, Alberta and Houston, Texas for projects destined for North America.

**United States of America** – The gas producing and midstream sectors in the United States maintained their focus on processing liquids-rich gas, both in gas fields and plays where gas is produced in association with the primary target – oil. Customers require field gathering and facility compression plus gas treating and liquids extraction.

The Marcellus and Utica shales in the northeast and the Permian Basin in west Texas remained the areas where Enerflex experienced the strongest demand for its equipment in 2015. The Marcellus is an extremely low-cost-supply area with gas reserves adjoining major consuming markets. Its sudden and rapid production growth over the past five to eight years requires an immense infrastructure build-out. The flat, barren, and underpopulated terrain of the Permian, meanwhile, offers extremely low costs to tie in new production, making it attractive in a low-price environment. As commodity prices remained weak throughout the year and production of all commodities was abundant, U.S. pricing for natural gas liquids such as propane slumped and some producers began to focus on producing “dry” or liquids-free gas, which requires less processing.

Since 2011, Enerflex has supplied nearly 100 skid-mounted compressor packages to a large independent midstream energy company in North America. Enerflex's engineering and design team developed a customer-specific standard design for the Caterpillar 3500 and 3600 series reciprocating compressor packages. The standardized design is applied to subsequent orders, maximizing the positive impact of the customer's capital spend and speed to market. In 2015, Enerflex fabricated, shipped, and installed 24 gas engine-driven, four-stage compressor packages for this customer. In the most recent order, Enerflex was awarded an additional seven compressor packages, all of which were shipped to site in early 2016 for installation.

## 2015 Activity

**Canada** – A strong opening backlog resulted in increased throughput and operating man-hours in the Calgary facilities during the first half of 2015. The second-half slowdown, due to low activity levels primarily a result of falling commodity prices, ended with backlog falling by 54.5 percent. Perhaps surprisingly, low commodity prices in Canada have tended to favour efficiently operated, low-cost, and flexible mid-sized producers focused on high-quality areas of unconventional reservoirs such as the Montney and Deep Basin, while larger companies have generally scaled back. During the year, Enerflex continued to supply gas treating (amine and refrigeration) and liquids extraction plants, production facilities, and compression to the still-active producers.

To become more price-competitive and reduce cycle times, the Company also developed a suite of standard compression and process package designs for the oil and gas market. Enerflex's standard lineup was designed in 2015, with parts sourced and maintenance manuals completed, and is being launched this year.

The Canadian region experienced some relief due to power generation opportunities in 2015. Although total revenue for power remains modest, percentage growth was high. Enerflex serves multiple industries, with customers seeking a range of niche applications including well-site and facility

**Latin America** – Enerflex's expanded Latin America operations provided a market for new equipment in 2015, mainly in the form of contract compression installations and turnkey or BOOM projects. This advanced Enerflex's vision to create revenue synergies by finding new markets for its equipment offering while also increasing recurring revenue. Compression packages in Latin America are typically mid-to high-horsepower, generally using reciprocating gas-fuelled drive engines. Last year Enerflex secured a new project in Bolivia, including an amine system to remove the high CO<sub>2</sub> content from the raw gas production of a recently drilled well. This project was approximately 60 percent complete as of March 2016 and is on schedule for the expected start-up in July 2016.

**New equipment sales and turnkey and BOOM projects in Latin America resulted in record horsepower installed in the region.**

**International** – Equipment sales in the MEA region were stable in 2015. Customers in Africa typically opt for stand-alone equipment purchases, while projects in the Middle East are nearly always bundled in some way and are often fully integrated. In Australia, Enerflex has been transitioning from a construction-focused to an equipment and service-focused business as new construction for large LNG export facilities is largely complete. As the producing gas fields mature and deplete, however, Enerflex foresees a market for additional low-horsepower wellhead compression and hydraulic pumping equipment, a trend that began in 2015. In Europe / CIS, Enerflex completed new equipment sales with growth in Ukraine, Croatia, and Kazakhstan, replacing previous business seen in Russia. In Europe / CIS, the Company continues to support customers in the CO<sub>2</sub> market based on Enerflex's strong technical expertise in dealing with this unique gas.

## 2016 Outlook

The equipment growth outlook is mixed for 2016. Further growth is expected in Latin America and MEA. Asia remains quiescent. Low levels of activity in Australia may pick up slightly. In Canada and the USA, Enerflex is not expecting to see growth opportunities. Canada has a reasonable backlog of fabrication work for the first half of the year with the second half expected to be weak. With its ending backlog down by 54.5 percent year-over-year, the USA region's goal is to match 2015 equipment activity levels. The Company will continue to leverage its ability to provide far more than just the raw equipment to attract customers who can benefit from the certainty and reliability of Enerflex's complete offering.



## LNG-FUELLED ELECTRIC POWER FACILITY

### Whitehorse, Yukon

Enerflex's Gas Drive business provided the first new LNG-to-power plant in Canada. This full turnkey co-generation solution included an LNG-fuelled, 8.8 MW electric power generating station to complement an adjoining hydroelectric facility in Whitehorse, Yukon. The local utility required the replacement of two aging diesel-fuelled generators and opted for trucked-in LNG as the replacement fuel. Gas Drive engineered, designed, procured, fabricated, installed, and commissioned the complete solution, which centred on two Jenbacher JMS 624 reciprocating gas engines and all related modules, including the fluid transfer module and heat recovery system to provide the thermal energy needed by the LNG regasification module. Special features were incorporated to ensure reliable operation in extreme winter conditions. The new facility was completed in November 2015 on-time, on-budget, and without injuries.



# OPERATIONS REVIEW

## SERVICE

### 2015 Highlights

- » Consolidated Service revenue remained stable year-over-year at \$384.6 million.
- » USA Service revenue increased by 9.2 percent year-over-year to \$127.9 million.
- » Rest of World Service revenue increased by 32.9 percent to \$145.1 million from \$109.2 million in 2014.
- » Australia Service revenue increased year-over-year, with a focus on renewing and executing long-term service agreements.
- » A number of new long-term and long-term extensions to existing service agreements in Canada and the MEA regions covering almost 150,000 hp in equipment were secured.
- » Established a major maintenance department in Latin America with the goal to ensure reliability, run time, and long-term integrity of Enerflex's equipment in the region.

### ENERFLEX SERVICES

- » Comprehensive after-market service worldwide.
- » Network of locations, well-equipped shops, expert technicians, trucks, and tools.
- » Engine retrofit, overhaul, and optimization.
- » Global parts distribution.
- » Long-term operations and maintenance.

Enerflex has strategically upgraded its service and parts capabilities and today offers comprehensive coverage in key countries and plays in each of its seven operating regions. Enerflex's service and parts offering forms a pillar of the Company's recurring revenue and provides leverage in building long-term relationships, securing large project orders, and transforming the nature of its business from one-time transactions to continuing business with multiple revenue triggers. Enerflex's service capability also strengthens its contract compression and rental offerings.

The regional service build-out is central to the Company's drive towards a 35 to 40 percent recurring revenue ratio. It further diversifies the business and adds downside protection against cyclical weakness in individual regions. The multi-year strategic improvement initiative proved successful in 2015 with Enerflex's parts and service business delivering strong overall results. Significant growth was achieved in Latin America, Australia, the Middle East, and the USA, with weaker results in Canada.

**Canada** – Enerflex holds a large market share for after-market service in Canada. In 2015, Enerflex experienced a reduction in service revenue as the overall market shrank as producers commissioned fewer new facilities, shut-in production, or deferred or in-sourced maintenance in response to low commodity prices. The Company signed a number of new long-term service agreements in 2015, which provides the customer with price certainty and an uptime guarantee, contributing to regional revenue for years. Enerflex became a Platinum Power Packager ("PPP") with GE Gas Engines in 2015, providing factory-direct, competitively priced access to Waukesha engines and parts for the Company's global operations. Under the new PPP agreement, Enerflex lost its authorized distributorship for Waukesha engines and parts in Canada, contributing to the regional slowdown. However, this expanded relationship could benefit the entire organization across all operating regions.

**United States of America** – Enerflex's USA team is leveraging the multi-year run-up in new equipment sales by further pursuing service work. The historical focus on commissioning every piece of equipment sold and supporting the customer during the installation phase is being complemented through the pursuit of follow-up work. The USA region added technicians and modern, well-equipped facilities in key areas. The Company is now physically present in every major U.S. unconventional play area. Enerflex foresees further service opportunities in 2016, with a focus on equipment retrofits to help producers optimize production rates and reduce field operating costs on previously installed infrastructure.

**In 2015, regional distribution centres were created, enabling quicker support to Enerflex's customers.**

**Latin America** – Enerflex’s extensive after-market service capabilities, competitively priced factory-direct parts and labour rates, plus a strong service reputation generated an increase in Service revenue in Latin America in 2015. The Company completed multiple projects including overhaul work across the region, as well as securing a number of long-term operations and maintenance contracts, contributing to sustained revenue. In response to the region’s on-going demand for improving field operating efficiency and operations and maintenance contracts, Enerflex opened a new facility. The fully-equipped shop situated in Neuquén focuses on after-market service, retrofits, and overhauls. Enerflex’s reliable service offering, qualified personnel, and geographical footprint have proved very attractive in the region.

**Middle East / Africa** – Enerflex has extensive experience in providing complete operations and maintenance of compression and processing facilities in the Middle East, supported by expanding regional infrastructure. Enerflex uses a combination of experienced expatriate specialists and local workers trained to its high standards, backed by sophisticated tools such as remote facility monitoring, and oversight by its global contracts management group, to maximize uptime and ensure timely, high-quality service. New service agreements were signed in 2015 and several existing contracts were renewed or extended, providing recurring revenue certainty for 2016.

**Australia** – Enerflex is harvesting the results of upgrading its organization and facilities to provide comprehensive service to Australia’s largest gas producers and LNG exporters under long-term agreements. In 2015, the Company secured extensions to all of its expiring service contracts and, in nearly all cases, increased their scope and volume. Diversification of the service and product offering has allowed the Company to perform well despite the downturn in the oil and gas industry. The team continues to grow to effectively meet increased service demand in the region. Earlier this year, the Company opened a new 22,000-square-foot service facility in Adelaide, South Australia. Enerflex’s success is based on its geographical coverage in key producing areas, well situated service facilities, reliability of service, availability of qualified people, and a strong track record.

## **UPSTREAM NATURAL GAS COMPRESSION PROJECT – COMMISSIONING PHASE**

### **Curtis Island, Australia**

The more than \$20 billion QCLNG complex is the world’s first large-scale project to turn coal bed methane gas into LNG. After supplying and installing 71 rotary-screw field compressor stations to produce first-stage compression between more than 2,000 producing wells and the central processing plants, Enerflex turned to the commissioning phase. With the wells scattered across a vast area requiring hundreds of kilometres of travel, a well-organized and coordinated effort was required. Beginning in late 2013, two commissioning teams worked back-to-back rotating shifts of 16 days on, 12 days off, with overlapping days to ensure efficient communication and smooth project delivery. The commissioning teams worked closely with other contractors and the customer, as required. The team’s leadership in health, safety, and environment policies and practices resulted in the successful commissioning of all 71 packages with zero lost-time injuries, on-time in early 2015.



## OPERATIONS REVIEW

# RENTALS

### 2015 Highlights

- » Rental revenue increased by 55.0 percent from \$98.4 million in 2014 to \$152.6 million in 2015.
- » Maintained 98 percent run-rate of international contract compression assets.
- » Amid weaknesses in Canada, the region experienced a modest drop in rental run-rate.
- » Renewed 100 percent of expiring compression contracts in Latin America, including 85,000 hp in Mexico.
- » Renewed 100 percent of expiring compression contracts in MEA and large rental projects totalling 80,000 hp have been or are being built for the MEA region.

In 2015, Enerflex invested

**\$167.3 million**  
in **105,000 hp**  
of rental compression equipment.

20 mmscf per day gas treating facility, Mexico.

The rental of compression and processing equipment is central to Enerflex's drive to increase the proportion of recurring revenue within its consolidated revenue and to increase its EBIT margin. Over the past two years the Company achieved strong success in its rental offering, leveraging many of its core advantages including:

- » Expert design and manufacturing of the equipment;
- » Global operations, with sales and technical support in all regions;
- » Extensive experience and a strong reputation in the rental business; and
- » Balance sheet strength and free cash flow enabling internal financing of new large rental projects.

Before the acquisition in mid-2014, Enerflex had a modest rental fleet in Canada, an even smaller rental business in the USA, and several rental projects in the Middle East. The acquisition added 285,000 hp of contract compression, mainly in Latin America and the Middle East.

Following the acquisition, Enerflex deployed or will be deploying an additional 105,000 hp of rental assets and has seen its rental revenue grow to more than \$152.6 million for 2015, representing year-over-year growth of 55.0 percent. With Enerflex providing the capital required to manufacture the rented assets, the resulting cash flow is higher than for an outright equipment sale, making renting a higher-margin business line. The Company's growing stream of high-margin rental revenue is helping Enerflex progress towards its long term goal of a 10 percent EBIT margin.

Energy producers and midstream operators rent compression and processing equipment, as well as contract out the operation of the assets, for a variety of reasons.

**Canada** – In Canada, renting conserves capital for drilling projects and provides flexibility in allowing packages to be swapped in response to changing production profiles, especially in the early stage of a new field's producing life. Many Canadian producers still choose to operate the assets internally. Enerflex had hoped to grow the rental business in Canada in 2015, but the severe fall-off in new drilling dampened demand for rental compression and processing equipment.

**United States of America** – In the USA, production and processing assets are typically operated by midstream providers rather than producers. Renting facilities allows operators to match cash flow received from processing fees to steady expenses related to the operating assets. In 2015 the region expanded its rental offering through turnkey and BOOM projects, contributing to revenue in 2015 and beyond.

**Latin America** – In Latin America, the isolation of many facilities and lack of service infrastructure makes it less efficient for many producers to operate or even construct and commission their compression and processing assets, leading many to opt for contract compression agreements. In addition to renewing 85,000 hp in rental contracts in Mexico, Enerflex added 25,000 hp of rental equipment to the region in 2015. The Latin America team also worked with Enerflex's operating regions to share its extensive rentals knowledge, learnings, and successes, strengthening the Company's global rental strategy and providing returns for Enerflex as recurring revenues increased.

**International** – In the MEA region, Enerflex has achieved long-term success in the rental business with a number of generally large-scale compression projects that are bundled with operations and maintenance services. In 2015 Enerflex retained rental contracts totalling 25,000 hp in the region, while delivering and installing equipment for multiple new rental projects totalling 77,000 hp in Bahrain and Oman for 2016 installation.

Renting is not a common model in Australia or Europe / CIS. In Asia, Enerflex has a modest rental business totalling 7,000 hp in Thailand, Malaysia, and Indonesia.

Enerflex's ability to serve all of these needs, in all of its markets, is a significant competitive advantage. The Company's parts and service capabilities are integral to the success of its bundled rental offering.

## **NATURAL GAS COMPRESSION FACILITIES**

### **Permian Basin, West Texas**

In 2015 Enerflex signed a BOOM contract with an oil and gas producer for two compression facilities in the Permian Basin in west Texas. This historical oil-producing region is being revived through horizontal drilling and multi-stage fracturing, with rapidly growing unconventional production of oil, solution gas, and natural gas liquids. The two facilities each include three reciprocating compressors, driven by natural gas engines, with slug catchers, dehydration, and H<sub>2</sub>S removal. The turnkey deliveries were bundled with two-year operations and maintenance contracts. The construction, installation, and start-up for both turnkey rental compressor stations was completed in 2015 on-time. Monthly operations and maintenance of the compressor stations is being provided by the Enerflex team in Odessa, Texas.



Rental revenue grew to

**\$152.6 million**

for 2015, representing

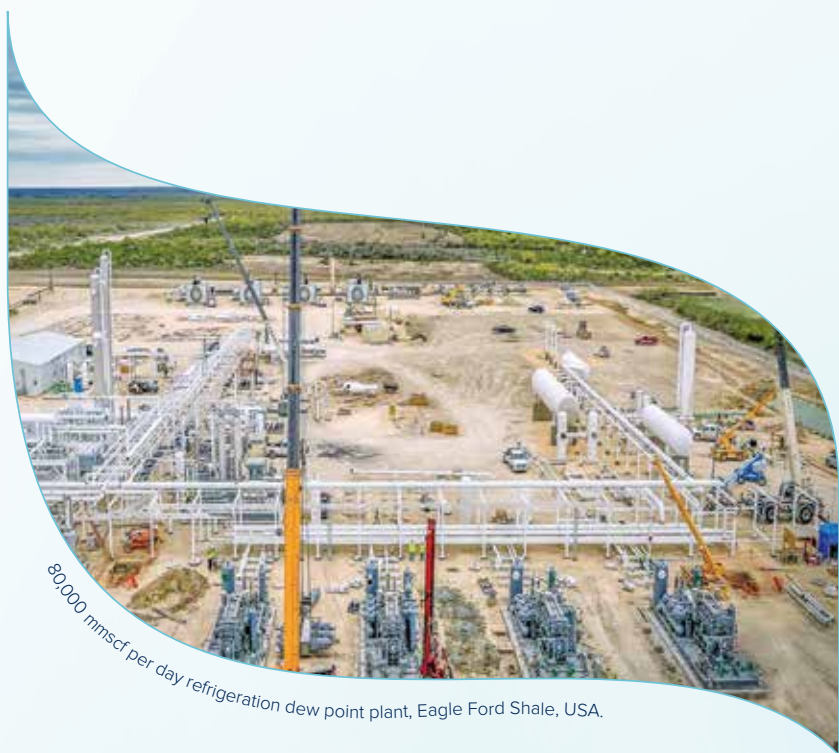
**55 percent**  
year-over-year growth.

