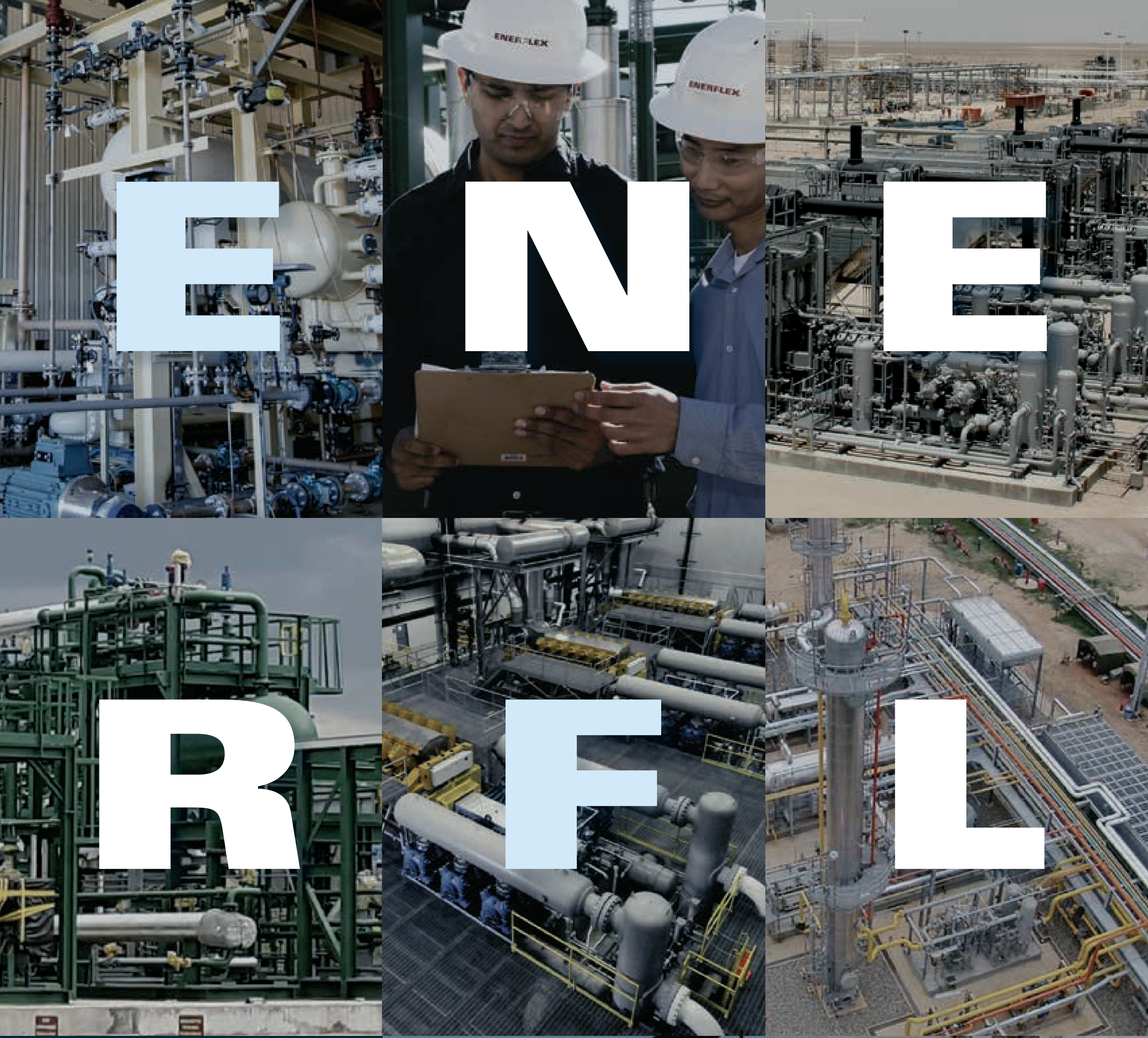


POWERED BY PURPOSE. FOCUSED ON GROWTH.

ENERFLEX
2016 ANNUAL REPORT

BOOKINGS

Stability in commodity prices during the second half of 2016 led to an increase in enquiries as well as recorded bookings of $853.3 million, a 34.4% increase compared to 2015.

$853.3M

BACKLOG

Backlog at December 31, 2016, was $621.4 million, a 45.5% increase compared to 2015 due to higher bookings in the USA segment.

$621.4M

EQUITY ISSUANCE

Issuance of 8,952,750 common shares at a price of $12.85 for gross proceeds of $115.0 million provides liquidity for Enerflex to deploy capital on opportunities as they arise.

$115.0M

DIVIDEND

A continuing dividend of $0.085 per share quarterly for a total of $0.340 per share for 2016.

$0.340

ADJUSTED EBIT%[1]

Focused cost reduction throughout the Company resulted in lower SG&A expenses, which partially offset the lower gross margin in 2016 and allowed Enerflex to maintain an adjusted EBIT% in line with previous years.

7.7%

RECURRING REVENUE GROWTH

Organic growth in the rental fleet, through $17.7 million in capital expenditures, resulted in approximately 500,000 horsepower at year-end.

500,000HP

[1] EBIT has been adjusted for impacts not expected to recur in the normal course of business.
The management discussion and analysis ("MD&A") highlights the adjusting items for the years ended December 31, 2016 and 2015.

A GLOBAL PLATFORM THAT DELIVERS

FOCUSED ON GROWTH

Enerflex is a disciplined, operationally focused, financially strong, and dividend-paying company committed to long-term profitable growth. Diversification is the strategic foundation of our business and continues to provide downside revenue protection. Enerflex is diversified by revenue stream across seven geographical regions, by customers, and through exposure to a variety of natural gas project types.

The Company also strategically allocates capital investments, using free cash flow and prudent borrowing to fund growth projects that pass its hurdles for revenue margins and investment returns. Enerflex has grown to the point that, today, it is in a larger operating league and is facilitating the effective delivery of complex projects. Enerflex's on-the-ground global presence positions the Company well for future growth.

POWERED BY PURPOSE

Enerflex's business model – a vertically integrated, diversified products and services offering positioned along the natural gas value chain, coupled with prudent financial management – proved resilient in 2016. This business strategy enabled Enerflex to pursue multiple opportunities and focus on areas of strength in the face of weak commodity prices and regional economic adversity. Enerflex saw particular success in its Middle East, Latin America, and USA regions with integrated turnkey solutions and Build-Own-Operate-Maintain ("BOOM") contracts and in Canada with the electric power offering and long-term service maintenance agreements. Enerflex's efforts to increase recurring revenue by developing as a leading rental provider, while also continuing to build-up its installed base through on-going equipment sales, demonstrated proven results. Throughout the year, Enerflex focused on controlling costs, protecting the Company's balance sheet to preserve financial flexibility, and generated strong free cash flow. Enerflex also strengthened its safety culture, which resulted in the best safety performance in the Company's history.

CAPABILITIES + SOLUTIONS

ENERFLEX SERVES CUSTOMERS AT EVERY STAGE OF THE NATURAL GAS VALUE CHAIN.

Offering a wide array of natural gas infrastructure solutions Enerflex helps producers, midstream operators, and other asset owners operate efficiently and reliably and move their product safely to market. Notably, these solutions enable customers to extract the greatest value possible from their hydrocarbon stream by transforming raw production into various marketable commodities such as natural gas liquids ("NGLs").

Enerflex's products and services are primarily focused on natural gas compression, processing and treating, refrigeration, and electric power solutions. Our in-house capabilities encompass high-quality engineering, design, fabrication, construction, installation, after-market service, operations and maintenance, and equipment rentals. Enerflex has significant global expertise in integrated turnkey projects. The Company offers well-built solutions, a simplified supply chain, reduced interface risk, cost certainty, and peace of mind that systems will be kept at peak performance throughout their life-cycle.

80,000 mmscf/d refrigeration dew point plant, Eagle Ford Shale, USA.

FROM WELLHEAD TO PIPELINE

Enerflex has significant global expertise in integrated turnkey projects.

WELLHEAD

"Raw" natural gas takes many forms and requires a variety of equipment to handle it safely before moving it to processing facilities.