## OPERATIONS REVIEW

# INTEGRATED SOLUTIONS

### 2015 Highlights

- » Extensive development and growth through turnkey and BOOM projects were achieved in Latin America, MEA, and the USA.
- » Multiple turnkey and BOOM projects were awarded in Latin America, including a 25,000 hp contract in Argentina.
- » Over 103,000 hp was installed through turnkey and BOOM projects in MEA at year-end 2015.
- » The first operating Canadian LNG-fuelled power plant was completed as a turnkey co-generation solution.



80,000 mmscf per day refrigeration dew point plant, Eagle Ford Shale, USA.

Enerflex's ability to combine its products and services into full-cycle solutions creates new opportunities and strategic growth prospects. It elevates Enerflex's position from being a bidder on a particular piece of work to a strategic partner that is able to deliver a solution encompassing a project's full scope. The enhanced offering also strengthens long-term customer relationships and creates new opportunities and revenue streams.

Enerflex's integrated solutions encompass projects that are more than a pure equipment sale or a simple equipment rental. Customer requirements vary from market to market, and Enerflex provides optionality, tailoring the solution to each customer's particular need. It can include everything from initial project concepts to FEED studies, expert engineering, design, fabrication, field construction, site work, installation, and commissioning. Enerflex is also able to provide long-term service and maintenance work. In some instances, the asset owner is interested in having a reliable third-party operate the asset – another area of the Company's expertise. Further, the customer may choose to avoid the capital commitment of asset ownership by renting the facility.

Providing gas-fuelled power generation equipment for niche applications through an integrated solution has fuelled growth in the Company's electric power offering in Canada.

**Canada** – In the Canadian market, compression and processing customers typically own and operate their facilities and, in many cases, oversee their own construction. In 2015, Enerflex provided a number of turnkey deliveries which did not include the operations component. Parts and service tend to be provided separately or as long-term maintenance contracts. One of the purposes of the re-organization and streamlining of the Canadian business was to better position the Company to identify and compete for integrated project work. For example, when bidding on a gas compression package that is part of a gas processing facility, the Company also seeks to bid on the construction and long-term service while further portraying the benefits and value of Enerflex's full line-up of products and services.

In the electric power business, Enerflex's full life-cycle capability proved to be advantageous in 2015. Enerflex's Gas Drive business had numerous successes, including providing electric power fuelled by gas from pulp waste in an Alberta pulp mill and, most recently, for an LNG-fuelled generating station in the Yukon (please refer to page 23 for additional project information). Electric power customers are seeking an integrated turnkey project solution from a single source supplier because they are not typically in the business of construction, equipment installation or, in many cases, servicing of electric power equipment – all products and services that Enerflex offers.

**United States of America** – In the USA, Enerflex has been pivoting towards bundled offerings in compression and processing that provide oil and gas producers with an attractive model. This has proved to be successful with compression projects and in 2015 Enerflex sold four significant bundled projects, two as BOOM contracts and two as turnkey deliveries. The turnkey facilities are permanent compressor stations for a senior U.S. independent producer, each with three 2,500 hp electric drive compressors, slug catchers, and H<sub>2</sub>S removal. The Company's build-up of its service capabilities strengthens Enerflex's ability to provide integrated solutions in the USA.

**Latin America** – In Latin America, customers favour a bundled provision of compression and processing facilities. Enerflex's ability to deliver high-quality equipment, execute the project efficiently, as well as service and maintain the facility is proving very attractive in this market. Within a year of Enerflex's expansion into Latin America, the Company signed multiple contracts that bundle two or more offerings. The outlook for Latin America in 2016 is of continued growth and further contributing to consolidated revenue.

**Middle East / Africa** – In the MEA region, Enerflex's products and services are frequently provided as part of a bundled solution, where asset owners often prefer the convenience, simplicity, and low risk of working with a trusted provider that can deliver all required scopes.

Latin America, MEA, and USA saw growth through turnkey and BOOM projects, trending positively towards increased opportunities in 2016.

## NATURAL GAS COMPRESSION FACILITIES

### **Bahrain**

In 2015 Enerflex was engaged by a current customer to provide a BOOM solution comprising three sour gas compressor stations on a rental basis for a gas injection enhanced oil recovery project. During this multi-phased project, Enerflex provided the engineering, procurement, construction, commissioning, and start-up, and was also awarded the operations and maintenance contract for the facilities. The custom-designed facilities include two-phase separation, recovery oil, fuel gas conditioning, and extensive automation including a built-in call-out function. The equipment was delivered, installed, and commissioned ahead of schedule and Enerflex is currently operating the facilities. The Company's extensive history with this project dates back to 2011, when Enerflex provided 11,000 hp of compression equipment for a 70 mmscf per day facility. This project showcases Enerflex's ability to deliver a fully integrated turnkey solution.



# CORPORATE RESPONSIBILITY



During the year, Enerflex continued to build on its global safety culture. This process is enhanced by the Company's common values woven throughout the organization – including Values Based Decision Making training, a top-to-bottom safety commitment by every employee and manager, careful stewardship in every jurisdiction, location, and project, and a corporate management system that includes reporting regional results using common measures, which contributes to Enerflex's strategic oversight.

## Advancing Safety Stewardship Worldwide

In 2015, the Company established a Health, Safety, and Environment ("HSE") Global Focus Group of regional safety managers who held monthly meetings and established common guidelines for Enerflex's worldwide HSE performance, including leading and lagging key performance indicators. The Company also created a standardized on-site management system for Enerflex's seven regions to facilitate effective, efficient emergency management by integrating personnel, procedures, and communications within a common organizational structure.

**The Total Recordable Injury Rate for 2015 was 1.15, down from 1.71 in 2014 and below the 2015 target of 1.50.**

These global initiatives facilitate a harmonized approach for HSE across the organization that is focused on incident management, hazard assessment and control, as well as training and qualifications management. This approach avoids over-centralization, preserving the authority of Enerflex's regional teams to plan and implement specific safety programs that target areas needing improvement, and are tailored to local operating conditions, laws, and employee cultures.

## Regional Safety Initiatives

**Canada** – Enerflex maintained its focus on injury reduction and the HSE team completed a number of foundational projects including an inventory analysis of work tasks performed by employees. This facilitated the creation of a job hazard assessment blueprint, involving employees

who perform the tasks in ranking risks, which led the way to effective control methods. This in turn supported the development of a new HSE program and manual with expanded policies and safe operating procedures.

Later in 2015 and into 2016, managers focused intently on reducing motor vehicle incidents, which were above target in 2015, by launching an awareness campaign centred on safe driving procedures and defensive driving tactics. A comprehensive electrical safety program was also developed and rolled out to support the Company's growing electric power business. Other initiatives continued throughout 2015 included advanced behaviour-based training with peer-to-peer coaching and a time-out authority program with which employees can refuse unsafe work without repercussions, promoting safety ownership and "in the moment" action, fostering an employee-driven safety culture.

In 2015, Enerflex and Gas Drive completed their annual Certificate of Recognition ("COR") audit. This key provincial regulatory recognition is critical to conducting business in the energy services sector in western Canada. The annual audit measures whether a company's employees understand and apply their safety management system. Enerflex scored 95 percent while Gas Drive scored 94 percent on these audits.

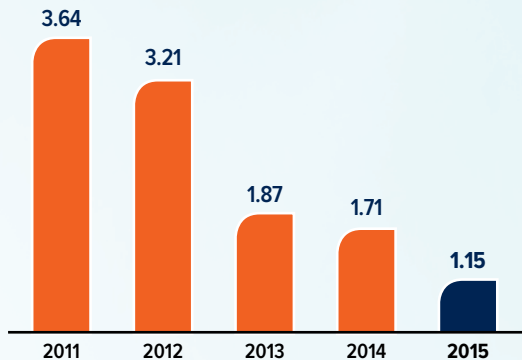
**United States of America** – The Houston manufacturing facility's safety managers developed a detailed Emergency Response and Preparedness plan covering multiple scenarios. A series of tests were facilitated, including a plant-wide evacuation drill, and managers underwent a simulated emergency encompassing a set of arranged events, with their responses recorded and evaluated. The region also focused on injury reduction and facilitating the time-out authority program.

**Latin America** – Following on Enerflex's acquisition in mid-2014, the Company introduced its Aware Card program to improve the understanding of hazards and safe procedures throughout the region – which continued to be a main regional focus in 2015 for Latin America. The Company also emphasized motor vehicle incident reduction, focusing on safe driving procedures and defensive driving tactics. In a standout performance, the Latin America team had zero motor vehicle incidents in driving a combined 1.8 million kilometres.

**Middle East / Africa** – The MEA team focused on identifying and controlling hazards and reducing exposure to health and safety risks by implementing a Permit to Work System. This internal program allows the team to focus on key safety initiatives such as vehicle inspection and road safety, building a safety culture, training, inspections, and reporting systems.

**Australia** – In addition to the Service team's strong HSE performance, regional managers introduced Safety Essentials, a set of ten rules in which key areas of risk were identified, followed by a process of aligning controls to mitigate these risks. The rollout involved a staged delivery through weekly themes and safety briefings, and the ten Safety Essentials continue to be embedded into the region's everyday safety culture.

## TRIR



## Environmental Management

Enerflex is committed to continuous improvement in environmental performance and strives to improve its processes to reduce pollution and waste, conserve energy and natural resources, and reduce the potential for environmental impacts in all of its operating regions.

The Company is dedicated to making the right decisions for the environment through its everyday actions. Enerflex identifies and manages risks to improve reliability and safety in all its operations, which contributes to a cleaner and greener outcome. We are also committed to delivering our products and services in a responsible way, which means operating safely, minimizing our impact on the environment, and building trust with the communities in which we operate.

We understand that environmental progress is integral to our long-term development, which is why Enerflex employees, contractors, and third-party service providers are guided by an environmental program that encompasses 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 it operates around the world is an important goal for employees and the Company as a whole. This is in keeping with Enerflex's vision and goal to be a partner of choice, as well as the desire to foster pride amongst 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. The Company is involved with many charities around the world including the Multiple Sclerosis Societies in Australia, the Alberta Junior Hockey League, Kids Cancer Care of Alberta, STARS Air Ambulance, YMCA Programs, Children's Protective Services in Houston, Habitat for Humanity, and other initiatives in nearly all of the regions in which Enerflex operates.



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

# GOVERNANCE

## Governance at Work

Enerflex's management team and the Board of Directors believe that for the Company to achieve its full potential, Enerflex must have an effective and strong corporate governance program and must diligently promote and adhere to the Company's vision and values.

Enerflex's vision and values are exemplified by management, through leadership and education across the Company's seven operating regions and at all organizational levels. Enerflex achieves this by consistently discussing and reinforcing the values through regular communications, employee newsletters, and a quarterly article called *Ethics 101*, in which employees are presented with ethical dilemmas and solutions. In 2015, the Company continued to provide employees with training in Values Based Decision Making and Legendary Customer Service. The focus of these sessions was to ensure employees are making decisions based on Enerflex's values and providing the necessary tools to ensure they are asking the right questions and always doing the right thing.

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

Board's primary role is to foster Enerflex's long-term success, which is consistent with the Board's fiduciary duty. The Board oversees corporate performance and provides judgment, experience, and continuity of guidance to help achieve the Company's strategic objectives.

## Committees and Mandate

Enerflex has constituted three standing committees to ensure full accountability of the Board and the Company by focusing the detailed attention of experienced 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 Board of Directors' mandate explicitly affirms the Board's on-going responsibility for the stewardship of the business and affairs of the Company. To view the full mandate, please refer to Schedule "A" in Enerflex's Management Information Circular, which is also available on SEDAR.

## 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	8 of 8	—	5 of 5	2 of 2
W. Byron Dunn	7 of 8	—	5 of 5	2 of 2
J. Blair Goertzen <sup>1</sup>	8 of 8	—	—	—
Wayne S. Hill	8 of 8	4 of 4	—	2 of 2
H. Stanley Marshall	8 of 8	—	5 of 5	—
Stephen J. Savidant <sup>1</sup>	8 of 8	—	—	—
Michael A. Weill	8 of 8	4 of 4	—	—
Helen J. Wesley	8 of 8	4 of 4	—	—

<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 as a best practice.

# BOARD OF DIRECTORS



**Robert S. Boswell**

*Director*

Mr. Boswell is Chairman and Chief Executive Officer of Laramie Energy LLC, a Denver-based company primarily focused on finding and developing natural gas reserves from unconventional gas reservoirs in the Western Sedimentary Basin of North America. 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 Bachelor of Science 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 an independent businessman with an extensive background in finance, accounting, and general management. He has served as the director of various Canadian listed companies and was on the Board of Directors for Enerflex from 1988 until 1996. Mr. Hill was the Executive Vice President of Toromont Industries Ltd. until his retirement in 2008, and was the Executive Vice President and Chief Financial Officer of Toromont until 2005, and Vice President, Finance and Chief Financial Officer from 1985 to 2002. He is also a director of Toromont. Prior to 1985, Mr. Hill held executive positions with Canadian public companies and as a chartered accountant working in the public accounting profession for 10 years. He holds a Bachelor of Commerce (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 an LL.B. from Dalhousie University.



**Stephen J. Savidant**

*Chairman*

Mr. Savidant is an independent businessman with over 34 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 Limited, a reporting issuer. Mr. Savidant holds a Bachelor of Engineering 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 as President Operations and Technology-Americas/Australia, based in Houston, Texas. He also served as President, Integrated Business Development based in Melbourne, Australia. Prior thereto, Mr. Weill served in various positions with Royal Dutch Shell in Houston, New Orleans, and The Hague. Mr. Weill holds a Bachelor of Science in Chemical Engineering from Cornell University.



**Helen J. Wesley**

*Director*

Ms. Wesley was appointed the Executive Vice President and CFO of ENMAX Corporation in January 2016. She has over 20 years of experience in the international oil and gas industry. Prior thereto, she was a member of Spencer Stuart's Global Energy Practice and was the Executive Vice-President, Corporate Services for Talisman Energy Inc., as well as Vice-President and Treasurer for Suncor Energy Inc. Ms. Wesley earned her Bachelor of Commerce in Marketing degree from the University of Calgary in 1991, and her MBA in International Business from Boston's Bentley College in 1993. She also received her Chartered Financial Analyst designation in 1998 and her Institute of Corporate Directors designation in 2015.

# 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, 2015 and 2014, and the Business Acquisition Report, relating to an Arrangement with Axiom Energy Services, LP ("Axiom") dated September 5, 2014, and the cautionary statement regarding forward looking information and statements on page 61 of this report.

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 25, 2016 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 and Information Circular 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 include the results of the Axiom Business for the year ended December 31, 2015, and for the six months ended December 31, 2014. See Note 7 to the 2015 consolidated financial statements for additional information.

## 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 2,300 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, USA, and Rest of World. 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

- » Compression and Process provides custom and standard natural gas processing equipment and compression packages for reciprocating and screw compressor applications. The Company provides engineering, design, manufacture, and installation of turnkey power generation solutions. Retrofit offers re-engineering, reconfiguration, and repackaging of compressors for various field applications. Two manufacturing facilities are located in Calgary, Alberta with Retrofit facilities located in Calgary, Grande Prairie, and Red Deer, Alberta;
- » Service (Gas Drive) provides mechanical services and parts as a Power Packager of GE's Waukesha gas engines and parts to the oil and gas industries, and as the authorized distributor and service provider of Jenbacher and MAN engines and parts. Service branches are located in British Columbia, Alberta, Ontario, and Quebec; and
- » Rentals provides natural gas compression and electric power equipment rentals, from its location in Calgary, Alberta.

## USA

- » Compression and Process provides custom and standard compression packages for reciprocating and screw compressor applications. The Company engineers, designs, manufactures, constructs, and installs modular natural gas processing equipment and refrigeration systems. Retrofit provides re-engineering, reconfiguration and repackaging of compressors for various field applications. The regional manufacturing facility is located in Houston, Texas, with the retrofit facility in Casper, Wyoming;
- » Service provides mechanical services and products as a Power Packager of GE's Waukesha engines and parts to the oil and gas industries, with branches located in Pennsylvania, Texas, Louisiana, Alaska, North Dakota, Wyoming, and Colorado; and
- » Rentals provides natural gas compression and electric power equipment rentals, from its location in Casper, Wyoming.

## Rest of World

- » Latin America, with locations in Argentina, Brazil, Colombia, Mexico, and Peru, provides integrated turnkey natural gas compression and processing solutions, with construction and installation locally in Argentina and Brazil. Service provides parts and components, as well as operating, maintenance and overhaul services to customers who own compression, production, processing, gas treating and other equipment. Rentals provides natural gas compression equipment, and production and processing equipment for rental to oil and gas customers in the region;
- » The Process Construction business unit in the Australia region designs, installs, commissions, and constructs compression and gas processing systems. The Service division provides after-market parts and service, as a GE Power Packager, throughout the region with locations in Queensland, New South Wales, Southern Australia, and Western Australia;
- » The 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;
- » The Middle East and Africa ("MEA") 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
- » The Europe/Commonwealth of Independent States ("CIS") division provides compression and processing solutions through locations in the United Kingdom and Russia.

## Discontinued Operations

- » 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 June 2015, the Company closed its P&P manufacturing facility in Nisku, Alberta and reported the division as a discontinued operation.

### *Reporting Segment Change*

Effective January 1, 2015, the Company realigned its reporting segments into Canada, United States of America ("USA") and Rest of World ("ROW") 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 previously reported in the Canada and Northern United States segment, were transferred to the USA segment commencing in 2015. The reporting for the Engineered Systems, after-market Service and Rental businesses in Latin America was combined with the previous International segment, and renamed the "Rest of World" segment.

## Engineered Systems

The Engineered Systems product line includes engineering, design, fabrication, and assembly of standard and custom-designed compression packages; production and processing equipment and facilities, including refrigeration systems; 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, 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 authorized distributor for Altronic in all of its operating regions, a leading manufacturer of electric ignition and control systems. 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 operations, 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 currently deployed across Western Canada, the Northern USA, Argentina, Brazil, Colombia, Mexico, Peru, Bahrain, Oman, Malaysia, and Thailand. The Rentals product line encompasses just over 480,000 horsepower of equipment either on rental or available for rental globally.

## FINANCIAL HIGHLIGHTS

	Three months ended December 31,		Twelve months ended December 31,	
(\$ Canadian thousands)	2015	2014	2015	2014
<b>Revenue</b>				
Canada	\$ 92,297	\$ 146,157	\$ 494,244	\$ 529,396
USA	156,572	241,550	678,179	761,617
Rest of World	109,679	112,921	456,609	405,187
Total revenue	358,548	500,628	1,629,032	1,696,200
Cost of goods sold	283,877	402,911	1,302,843	1,365,786
Gross margin	74,671	97,717	326,189	330,414
Selling and administrative expenses	62,133	51,943	204,430	200,926
Operating income	12,538	45,774	121,759	129,488
(Loss) gain on disposal of property, plant and equipment	(228)	118	1,256	(75)
Equity earnings from associates and joint ventures	3,710	2,781	8,762	9,509
Impairment of goodwill	(36,900)	—	(36,900)	—
(Loss) earnings before finance costs and taxes	(20,880)	48,673	94,877	138,922
Finance costs, net of finance income	4,422	4,340	15,310	9,787
(Loss) earnings before taxes	(25,302)	44,333	79,567	129,135
Income tax expense	8,121	11,833	30,677	48,038
Net (loss) earnings from continuing operations	(33,423)	32,500	48,890	81,097
Loss from discontinued operations	(198)	(6,706)	(845)	(9,879)
Net (loss) earnings	\$ (33,621)	\$ 25,794	\$ 48,045	\$ 71,218
<b>Key Financial Performance Indicators<sup>1</sup></b>				
Bookings	\$ 170,597	\$ 422,490	\$ 635,059	\$ 1,416,880
Backlog	\$ 427,204	\$ 916,484	\$ 427,204	\$ 916,484
Recurring revenue as a percentage of revenue <sup>2</sup>	33.0%	28.7%	33.0%	28.7%
Gross margin as a percentage of revenue	20.8%	19.5%	20.0%	19.5%
SG&A as a percentage of revenue	17.3%	10.4%	12.5%	11.8%
EBIT as a percentage of revenue <sup>2</sup>	5.8%	8.2%	5.8%	8.2%
EBIT before depreciation and amortization ("EBITDA")	\$ 7,047	\$ 65,375	\$ 176,771	\$ 193,740
Return on capital employed	6.2%	12.4%	6.2%	12.4%
Net debt to EBITDA ratio <sup>2,3</sup>	2.38:1	1.79:1	2.38:1	1.79:1
Cash from operations	\$ 59,340	\$ 2,952	\$ 104,173	\$ 64,611

<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> Net debt to EBITDA reported does not equate to the calculation for bank covenant purposes, which is prepared on a trailing 12-months basis. Additional adjustments are made for covenant purposes, as agreed under the bank facilities. Net debt to EBITDA, for the year ended December 31, 2015, for covenant purposes was 1.84.

## HIGHLIGHTS

During the fourth quarter of 2015, the challenging commodity price conditions continued with many customers announcing further cuts in their capital budgets for 2016. There are still opportunities in North America and other parts of the world, but the competition for these opportunities has increased. As a result of these conditions, Enerflex recorded bookings in the fourth quarter of 2015 of \$170.6 million, being \$251.9 million lower than the same period of 2014, notwithstanding the favourable impact of the appreciation of the US dollar on US dollar denominated bookings. For 2015, Enerflex recorded bookings of \$635.1 million, which were \$781.8 million lower than in 2014. Project cancellations reduced backlog by \$7.9 million in the quarter, and by \$37.2 million in 2015. Overall, backlog fell by \$50.4 million sequentially in the quarter, and by \$489.3 million in 2015, as the lower bookings levels were more than offset by Engineered Systems revenue. Recurring revenues were slightly lower in the quarter but increased in 2015 compared to 2014 in large part due to higher rental revenues representing new projects undertaken and a full year of rental revenues from the business acquired from Axiom mid-2014.

Throughout 2015 and into 2016, Enerflex has been proactive in responding to the reduction in business activity in North America by repositioning itself to deliver additional recurring revenues, and by implementing measures to streamline its business, control costs and continue towards its EBIT goal of 10%. Actions taken during the quarter included a reduction of headcount by an additional 200, resulting in severance costs of \$2.2 million and restructuring of the Australia Process Construction business resulting in additional costs in the quarter of \$6.8 million, inclusive of Australia severances of \$2.2 million. The Process Construction business will be wound down over a time period that allows completion of existing projects in backlog, and will be realigned to focus on changing customer needs and on the management of integrated turnkey products with a smaller team. This process is expected to be completed by the end of the second quarter of 2016.

Headcount is now approximately 2,300, a reduction of over 1,100 employees since the beginning of 2015 and severance charges of \$10.7 million in the year. It is anticipated that the headcount reductions during 2015 and announced for 2016 in Australia, will result in annualized salary savings of approximately \$65 to \$70 million included in cost of goods sold and \$20 to \$25 million in SG&A expenses relative to 2015 levels.

During the second quarter of 2015, and contributing to the headcount reduction in 2015, Enerflex ceased manufacturing at the Nisku facility. This resulted in the Nisku business being classified as a discontinued operation effective June 30, 2015. The costs related to this initiative were reflected in the fourth quarter of 2014.

Other cost containment measures introduced early in 2015, and continuing into 2016, include a Company-wide hiring and salary freeze, business travel expense limitations, reduced marketing expenditures, and significant reductions in expenditures for facilities, IT infrastructure and maintenance, except where critical. During the fourth quarter of 2015, Canada and other parts of the Enerflex business, introduced mandatory time off with corresponding salary reductions.

Cost control initiatives, and the associated severance and restructuring charges, are reflected in both cost of goods sold and SG&A expenses. Excluding the impact on SG&A expense of severance and restructuring costs of \$9.6 million, and including a full year of results for the Axiom Business, unfavourable foreign exchange impacts and inflationary pressures, Enerflex exceeded its target of reporting total 2015 SG&A expenses consistent with those in 2014.

The Company continues to strategically allocate resources to growth areas of the business with the fabrication and deployment of rental assets and associated installation, construction, and service activities in the MEA and Latin America regions. During the quarter, Enerflex started recognizing revenue on a rental contract, which deploys approximately 25,000 horsepower into the Latin America region, adding to almost 50,000 contracted horsepower deployed during the second and third quarters of 2015. In addition, revenue is being recognized for the construction component of one other large rental and service contract, which will deliver approximately an additional 30,000 horsepower into the region starting in the first half of 2016. Lastly, Enerflex has secured additional new long-term or long-term extensions to existing service agreements in Canada and Latin America covering over 8,000 horsepower.

Enerflex reviews the carrying value of its long-lived assets at each reporting period for indicators of impairment. During the period, further decreases in industry activity resulting from the decline in oil and natural gas prices and the anticipated impact on operating budgets, were indicators of possible impairment in some of our cash generating asset groups and required us to complete an impairment test on these groups, including goodwill. The recoverable amount of goodwill was determined using a multi-year discounted cash flow with cash flow assumptions based on expected future results derived from our business planning process. For certain rental assets and items of inventory, recoverability was determined using recent sales or uses of these assets along with market information. The Company recognized impairments of \$38.9 million for the assets reviewed, including goodwill during the fourth quarter of 2015. The goodwill impairment resulted from further deterioration in commodity prices during the fourth quarter, the associated impact on customer capital budgets and therefore the outlook for activity in the USA in 2016 and beyond.

During the second quarter, Enerflex initiated arbitration proceedings against Oman Oil Company Exploration and Production LLC ("OOCEP") related to previously disclosed variation claims which were submitted to OOCEP, and to approximately \$32.0 million in milestone payments which are overdue and remain unpaid. These variation claims were the result of customer-driven scope and schedule changes which led to increased costs and delays with respect to the construction and delivery of a gas processing plant owned by OOCEP and located in the Sultanate of Oman. As previously disclosed, Enerflex is currently unable to reasonably estimate when it expects this arbitration to be resolved.

## CONSOLIDATED RESULTS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2015

During the fourth quarter of 2015, the Company generated \$358.5 million in revenue compared to \$500.6 million in the fourth quarter of 2014. For the year ended December 31, 2015, revenue was \$1,629.0 million compared to \$1,696.2 million in 2014. The decreases of \$142.1 million and \$67.2 million, respectively, were due to lower revenue in the Canada and USA segments, partially offset in 2015 by higher Rest of World segment revenue. As compared to the three and twelve months period ended December 31, 2014:

- » Canada segment revenue decreased by \$53.9 million during the fourth quarter of 2015 as a result of a decrease in revenues across all product lines. Revenue decreased by \$35.2 million for the year ended December 31, 2015, as a result of reductions in Service and Rental revenues, partially offset by an increase in Engineered Systems revenue;
- » USA segment revenue decreased by \$85.0 million in the fourth quarter of 2015, and by \$83.4 million in 2015 as a result of lower Engineered Systems revenue, partially offset by higher Service revenue; and
- » Rest of World segment revenue decreased by \$3.2 million in the fourth quarter of 2015 on lower Engineered Systems revenue, partially offset by higher Service and Rental revenues. For 2015, revenue increased by \$51.4 million, attributable to an increase in Service and Rental revenues, partially offset by lower Engineered Systems revenue.

**Gross Margin** for the three months ended December 31, 2015 was \$74.7 million or 20.8% of revenue compared to \$97.7 million or 19.5% of revenue for the same period of 2014. The decrease was primarily due to lower revenue, lower absorption of overheads, partially offset by higher awarded margins on jobs, project margin improvements, and improved warranty experience. Gross margin for the year ended December 31, 2015 was \$326.2 million or 20.0% of revenue compared to \$330.4 million or 19.5% of revenue for the year ended December 31, 2014. The reduction was a result of lower revenues, lower absorption of overheads, and lower awarded margins on jobs, partially offset by project margin improvements and improved warranty experience. During 2014, the Company experienced \$25.6 million in margin erosion on the large project in Oman.

**SG&A** expenses were \$62.1 million or 17.3% of revenue during the three months ended December 31, 2015, compared to \$51.9 million or 10.4% of revenue in the same period of 2014. The increases were a result of severance and restructuring costs for the Australia business, and unfavourable foreign exchange impacts primarily as a result of the devaluation of the Argentine peso, partially offset by lower compensation costs and lower amortization. Compensation expense was lower as a result of lower headcount, partially offset by higher severance payments, with the termination of employees in Australia and other areas of the business. Higher mark-to-market share based compensation expense occurred as a result of a relatively flat share price over the fourth quarter of 2015 but a marked decline in the fourth quarter of 2014. Excluding severance and restructuring costs, the impact of customer legal disputes and the devaluation of the Argentine peso, SG&A expenses for the fourth quarter of 2015 were \$50.1 million. Excluding severance costs, SG&A expenses for the fourth quarter of 2014 were \$51.0 million.

SG&A expenses were \$204.4 million or 12.5% of revenue during the year ended December 31, 2015, compared to \$200.9 million or 11.8% of revenue in 2014. The increase was a result of severance and restructuring costs, higher compensation, and higher office and occupancy costs, and unfavourable foreign exchange movements, partially offset by lower third party services as a result of the Axiom acquisition in 2014 and lower travel costs. Higher compensation expense reflects severance payments associated with the significant reduction in headcount during 2015, which more than offset the impact of lower headcount on salary and bonus expense, and the favourable impact of mark-to-market movements on share based payments. Excluding severance and restructuring costs, the impact of customer legal disputes and the devaluation of the Argentine peso, SG&A expenses for 2015 were \$187.0 million. Excluding severance and acquisition related costs, SG&A expenses for 2014 were \$190.9 million.

**Operating Income** during the fourth quarter of 2015 was \$12.5 million or 3.5% of revenue compared to \$45.8 million or 9.1% of revenue in the same period of 2014. Operating income during 2015 was \$121.8 million or 7.5% of revenue compared to \$129.5 million or 7.6% of revenue in 2014. The decreases were attributable to lower gross margin, and higher SG&A expenses.

**EBIT** for the fourth quarter of 2015 was a loss of \$20.9 million or 5.8% of revenue compared to earnings of \$48.7 million or 9.7% of revenue in the same period of 2014. EBIT for 2015 was \$94.9 million or 5.8% compared to \$138.9 million or 8.2% of revenue in 2014. The decrease in the fourth quarter of 2015 was due to the impairment of goodwill for the USA segment and lower

operating income, partially offset by higher earnings from associates and joint ventures. The impact of customer legal disputes, the devaluation of the Argentine peso, the goodwill impairment, in addition to severance and restructuring costs recorded during the fourth quarter of 2015 reduced EBIT by \$53.1 million. The impact of severance costs during the fourth quarter of 2014 reduced EBIT by \$0.9 million.

For 2015, EBIT was lower on the impairment of goodwill for the USA segment, lower operating income and lower earnings from associates and joint ventures, partially offset by gains on the sale of property, plant and equipment. Equity earnings increased from \$2.8 million in the fourth quarter of 2014 to \$3.7 million in the fourth quarter of 2015, and decreased from \$9.5 million for the year ended December 31, 2014 to \$8.8 million in 2015. The impact of customer legal disputes, the devaluation of the Argentine peso, the goodwill impairment, in addition to severance and restructuring costs recorded during 2015 reduced EBIT by \$60.1 million. The impact of severance and acquisition related costs during 2014 reduced EBIT by \$10.0 million.

**Income Tax Expense** totalled \$8.1 million or 70.0% of earnings before tax excluding the goodwill impairment for the three months ended December 31, 2015 compared to \$11.8 million or 26.7% of earnings before tax in the same period of 2014. Income tax expense was lower primarily due to a decrease in earnings before tax as well as the mix of earnings taxed in foreign jurisdictions, partially offset by the effect of unrealized exchange rate fluctuations on tax bases in foreign jurisdictions. The effective tax rate increased largely as a result of the effect of these exchange rate fluctuations on tax bases in foreign jurisdictions. Additional detail is provided in Note 19 to the 2015 consolidated financial statements.

Income tax expense totalled \$30.7 million or 26.3% of earnings before tax excluding the goodwill impairment for the year ended December 31, 2015 compared to an expense of \$48.0 million or 37.2% of earnings before taxes in the same period of 2014. The decrease in income tax expense was as a result of lower earnings before tax, the mix of earnings taxed in foreign jurisdictions and the unfavourable tax effects of acquisition related activities in 2014, partially offset by the effect of unrealized exchange rate fluctuations on tax bases in foreign jurisdictions. The 2014 unfavourable tax effects were primarily withholding taxes incurred on dividends received from foreign subsidiaries, and acquisition related expenses not deductible for tax purposes.