GATHERING SYSTEMS

In typical natural gas fields, small-diameter pipelines called gathering systems link numerous wells to processing facilities.

FIELD PROCESSING + TREATMENT

Processing plants bring the raw gas to "pipeline spec", removing impurities and, depending on the composition of the gas, extracting NGLs – a critical value-creating stage.

OUR ROLE

WELLHEAD

Enerflex provides the critical equipment customers need at the wellhead for efficient production and maximum value extraction. This includes dehydration, separation, heating and refrigeration, compression, electric power, and complete early-production facilities.

GATHERING SYSTEMS

Enerflex supplies field compression for gathering systems as well as initial processing facilities where gathering lines meet. This includes skid-mounted modular compression packages designed for service under all operating conditions.

LNG

The Company supports the development of liquefied natural gas ("LNG") infrastructure by providing and servicing the equipment needed for treating, processing, and compressing natural gas from the wellhead to the export pipeline or LNG facility.

FIELD PROCESSING + TREATMENT

The Company provides large, centralized processing plants and water treatment systems. Enerflex engineers, designs, manufactures, installs, and operates gas plants of any configuration across a wide capacity range.

ELECTRIC POWER

Enerflex designs, packages, installs, maintains, and operates integrated turnkey electric power solutions. From 20 kW to 50 MW Enerflex serves a myriad of installations representing a variety of fuel sources and uses.

OTHER MIDSTREAM ACTIVITIES

Enerflex serves virtually all of the steps involved in natural gas processing, including construction and commissioning of complete facilities or individual systems such as stabilization, mole sieve, or amine.

MANUFACTURING + EXPORT

Enerflex designs, builds, and constructs compression, process, and electric power solutions at its manufacturing facilities. With over three decades serving international markets, the Company is well versed in global logistics.

STORAGE

The Company manufactures and installs compression and specialized treating systems required in modern underground gas storage facilities. Enerflex has a strong track record in providing complete scope of work for field construction and installation.

OTHER MIDSTREAM ACTIVITIES

In strategic locations farther downstream, liquids-rich gas can offer additional value-creating opportunities through the extraction and capturing of ethane, propane, butane, and condensate.

STORAGE

Storing gas underground to meet fluctuating demand and reduce price volatility is a critical function in a mature gas system.

MANUFACTURING + EXPORT

Export facilities for NGLs are being constructed in areas of ample supply to serve a myriad of worldwide needs – from cooking and heating to manufacturing fertilizer, plastics, and synthetics.

ELECTRIC POWER

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

LNG

Natural gas is liquefied by cooling it down to a very low temperature, which makes it easy to store or load onto carrier ships and transport to customers.

2016 HIGHLIGHTS

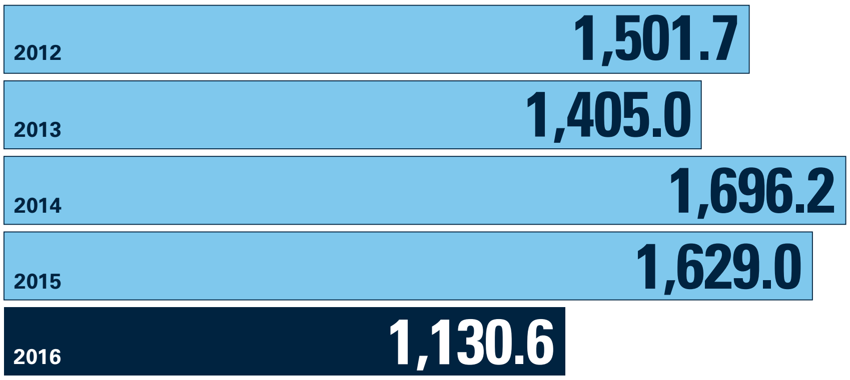
For the years ended December 31, *(Thousands of dollars, except percent and per share) (Unaudited)*	**2016**	2015	2014	2013 [1]	2012 [1]
Revenue	**$ 1,130,604**	$ 1,629,032	$ 1,696,200	$ 1,405,022	$ 1,501,684
Gross margin	**243,784**	326,189	330,414	245,905	273,155
Operating income	**65,413**	121,759	129,488	82,030	114,557
(Loss) earnings before finance costs and taxes	**(81,472)**	94,877	138,922	87,341	117,341
Net (loss) earnings – continuing operations	**(104,528)**	48,890	81,097	57,718	82,253
Net earnings (loss) – discontinued operations	**388**	(845)	(9,879)	(1,852)	(10,479)
	(104,140)	48,045	71,218	55,866	71,774
(Loss) earnings per share (basic) – continuing operations	**(1.28)**	0.62	1.03	0.74	1.06
Earnings (loss) per share (basic) – discontinued operations	**0.01**	(0.01)	(0.12)	(0.02)	(0.14)
	(1.27)	0.61	0.91	0.72	0.92
Dividends per share	**0.340**	0.340	0.310	0.285	0.250
Key Financial Performance Indicators [1]					
Bookings	**853,337**	635,059	1,416,880	1,140,801	875,477
Backlog	**621,397**	427,204	916,484	793,977	683,206
Recurring revenue as a percentage of revenue	**41.7%**	33.0%	28.7%	26.7%	21.5%
Selling and administrative expenses as a percentage of revenue	**15.8%**	12.5%	11.8%	11.7%	10.6%
Earnings before finance costs and taxes as a percentage of revenue	**(7.2)%**	5.8%	8.2%	6.2%	7.8%
Earnings before finance costs, taxes, depreciation and amortization	**11,627**	176,771	193,740	126,936	156,828
Return on capital employed	**(5.7)%**	6.2%	12.4%	9.7%	13.3%

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

REVENUE

($millions)

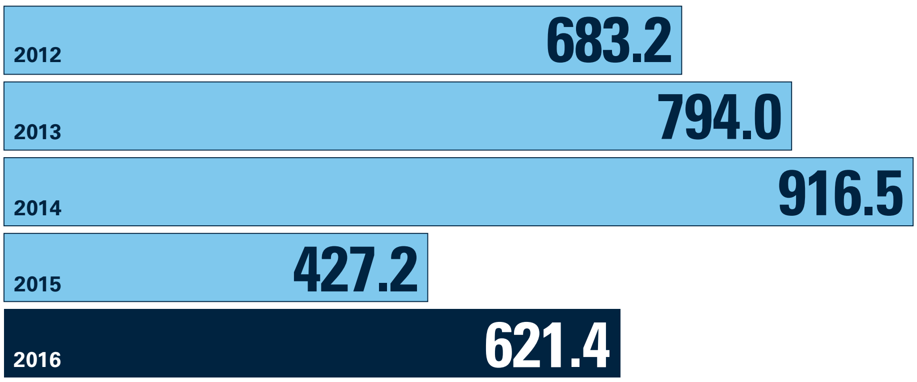
Enerflex continued to experience the effects of low oil and natural gas prices, which decreased customers' capital spending budgets. Lower capital spending negatively impacted revenue, particularly Engineered Systems, resulting in declining year-over-year revenue across all three segments.



ENDING BACKLOG

($millions at December 31)

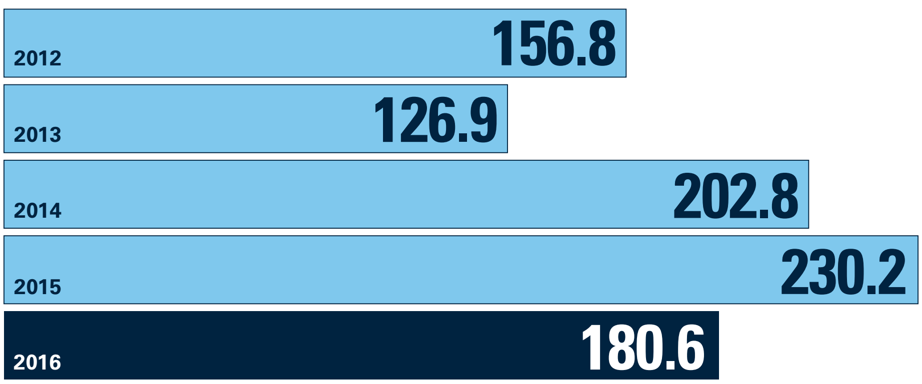
The increase in backlog year-over-year was the result of higher bookings in the USA segment, which was partially offset by a decrease in bookings in the Canada and Rest of World segments.



ADJUSTED EBITDA[1]

($millions)

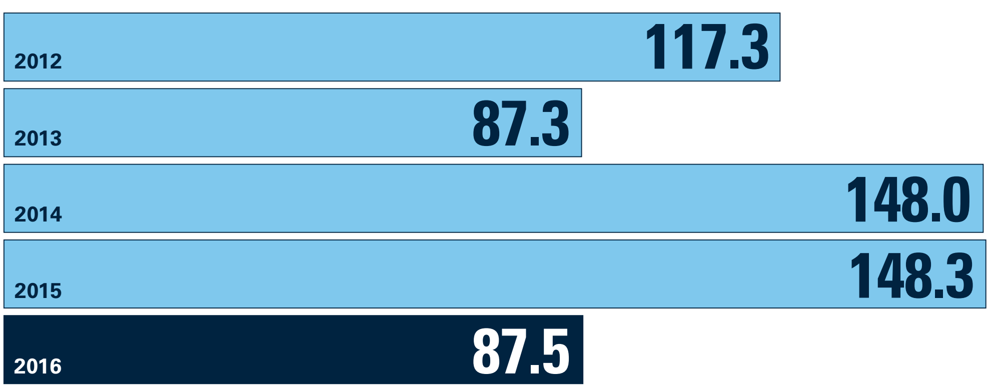
Lower gross margin, partially offset by reduced SG&A costs due to global cost reductions, resulted in a year-over-year decrease in operating income and adjusted EBITDA.



ADJUSTED EBIT[1]

($millions)

The decrease in adjusted EBIT was caused by lower operating income, the result of lower gross margin and higher depreciation and amortization expenses, partially offset by lower SG&A costs.



[1] *EBITDA and EBIT have been adjusted for impacts not expected to recur in the normal course of business. The management discussion and analysis ("MD&A") highlights the adjusting items for the years ended December 31, 2016 and 2015.*

80 mmscf/d hydrocarbon dew point facility, Nigeria.

LETTER TO SHAREHOLDERS

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

DIVERSIFICATION, PRUDENT FINANCIAL MANAGEMENT, AND STRATEGIC AND RESPONSIBLE LEADERSHIP ARE KEY TO ENERFLEX'S CONTINUED SUCCESS.

2016 was another challenging year for the global energy industry as producers continued to manage their capital expenditures. However, Enerflex maintained its market position and saw many successes across its operating regions.

Several factors contributed to Enerflex's results, including:

» *The Company's diversification by geography, product and service offering, customer, and revenue stream;*
» *Our targeted and purposeful strategy; and*
» *The Company's financial discipline, prudent management, and strategic and timely implementation of cost-savings initiatives.*

Our results also reflect the strength of the Company's business model, which has guided the organization for many years – *that natural gas will play an increasingly vital role in powering the global economy, and that Enerflex will thrive by positioning itself along the natural gas value chain.*

Enerflex remains focused on harnessing these opportunities on a global scale through organic growth or acquisition opportunities.

Another factor instrumental in maintaining Enerflex's performance is the leadership, steadfast support, and entrepreneurial mindset exhibited by my colleagues on the Executive Management Team. Their deep knowledge of their regions and the Company's product and service offerings, their drive for collaboration and success, and their diligent focus on managing through these difficult times has significantly strengthened the organization.

Furthermore, as the Company navigated its way through the uncertainty of the prolonged energy downturn, our employees experienced many operational adjustments, and in some cases wage rollbacks. Throughout, our employees demonstrated hard work, safety leadership, and dedication, and I thank them for their commitment and remarkable efforts. As management made difficult business decisions, it was our employees who were there supporting and leading these decisions every step of the way, and they will continue to be a significant contributing factor to Enerflex's success.

Diversification and Financial Discipline

Over a decade ago, Enerflex implemented a long-term strategic plan of global diversification. This strategic direction has since developed into the foundation of the Company's business model and strengthened the organization into the financially strong and operationally focused company it is today. Enerflex now has:

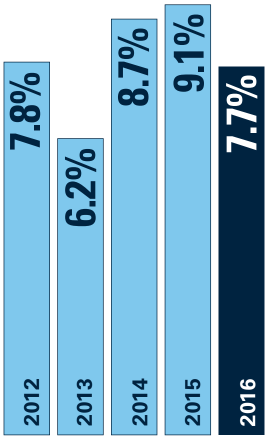
» *Solid operations globally, all capable of providing the full suite of our products and services along the natural gas value chain;*
» *A diverse customer base including global majors, national oil companies, and midstream operators; and*
» *Revenue dervived from a mix of equipment sales and recurring services.*

Another key priority for Enerflex is financial discipline. This includes maintaining a strong balance sheet, prudent dividend planning, careful liquidity management, disciplined capital allocation, and timely cost-cutting initiatives. The Company's strong balance sheet has resulted from years of:

» *Deploying free cash flow towards repaying debt and prudent investments;*
» *Aggressively managing working capital, including rigorous management of receivables;*

STABLE ADJUSTED EBIT MARGIN PERCENTAGE

In a year of economic challenges Enerflex was able to maintain a stable adjusted EBIT margin with prudent management and disciplined cost controls.



RECURRING REVENUE AS A PERCENTAGE OF REVENUE

41.7%

- *Strategically sound capital investments;*
- *Maintaining a scalable business that allows for proactively adopting cost-saving measures to protect shareholders' capital;*
- *Expanding the borrowing base to increase access to capital; and*
- *Growing the dividend at an affordable and sustainable rate.*

This steadfast approach of diversification and financial discipline continued to prove itself during this latest downturn and again delivered results in 2016.

Regional Overviews

CANADA The Canadian region experienced headwinds through 2016 due to capital constraints and the prolonged downturn made it difficult for producers to invest in new projects. The region's revenue was down $261.4 million or 52.9 percent year-over-year. Engineered Systems and Service orders declined sharply as producers remained focused on capital discipline.

During the year, the Canadian region focused on adjusting its operating costs and organizational structure to match the new market reality. Despite this weakness, our Canadian region experienced multiple successes, including one of the strongest fourth quarters with respect to bookings in the region's history. By the end of 2016, backlog – a leading indicator of future revenue – showed an increase of 10.8 percent year-over-year. With Enerflex having further developed its power generation capabilities, the region was awarded multiple biogas electric power projects. Moreover, new long-term service and maintenance agreements were signed and process solutions sales improved.

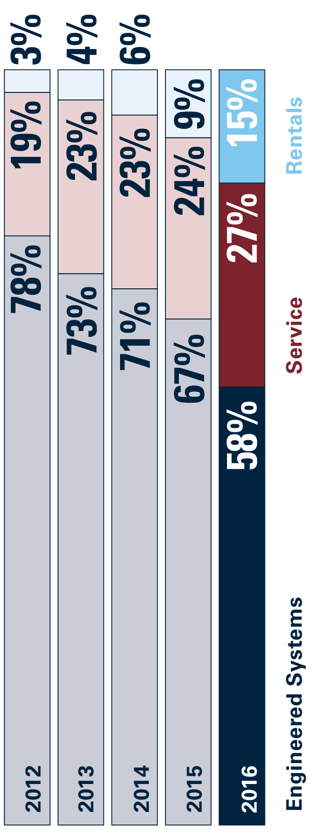
Enerflex is exercising cautious optimism in Canada. Although producers have increased capital expenditure budgets for 2017, and the industry saw an uptick in the fourth quarter of 2016, we expect the region will continue to face uncertainty and that business levels will not materially improve in 2017.

USA USA revenues were $466.1 million, a decrease of 31.3 percent year-over-year due to reduced equipment sales and service work. However, improvements in commodity prices during the second half of 2016 resulted in an increase in project enquiries and a rebound in bookings. Regional bookings saw a sharp increase to $585.2 million, a 107.3 percent improvement compared to 2015. Backlog closed at $390.4 million, a 155.3 percent improvement year-over-year.