**Net Loss** from continuing operations for the fourth quarter of 2015 was \$33.4 million or \$0.42 per share, compared to earnings of \$32.5 million or \$0.41 per share in the same period of 2014. Net earnings from continuing operations for 2015 were \$48.9 million or \$0.62 per share, compared to \$81.1 million or \$1.03 per share in 2014. For the fourth quarter and for 2015 the decrease in net earnings was a result of lower EBIT, partially offset by lower income tax expense.

**Net Loss from Discontinued Operations** for the fourth quarter of 2015 was \$(0.2) million or \$(0.00) per share, compared to \$(6.7) million or \$(0.08) per share in the same period of 2014. Net loss for 2015 was \$(0.8) million or \$(0.01) per share, compared to \$(9.9) million or \$(0.12) per share in the same period of 2014.

## OUTLOOK

Over the past several months, significantly lower commodity prices have resulted in many companies implementing further capital budget cuts and cost reduction initiatives in North America and globally, which in turn will impact demand for Enerflex products and services during 2016. Enerflex has experienced some project deferrals and cancellations during 2015. Further capital reductions are expected as the commodity price weakness continues, and as customers seek to preserve financial flexibility and protect their long-term business. Backlog levels during 2015 have decreased significantly and without a notable increase in booking levels, will result in a marked reduction in Engineered Systems revenue in 2016. Despite these headwinds, there are some areas of the business where Enerflex is cautiously optimistic for 2016.

During the fourth quarter of 2015 and into 2016, the Company has seen an increase in interest and demand for its electric power product line, as companies leverage sustained low natural gas prices. In addition, several large long-term rental and service contracts started revenue recognition in the second half of 2015 and a further project is under construction to add 30,000 horsepower in the first half of 2016. Continuing moves to diversify by geography and increasingly by product line are expected to provide some revenue protection in 2016. The additional \$100 million in financing capacity created under the credit facility in December 2015, combined with existing cash and available credit facilities, positions Enerflex to capitalize on organic growth opportunities that are aligned with its strategic objectives, and to satisfy upcoming debt maturities. Enerflex will look to preserve awarded gross margins and continue to aggressively manage SG&A expenses through cost control measures. The lower headcount entering 2016 will lead to material savings in 2016.

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
<b>Bookings</b>				
Canada	\$ 71,138	\$ 154,700	\$ 214,431	\$ 453,555
USA	41,187	157,894	282,354	682,194
Rest of World	58,272	109,896	138,274	281,131
Total bookings	\$ 170,597	\$ 422,490	\$ 635,059	\$ 1,416,880

(\$ Canadian thousands)	December 31,		December 31,	
	2015		2015	2014
<b>Backlog</b>				
Canada			\$ 150,928	\$ 332,022
USA			152,931	412,334
Rest of World			123,345	172,128
Total backlog			\$ 427,204	\$ 916,484

## Canada

After a spike in gas prices in the early part of 2014, gas prices have steadily declined. Gas prices entered 2015 with a monthly price around \$3.00/mcf and exited 2015 at just over \$2.30/mcf, having dropped below \$2.00/mcf for two weeks in December 2015. North American working gas in storage is up year-over-year and is above the five year average, where it has been since June 2015. Storage levels remain sufficiently high to put downward pressure on natural gas prices, which may recover slightly during early 2016 depending on weather and fundamentals. Power generation switching from coal to gas has provided some relief but gas prices still remain low. Coupled with lower oil prices, the current commodity price environment is anticipated to result in reduced operating cash flows for customers, which in turn will result in continuing low activity levels through the first half of 2016. Customers are expected to continue to defer projects until there is greater certainty around the commodity price environment. As a result, there is significant uncertainty as to the extent and duration of the slowdown. Electric power opportunities are increasing on the other hand, given the sustained low gas prices, while long-term service contracts secured in the second half of 2015, provide some recurring revenue certainty.

## USA

The recent performance of the USA segment has been largely dependent on activity in liquids-rich U.S. gas basins, which gave rise to new orders for compression and process equipment for this region. The significant decrease in oil prices, the impact on new production and therefore gas associated with oil production, and the impact on NGL prices has and is expected to continue to result in a slowdown in activity into the first half of 2016. There is significant uncertainty as to the extent and duration of the slowdown. Service revenues are, however, expected to provide some recurring revenue certainty in 2016.

## Rest of World

Enerflex is cautiously optimistic about the outlook in the Latin America region despite the political uncertainty that exists most notably in Brazil. The development of the Vaca Muerta shale play in Argentina in the short to medium-term, and the on-going Energy Reform in Mexico in the medium to long-term, could generate significant opportunities for Enerflex's products and services. In Brazil, the Company is seeing an increased interest for natural gas fuelled projects as a means to reduce dependency on hydroelectric power. Additionally, infrastructure developments in Colombia, Peru, and Bolivia, are expected to result in an increased Enerflex presence in these countries.

Within the MEA region, three large rental projects totaling approximately 80,000 horsepower, have been or are being built and will contribute to results into 2016 and beyond. 50,000 horsepower has been deployed in 2015, with the remaining 30,000 horsepower to be deployed in the first half of 2016. Extensions to long-term service contracts secured in the second half of 2015 will also provide recurring revenue certainty in 2016. In addition, the Company is pursuing a number of large Engineering Systems and other recurring revenue opportunities in the region.

## 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, diversified, financially strong, dividend-paying company that delivers profitable growth by serving an expanding industry in seven gas producing regions worldwide. Enerflex believes that worldwide growth enhances shareholder value.

Across the Company, Enerflex looks to leverage its diversified 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 aimed its efforts in Canada on leveraging its capabilities and expertise to continue to preserve market share 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 successes in the electric power market given the sustained low natural gas prices and the resulting increase in demand for natural gas-fired power generation. Lastly, there has been a focus on securing certainty of recurring revenues through the signing of long-term service contracts with customers.

In the USA segment, Enerflex has concentrated its efforts on consolidating its business in the region, driven by the U.S.'s increasingly sophisticated natural gas sector. The Company has looked to build 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 rationalizing the service business across the region by reducing the number of service branches but still maintaining the capability to service customers across the U.S.

Enerflex has focused its international efforts on growing primarily in the MEA and Latin America regions, through the sales, rental, and service of its products. In the MEA region, the target has been large rental and service opportunities, where customers have also required construction and installation support at site. In Latin America, the Company has focused on integrated turnkey projects and build-own-operate-maintain ("BOOM") solutions for customers, with early successes primarily in Argentina, while looking at opportunities throughout the region. In Mexico, the Company holds a large rental fleet with associated long-term rental and service contracts, which has been a focal point for 2015. In Brazil, Enerflex has repositioned itself to capitalize on future opportunities, particularly for natural gas fuelled projects.

Enerflex seeks to continue to diversify its revenue streams from multiple markets, to grow its backlog and to ensure profitable margins globally by aggressively managing costs, with a medium-term goal of achieving a 10% EBIT margin. In addition, Enerflex seeks to expand the diversification of its product lines, with a goal to achieve 35% - 40% recurring revenue. Specifically for 2016, the Company's strategic goals, against which it will report its performance during 2016, are:

- » Continue progress in safety management programs and improve the Company-wide total recordable injury rate ("TRIR") to 1.00;
- » Establish and implement regional field service plans to grow Service revenue by 10%;
- » Achieve recurring revenue as a percentage of total revenue of 35% to 40%;
- » Grow bookings for gas processing solutions by 20%;
- » Align costs with revenues to achieve 10% EBIT;
- » Deploy 100% free cash flow on BOOM natural gas facilities; and
- » Develop organizational business development competence focusing on differentiation, client relationships, and long-term market intelligence.

The chart below compares performance to 2015 strategic objectives.

2015 Strategic Objective	Performance to December 31, 2015	Status
Cost optimization and reduction in volatility in SG&A expenses on a year-over-year basis. Targeting no increase in SG&A over 2014.	The Company implemented cost saving initiatives in response to the current economic environment. Actions included headcount reductions, cost controls, and capital expenditure reductions. Excluding restructuring and severance charges recorded in SG&A during 2015 of \$9.6 million, and including a full year of SG&A associated with the Axiom Business, unfavourable foreign exchange impacts, and inflation, total 2015 SG&A expenses were \$6.1 million or 3% lower than 2014 at \$194.8 million.	Met target
Mitigate project execution risks that lead to performance issues, delays, and cost overruns, resulting in minimal deviations from original bid project margins.	Continuous improvement initiatives are in place to achieve accurate, complete, and timely provision of deliverables. The Company targets full recovery of costs where driven by changes in the scope originally requested by the customer. As a result, there were project margin improvements in the Canada and Rest of World segments, while USA segment reported minimal project margin deteriorations.	Exceeded target
Participate in global liquefied natural gas ("LNG") growth in our key LNG markets of Australia, United States, and Canada.	Given the current commodity price environment, limited progress has been made in increasing LNG growth in the global markets, particularly in Australia, where bookings are primarily LNG related. In the United States, terminals are under construction but the Company has not yet booked any work as a result of any expanded supply needs. In Canada, there have been LNG related bookings but none in 2015.	Ongoing
Continue to grow Latin America operations to expand regional offering and pursue long-term opportunities.	The acquisition of the Axiom Business has provided an opportunity to grow and increase global diversification. Cognizant of cost saving initiatives, the Company has strategically deployed capital to grow the rental business in Latin America. During 2015, the Company has recorded equipment sales into the region and has secured new rental and service contracts.	Exceeded target
Continue progress in safety management programs and improve the Company-wide TRIR to 1.50 in 2015.	The TRIR at December 31, 2015 was at 1.15, which is 32.8% below the December 31, 2014 rate of 1.71 and significantly below the 2015 goal of 1.50.	Exceeded target
Further build 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, 2015 at 33.0% (\$537.2 million) compared to the 28.7% (\$486.4 million) recurring revenue percentage for the period ended December 31, 2014, calculated on a trailing 12-month basis.	Exceeded target
Make measurable progress towards the medium-term objective of a 10% EBIT margin.	EBIT margin, excluding the goodwill impairment, decreased to 8.1% for the period ended December 31, 2015 compared to 8.2% for the same period in 2014, calculated on a trailing 12-month basis. Excluding the impact of goodwill impairment, severance and restructuring costs, customer legal disputes and the devaluation of the Argentine peso in 2015, EBIT was 9.5%. In 2014, excluding the impact of severance and acquisition related costs, EBIT was 8.8%.	Met target

The Company has identified the key performance drivers required to support 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 Segment Results*, *USA Segment Results*, *Rest of World Segment Results*, and *Liquidity* sections.

## CANADA SEGMENT RESULTS

	Three months ended December 31,		Twelve months ended December 31,	
(\$ Canadian thousands)	2015	2014	2015	2014
Segment revenue	\$ 94,442	\$ 151,050	\$ 504,986	\$ 543,867
Intersegment revenue	(2,145)	(4,893)	(10,742)	(14,471)
Revenue	\$ 92,297	\$ 146,157	\$ 494,244	\$ 529,396
Revenue – Engineered Systems	\$ 65,733	\$ 92,171	\$ 363,029	\$ 335,807
Revenue – Service	\$ 23,381	\$ 44,454	\$ 111,522	\$ 161,591
Revenue – Rental	\$ 3,183	\$ 9,532	\$ 19,693	\$ 31,998
Operating income	\$ 2,794	\$ 11,941	\$ 33,674	\$ 37,162
EBIT	\$ 6,509	\$ 14,729	\$ 42,458	\$ 46,726
EBITDA	10,799	18,734	59,102	65,202
Segment revenue as a % of total revenue	25.7%	29.2%	30.3%	31.2%
Recurring revenue as a % of segment revenue	28.8%	36.9%	26.5%	36.6%
Operating income as a % of segment revenue	3.0%	8.2%	6.8%	7.0%
EBIT as a % of segment revenue	7.1%	10.1%	8.6%	8.8%
EBITDA as a % of segment revenue	11.7%	12.8%	12.0%	12.3%

The Canada segment is sensitive to North American natural gas prices, which continued to be low during the fourth quarter of 2015. The average quarterly Henry Hub price during the fourth quarter of 2015 was US\$2.18/mcf compared to US\$3.90/mcf in the same period of 2014.

Canada revenue totalled \$92.3 million in the fourth quarter of 2015 compared to \$146.2 million for the same period in 2014. The decrease was a result of lower Engineered Systems revenue due to lower opening backlog and a two week closure of the fabrication facility in December 2015, lower Service revenue primarily due to lower parts sales, and lower Rental revenue with a decrease in the total horsepower under rental contracts and a decrease in rental unit sales.

For 2015, Canada revenue totalled \$494.2 million compared to \$529.4 million for 2014. The decrease was a result of lower Service revenue primarily on lower parts sales, lower Rental revenue due to a decrease in the total horsepower under rental contracts and a decrease in rental unit sales, partially offset by higher Engineered Systems revenue. The increase in Engineered Systems revenue was attributable to a higher opening backlog in 2015, and the expanded fabrication facility which became fully operational during the fourth quarter of 2014.

Operating income decreased by \$9.1 million to \$2.8 million in the fourth quarter of 2015 compared to the same period of 2014 as a result of lower gross margin, partially offset by lower SG&A expenses in the quarter. For 2015, operating income decreased by \$3.5 million to \$33.7 million due to lower gross margin, partially offset by a decrease in SG&A expenses compared to 2014. The lower gross margin was attributable to lower revenues and lower awarded margin on jobs due to an increase in the proportion of revenues earned from Engineered Systems revenue which is at a lower margin than recurring revenue, and lower absorption of overheads, partially offset by project margin improvements and improved warranty experience. The lower SG&A was due to lower compensation expense on lower headcount partially offset by severance costs, lower depreciation and amortization expense, lower travel expenses, and for 2015 lower third party services.

## USA SEGMENT RESULTS

(\$ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Segment revenue	\$ 163,482	\$ 255,708	\$ 781,291	\$ 780,461
Intersegment revenue	(6,910)	(14,158)	(103,112)	(18,844)
Revenue	\$ 156,572	\$ 241,550	\$ 678,179	\$ 761,617
Revenue – Engineered Systems	\$ 118,040	\$ 203,325	\$ 541,757	\$ 636,466
Revenue – Service	\$ 35,015	\$ 34,546	\$ 127,948	\$ 117,187
Revenue – Rental	\$ 3,517	\$ 3,679	\$ 8,474	\$ 7,964
Operating income	\$ 18,107	\$ 24,369	\$ 53,305	\$ 77,395
EBIT <sup>1</sup>	\$ (18,800)	\$ 24,495	\$ 17,826	\$ 77,505
EBITDA <sup>1</sup>	(13,324)	25,812	31,089	86,532
Segment revenue as a % of total revenue	43.7%	48.2%	41.6%	44.9%
Recurring revenue as a % of segment revenue	24.6%	15.8%	20.1%	16.4%
Operating income as a % of segment revenue	11.6%	10.1%	7.9%	10.2%
EBIT as a % of segment revenue	(12.0)%	10.1%	2.6%	10.2%
EBITDA as a % of segment revenue	(8.5)%	10.7%	4.6%	11.4%

<sup>1</sup> Inclusive of goodwill impairment of \$36.9 million recorded during the fourth quarter of 2015.

The USA segment is sensitive to prices for NGLs, which were considerably lower than experienced in the fourth quarter of 2014. For one such NGL, propane, the price on average during the fourth quarter of 2015 was US\$0.51 per gallon compared to US\$0.94 during the fourth quarter of 2014.

USA revenue totalled \$156.6 million and \$678.2 million, respectively, in the fourth quarter and year ended December 31, 2015, compared to \$241.6 million and \$761.6 million in the same periods of 2014. The decreases in revenue were attributable to lower Engineered Systems revenue, partially offset by higher Service revenue on increased service calls and parts sales. The decrease in Engineered Systems revenue was attributable to lower bookings in 2015, despite the higher opening backlog entering 2015. For the quarter, opening backlog was therefore lower and contributed to the decrease in revenue compared to the same period in 2014.

Operating income decreased by \$6.3 million in the fourth quarter of 2015 to \$18.1 million, and by \$24.1 million to \$53.3 million for the year ended December 31, 2015, compared to the same periods of 2014, due to lower gross margin, and for 2015 partially offset by lower SG&A expenses.

Lower gross margin in the fourth quarter of 2015 was attributable to lower revenues, and lower absorption of overheads, partially offset by higher awarded margins due a larger proportion of revenue from higher margin service and process jobs rather than lower margin compression work, project margin improvements and improved warranty experience. Lower gross margin in 2015 was a result of lower revenues, lower absorption of overheads, lower awarded margins on increased lower margin compression jobs and despite increased higher margin service work, and minimal project margin deteriorations compared to improvements in 2014, partially offset by improved warranty experience.