The USA region's drive to improve project execution delivered positive results, with profit margins improving. Further expansion of the region's integrated turnkey project offering also proved successful with the award of numerous projects, including six turnkey gas plants in the Permian Basin. Moreover, Enerflex's investment in well-situated service facilities supported by expert technicians positions the region for improvement of its market share.

We remain optimistic that further stability in commodity prices will drive 2017 bookings in the USA. Our team remains focused on increasing market share in gas processing, integrated turnkey solutions, mechanical services, and rentals.

REVENUE BY PRODUCT LINE



Enerflex manufacturing facility, Houston, Texas.

Enerflex employee working at one of the Company's four manufacturing facilities.

LATIN AMERICA Our Latin America region generated solid revenues in 2016 and focused on executing on its existing rental fleet contracts, maintaining excellence in country operations, and financial management. We renewed expiring compression rental contracts, thereby securing recurring revenue through 2017.

Regional activity was the strongest in Argentina due to the incentivization of oil and gas development in the country, specifically within the immense Vaca Muerta shale play. Enerflex completed multiple integrated turnkey projects in Argentina, and the regional service operations outperformed budget. In Bolivia, we successfully completed our first project, and the newly opened service branch will provide growth opportunities moving forward.

Enerflex remains positioned to capture regional growth opportunities, and emphasis will be on Argentina, Mexico, Brazil, Bolivia, Peru, and Colombia. The Company will pursue BOOM projects and further grow its after-market service business across the region.

INTERNATIONAL The Middle East/Africa ("MEA") region was a standout performer in 2016, delivering excellent results. Bolstered by strong project execution, the region renewed multiple rental contracts, successfully completed numerous integrated turnkey projects, and was awarded additional new work.

The highlight of the year was the award of two large gas processing contracts in Kuwait, which has significantly increased our profile in that country. These projects were a collaborative effort between Enerflex's USA and MEA regions and highlight the Company's global synergies and diversification.

The MEA region also completed long-term operations and maintenance work, which will be an on-going revenue stream. In addition, the region grew its service function significantly in 2016. This build-up of local service infrastructure improves regional recurring revenue and strengthens Enerflex's competitive advantage. Equipment sales into west Africa remained steady.

The Europe/CIS region performed well, with the completion of multiple new projects in Ukraine and Croatia, and this region will continue to focus on equipment sales throughout 2017.

In Australia and Asia, 2016 was a year of consolidation and rightsizing the operations. The Australia region transitioned from its construction business to focusing on their roots of equipment supply, after-market service, and specialized brownfield projects. This strategic repositioning has already led to the award of multiple new projects.

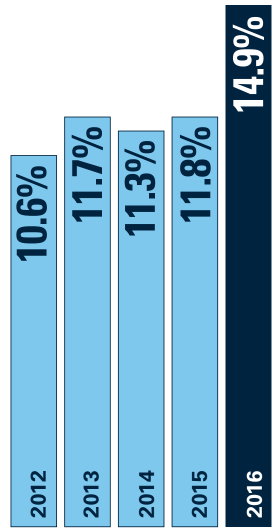
Financial Results

Enerflex's 2016 financial results include:

- *Revenue of $1,130.6 million, compared to $1,629.0 million in 2015;*
- *Recurring revenue of $471.5 million or 41.7 percent of consolidated revenue, compared with $537.2 million or 33.0 percent in 2015;*
- *Adjusted EBIT was $87.5 million in 2016, compared with $148.3 million in 2015, excluding severance and restructuring costs, impairment of assets and goodwill, and the gain on disposal of PP&E;*

Natural gas storage facility, Western Australia.

ADJUSTED SG&A AS A PERCENTAGE OF REVENUE[1]



INCREASE IN BOOKINGS

34.4%

- *Gross margin percentage for 2016 was 21.6 percent, compared with 20.0 percent in 2015;*
- *Issued 8,952,750 common shares for gross proceeds of $115.0 million to fund future growth initiatives;*
- *Bookings of $853.3 million, an increase of 34.4 percent from $635.1 million in 2015;*
- *Year-end 2016 backlog increased to $621.4 million, versus $427.2 million at year-end 2015;*
- *Quarterly dividend remains $0.085 per share; and*
- *Reduced net debt by $194.2 million, resulting in a net debt-to-EBITDA ratio, as calculated for covenant compliance purposes, of below 1.3:1 as of December 31, 2016.*

Enerflex's balance sheet provides financial flexibility.

Operational Update

Enerflex made risk-assessment and risk-mitigation improvements in 2016 through the on-going evaluation of Enerflex's top-identified risks. We also completed the implementation of our two-year integrated project management initiative, including the formalization of the procedures and processes to make Enerflex a more project-management-focused organization. This initiative has already improved the Company's project-execution results.

I am also pleased to report that Enerflex's safety performance improved for the sixth consecutive year, with a total recordable injury rate falling to 0.65. This is the lowest in our history and well below our 2016 target of 1.00.

2017 Outlook

The energy sector appears to be slowly recovering from its long downturn. Enerflex is optimistic that further stability or improvement in commodity prices should cause customers to increase investment, which would translate into increased demand for the Company's products and services.

However, Enerflex will continue to operate with caution. We will evaluate regional costs and financial performance, preserve awarded gross margins, manage our SG&A expenses, and safeguard the Company's balance sheet.

Looking longer term, we expect global demand for natural gas will continue to grow. To take full advantage of this opportunity, we will focus on our diverse revenue streams and strategically position the Company to capitalize on regional opportunities. We will also seek to grow our backlog and ensure profitable margins globally by aggressively managing costs, with a medium-term goal of achieving a 10-percent EBIT margin.

We have repeatedly demonstrated that Enerflex's diversified operations, financial diligence, and complementary internal strengths enable us to flourish through varying market conditions. Going forward, we plan to build on these strengths for the benefit of our customers, shareholders, employees, and other stakeholders.

On behalf of the Board of Directors,

[signed] "J. Blair Goertzen"

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

March 2, 2017

[1] *SG&A has been adjusted for impacts not expected to recur in the normal course of business. The management discussion and analysis ("MD&A") highlights the adjusting items for the years ended December 31, 2016 and 2015.*

DIVERSIFIED OPERATIONS + REVENUE

ENERFLEX IS STRONGLY POSITIONED GLOBALLY FOR LONG-TERM PROFITABLE GROWTH.

The Company's global footprint is key to delivering value to customers and creating value for shareholders. Enerflex has a permanent on-the-ground presence in seven operating regions – Canada, the United States, Latin America, the Middle East/Africa, Australia, Asia, and Europe/CIS, providing the ability to capture multiple growth opportunities across these markets and within customers' natural gas value chain.

Enerflex's global footprint enables the Company to capture multiple growth opportunities.

At the end of 2016, Enerflex had over 1,800 employees, 50 operating locations, and multiple regional parts distribution centres. As well as over 600,000 square feet of manufacturing capacity through its modern and well-equipped manufacturing facilities in Canada, Australia, and the USA, including the Company's global manufacturing centre strategically located near tidewater ports in Houston, Texas.

Enerflex's strategic diversification by geography, product and service offering, and revenue stream provides the depth and breadth to navigate successfully through all market conditions.

EMPLOYEES	LOCATIONS	MANUFACTURING FACILITIES	COUNTRIES
1,800	50	4	16

One of two integrated turnkey natural gas compressor stations, Permian Basin, Texas.

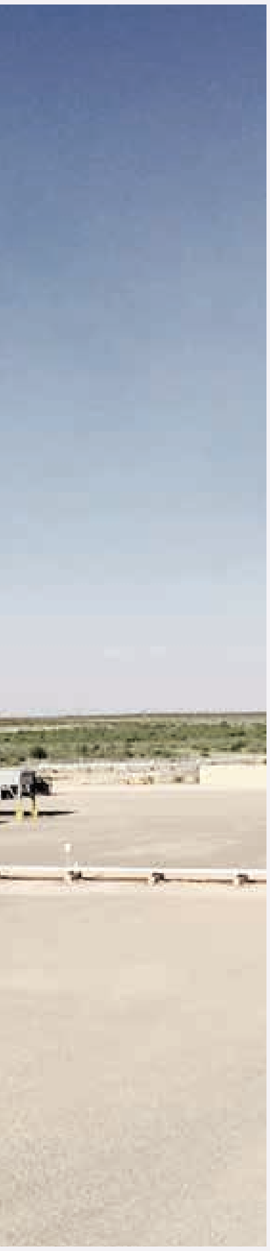
UNITED STATES OF AMERICA

Enerflex provides growing oil and natural gas plays in the United States with major build-outs of midstream and downstream infrastructure. Our competencies span the range of customer needs – from standard compression and processing systems, to highly engineered and customized solutions both onshore and offshore. The Company has strong in-house manufacturing capabilities as well as the vendor relationships needed to package multiple Original Equipment Manufacturer ("OEM") brands into customers' systems.

AN UPTURN IN THE SECOND HALF OF 2016 APPEARS SET TO CARRY OVER INTO 2017.

Enerflex's USA operations entered 2016 with a low opening backlog and a cautious optimism regarding the year. However, with the improvement in commodity prices during the second half of 2016, the Company began to see customers proceeding with capital investments. For Enerflex, this resulted in an increase in project enquiries, a doubling in the volume of funded work being bid on, and a rebound in bookings.

Enerflex's USA business is largely dependent on activity in liquids-rich U.S. gas basins, and the Permian Basin in West Texas continued to be the bright spot for the region. In 2016, Enerflex was awarded six integrated turnkey gas plants for a single customer in the Permian that will be operational in 2017. As well, Enerflex's well-equipped and strategically situated service facility in Odessa, Texas, is allowing Enerflex to aggressively focus on increasing its market share of after-market service and maintenance in that play.



Bookings for compression and process equipment rebounded in the second half of 2016.

Sold six gas plants to a single customer in the Permian Basin in West Texas.

Awarded a large service order in the Powder River Basin in Wyoming.

Collaboration between the USA and Middle East/Africa regions to secure two large gas processing projects for a customer in Kuwait.

The Company was also active in other U.S. gas plays and secured multiple projects, including:

» *A major compression and process order in the Haynesville natural gas shale play in East Texas; and*

» *A service contract to supply 100 percent of the parts for a 500,000 horsepower rental fleet in the Powder River Basin in Wyoming. A major factor in winning this contract was Enerflex's strong relationships with OEMs, which is a competitive strength for the organization throughout the world.*

Overall, the region's integrated turnkey projects business segment experienced the strongest performance in 2016. The 150,000-square-foot manufacturing facility in Houston, Texas, has developed into Enerflex's global manufacturing centre of excellence. From this one facility, the Company manufactures all the compression and process equipment needed for these turnkey projects. This gives Enerflex a high level of project management and cost control, which is a significant competitive advantage and provides oil and gas producers with an attractive model. Moreover, the facility is situated near tidewater for efficient transport to international markets.

Growth opportunities through integrated turnkey projects expected in 2017.

The market continues to respond positively to our manufacturing strength in Houston. The Company saw this throughout 2016, specifically with the aforementioned order for six gas plants in the Permian and our USA and Middle East/Africa teams collaborating to secure an order for two turnkey natural gas processing plants in Kuwait, large portions of which will be built at the Houston facility.

2017 Outlook

Enerflex remains optimistic that further stability in commodity prices will continue to drive increased enquiries and bookings in the USA in 2017. A general increase in spending by our customers in natural gas infrastructure, could help both our Engineered Systems and Service businesses. For example, due to customers reducing their service and maintenance spending over the past couple of years, Enerflex could see a rising demand in those areas of business as our customers look to refurbish their assets.

Overall, Enerflex plans to focus on growing our market share in gas processing, integrated turnkey solutions, mechanical services, and rentals.

ENERFLEX SECURES NATIONAL PARTS CONTRACT

Enerflex's strong vendor relationships enable the Company to provide customers with OEM components and repair parts required to keep their operations running smoothly. This, coupled with our Company-wide value of *anticipating and meeting customers' needs*, are key competitive advantages. In 2016, they once again proved valuable – for both our Gillette, Wyoming branch and the entire USA operations.

Gillette is located at the centre of the Powder River Basin, a large coal bed methane-producing region. In 2016, an oil and gas company acquired a 500,000 horsepower rental compression fleet in the region that Enerflex's Gillette service branch had been providing spare parts to since 2015. The new owner continued to purchase materials from Enerflex locally, at which point they invited the Company to bid on the national supply of materials for their organization.

Enerflex was awarded 100 percent of the million-dollar national contract after the customer's management team witnessed first-hand the level of service Enerflex was providing their Wyoming operations and learned of our ease of access to all the OEM compressor and engine parts needed. They saw that no other company could deliver what Enerflex can.

35 mmscf/d natural gas compression facility, Argentina.

Continued to deploy rental horsepower in Argentina's prolific Vaca Muerta shale play.

Opened a service branch in Bolivia and completed an amine system project.

Overall regional focus was on project execution, operational excellence, and cost competitiveness.

Approximately 265,000 installed compression horsepower across the region.

LATIN AMERICA

In Latin America, Enerflex provides integrated turnkey natural gas compression, processing, and electric power solutions on a purchase or rental basis. As well as complete after-market service, using our skilled teams deployed at locations throughout the region – from Mexico to Argentina. Our abilities cover the wellhead to the pipeline, and our experience ranges from providing large gas treating facilities for national oil and gas companies to niche compression solutions for localized production in remote and rugged areas.

ENERFLEX FOCUSED PRIMARILY ON PROJECT EXECUTION REGION-WIDE IN 2016, AND OPENED ITS FIRST SERVICE FACILITY IN BOLIVIA WHERE THE COMPANY SEES MORE GROWTH OPPORTUNITIES MOVING FORWARD.

Enerflex's Latin America operations generated solid revenues in 2016. In a region where approximately 70 percent of the Company's activity is produced from long-term contracted recurring revenue projects, Enerflex focused on delivering on our existing rental fleet contracts, excellence in country operations, and prudent financial management. The Company continued to grow its business in Argentina and Bolivia, and although our successful project wins were strong, 2016 proved to be a slow year in terms of new business opportunities as producers postponed projects in response to the low commodity price environment. Therefore, Enerflex shifted some of its resources from business development to project and operational execution excellence, which strengthened the Company's performance and regional margins.

Enerflex's Latin America operations generated solid revenues in 2016.

ARGENTINA Argentina was the region's bright spot for 2016. Key business drivers included the country's recently introduced market-friendly policies that are incentivizing oil and gas development. In particular, major producers are committing billions of dollars in investment in the prolific

Vaca Muerta shale play, which is considered to be the world's second-largest non-conventional gas resource. Enerflex's rental business continued to deploy horsepower into Vaca Muerta, and the Company worked on multiple large integrated turnkey projects in this producing basin. Additionally, the Company's new, 10,000-square-foot service facility in Neuquén City operated at full capacity during the year, providing customers with parts, service, overhaul, and retrofit solutions.

MEXICO Enerflex's on-going business in Mexico achieved good results during the year. The Company's renewal of all rental compression contracts through to the end of 2017 enabled Enerflex to continue generating significant recurring revenue in 2016. However, opportunities to bid on new projects in Mexico slowed in 2016 as Pemex, the state oil company, reduced capital expenditures due to low oil prices.

BRAZIL National political issues and the lower commodity price environment put a damper on Brazil's development during 2016, leading Enerflex to focus on ensuring its rental fleet was fully deployed and operating effectively. As the year progressed, the political situation in Brazil stabilized, and the Company began to see projects coming up for bid. However, Enerflex expects the slow down of the new-project pipeline in 2016 will have consequences for the Brazil operations in 2017 given the long bid-to-execution cycle, a common characteristic within the Latin America business.

Proven capabilities and a strong track record position the Latin America region well.