SG&A expenses were lower in 2015 as a result of reduced third party services, lower travel costs, lower depreciation and amortization expense, and unfavourable foreign exchange translation impacts.

## REST OF WORLD SEGMENT RESULTS

	Three months ended December 31,		Twelve months ended December 31,	
(\$ Canadian thousands)	2015	2014	2015	2014
Segment revenue	\$ 110,610	\$ 113,205	\$ 458,260	\$ 408,315
Intersegment revenue	(931)	(284)	(1,651)	(3,128)
Revenue	\$ 109,679	\$ 112,921	\$ 456,609	\$ 405,187
Revenue – Engineered Systems	\$ 37,259	\$ 54,250	\$ 187,057	\$ 237,570
Revenue – Service	\$ 36,236	\$ 28,209	\$ 145,139	\$ 109,154
Revenue – Rental	\$ 36,184	\$ 30,462	\$ 124,413	\$ 58,463
Operating (loss) income	\$ (8,363)	\$ 9,465	\$ 34,780	\$ 14,931
EBIT	\$ (8,589)	\$ 9,450	\$ 34,593	\$ 14,691
EBITDA	9,572	20,829	86,580	42,006
Segment revenue as a % of total revenue	30.6%	22.6%	28.0%	23.9%
Recurring revenue as a % of segment revenue	66.0%	52.0%	59.0%	41.4%
Operating (loss) income as a % of segment revenue	(7.6)%	8.4%	7.6%	3.7%
EBIT as a % of segment revenue	(7.8)%	8.4%	7.6%	3.6%
EBITDA as a % of segment revenue	8.7%	18.4%	19.0%	10.4%

Rest of World revenue totalled \$109.7 million in the fourth quarter of 2015 compared to \$112.9 million in the same period last year. The decrease was attributable to lower Engineered Systems revenue on lower opening backlog, largely offset by higher Service revenue in Australia and the MEA region, and higher Rental revenue in the MEA and Latin America regions.

Revenue for 2015 was \$456.6 million, compared to \$405.2 million in 2014. The increase was a result of higher Service and Rental revenues due to increased activity in Australia, MEA, and Latin America primarily due to inclusion of the business acquired from Axiip, partially offset by lower Engineered Systems revenue despite higher opening backlog, due to reduced activity in Australia and MEA.

Operating loss was \$8.4 million for the fourth quarter of 2015, compared to \$9.5 million operating income in the same period of 2014, on reduced gross margin and higher SG&A expenses. The lower gross margin was due to reduced overhead absorption, severance expenses, and increased costs associated with customer legal disputes. The higher SG&A expenses resulted from unfavourable foreign exchange movements, most notably in Argentina where the currency experienced a significant devaluation in December, costs related to the restructuring of operations in Australia, and an increase in costs associated with customer legal disputes, partially offset by lower compensation expense due to lower headcount. The impact of customer legal disputes, the devaluation of the Argentine peso, in addition to severance and restructuring costs recorded during the fourth quarter of 2015 reduced operating income by \$14.8 million (2014 \$0.9 million in severance costs).

For the year ended December 31, 2015, operating income was \$34.8 million compared to \$14.9 million in 2014. Operating income increased due to higher gross margin, partially offset by higher SG&A expenses. Higher gross margin was attributable to the relative higher margin contribution of the Rental and Service operations, from full year of inclusion of the Axiip Business, the impact of higher revenues, and project margin improvements, partially offset by the increased costs associated with customer legal disputes, and severance expenses. During 2014, the Company experienced significant margin erosion on the large project in Oman. The higher SG&A expenses resulted from unfavourable foreign exchange movements, most notably the currency devaluation in Argentina, costs related to the restructuring of operations in Australia, an increase in costs associated with customer legal disputes, and higher office and occupancy costs and higher compensation expense due to the Axiip Business. The impact of customer legal disputes, the devaluation of the Argentine peso, in addition to severance and restructuring costs recorded during 2015 reduced operating income by \$16.7 million (2014 \$3.1 million in severance and acquisition related costs).

## 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>
<b>December 31, 2015</b>	<b>\$ 358,548</b>	<b>\$ (33,423)</b>	<b>\$ (0.42)</b>	<b>\$ (0.42)</b>
September 30, 2015 <sup>1</sup>	425,242	31,938	0.40	0.40
June 30, 2015 <sup>1</sup>	389,721	26,827	0.34	0.34
March 31, 2015 <sup>1</sup>	455,521	23,548	0.30	0.30
December 31, 2014 <sup>1</sup>	500,628	32,500	0.41	0.41
September 30, 2014 <sup>1</sup>	451,108	31,314	0.40	0.40
June 30, 2014 <sup>1</sup>	424,898	11,660	0.15	0.15
March 31, 2014 <sup>1</sup>	319,566	5,623	0.07	0.06
December 31, 2013	350,066	10,760	0.14	0.13

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

(\$ Canadian thousands, except per share amounts)

	Total Assets	Total Non-Current Financial Liabilities	Cash Dividends Declared Per Share
<b>December 31, 2015</b>	<b>\$ 2,209,264</b>	<b>\$ 528,140</b>	<b>\$ 0.34</b>
December 31, 2014	2,144,988	505,076	0.31
December 31, 2013	1,416,079	92,935	0.28
December 31, 2012	1,389,264	96,469	0.25

## 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 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.

## **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.

## **NON-GAAP MEASURES**

The success of the Company and its business unit strategies is measured using a number of key performance indicators, some of which do not have a standardized meaning as prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These non-GAAP measures are also used by management in its assessment of relative investments in operations and include bookings and backlog, recurring revenue as a percentage of revenue, EBITDA, net (cash) debt to EBITDA ratio, and ROCE. They should not be considered as an alternative to net 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,	
	2015	2014	2015	2014
<b>EBITDA</b>				
(Loss) earnings before finance costs and taxes	\$ (20,880)	\$ 48,673	\$ 94,877	\$ 138,922
Depreciation and amortization	27,927	16,702	81,894	54,818
EBITDA	\$ 7,047	\$ 65,375	\$ 176,771	\$ 193,740
<b>Net Debt</b>				
Short and long-term debt, net of deferred transaction costs	\$ 578,640	\$ 505,076	\$ 578,640	\$ 505,076
Less:				
Cash and cash equivalents	158,081	158,069	158,081	158,069
Net Debt	\$ 420,559	\$ 347,007	\$ 420,559	\$ 347,007
<b>Net Debt to EBITDA</b>				
Net Debt	\$ 420,559	\$ 347,007	\$ 420,559	\$ 347,007
Annualized EBITDA	28,188	261,500	176,771	193,740
Net Debt to EBITDA ratio	14.92:1	1.33:1	2.38:1	1.79:1
<b>Recurring Revenue</b>				
Service	\$ 94,632	\$ 107,209	\$ 384,609	\$ 387,932
Rental	42,884	43,673	152,580	98,425
Total Recurring Revenue	\$ 137,516	\$ 150,882	\$ 537,189	\$ 486,357
<b>ROCE</b>				
Trailing 12-month EBIT	\$ 94,877	\$ 138,923	\$ 94,877	\$ 138,923
Capital Employed - beginning of period				
Net Debt (Cash)	\$ 412,208	\$ 335,984	\$ 347,007	\$ (89,038)
Shareholders' equity	1,098,940	976,731	1,019,982	931,662
	\$ 1,511,148	\$ 1,312,715	\$ 1,366,989	\$ 842,624
Capital Employed - end of period				
Net Debt	\$ 420,559	\$ 347,007	\$ 420,559	\$ 347,007
Shareholders' equity	1,158,040	1,019,982	1,158,040	1,019,982
	\$ 1,578,599	\$ 1,366,989	\$ 1,578,599	\$ 1,366,989
Average Capital Employed <sup>1</sup>	\$ 1,522,217	\$ 1,123,057	\$ 1,522,217	\$ 1,123,057
Return on Capital Employed	6.2%	12.4%	6.2%	12.4%

<sup>1</sup> Based on a trailing five-quarter average.

## FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at December 31, 2015 compared to December 31, 2014:

(\$ Canadian millions)	Increase (Decrease)	Explanation
<b>Assets:</b>		
Working capital	\$(94.4)	Non-cash working capital decreased as a result of lower Engineered Systems activity over 2015, as evidenced by reduced backlog. This reduction in activity levels has led to lower accounts receivable and inventory year-over-year. 2015 working capital was further decreased by \$50.5 million of long-term debt classified as current based on a 2016 principal repayment date. Debt was all long term in 2014. These reductions to working capital were partially offset by a decrease in deferred revenues, based on lower Engineered Systems activity, and lower accounts payable due to the settlement of trade payables associated with purchases for work-in-process.
Rental equipment	\$158.7	The increase in rental assets under construction and rental equipment reflects rental commitments and deployed rental assets under long-term contracts in the Latin America and MEA regions for approximately 105,000 horsepower.
Total assets	\$64.3	The higher rental equipment balance more than offset the net decrease in total assets due to lower cash, accounts receivable and inventories. Additionally, goodwill decreased due to the impairment of goodwill allocated to the USA segment.
Long-term debt	\$73.6	The increase in long-term debt reflects proceeds drawn from the Company's Bank Facility, as well as the revaluation of U.S. dollar denominated debt. During the fourth quarter, the Company entered into an agreement with its lenders to amend the Bank Facility, which increased the amount available from \$675.0 million to \$775.0 million. The amendment also served to decrease the amount available for future increases to the Bank Facility from \$200.0 million to \$100.0 million.

## 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, 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,	
	2015	2014	2015	2014
Cash, beginning of period	\$ 135,154	\$ 114,107	\$ 158,069	\$ 181,973
Cash (used in) provided by:				
Operating activities	59,340	2,952	104,173	64,611
Investing activities	(17,894)	(7,673)	(159,770)	(482,212)
Financing activities	(18,917)	48,911	51,353	393,072
Exchange rate changes on foreign currency cash	398	(228)	4,256	625
Cash, end of period	\$ 158,081	\$ 158,069	\$ 158,081	\$ 158,069

## **Operating Activities**

Cash provided by operating activities totalled \$59.3 million in the fourth quarter of 2015 compared to \$3.0 million in the same period in 2014. The increase in cash from operations was due to decreased working capital requirements. This more than offset the decreased cash earnings from operations for the quarter. Cash provided by operating activities totalled \$104.2 million in 2015 compared to \$64.6 million in the same period of 2014 due to lower working capital requirements and an increase in net earnings.

## **Investing Activities**

Cash used in investing activities totalled \$17.9 million and \$159.8 million in the fourth quarter and 2015 year, respectively, compared to \$7.7 million and \$482.2 million for the same periods of 2014. The Axiip 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 2015 year was \$30.1 million and \$166.3 million, respectively, compared to net investment of \$9.8 million and \$32.4 million in the same periods of 2014.

## **Financing Activities**

Cash used in financing activities totalled \$18.9 million in the fourth quarter of 2015. Cash provided by financing activities totalled \$51.4 million in 2015. These amounts compare to \$48.9 million and \$393.1 million cash provided in financing activities for the same periods of 2014. In the second quarter of 2014, the Company drew proceeds of \$331.0 from its credit facility in order to fund the acquisition of the Axiip Business. In the fourth quarter of 2015, the Company drew amounts from its credit facility for working capital purchases.

At December 31, 2015, the net debt to EBITDA ratio was 2.38:1 compared to 1.79:1 at December 31, 2014. The increase in net debt was primarily due to drawings on credit facilities, used to fund the acquisition of the Axiip Business, and lower EBITDA in 2015 compared to 2014.

## **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.

## **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.

There continues to be significant uncertainty and volatility in the oil and gas industry. Both oil and natural gas prices trended lower over the fourth quarter of 2015 and into 2016, resulting in further planned capital expenditure reductions by customers. These conditions are likely to reduce demand for Enerflex's products and services, which could have a significant effect on its results of operations. The Company has been proactive in maintaining financial flexibility, implementing cost saving initiatives and maintaining diversification of its revenue streams in an attempt to mitigate the impact of these conditions.

## **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.

The Company has made progress with an integrated project risk management framework with a focus on large projects involving multiple business units and geographies. This has been achieved in part by leveraging the knowledge of seasoned executives, brought into the ROW segment during 2014, with extensive project experience, a focus on improved project management processes, and through improved project governance with the establishment of a Risk Committee comprised of key management personnel, that meets on a regular basis. Enerflex remains focused on preserving booked margins and achieved an overall pick up in project margins over 2015. During the first half of 2015, the Company also completed the implementation of SAP for its Service and Rental businesses in Canada and the USA. In early 2016, the first phase of the implementation of the recently acquired Axiom Business was completed with the second phase scheduled later in 2016. This will then complete the implementation of SAP across Enerflex, a multi-year initiative designed to integrate systems and processes.

## **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.

The Company has remained diligent during 2015 in assessing credit levels granted to customers, monitoring the aging of receivables, and proactively collecting outstanding balances. The challenging economic conditions have resulted in financial failures in the industry but Enerflex has been able to maintain very low levels of doubtful debts. For 2015, the Company had no individual customers which accounted for more than 10% of its revenue.

## **Access to Capital**

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 30, 2019 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, 2015, the Company had \$217.9 million in available borrowing base.

On December 18, 2015, the Company entered into an agreement with its lenders to amend and restate the syndicated revolving Bank Facility. The amending agreement served to increase the amount available under the Bank Facility from \$675.0 million to \$775.0 million. The amendment also served to decrease the amount available for future increases to the Bank Facility from \$200.0 million to \$100.0 million. Any future increase in the Bank Facility continues to remain subject to the lenders' consent. The maturity date of the Bank Facility remained unchanged at June 30, 2019. There is no required or scheduled repayment of principal until the maturity date of the Bank Facility.

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.

### **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 on-going risk monitoring of changing conditions. To the extent that conditions change quickly, the Company is therefore positioned to respond appropriately.

### **Government Regulation, Foreign Corrupt Practices Act, and Anti-Bribery Laws**

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.

The Company is required to comply with Canadian and international laws and regulations, including those involving bribery and anti-corruption. Enerflex operates in many parts of the world that experience high levels of corruption, and our business brings us in frequent contact with foreign officials. The Company has controls, policies, procedures, and training that mandate the compliance with these laws and regulations, however there can be no assurance that employees or agents will not violate these controls, policies, and procedures. Any alleged violation of these laws and regulations could disrupt our business and cause Enerflex to incur significant costs to investigate any alleged breach. If Enerflex was found to be in contravention with these laws and regulations, severe civil and criminal penalties and other sanctions could materially harm our reputation, business, result of operations, financial conditions, and liquidity.

## 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 in 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.

For the twelve months ended December 31, 2015, a 5% depreciation in the Canadian dollar against the U.S. dollar, Australian dollar, and British pound would increase other comprehensive income by \$14.7 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 \$4.7 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, 2014 was \$36.8 million, which increased to \$147.0 million at December 31, 2015 as a result of changes in the value of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound.

## 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.

## 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, 2015 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, 2015 would be \$3.0 million. All interest charges are recorded in finance costs on the consolidated statements of earnings in finance costs.

## Personnel

Enerflex's Engineered Systems product line requires skilled engineers 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, mechanics, 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.

## 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 on-going basis, potentially changing conditions.

### **Information Technology**

As Enerflex continues to expand internationally, access to engineering and other technical skills in foreign locations, develop web-based applications and monitoring products, and 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.

### **Distribution Agreements**

One of Enerflex's strategic assets is its purchase and distribution agreements with leading manufacturers, notably for GE Waukesha gas engines and parts business globally 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 all of its operating regions. 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.

### **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.

### **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.

### **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.

### **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.

### **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.

### **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.

### **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.

## **CAPITAL RESOURCES**

On January 31, 2016, Enerflex had 79,166,492 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 2015, the Company declared a quarterly dividend of \$0.085 per share, its fifteenth consecutive dividend since emerging as a public company in June 2011.

On December 18, 2015, the Company entered into an agreement with its lenders to amend and restate the syndicated revolving credit facilities ("Bank Facility"). The amending agreement served to increase the amount available under the Bank Facility from \$675.0 million to \$775.0 million. The amendment also served to decrease the amount available for future increases to the Bank Facility from \$200.0 million to \$100.0 million. Any future increases in the Bank Facility continues to remain subject to the lenders' consent. The maturity date of the Bank Facility remained unchanged at June 30, 2019. There is no required or scheduled repayment of principal until the maturity date of the Bank Facility.

At December 31, 2015, the Company had drawn \$493.0 million against the Bank Facility (December 31, 2014 – \$420.0 million). The weighted average interest rate on the Bank Facility at December 31, 2015 was 2.3% (December 31, 2014 – 2.3%).