BOLIVIA In 2016, Enerflex successfully completed and started up its first project in Bolivia – an amine system designed to remove the high CO_2 content from raw gas production – and opened its first service branch in the country. The new facility began providing services as soon as it opened, and the Company expects that it will be a good source of growth moving forward. Bolivia has a large gas market and is a major supplier to both Brazil and Argentina under long-term supply agreements. Therefore, Enerflex believes there are multiple opportunities to service the natural gas infrastructure in this region. Moreover, as the Bolivian fields mature, they will require compression solutions to satisfy the volumes committed to Brazil and Argentina.

2017 Outlook

By late 2016, the Company began to witness healthy activity levels and in some countries reactivating projects that had previously been either postponed or cancelled. Therefore, a major focus for Latin America in 2017 will be to successfully develop and bid on these new opportunities as well as to maintain and renew all existing rental contracts.

Enerflex expects Argentina will remain the region's overall bright spot, where the continuing development of the Vaca Muerta shale play could in the short- to medium-term generate more material opportunities for the Company's products and services. Other countries in the region are slowly coming back to where they should be in terms of building their natural gas infrastructure. In Mexico, Enerflex sees more medium- to long-term opportunities developing as a result of the on-going Energy Reform. In Brazil, the Company is expecting a more stable environment and an increased interest in natural gas-fuelled projects as a means to reduce dependency on hydroelectric power. This interest, coupled with the associated gas expected from pre-salt oil production, presents interesting opportunities for surface facilities in Brazil. Additionally, Enerflex expects its new foothold in Bolivia and infrastructure developments in Colombia and Peru will result in an increased Enerflex presence in these countries. Overall the Company will continue to focus on securing additional BOOM and integrated turnkey projects and expanding the after-market service business.

Although competition in Latin America has continued to intensify, the Company believes that its proven capabilities and strong track record of executing projects is a significant competitive advantage for Enerflex.

ENERFLEX COMPLETES A GAS TREATING FACILITY IN BOLIVIA

In 2016, Enerflex successfully delivered a 30 mmscf/d amine treatment facility for a customer operating in the remote Yapacaní gas field in central Bolivia.

This project posed several tough challenges, including that the facility needed to be delivered within an aggressive schedule by a lean project team. Additionally, sourcing of project materials and tools were limited at the job site, which was located over four hours from the nearest city.

The Enerflex team tackled all of these challenges and commissioned the fast-track integrated turnkey facility on-time and on-budget in October. The facility's process units were designed and fabricated at Enerflex's Houston manufacturing facility, while Enerflex's Calgary Gas Drive business supplied the generator sets for the project.

Building on this success, Enerflex also opened its first service branch in Bolivia in 2016, and will seek out more growth opportunities in the country going forward.

Natural gas compression, processing, and liquids extraction facility, Oman.

MIDDLE EAST/ AFRICA

With an estimated 44 percent of the world's proven reserves, the Middle East region is expected to lead natural gas production over the next 20 years, with growth driven by liquefied natural gas ("LNG"), power generation, desalination plants, and cooling needs. Enerflex serves this large region with products and services that respond to the need for modular, easy-to-assemble, long-life systems backed by seamless access to parts, plus the options to outsource asset ownership as well as long-term operations and maintenance contracts. With our regional headquarters in Abu Dhabi, and offices in Bahrain, Oman, and the UAE, Enerflex has completed extensive work in these countries as well as in Saudi Arabia, Kuwait, Iraq, Yemen, Nigeria, Egypt, Gabon, Angola, and others.

THE REGION'S POSITIVE RESULTS IN 2016 INCLUDED MAJOR PROJECT WINS IN KUWAIT AND THE SUCCESSFUL PROJECT EXECUTION OF MULTIPLE FACILITIES.

Enerflex's Middle East/Africa ("MEA") region was a standout performer for the Company in 2016, bolstered by strong project execution, a renewal of rental contracts, and new work for multiple integrated turnkey natural gas processing and compression facilities. The region delivered excellent results and exceeded the year's strategic plan. Long-term service agreements and operations and maintenance contract work also contributed to Enerflex's success.

The primary focus in MEA was on business development, and the two large contract wins in Kuwait were a highlight. In addition to benefiting our USA manufacturing operations, these contracts have allowed the Company to enhance its position in this market, where we see other opportunities, including additional long-term service work.

The MEA region also focused on excellence in project and service execution. Both revenue streams have been growing significantly in the region and, to maintain that growth, it is essential that Enerflex continues to demonstrate its strength in both project execution and operations and maintenance services.

Awarded two large gas processing contracts in Kuwait, significantly increasing our profile in this country.

Brought a new rental gas facility online in Oman.

Constructed a turnkey compression project in the UAE.

Established a new service workshop facility in Sharjah, UAE.

A good example of our project execution strength is the new rental BOOM facility Enerflex delivered in Oman and brought online in 2016. Enerflex completed this fast-track project on-time and on-budget with a strong focus on safety. The Company was awarded the engineering, design, procurement, construction, commissioning, and start-up as well as the operations and maintenance for five years for this 120 mmscf/d gas treatment and compression facility. The facility is operational, and Enerflex is working closely with the customer to further optimize operations on a continuing basis.

The successful delivery of an integrated turnkey compression project for a large national oil company in the UAE is almost complete. Enerflex has a strong relationship with this customer, and we anticipate that this project could lead to future work.

Regarding service execution, Enerflex successfully grew its service function significantly in MEA during the year. This included the development of its fifth regional branch location and the newest service workshop facility in the emirate of Sharjah, UAE, to support long-term service work. This growth in the service business segment was primarily driven by work on Enerflex's rental equipment due to the Company having a significantly large installed base in MEA. In achieving this growth, Enerflex exceeded our plan both in terms of execution and financial results.

Over 100,000 horsepower of operated rental equipment in the MEA region.

The MEA team also achieved ISO 14001 Environment Management System certification in 2016. This is in addition to the region achieving ISO 9001 Quality Management System certification in 2015. Plans to progress towards ISO 18001 Safety Management System is in due course. These are important accreditations to obtain. Not only do they ensure Enerflex has the structure, rigour, and repeatability in our systems and processes; they are also important for conducting business with international oil, gas, and EPC companies, positioning Enerflex to be even more competitive.

2017 Outlook

Enerflex expects MEA will continue to be a standout performer for 2017 in terms of overall revenue and profit generation. The Company will continue to focus on strengthening its strong foothold in the Gulf Cooperation Council countries, including building on our recent project wins in Kuwait.

Enerflex has a pipeline of prospects, and as they continue to be secured, this presents opportunities for establishing an on-going, permanent presence into other countries. Entry into any new country is always based on a reasonable assessment of the market that is available and carefully understanding and analyzing the risk profile.

ENERFLEX WINS TWO GAS PROCESSING CONTRACTS IN KUWAIT

PROJECT WINS HIGHLIGHT ENERFLEX'S GLOBAL SYNERGIES

Enerflex teams from Abu Dhabi, Houston, and Calgary joined forces in 2016 to implement two large contracts for natural gas compression and treatment facilities for a customer in Kuwait. These impressive 104 mmscf/d facilities required Enerflex to engineer, design, manufacture, install, and commission eight gas compressors, propane refrigeration systems, amine packages, TEG units, and a multitude of other equipment covering the full scope of the project.

Scheduled to both come on stream in 2017, the Company is working to deliver these projects successfully on-time and on-budget. Enerflex's ability to secure these large-scale projects is a testament to our global reach, extensive capabilities and knowledge, and the collaborative dynamic that exists within the organization.

Natural gas dew point and liquids recovery plant, Ukraine.

Secured new brownfield project work in Australia.

Strong engineering and manufacturing project results in Malaysia.

Contract win in the Netherlands.

EUROPE/CIS

Enerflex's European operations serves a large and diverse multi-national market stretching from Turkey and Kazakhstan in the south and east of the region to Siberian Russia and the Netherlands in the north and west. Enerflex offers a wide range of knowledge and experience in natural gas compression and processing.

AUSTRALIA

Enerflex's Australian operations serves a large geographic region, with facilities near every major producing basin. Our multi-disciplined fabrication, maintenance, equipment optimization, and overhaul capabilities are backed by Enerflex's global resources. From our bases in Australia, Enerflex also covers New Zealand and Papua New Guinea.