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

<i>(\$ Canadian thousands)</i>	<b>December 31, 2015</b>	December 31, 2014
Drawings on Bank Facility	<b>\$ 492,953</b>	\$ 419,968
Notes due June 22, 2016	<b>50,500</b>	50,500
Notes due June 22, 2021	<b>40,000</b>	40,000
Deferred transaction costs	<b>(4,813)</b>	(5,392)
	<b>\$ 578,640</b>	\$ 505,076

At December 31, 2015, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are \$543.5 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:

<i>(\$ Canadian thousands)</i>	Payments due by period				
	2016	2017-2018	2019-2020	Thereafter	Total
<b>Contractual Obligations</b>					
Leases	<b>\$ 15,798</b>	<b>\$ 22,610</b>	<b>\$ 11,631</b>	<b>\$ 6,679</b>	<b>\$ 56,718</b>
Purchase obligations	<b>131,903</b>	<b>1,485</b>	<b>–</b>	<b>–</b>	<b>133,388</b>
Total	<b>\$ 147,701</b>	<b>\$ 24,095</b>	<b>\$ 11,631</b>	<b>\$ 6,679</b>	<b>\$ 190,106</b>

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 Roska DBO, the Company's 45 percent equity investment, the Company's 51 percent joint venture interest in Enerflex-ES and the Company's 50 percent 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,	2015	2014
<b>Associate – Roska DBO</b>		
Revenue	\$ 7,583	\$ 8,343
Purchases	–	–
Accounts Receivable	2,078	1,215
<b>Joint Venture – Enerflex - ES</b>		
Revenue	\$ 59	\$ –
Purchases	–	–
Accounts Receivable	–	–
<b>Consortium – Geogas</b>		
Revenue	\$ –	\$ –
Purchases	236	11
Accounts Payable	171	–

All related party transactions are settled in cash.

During the 2015 fiscal year, the Company entered into a transaction with Laramie Energy LLC (formerly known as “Piceance Energy, LLC”). Robert S. Boswell is the Chief Executive Officer of Laramie Energy LLC and is a Director at Enerflex Ltd. The Company has recorded \$0.8 million of revenue and \$0.4 million accounts receivable from Laramie Energy, LLC as of December 31, 2015.

## 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, 2015. 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 on-going 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 23 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 2 Share-based Payments ("IFRS 2")*

The amendments to IFRS 2 provide clarification on the definition of vesting conditions. The amendments have been adopted effective January 1, 2015. There were no changes to the Consolidated Financial Statements as a result of the adoption.

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

The amendments to IFRS 3 clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. The amendment has been adopted effective January 1, 2015. There were no changes to the Consolidated Financial Statements as a result of the adoption.

### *IFRS 13 Fair Value Measurement ("IFRS 13")*

The amendment provides clarification that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The amendment is effective January 1, 2015. The Company does not apply the portfolio exception in IFRS 13.

## 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, 2018. Application of the standard is mandatory and early adoption is permitted.

IFRS 16 *Leases* ("IFRS 16") sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The standard supersedes *IAS 17 Leases* and lease-related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Application of the standard is mandatory and early adoption is permitted only if applied with IFRS 15.

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

## 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, 2015, 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, 2015, 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, 2015, 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, 2015 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.

## SUBSEQUENT EVENTS

Subsequent to December 31, 2015, the Company announced a quarterly dividend of \$0.085 per share, payable on April 9, 2016, to shareholders of record on March 9, 2016.

## 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.

# 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 25, 2016

[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, 2015 and 2014 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

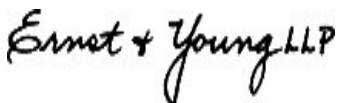
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enerflex Ltd. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Ernst & Young LLP

Chartered Professional Accountants



Calgary, Canada  
February 25, 2016

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2015	December 31, 2014
(\$ Canadian thousands)		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 158,081	\$ 158,069
Accounts receivable (Note 9)	330,270	448,228
Inventories (Note 10)	200,099	280,393
Income taxes receivable	7,937	2,118
Derivative financial instruments (Note 27)	1,131	416
Other current assets	10,547	9,557
Total current assets	708,065	898,781
Property, plant and equipment (Note 11)	144,979	152,898
Rental equipment (Note 11)	449,249	290,577
Deferred tax assets (Note 19)	41,714	34,086
Other assets (Note 12)	58,177	18,629
Intangible assets (Note 13)	44,301	42,104
Goodwill (Note 14)	748,604	707,913
	\$ 2,195,089	\$ 2,144,988
Assets held for sale (Note 8)	14,175	–
Total assets	\$ 2,209,264	\$ 2,144,988
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 15)	\$ 245,459	\$ 257,864
Provisions (Note 16)	25,228	24,177
Income taxes payable	3,259	12,318
Deferred revenues	143,509	269,197
Current portion of long-term debt (Note 17)	50,500	–
Derivative financial instruments (Note 27)	922	1,678
Total current liabilities	468,877	565,234
Long-term debt (Note 17)	528,140	505,076
Decommissioning liability	8,548	5,044
Deferred revenues	443	6,004
Deferred tax liabilities (Note 19)	36,833	35,068
Other liabilities	8,078	8,580
	\$ 1,050,919	\$ 1,125,006
Liabilities related to assets held for sale (Note 8)	305	–
Total liabilities	\$ 1,051,224	\$ 1,125,006
Shareholders' equity		
Share capital (Note 20)	\$ 238,580	\$ 229,534
Contributed surplus (Note 21)	653,120	653,624
Retained earnings	115,397	96,503
Accumulated other comprehensive income	146,969	36,819
Total shareholders' equity before non-controlling interest	1,154,066	1,016,480
Non-controlling interest	3,974	3,502
Total shareholders' equity and non-controlling interest	1,158,040	1,019,982
Total liabilities and shareholders' equity	\$ 2,209,264	\$ 2,144,988

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

## CONSOLIDATED STATEMENTS OF EARNINGS

	Years ended December 31,	
	2015	2014
(\$ Canadian thousands, except per share amounts)		
Revenue (Note 22)	<b>\$ 1,629,032</b>	\$ 1,696,200
Cost of goods sold	<b>1,302,843</b>	1,365,786
Gross margin	<b>326,189</b>	330,414
Selling and administrative expenses	<b>204,430</b>	200,926
Operating income	<b>121,759</b>	129,488
Gain (loss) on disposal of property, plant and equipment	<b>1,256</b>	(75)
Equity earnings from associate and joint venture	<b>8,762</b>	9,509
Impairment of goodwill (Note 14)	<b>(36,900)</b>	-
Earnings before finance costs and income taxes	<b>94,877</b>	138,922
Net finance costs (Note 25)	<b>15,310</b>	9,787
Earnings before income taxes	<b>79,567</b>	129,135
Income taxes (Note 19)	<b>30,677</b>	48,038
Net earnings from continuing operations	<b>\$ 48,890</b>	\$ 81,097
Loss from discontinued operations (Note 8)	<b>(845)</b>	(9,879)
Net earnings	<b>\$ 48,045</b>	\$ 71,218
Net earnings attributable to:		
Controlling interest	<b>\$ 45,746</b>	\$ 70,349
Non-controlling interest	<b>2,299</b>	869
	<b>\$ 48,045</b>	\$ 71,218
Earnings (loss) per share – basic (Note 26)		
Continuing operations	<b>\$ 0.62</b>	\$ 1.03
Discontinued operations	<b>\$ (0.01)</b>	\$ (0.12)
Earnings (loss) per share – diluted (Note 26)		
Continuing operations	<b>\$ 0.62</b>	\$ 1.02
Discontinued operations	<b>\$ (0.01)</b>	\$ (0.12)
Weighted average number of shares – basic	<b>78,963,963</b>	78,454,329
Weighted average number of shares – diluted	<b>79,142,456</b>	79,142,515

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ Canadian thousands)	Years ended December 31,	
	2015	2014
Net earnings	\$ 48,045	\$ 71,218
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 (2015: \$(329); 2014: \$(585))	(1,272)	(1,813)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense (2015: \$215; 2014: \$542)	1,063	1,423
Unrealized loss on translation of foreign denominated debt	(59,049)	(27,696)
Unrealized gain on translation of financial statements of foreign operations	167,581	58,789
Other comprehensive income	\$ 108,323	\$ 30,703
Total comprehensive income	\$ 156,368	\$ 101,921
Other comprehensive income (loss) attributable to:		
Controlling interest	\$ 110,150	\$ 31,072
Non-controlling interest	(1,827)	(369)
	\$ 108,323	\$ 30,703

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ Canadian thousands)	Years ended December 31,	
	2015	2014
<b>Operating Activities</b>		
Net earnings	\$ 48,045	\$ 71,218
Items not requiring cash and cash equivalents:		
Depreciation and amortization	82,771	56,799
Equity earnings from associate and joint venture	(8,762)	(9,509)
Deferred income taxes (Note 19)	(1,717)	(1,204)
Share-based compensation expense (Note 23)	3,119	8,298
(Gain) loss on sale of property, plant and equipment	(1,118)	62
Impairment of goodwill (Note 14)	36,900	-
	159,238	125,664
Net change in non-cash working capital and other (Note 29)	(55,065)	(61,053)
Cash provided by operating activities	\$ 104,173	\$ 64,611
<b>Investing Activities</b>		
Acquisition (Note 7)	\$ -	\$ (460,169)
Additions to:		
Property, plant and equipment (Note 11)	(12,898)	(29,338)
Rental equipment (Note 11)	(167,300)	(18,277)
Proceeds on disposal of:		
Property, plant and equipment	2,924	298
Rental equipment	10,956	14,916
Change in other assets	6,548	10,358
Cash used in investing activities	\$ (159,770)	\$ (482,212)
<b>Financing Activities</b>		
Proceeds from issuance of long-term debt	\$ 71,696	\$ 410,822
Dividends	(26,804)	(23,499)
Stock option exercises	6,461	5,749
Cash provided by financing activities	\$ 51,353	\$ 393,072
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	\$ 4,256	\$ 625
Increase (decrease) in cash and cash equivalents	12	(23,904)
Cash and cash equivalents, beginning of period	158,069	181,973
Cash and cash equivalents, end of period	\$ 158,081	\$ 158,069

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, 2014	\$ 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
Net earnings	-	-	45,746	-	-	-	45,746	2,299	48,045
Other comprehensive income (loss)	-	-	-	110,359	(209)	110,150	110,150	(1,827)	108,323
Effect of stock option plans	9,046	(504)	-	-	-	-	8,542	-	8,542
Dividends	-	-	(26,852)	-	-	-	(26,852)	-	(26,852)
At December 31, 2015	\$ 238,580	\$ 653,120	\$ 115,397	\$ 149,124	\$ (2,155)	\$ 146,969	\$1,154,066	\$ 3,974	\$1,158,040

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 2,300 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, USA, and Rest of World.

The following table represents material subsidiaries of the Company:

Name	Jurisdiction of Incorporation	Ownership	Operating Segment
Enerflex Ltd.	Canada	Public Shareholders	Canada
Enerflex Inc.	Delaware, U.S.	100.0 percent	USA
Gas Drive Global LP	Alberta, Canada	100.0 percent	Canada
Enerflex Energy Systems PTY Ltd.	Melbourne, Australia	100.0 percent	Rest of World

## 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 25, 2016. 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 presentation currency. Transactions of the Company's individual entities are recorded in their own functional currency based on the primary economic environment in which it operates.

### (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 Roska DBO 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 and the UAE. 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 on-going 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 taxes are 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.

In accordance with IAS 12, where an entity's tax return is prepared in a currency other than its functional currency, changes in the exchange rate between the two currencies create temporary differences with respect to the valuation of non-monetary assets and liabilities. As a result, deferred tax is recognized in the Statement of Earnings and the Statement of Financial Position.

#### **(w) Assets Held for Sale and Discontinued Operations**

The Company classifies assets and disposal groups as held for sale to equity holders of the parent if their carrying amounts will be recovered principally through a distribution rather than through continuing use. Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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. Net finance costs 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) IFRS 2 Share-based Payments (“IFRS 2”)

The amendments to IFRS 2 provide clarification on the definition of vesting conditions. The amendments have been adopted effective January 1, 2015. There were no changes to the Consolidated Financial Statements as a result of the adoption.

### (b) IFRS 3 Business Combinations (“IFRS 3”)

The amendments to IFRS 3 clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. The amendment has been adopted effective January 1, 2015. There were no changes to the Consolidated Financial Statements as a result of the adoption.

### (c) IFRS 13 Fair Value Measurement (“IFRS 13”)

The amendment provides clarification that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The amendment is effective January 1, 2015. The Company does not apply the portfolio exception in IFRS 13.

## 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 on-going 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.

### **Segment Change and Fair Value Allocation**

Effective January 1, 2015, the Company realigned its reporting segments into Canada, United States of America ("USA") and Rest of World ("ROW") 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 previously reported in the Canada and Northern United States segment, were transferred to the USA segment commencing in 2015. The reporting for the Engineered Systems, after-market Service and Rental businesses in Latin America was combined with the previous International segment, and renamed the "Rest of World" segment.

Goodwill that was previously allocated to Southern U.S. and Latin America ("SULA") was distributed between USA and Rest of World segments on a basis of fair value allocation. The fair value allocation was determined based on the value in use for USA and Latin America within SULA stand alone and applying the percentage goodwill held within SULA.

## **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:

### **(a) 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.

### **(b) 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, 2018. Application of the standard is mandatory and early adoption is permitted.

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

### **(c) IFRS 16 Leases ("IFRS 16")**

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard supersedes *IAS 17 Leases* and lease-related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Application of the standard is mandatory and early adoption is permitted only if applied with IFRS 15.

The Company has not yet determined the impact of the above standard 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 Axiom Energy Services, LP ("Axiom") for approximately USD\$431.0 million (CAD\$460.2 million), including closing purchase price adjustments. Axiom's international contract compression, processing and after-market service business is a leading provider of global energy services. Headquartered in Houston, Texas, Axiom had 173 employees with operations in Argentina, Brazil, Colombia, Mexico, Peru, Indonesia, Malaysia, Thailand and Bahrain. Axiom'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 Axiom international senior management team have stayed with the business. The acquisition did not include Axiom's U.S. assets.

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

Cash and cash equivalents	\$ 7,080
Accounts receivable	46,912
Inventories	14,092
Property, plant and equipment	1,243
Rental equipment	200,967
Intangible assets	28,326
Accounts payable and accrued liabilities	(45,075)
Deferred revenue	(18,341)
Deferred tax liabilities	(16,489)
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	229,169
Preliminary purchase price	\$ 459,400
Working capital adjustment	769
Final purchase price	\$ 460,169

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 \$20.9 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 were included in selling and administrative expenses in the Company's consolidated statements of earnings.

## NOTE 8. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On February 3, 2015, the Company announced its intention to close the Production and Processing manufacturing facility in Nisku, Alberta and exit the oil sands modular fabrication business. The business unit completed the fabrication of projects at the end of June 2015.

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

Years ended December 31,	2015	2014
Revenue	\$ 32,946	\$ 84,530
Expenses	34,088	97,702
Loss before income taxes	(1,142)	(13,172)
Income tax recoveries	(297)	(3,293)
Loss from discontinued operations	\$ (845)	\$ (9,879)

The following table summarizes cash from discontinued operations:

Years ended December 31,	2015	2014
Cash (used in) provided by operating activities	\$ (8,324)	\$ 11,733
Cash provided by (used in) investing activities	\$ 1,281	\$ (2,155)
Net cash flow for the period	\$ (7,043)	\$ 9,578

At December 31, 2015 P&P's assets were stated at the lower of cost and fair value less costs to sell and were comprised of the following:

	December 31, 2015
Property, plant and equipment	\$ 14,156
Other current assets	19
Assets held for sale	\$ 14,175
Accounts payable and accrued liabilities	\$ 305
Liabilities related to assets held for sale	\$ 305

## NOTE 9. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

December 31,	2015	2014
Trade receivables	\$ 209,301	\$ 320,933
Less: allowance for doubtful accounts	(2,968)	(1,573)
Trade receivables, net	206,333	319,360
Other receivables <sup>1</sup>	123,937	128,868
Total accounts receivable	\$ 330,270	\$ 448,228

<sup>1</sup> Included in Other receivables at December 31, 2015 is \$61.1 million relating to amounts due from customers under construction contracts (December 31, 2014 - \$82.7 million).