ASIA

With offices in Indonesia, Malaysia, and Thailand, Enerflex serves requirements for offshore and onshore processing, refrigeration, and compression packages in a large multi-cultural region. This includes a modest rental fleet in Thailand.

FOLLOWING A PERIOD OF CONSOLIDATION, ALL THREE REGIONS ARE WELL POSITIONED FOR OPPORTUNITY AND FUTURE GROWTH.

EUROPE/CIS Our European operations performed well in 2016, meeting plan. Enerflex completed a liquids recovery gas plant in Ukraine, and commenced a new compression project in the Netherlands, which will be completed in 2017. During the year, Enerflex also closed its legacy joint-venture company in Russia. The Company has maintained its agent/reseller agreements in Russia to continue supporting the market activity there.

AUSTRALIA With development of large LNG export facilities in Australia largely complete, Enerflex's Australian operation continued its transition in 2016, focusing on equipment supply, after-market service, and specialized brownfield projects.

In 2016, Enerflex executed a robust cost-reduction and organizational restructuring program. In addition to reductions in compensation, the Company halved the size of the Australian operations and changed the mix of employees to align with the shift in customer demand to specialized brownfield projects, service, maintenance, and parts. The Company also renegotiated contracts with third-party providers.

Diversification of the service and product offering, as well as internal cost reduction initiatives have made the Company more competitive in this challenging market. In 2016, Enerflex successfully secured new customers in Northern Australia for brownfield projects, which resulted in strong project execution and an on-going revenue stream for the Company. Additionally, the new service facility in Adelaide, South Australia, was opened, both to support an existing major customer in the region and gain access to other midstream opportunities.

The new Adelaide facility provides growth opportunities in the region.

ASIA During 2016, the region experienced project and service maintenance contract deferrals as clients conserved cash, specifically in Thailand and Indonesia. In Malaysia, Enerflex achieved strong project results from engineering and manufacturing activities on gas processing projects in Kuala Lumpur.

2017 Outlook

In all three geographic areas, Enerflex will continue to focus on business development and project execution in 2017. The Company will closely monitor the performance of these business segments and make adjustments as necessary.

Enerflex expects the financial performance of its Australian operations will improve and make reasonable contributions in 2017, building on the organizational and financial adjustments the Company made in 2016.

Additionally, Enerflex expects the European operations to make a positive contribution in 2017, although that region may soften somewhat as production cutbacks agreed by OPEC in late 2016 flow through to European producers. The European market is dynamic and diverse in terms of the type and scale of opportunities. Therefore, Enerflex will continue to cast a wide net to single out prospective projects, primarily in the areas of gas processing and compression, including projects for smaller national producers.

Turnkey natural gas-fired co-generation plant, Canada.

Developed multiple core compression, process, and electric power standardized designs, providing customers with a complete, cost-effective engineered solution.

CANADA

Enerflex is a leading supplier of natural gas processing, compression, and electric power solutions to the energy sector across Canada. With decades of cold-weather experience, state-of-the-art manufacturing facilities, a network of field service locations and overhaul facilities situated in energy-producing areas, the Company provides a full range of solutions for Canadian customers – from the wellhead to the pipeline.

IN ANOTHER CHALLENGING YEAR, ENERFLEX'S CANADIAN OPERATIONS CONTINUED TO RESTRUCTURE AND READY ITSELF FOR LONGER-TERM GROWTH.

With Canada's energy industry continuing to face headwinds in 2016, Enerflex maintained its focus by adjusting the Canadian operations' cost and organizational structure to match the current reality. The Company closed multiple service branches as well as its centralized parts distribution facility near Edmonton, Alberta. Additionally, the region exited the remanufacturing business for natural gas engines and sold multiple facilities. The goal was to ensure that the Canadian operations were appropriately right-sized to the market.

Despite the weakness in Canada's energy sector, Enerflex experienced multiple successes throughout the year. The Company even had one of its strongest fourth quarters with respect to bookings in the region's history.

In 2016, Enerflex developed multiple core standard designs for compression, process, and electric power solutions. These complete engineered systems provide customers with improved efficiency and project cost reductions, providing a competitive offering in this difficult market.

Enerflex continued to see success selling to small- and mid-sized Canadian producers, specifically with complete process solutions. The Company's market share for this product line strengthened as more customers were looking to Enerflex to provide complete solutions for natural gas plants, and providing cautious optimism that this will be a growth area moving forward.

Enerflex was also awarded biogas electric power projects, which are typically completed by municipalities or companies that are in the landfill or wastewater treatment business. Although total revenue for power remains modest, percentage growth was high. Enerflex serves multiple industries, with customers seeking a range of niche applications, including wellsite and facility power, industrial power, and municipal power from a variety of sources such as produced gas, wastewater, sewage and landfill gas, biogas, and LNG.

In our service business, which was the hardest hit during the downturn, the Company experienced emerging demand for long-term service maintenance agreements. Enerflex is also focused on further developing its integrated turnkey solutions expertise and growing the business in Canada. The Company's ability to provide turnkey solutions, price and schedule certainty as well as top-quality, reliable after-market service has proved very attractive within this market.

2017 Outlook

Even with the improvement of commodity prices in the second half of 2016, Enerflex expects the Canadian business will continue to face uncertainty in 2017, or at least until customers gain greater clarity surrounding the commodity price environment. Enerflex's Canadian business is sensitive to the capital expenditure budgets of regional oil and natural gas producers. Although Canadian producers are budgeting for higher capital expenditures in 2017, and the industry saw an uptick in expenditures in late 2016/early 2017, Enerflex is not yet convinced that business levels in 2017 will be materially different than 2016.

CORPORATE RESPONSIBILITY

Enerflex employee working on a gas processing package.

Global Safety Stewardship

During 2016, Enerflex continued to build and strengthen its safety culture globally. This process is enhanced by the Company's common values that are woven throughout the organization, including:

» *Values-based decision-making training;*
» *A safety commitment by every employee; and*
» *A corporate management system that includes reporting regional safety results using common measures, which aids strategic oversight and continuous improvement.*

Two years ago, Enerflex introduced a harmonized approach to safety across the organization, and it has proven successful. This approach focuses on incident management, hazard assessment and controls as well as training and qualifications management. It avoids over-centralization by preserving the authority of Enerflex's regional teams to plan and implement specific safety programs – ones that target areas in need of improvement and are tailored to local operating conditions, laws, and employee cultures.

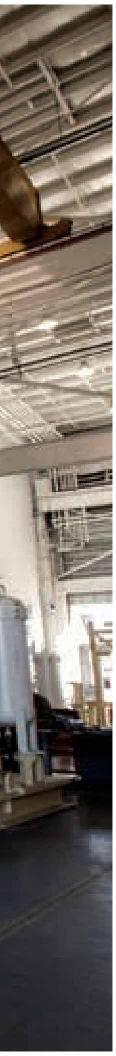
On the strength of our safety culture, the Enerflex team achieved its best safety performance in the Company's history in 2016. A total recordable injury rate ("TRIR") of 0.65 was achieved, which was well below the Company's target of 1.00. This milestone reflects a safety focus across all operating regions as well as our employees' dedication to safety leadership. While the Company saw improvements in safety behavior across the organization, we will continue to pinpoint areas that require further attention.

Regional Safety Focus

Enerflex's USA and Latin America teams continued their proactive approach to safety in 2016 by utilizing the Aware Card program to strengthen hazard identification, assessment, and control. Additionally, the Latin America team focused on near misses and changing behaviours before an incident occurs.

The total recordable injury rate for 2016 was 0.65, well below the Company's target of 1.00.

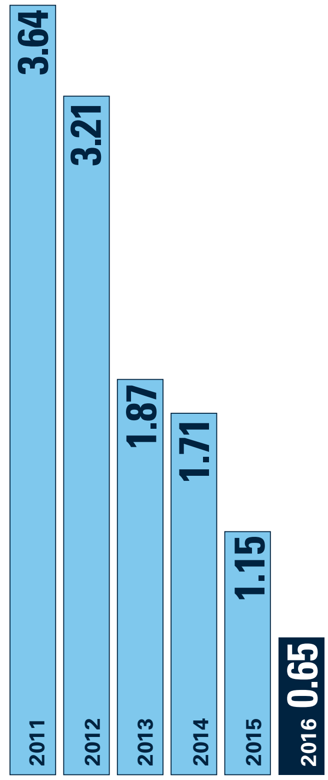
The International region in 2016 focused on repeatability of safety performance, strengthening the behaviour-based safety culture, road safety, training, inspections, and reporting systems. The region made great strides in their safety performance and have plans in place to continue developing.