Aging of trade receivables:

December 31,	2015	2014
Current to 90 days	\$ 175,530	\$ 296,567
Over 90 days	33,771	24,366
	\$ 209,301	\$ 320,933

Movement in allowance for doubtful accounts:

December 31,	2015	2014
Balance, beginning of year	\$ 1,573	\$ 1,093
Impairment provision additions on receivables	1,218	528
Amounts written off during the year as uncollectible	(51)	(181)
Currency translation effects	228	133
Balance, end of year	\$ 2,968	\$ 1,573

## NOTE 10. INVENTORIES

Inventories consisted of the following:

December 31,	2015	2014
Equipment	\$ 16,650	\$ 10,398
Repair and distribution parts	58,886	67,819
Direct materials	67,174	59,649
Work-in-process	57,389	142,527
Total inventories	\$ 200,099	\$ 280,393

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold during 2015 was \$1,302.8 million (December 31, 2014 – \$1,365.8 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 statement of earnings and included in cost of goods sold in 2015 was \$4.0 million (December 31, 2014 – \$3.1 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, 2015</b>	\$ 34,980	\$ 123,975	\$ 66,048	\$ 16,451	\$ 241,454	\$ 354,838
Additions	–	729	1,993	10,176	12,898	167,300
Reclassification	–	2,038	3,391	(12,001)	(6,572)	(2,268)
Disposals	(91)	(3,213)	(4,126)	–	(7,430)	(14,602)
Assets held for sale	(4,878)	(12,771)	(831)	–	(18,480)	–
Currency translation effects	2,715	12,286	4,045	5,804	24,850	64,748
<b>December 31, 2015</b>	<b>\$ 32,726</b>	<b>\$ 123,044</b>	<b>\$ 70,520</b>	<b>\$ 20,430</b>	<b>\$ 246,720</b>	<b>\$ 570,016</b>
<b>Accumulated depreciation</b>						
<b>January 1, 2015</b>	\$ –	\$ (43,869)	\$ (44,687)	\$ –	\$ (88,556)	\$ (64,261)
Depreciation charge	–	(7,068)	(8,208)	–	(15,276)	(51,799)
Impairment	–	(1,593)	(854)	–	(2,447)	(2,381)
Reclassification	–	23	130	–	153	861
Disposals	–	1,898	3,879	–	5,777	3,492
Assets held for sale	–	3,931	393	–	4,324	–
Currency translation effects	–	(2,971)	(2,745)	–	(5,716)	(6,679)
<b>December 31, 2015</b>	<b>\$ –</b>	<b>\$ (49,649)</b>	<b>\$ (52,092)</b>	<b>\$ –</b>	<b>\$ (101,741)</b>	<b>\$ (120,767)</b>
<b>Net book value – December 31, 2015</b>	<b>\$ 32,726</b>	<b>\$ 73,395</b>	<b>\$ 18,428</b>	<b>\$ 20,430</b>	<b>\$ 144,979</b>	<b>\$ 449,249</b>
	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>

Depreciation of property, plant and equipment and rental equipment included in earnings for the twelve months ended December 31, 2015 was \$67.1 million (December 31, 2014 – \$40.9 million), of which \$60.7 million was included in cost of goods sold and \$6.4 million was included in selling and administrative expenses (December 31, 2014 – \$32.8 million and \$8.1 million, respectively).

Impairment of property, plant and equipment and rental equipment included in earnings for the twelve months ended December 31, 2015 was \$4.8 million (December 31, 2014 – nil). The impairment relates to write down of assets primarily in the Rest of World segment due to obsolescence and onerous lease.

## NOTE 12. OTHER ASSETS

December 31,	2015 <sup>1</sup>	2014
Investment in associates and joint ventures	\$ 21,754	\$ 15,963
Other prepaid deposits	1,934	2,185
Long – term receivable	31,906	–
Net investment in finance leases	2,583	481
	<b>\$ 58,177</b>	<b>\$ 18,629</b>

<sup>1</sup> Other assets include \$31.9 million of receivables that were reclassified from current to long-term during the fourth quarter of 2015. These assets represent milestone payments with respect to a gas processing plant constructed and delivered to Oman Oil Exploration and Production LLC ("OOCEP") during 2015, which are overdue and remain unpaid. These amounts are now included in arbitration proceedings, the resolution of which Enerflex is unable to reasonably estimate.

### (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 7 years.

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

December 31,	Minimum lease payments		Present value of minimum lease payments	
	2015	2014	2015	2014
Less than one year	\$ 664	\$ 379	\$ 641	\$ 371
Between one and five years	2,041	481	1,637	448
Later than five years	542	–	340	–
	<b>\$ 3,247</b>	<b>\$ 860</b>	<b>\$ 2,618</b>	<b>\$ 819</b>
Less: unearned finance income	(629)	(41)	–	–
	<b>\$ 2,618</b>	<b>\$ 819</b>	<b>\$ 2,618</b>	<b>\$ 819</b>

The average interest rates inherent in the leases are fixed at the contract date for the entire lease term and are approximately 6.7 percent per annum (December 31, 2014 – 3.9 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, 2015</b>	\$ 62,467	\$ 34,218	\$ 96,685
Additions	–	10	10
Reclassification	–	7,830	7,830
Currency translation effects	5,137	1,731	6,868
<b>December 31, 2015</b>	<b>\$ 67,604</b>	<b>\$ 43,789</b>	<b>\$ 111,393</b>
<b>Accumulated amortization</b>			
<b>January 1, 2015</b>	\$ (33,561)	\$ (21,020)	\$ (54,581)
Amortization charge	(4,481)	(6,476)	(10,957)
Currency translation effects	(399)	(1,155)	(1,554)
<b>December 31, 2015</b>	<b>\$ (38,441)</b>	<b>\$ (28,651)</b>	<b>\$ (67,092)</b>
<b>Net book value – December 31, 2015</b>	<b>\$ 29,163</b>	<b>\$ 15,138</b>	<b>\$ 44,301</b>

	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>

## NOTE 14. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

	2015	2014
Balance, January 1	<b>\$ 707,913</b>	\$ 451,214
Acquisition	–	229,938
Adjustment	<b>4,363</b>	–
Impairment	<b>(36,900)</b>	–
Currency translation effects	<b>73,228</b>	26,761
Balance, December 31	<b>\$ 748,604</b>	\$ 707,913

Goodwill acquired through business combinations has been allocated to the Canada, USA and Rest of World 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, 2015 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, 2015. 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.

### 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 \$4.2 million; and
- » Discount Rate: Management has used an average post-tax discount rate of 10.42 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 \$64.1 million.

The Company completed its annual assessment for goodwill impairment and determined that the recoverable amount for Canada and Rest of World segments exceeded the carrying amount using a 9.03% and 12.31% post-tax discount rate, respectively. However, the USA segment's recoverable amount was determined to be less than its carrying value of \$325.0 million using a 9.91% post-tax discount rate. This resulted in a goodwill impairment charge of \$36.9 million for the year ended December 31, 2015.

The impairment in the USA segment was primarily triggered by a continued decline in commodity prices and reduced customer capital budgets resulting in a lower activity levels.

A reasonable change in assumptions for Canada and Rest of World segments would not trigger an impairment.

## NOTE 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31,	2015	2014
Accounts payable and accrued liabilities	<b>\$ 236,374</b>	\$ 246,925
Accrued dividend payable	<b>6,727</b>	6,677
Cash-settled share-based payments	<b>2,358</b>	4,262
	<b>\$ 245,459</b>	\$ 257,864

## NOTE 16. PROVISIONS

December 31,	2015	2014
Warranty provision	<b>\$ 20,208</b>	\$ 19,392
Restructuring provision	<b>2,623</b>	4,275
Legal provision	<b>50</b>	510
Onerous lease provision	<b>2,347</b>	–
	<b>\$ 25,228</b>	\$ 24,177

2015	Warranty provision	Restructuring provision	Legal Provision	Lease Provision	Total
Balance, January 1	<b>\$ 19,392</b>	<b>\$ 4,275</b>	<b>\$ 510</b>	<b>\$ –</b>	<b>\$ 24,177</b>
Additions during the year	<b>11,255</b>	<b>2,623</b>	<b>136</b>	<b>2,347</b>	<b>15,016</b>
Amounts settled and released in the year	<b>(12,771)</b>	<b>(4,275)</b>	<b>(596)</b>	<b>–</b>	<b>(16,297)</b>
Currency translation effects	<b>2,332</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,332</b>
Balance, December 31	<b>\$ 20,208</b>	<b>\$ 2,623</b>	<b>\$ 50</b>	<b>\$ 2,347</b>	<b>\$ 25,228</b>

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

The Company committed to a plan to restructure Process Construction in Australia due to decrease in demand as a result of deteriorated economic circumstances. Following the announcement of the plan, the Company recognized a provision of \$2.6 million for expected restructuring costs, including severance costs.

In 2015, the Company entered into a non-cancellable lease for office space in Perth, Australia. Due to changes in market conditions and restructuring, the Company stopped using the premises on October 2015. The lease will expire in 2018. The Company has been unable to sub-let the lease. The provision of \$2.3 million represents the future payments.

## 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.

On December 18, 2015, the Company entered into an agreement with its lenders to amend and restate the syndicated revolving credit facility (“Bank Facility”). The amending agreement served to increase the amount available under the Bank Facility from \$675.0 million to \$775.0 million. The amendment also served to decrease the amount available for future increases to the

Bank Facility from \$200.0 million to \$100.0 million. Any future increases in the Bank Facility continues to remain subject to the lenders' consent. The maturity date of the Bank Facility remained unchanged at June 30, 2019. 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, 2015, the Company was in compliance with these covenants.

The weighted average interest rate on the Bank Facility for the year ended December 31, 2015 was 2.3 percent (December 31, 2014 – 2.3 percent).

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

December 31,	2015	2014
Drawings on Bank Facility	\$ 492,953	\$ 419,968
Notes due June 22, 2016	50,500	50,500
Notes due June 22, 2021	40,000	40,000
Deferred transaction costs	(4,813)	(5,392)
Subtotal	\$ 578,640	\$ 505,076
Less: current portion of long-term debt	50,500	–
Long-term debt	\$ 528,140	\$ 505,076

At December 31, 2015, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are \$543.5 million, and \$40.0 million thereafter.

## NOTE 18. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At December 31, 2015, the Company had outstanding letters of credit of \$64.2 million (December 31, 2014 – \$70.9 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:

2016	\$ 15,798
2017	13,161
2018	9,449
2019	6,688
2020	4,943
Thereafter	6,679
Total	\$ 56,718

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

2016	\$ 131,903
2017	1,485
2018	–

## NOTE 19. INCOME TAXES

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

The components of income tax expense were as follows:

Years ended December 31,	2015	2014
Current tax	\$ 32,097	\$ 45,949
Deferred income tax	(1,420)	2,089
	<b>\$ 30,677</b>	<b>\$ 48,038</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,	2015	2014
Earnings before income taxes	\$ 79,567	\$ 129,135
Canadian statutory rate	26.0%	25.0%
Expected income tax provision	\$ 20,688	\$ 32,284
Add (deduct)		
Impairment of goodwill not deductible for tax purposes	9,594	–
Exchange rate effects on tax bases	7,166	–
(Loss) Earnings taxed in foreign jurisdictions	(3,317)	9,759
Withholding tax on dividends received from foreign subsidiaries	–	5,653
Expenses not deductible for tax purposes	639	2,788
Impact of equity-accounted earnings	(2,871)	(2,377)
Revaluation of Canadian deferred tax assets at new statutory rate	(1,069)	–
Other	(153)	(69)
Income tax expense	<b>\$ 30,677</b>	<b>\$ 48,038</b>

The Company's effective tax rate is subject to fluctuations in the Argentine Peso and Mexican Peso exchange rate against the U.S. Dollar. Since the Company holds significant rental assets in Argentina and Mexico, the tax base of these assets is denominated in Argentine Peso and Mexican Peso, respectively. The functional currency is, however, the U.S. Dollar and as a result, the related local currency tax bases are revalued periodically to reflect the closing U.S. dollar rate against these currencies. Any movement in the exchange rate results in a corresponding unrealized exchange rate gain or loss being recorded as part of deferred income tax expense or recovery. During periods of large fluctuation or devaluation of the local currency against the U.S. Dollar, these amounts may be significant but are unrealized and may reverse in the future. Recognition of these amounts is required by IFRS, even though the revalued tax basis does not generate any cash tax obligation or liability in the future.

The applicable tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2014 – 15.0 percent) and the provincial income tax rate of 11.0 percent (2014 – 10.0 percent).

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

Years ended December 31,	2015	2014
Deferred Tax		
Arising on income and expenses recognized in other comprehensive income:		
Fair value remeasurement of hedging instruments entered into for cash flow hedges	\$ (329)	\$ (585)
Arising on income and expenses reclassified from other comprehensive income to net earnings:		
Relating to cash flow hedges	215	542
Total income tax recognized in other comprehensive income	\$ (114)	\$ (43)

**(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	Exchange rate effects on tax bases	Cash flow hedges	Total <sup>1</sup>
January 1, 2015	\$ 28,843	\$ 9,648	\$ (41,347)	\$ 1,308	\$ –	\$ 566	\$ (982)
Charged to net earnings	557	726	7,857	(257)	(7,166)	–	1,717
Charged to OCI	–	–	–	–	–	114	114
Exchange differences	1,735	901	2,233	–	(830)	(7)	4,032
December 31, 2015	\$ 31,135	\$ 11,275	\$ (31,257)	\$ 1,051	\$ (7,996)	\$ 673	\$ 4,881

<sup>1</sup> Net deferred tax assets at December 31, 2015 of \$4.9 million consist of assets of \$41.7 million net of liabilities of \$36.8 million.

	Accounting provisions and accruals	Tax losses	Long-term assets	Other	Exchange rate effects on tax bases	Cash flow hedges	Total
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 OCI	–	–	–	–	–	43	43
Exchange differences	458	866	1,707	–	–	99	3,130
December 31, 2014	\$ 28,843	\$ 9,648	\$ (41,347)	\$ 1,308	\$ –	\$ 566	\$ (982)

**(d) Unrecognized Deferred Tax Assets**

The Company has unused tax losses of \$63.2 million for the year ended December 31, 2015 (December 31, 2014 – \$56.4 million). Certain of these unrecognized tax losses are subject to expiration in the years 2017 through 2023. Deferred tax assets totaling \$15.6 million on these tax losses have not been recognized in the consolidated statements of financial position at December 31, 2015 (December 31, 2014 – \$14.0 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**

	2015		2014	
	Number of common shares	Common share capital	Number of common shares	Common share capital
Balance, January 1	78,618,026	\$ 229,534	78,126,829	\$ 220,901
Exercise of stock options	538,466	9,046	491,197	8,633
Balance, December 31	79,156,492	\$ 238,580	78,618,026	\$ 229,534

Total dividends declared in the year were \$26.9 million, or \$0.085 per share each quarter (December 31, 2014 – \$24.3 million, or \$0.075 per share for the first three quarters and \$0.085 per share for the last quarter of 2014).

## 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:

	2015	2014
Balance, January 1	\$ 653,624	\$ 654,538
Share-based compensation	2,081	1,965
Exercise of stock options	(2,585)	(2,879)
Balance, December 31	\$ 653,120	\$ 653,624

## NOTE 22. REVENUE

Years ended December 31,	2015	2014
Engineered Systems	\$ 1,091,843	\$ 1,209,843
Service	384,609	387,932
Rentals	152,580	98,425
Total Revenue	\$ 1,629,032	\$ 1,696,200

Proceeds received and receivable from the sale of rental equipment included in revenue for the year ended December 31, 2015 was \$10.8 million (2014 – \$14.9 million).

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

Years ended December 31,	2015	2014
United States of America	\$ 598,991	\$ 633,919
Canada	459,395	504,140
Australia	147,639	200,483
Mexico	94,250	62,982
Oman	72,722	67,176
Argentina	60,826	36,247
Bahrain	35,230	10,487
Nigeria	31,530	24,116
Brazil	24,672	17,059
Other	103,777	139,591
Total Revenue	\$ 1,629,032	\$ 1,696,200

## 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,	2015	2014
Stock options	\$ 2,080	\$ 1,965
Deferred share units	37	1,020
Phantom share units	(107)	332
Performance share units	(297)	1,819
Restricted share units	1,406	3,162
Total share-based compensation expense	\$ 3,119	\$ 8,298

### (b) Stock Options

The Company's current stock option program provides grants to certain employees. Under the plan, up to 7.8 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.

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, January 1	2,550,224	\$ 13.71	2,676,202	\$ 12.30
Granted	781,092	11.69	391,712	20.75
Exercised <sup>1</sup>	(538,466)	12.00	(488,197)	11.72
Forfeited	(15,082)	14.69	(27,493)	12.22
Expired	(1,500)	12.58	(2,000)	11.20
<b>Options outstanding, December 31</b>	<b>2,776,268</b>	<b>\$ 13.47</b>	<b>2,550,224</b>	<b>\$ 13.71</b>
<b>Options exercisable, December 31</b>	<b>1,156,525</b>	<b>\$ 12.92</b>	<b>1,121,193</b>	<b>\$ 12.04</b>

<sup>1</sup> The weighted average share price of options at the date of exercise for the year ended December 31, 2015 was \$14.67 (December 31, 2014 – \$17.39).

The Company granted 781,092 stock options during 2015 (2014 – 391,712). Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted during the year ended December 31, 2015 was \$2.31 per option (December 31, 2014 – \$5.28).

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

	December 31, 2015	December 31, 2014
Expected life (years)	5.18	5.31
Expected volatility <sup>2</sup>	28.8%	29.4%
Dividend yield	2.9%	1.5%
Risk-free rate	1.4%	2.1%
Estimated forfeiture rate	0.8%	0.7%

<sup>2</sup> Expected volatility is based on Enerflex and its peers over a five-year period consistent with the life of the option.

The following table summarizes options outstanding and exercisable at December 31, 2015:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number outstanding	Weighted average exercise price
\$9.61 - \$11.76	1,314,602	4.97	\$ 11.58	417,744	\$ 11.37
\$11.77 - \$13.65	644,382	2.37	12.35	489,451	12.51
\$13.66 - \$20.75	817,284	4.62	17.38	249,330	16.33
<b>Total</b>	<b>2,776,628</b>	<b>4.26</b>	<b>\$ 13.47</b>	<b>1,156,525</b>	<b>\$ 12.92</b>

### (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. For the year ended December 31, 2015, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled \$1.9 million (December 31, 2014 – \$1.3 million).

	Number of DSUs	Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2015	278,686	\$ 13.75
Granted or elected	130,831	14.54
Exercised	(21,107)	14.10
In lieu of dividends	8,026	14.37
<b>DSUs outstanding, December 31, 2015</b>	<b>396,436</b>	<b>\$ 14.00</b>

The carrying amount of the liability relating to DSUs as at December 31, 2015 included in current liabilities was \$0.2 million (December 31, 2014 – nil) and in other long-term liabilities was \$5.1 million (December 31, 2014 – \$4.6 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 seventh 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 2015, the Board of Directors granted 199,986 SARs (December 31, 2014 – 101,159). The intrinsic value of the vested awards at December 31, 2015 was \$0.5 million (December 31, 2014 – \$1.0 million).

	Number of SARs	Weighted average grant date fair value per unit
SARs outstanding, January 1, 2015	238,293	\$ 15.07
Granted	199,986	11.69
Exercised	(90,862)	12.85
Forfeited	(26,302)	20.75
<b>SARs outstanding, December 31, 2015</b>	<b>321,115</b>	<b>\$ 13.13</b>

The carrying amount of the liability relating to the SARs as at December 31, 2015 included in current liabilities was \$0.3 million (December 31, 2014 – \$0.5 million) and in other long-term liabilities was \$0.1 million (December 31, 2014 – \$0.2 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 14<sup>th</sup> 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.

During 2015, the Company paid \$1.9 million for the period ended December 31, 2015 representing units vested in the year (December 31, 2014 – nil).

	Number of PSUs	Weighted average grant date fair value per unit
PSUs outstanding, January 1, 2015	356,061	\$ 14.86
Granted	200,437	11.69
In lieu of dividends	8,202	14.45
Vested	(150,201)	12.35
Forfeited	(64,279)	13.53
<b>PSUs outstanding, December 31, 2015</b>	<b>350,220</b>	<b>\$ 14.36</b>

The carrying amount of the liability relating to PSUs as at December 31, 2015 included in current liabilities was \$1.0 million (December 31, 2014 – \$2.3 million) and in other long-term liabilities was \$0.9 million (December 31, 2014 – \$1.1 million).

#### (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 2015, the Board of Directors granted 206,296 RSUs to officers or key employees of the Company (2014 – 173,666). The Company paid \$1.9 million for the period ended December 31, 2015 representing units vested in the year (December 31, 2014 – \$2.8 million).

	Number of RSUs	Weighted average grant date fair value per unit
RSUs outstanding, January 1, 2015	384,062	\$ 13.53
Granted	206,296	11.69
In lieu of dividends	8,261	14.54
Vested	(161,748)	11.59
Forfeited	(92,448)	16.87
<b>RSUs outstanding, December 31, 2015</b>	<b>344,423</b>	<b>\$ 12.47</b>

The carrying amount of the liability included in current liabilities relating to RSUs at December 31, 2015 was \$1.0 million (December 31, 2014 – \$1.4 million).

#### (g) Cash Performance Target (“CPT”) Plan

The Company offers a CPT plan to certain key employees of the Company or its related entities. The CPT plan is a long-term incentive program for non-executive U.S. based-employees. The plan is denominated in USD and may be granted at the discretion of the Board of Directors. Although the liability associated with the CPT plan follows Enerflex share performance no actual shares or securities are issued under the plan. The cash payment fluctuates based on the percentage of appreciation or depreciation in the share price over the life of the award, which is calculated using the last 5 days immediate preceding the vesting date. The cash grants are held for three years, and 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 cash grants, at the discretion of the Company.

During 2015, the Board of Directors distributed \$0.9 million USD of CPT cash grants (2014 – nil). No amounts vested in 2015 or in 2014. The weighted average grant date fair value per was \$11.80, using the average share price over the 5 days preceding the grant date. The carrying amount of the liability included in current liabilities relating to units at December 31, 2015 was \$0.2 million (December 31, 2014 – nil).

## (h) 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, UK, Asia, 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,	2015	2014
Defined contribution plans	\$ 8,133	\$ 9,281
401(k) matched savings plan	1,737	1,495
Net pension expense	\$ 9,870	\$ 10,776

## NOTE 25. FINANCE COSTS AND INCOME

Years ended December 31,	2015	2014
<b>Finance Costs</b>		
Short and long-term borrowings	\$ 16,264	\$ 10,470
<b>Finance Income</b>		
Bank interest income	\$ 687	\$ 471
Income from finance leases	267	212
Total finance income	\$ 954	\$ 683
Net finance costs	\$ 15,310	\$ 9,787

## NOTE 26. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

	2015			2014		
Years ended December 31,	Net earnings	Weighted average shares outstanding	Per share	Net earnings	Weighted average shares outstanding	Per share
Basic	\$ 48,045	78,963,963	\$ 0.62	\$ 71,218	78,454,329	\$ 0.91
Dilutive effect of stock option conversion	—	178,493	(0.01)	—	688,186	(0.01)
Diluted	\$ 48,045	79,142,456	\$ 0.61	\$ 71,218	79,142,515	\$ 0.90

## NOTE 27. FINANCIAL INSTRUMENTS

### Designation and Valuation of Financial Instruments

The Company has designated its financial instruments as follows:

	Carrying value	Estimated fair value
<b>December 31, 2015</b>		
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 158,081	\$ 158,081
Derivative instruments in designated hedge accounting relationships	1,131	1,131
Loans and receivables:		
Accounts receivable	330,270	330,270
<b>Financial Liabilities</b>		
Derivative instruments in designated hedge accounting relationships	922	922
Other financial liabilities:		
Accounts payable and accrued liabilities	245,459	245,459
Current portion – notes	50,500	50,881
Long-term debt – bank facility	492,953	492,953
Long-term debt – notes	40,000	42,278
Other long-term liabilities	8,078	8,078
<b>December 31, 2014</b>		
<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 facilities	419,968	419,968
Long-term debt - notes	90,500	97,135
Other long-term liabilities	8,580	8,580

### 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, 2015 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2015, 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	\$ 1,131	\$ –	\$ 1,131	\$ –
<b>Financial Liabilities</b>				
Derivative financial instruments	\$ 922	\$ –	\$ 922	\$ –

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 4.14 percent, was \$93.2 million at December 31, 2015.

#### 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, 2015:

		Notional amount	Maturity
<b>Canadian Dollar Denominated Contracts</b>			
Purchase contracts	USD	19,165	January 2016 – July 2016
Sales contracts	USD	(23,357)	January 2016 – June 2017
<b>U.S. Dollar Denominated Contracts</b>			
Purchase contracts	AUD	3,000	January 2016
	EUR	508	January 2016
Sales contracts	EUR	(5,589)	January 2016 – October 2016

Management estimates that a gain of \$0.2 million would be realized if the contracts were terminated on December 31, 2015. Certain of these forward contracts are designated as cash flow hedges and accordingly, a loss of \$1.3 million has been included in other comprehensive income for the 2015 year (December 31, 2014 – \$1.8 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 2015 was a gain of \$1.1 million (December 31, 2014 – \$1.4 million).

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

#### 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 2015 of a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound, everything else being equal. A 5 percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis is provided as an indicative range in a volatile currency environment.

Canadian dollar weakens by 5 percent	USD	AUD	GBP
Net earnings (loss) before tax	\$ 2,314	\$ (73)	\$ 27

### 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, 2015 and for the year then ended.

Canadian dollar weakens by 5 percent	USD	AUD	GBP
Financial instruments held in foreign operations			
Other comprehensive income	\$ 12,867	\$ 1,583	\$ 287
Financial instruments held in Canadian operations			
Net earnings before tax	\$ 4,741	\$ -	\$ -

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, 2015 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\$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\$140.0 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, 2015, the fair value of the interest rate swap was nominal.

For each 1 percent change in the rate of interest on the remaining \$299.2 million Bank Facility, the change in interest expense for the year ended would be \$3.0 million (December 31, 2014 – \$2.1 million). 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, 2015 and 2014, 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, 2015 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, 2015, the Company held cash and cash equivalents of \$158.1 million and had drawn \$493.0 million against the Bank Facility, leaving it with access to \$217.9 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, 2015:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	\$ 877	\$ 45	\$ –	\$ 922
Accounts payable and accrued liabilities	245,459	–	–	245,459
Long-term debt - Bank Facility	–	–	492,953	492,953
Long-term debt - Notes	–	50,500	40,000	90,500
Other long-term liabilities	–	–	8,078	8,078

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. 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 on-going 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 to EBITDA Ratio

Net debt 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, 2015, the net debt to EBITDA ratio was:

December 31,	2015	2014
Short and long-term debt	\$ 578,640	\$ 505,076
Cash and cash equivalents	(158,081)	(158,069)
Net debt	\$ 420,559	\$ 347,007
Earnings before finance costs and income taxes	\$ 94,877	\$ 138,922
Depreciation and amortization <sup>1</sup>	81,894	54,818
EBITDA	\$ 176,771	\$ 193,740
Net debt to EBITDA ratio	2.38:1	1.79:1

<sup>1</sup> Depreciation and amortization from continuing operations.

## NOTE 29. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,	2015	2014
<b>Changes of non-cash working capital</b>		
Accounts receivable	\$ 117,958	\$ (70,146)
Inventories	80,294	(100,278)
Deferred revenue	(131,249)	75,411
Accounts and taxes payable and accrued liabilities and provisions	(20,108)	47,592
Foreign currency and other	(101,960)	(13,632)
	\$ (55,065)	\$ (61,053)

Cash paid and received during the period:

Years ended December 31,	2015	2014
Interest paid	\$ 15,179	\$ 9,863
Interest received	1,522	864
Taxes paid	41,218	34,667
Taxes received	1,379	–

## NOTE 30. RELATED PARTIES

Enerflex transacts with certain related parties as a normal course of business. Related parties include Roska DBO, 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,	2015	2014
<b>Associate – Roska DBO</b>		
Revenue	\$ 7,583	\$ 8,343
Purchases	–	–
Accounts receivable	2,078	1,215
<b>Joint Venture – Enerflex - ES</b>		
Revenue	\$ 59	\$ –
Purchases	–	–
Accounts receivable	–	–
<b>Consortium – Geogas</b>		
Revenue	\$ –	\$ –
Purchases	236	11
Accounts payable	171	–

All related party transactions are settled in cash.

During the 2015 fiscal year, the Company entered into a transaction with Laramie Energy LLC (formerly known as “Piceance Energy, LLC”). Robert S. Boswell is the Chief Executive Officer of Laramie Energy LLC and is a Director at Enerflex Ltd. The Company has recorded \$0.8 million of revenue and \$0.4 million accounts receivable from Laramie Energy, LLC as of December 31, 2015.

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

Years ended December 31,	2015	2014
Short-term compensation	\$ 4,253	\$ 4,873
Post-employment compensation	431	509
Share-based payments	3,978	3,577

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 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 USA and Rest of World segments 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. For year ended December 31, 2015, the Company had no individual customers which accounted for more than 10% of its revenue.

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

- » Canada generates revenue from manufacturing (primarily compression equipment), service, and rentals;
- » USA 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
- » Rest of World 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		USA		Rest of World		Total	
Years ended December 31,	2015	2014	2015	2014	2015	2014	2015	2014
Segment revenue	\$ 504,986	\$ 543,867	\$ 781,291	\$ 780,461	\$ 458,260	\$ 408,315	\$ 1,744,537	\$ 1,732,643
Intersegment revenue	(10,742)	(14,471)	(103,112)	(18,844)	(1,651)	(3,128)	(115,505)	(36,443)
External revenue	\$ 494,244	\$ 529,396	\$ 678,179	\$ 761,617	\$ 456,609	\$ 405,187	\$ 1,629,032	\$ 1,696,200
Operating income	\$ 33,674	\$ 37,162	\$ 53,305	\$ 77,395	\$ 34,780	\$ 14,931	\$ 121,759	\$ 129,488

	Canada		USA		Rest of World		Total	
Years ended December 31,	2015	2014	2015	2014	2015	2014	2015	2014
Segment assets	\$ 406,343	\$ 475,347	\$ 401,265	\$ 443,344	\$ 793,743	\$ 599,411	\$ 1,601,351	\$ 1,518,102
Goodwill	249,261	249,261	148,134	153,091	351,209	305,561	748,604	707,913
Corporate	—	—	—	—	—	—	(154,866)	(81,027)
	\$ 655,604	\$ 724,608	\$ 549,399	\$ 596,435	\$ 1,144,952	\$ 904,972	\$ 2,195,089	\$ 2,144,988
Assets held for sale	14,175	—	—	—	—	—	14,175	—
Total segment assets	\$ 669,779	\$ 724,608	\$ 549,399	\$ 596,435	\$ 1,144,952	\$ 904,972	\$ 2,209,264	\$ 2,144,988

## NOTE 33. SUBSEQUENT EVENT

Subsequent to December 31, 2015, the Company declared a dividend of \$0.085 per share, payable on April 7, 2016, to shareholders of record on March 9, 2016.

# QUARTERLY AND SHARE DATA

## QUARTERLY DATA

(unaudited)

	2015				2014			
(\$ millions, except per share data and percentages)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	358.5	425.2	389.7	455.6	500.6	451.1	424.9	319.6
Operating income	12.5	38.6	37.0	33.6	45.8	45.2	29.0	9.5
Earning before finance cost and income taxes	(20.9)	40.6	38.1	37.1	48.7	46.9	31.2	12.2
Net earnings – continuing operations	(33.4)	31.9	26.8	23.6	32.5	31.3	11.7	5.6
Net earnings – discontinued operations	(0.2)	0.2	(0.1)	(0.7)	(6.7)	(1.1)	(0.5)	(1.6)
Earnings per share – continuing operations	(0.42)	0.40	0.34	0.30	0.41	0.40	0.15	0.07
Earnings per share – discontinued operations	0.00	0.00	0.01	0.00	(0.08)	(0.01)	(0.01)	(0.02)
Depreciation and amortization	27.9	20.0	16.5	18.3	17.2	20.0	9.7	9.9
Cash from operations	31.9	48.2	40.6	38.6	3.0	(38.0)	53.1	46.6
Capital expenditure, net								
Property, plant and equipment	0.8	3.5	1.1	4.6	8.3	7.7	4.9	8.1
Rental equipment	29.3	31.8	28.7	66.6	1.6	4.4	2.7	(5.3)
Dividends (declared)	6.7	6.7	6.7	6.7	5.9	5.9	5.9	5.8
Dividends per share	0.085	0.085	0.085	0.085	0.085	0.075	0.075	0.075
Pre-tax earnings (continuing as % of revenue)	(7.1)%	8.7%	8.9%	7.3%	8.9%	9.8%	7.0%	3.4%

## SHARE DATA

(unaudited)

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of shares (\$)								
High	17.08	18.84	20.99	20.99	20.99	20.99	20.32	17.60
Low	10.28	10.28	13.37	14.63	14.64	13.48	13.16	12.89
Close	13.29	13.19	13.50	15.36	16.39	19.11	20.32	17.60
Trading volume (millions)	8.88	7.50	6.67	6.38	6.07	6.15	6.38	6.14
Shares (millions)								
Outstanding at the end of the period	79.156	79.085	79.049	78.729	78.618	78.592	78.539	78.364
Weighted averages-basic	79.172	79.003	78.946	78.321	78.337	78.321	78.298	78.234

# 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

**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

**Greg Stewart**

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

<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

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# SHAREHOLDERS' INFORMATION

## COMMON SHARES

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

## TRUSTEE, REGISTRAR, AND TRANSFER AGENT

### CST Trust Company

Calgary, AB Canada

For shareholder inquiries:

### CST Trust Company

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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

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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 5, 2016 at 10:00 a.m. MDT. The meeting will be held at the Marriott Downtown Hotel (Sunalta Room), 110 9<sup>th</sup> Avenue SE, Calgary, Alberta. Those unable to attend are encouraged to sign and return the proxy form mailed to them.



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# **ENERFLEX**

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