Enerflex service employees working at site.

Enerflex employees at Kids Cancer Care's Camp Kindle.

TOTAL RECORDABLE INJURY RATE



Total recordable injury rate comparison 2011 to 2016.

The team in Canada emphasized improving awareness about motor vehicle safety in 2016. With an extensive service fleet driving millions of kilometres each year, the Company launched an internal Safe Driving Awareness Campaign to enhance knowledge and education on this important topic. During 2016, the Canadian region had zero motor vehicle incidents – a significant accomplishment and major milestone for the region.

In 2016 the Canadian region had zero motor vehicle incidents.

In 2017, Enerflex's safety focus will be on proactivity, behaviour-based performance, safe driving, and continued improvement of our performance globally.

Environmental Management

As a responsible environmental steward, Enerflex works to meet or exceed industry guidelines and government requirements in all operating areas. The Company 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.

Enerflex employees are personally committed to ensuring the Company identifies and manages environmental risks in order to improve reliability and safety and build trust within the community. Enerflex understands that environmental progress is integral to long-term sustainable development, which is why the Company is guided by its core value to be *environmentally and socially responsible*.

Community Engagement

Enerflex is a proud member of the communities in which it operates, and we strive to provide funding and support that strengthens health-and-wellness and community-building initiatives. We contribute directly to a number of causes, including the Kids Cancer Care of Alberta, Children's Protective Services in Houston, YMCA programs, Habitat for Humanity, the Alberta Junior Hockey League, STARS Air Ambulance, and many other initiatives in nearly all of the regions in which we operate. The Company encourages and provides opportunities for employees to volunteer and participate in charitable activities, thus fostering pride among employees and sustained relationships with customers, other stakeholders, and within the community.

2016 HIGHLIGHTS

(Thousands of dollars)

REVENUE

$1,130,604

ADJUSTED EARNINGS PER SHARE (BASIC)[1]

$0.79

ADJUSTED GROSS MARGIN[1]

$253,527

ADJUSTED EARNINGS BEFORE FINANCE COSTS AND TAXES[1]

$87,498

ADJUSTED NET EARNINGS[1]

$64,830

ADJUSTED EBITDA[1]

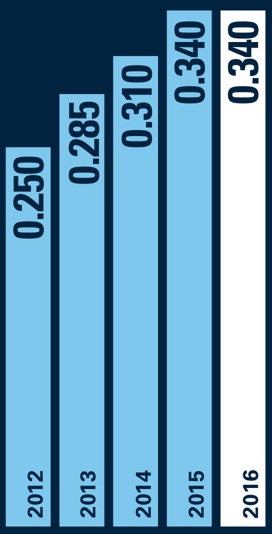
$180,597

2016 DIVIDENDS PER SHARE

$0.340

DIVIDENDS PER SHARE 2012 TO 2016

Years ended December 31



[1] Gross margin, EBIT, net earnings, EBITDA, and earnings per share have been adjusted for impacts not expected to recur in the normal course of business. The management discussion and analysis ("MD&A") highlights the adjusting items for the years ended December 31, 2016 and 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016 and 2015, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section 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 March 2, 2017 and focuses on information and key statistics from the audited annual consolidated financial statements, and considers 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 Management Information Circular is available on SEDAR at www.sedar.com.

THE COMPANY

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

Headquartered in Calgary, Canada, Enerflex has approximately 1,800 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint-ventures, operate in Canada, the United States of America, Argentina, Bolivia, Brazil, Colombia, Mexico, Peru, Australia, the United Kingdom, the United Arab Emirates ("UAE"), Oman, Bahrain, Indonesia, Malaysia, 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

- The Engineered Systems product line is comprised of compression, process, and electric power solutions. Enerflex provides custom and standard compression packages for reciprocating and screw compressor applications. It also engineers, designs, manufactures, constructs, and installs modular processing equipment and waste gas systems for natural gas facilities. Engineered Systems encompasses Enerflex's expertise with integrated turnkey power generation facilities as well as retrofit solutions, which provides re-engineering, re-configuration, and re-packaging of compressors for various field applications. The region has two manufacturing facilities both of which are located in Calgary, Alberta with retrofit facilities in Calgary, Grande Prairie, and Red Deer, Alberta.
- The Service product line operates under the Gas Drive brand in Canada and provides mechanical services and parts distribution. In 2015, Enerflex's distributorship agreement for GE's Waukesha natural gas engines and parts changed from being the authorized distributor in Canada and Australia to being a Global Platinum partner under GE's newly created Waukesha Power Packager program. As a Platinum Power Packager, the Company provides worldwide factory-direct access to Waukesha engines and parts. In addition, Gas Drive is also the authorized distributor and service provider of GE's Jenbacher and MAN engines and parts. Service branches are located in British Columbia, Alberta, Ontario, and Quebec.
- The Rentals product line provides natural gas compression and electric power equipment rentals from its location in Calgary, Alberta.

USA

- The Engineered Systems product line 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 manufacturing and retrofit facility is located in Houston, Texas.
- The Service product line provides mechanical services, parts, as well as operations and maintenance solutions to the oil and natural gas industry in the USA. As a Platinum Power Packager of GE's Waukesha engines, the Company provides worldwide factory-direct access to Waukesha engines and parts and is also a distributor of CAT engine and parts. The Service branches are located in Alaska, Colorado, Louisiana, North Dakota, Oklahoma, Pennsylvania, Texas, and Wyoming.
- The Rentals product line provides natural gas compression equipment rentals.

Rest of World

- Latin America, with locations in Argentina, Bolivia, Brazil, Colombia, Mexico, and Peru, provides an Engineered Systems product line through integrated turnkey natural gas compression and processing solutions, with local construction and installation capabilities. The Service product line focuses on after-market services, parts and components, as well as operations, maintenance and overhaul services. The Rentals product line provides natural gas compression equipment, and production and processing equipment for rent to oil and gas customers in the region.
- Effective January 1, 2016, the Australia region was re-structured from focusing on the EPC construction market to increasing capacity to undertake its core business, including equipment supply, product supply, integrated turnkey projects with a significant component of Enerflex's engineered product, and general asset management. There are locations in Queensland, New South Wales, Southern Australia, and Western Australia. In 2015, Enerflex's distributorship agreement for GE's Waukesha natural gas engines and parts changed from being the authorized distributor in Canada and Australia to being a Global Platinum partner under GE's newly created Waukesha Power Packager program. As a Platinum Power Packager, the Company has worldwide factory-direct access to Waukesha engines and parts.
- The Asia region, with locations and operations in Indonesia, Thailand, and Malaysia, provides Engineered Systems and Rentals to customers in the region. Service capabilities are also provided to Asia through the local operations. This division also provides mechanical service and parts, as a global Platinum Power Packager of GE Waukesha gas engines for the oil and gas industry in this region.
- The Middle East/Africa ("MEA") region provides engineering, design, procurement, and construction services for compression and process equipment, as well as rentals, after-market service, and operations and maintenance services for gas compression and processing facilities in the region. This region also provides mechanical service and parts, as a global Platinum Power Packager of GE Waukesha gas engines for the oil and gas industry. Enerflex has operations in Bahrain, UAE, and Oman.
- The Europe/Commonwealth of Independent States ("CIS") region provides customized compression, processing, and high-end refrigeration solutions including CO_2 compression and liquefaction through its location in the United Kingdom. This region also provides mechanical service and parts, as a global Platinum Power Packager of GE's Waukesha gas engines for the oil and gas industry.

Engineered Systems

The Engineered Systems product line is comprised of three product offerings: Compression, Electric Power and Process. Compression packages are offered from 20 to 10,000 plus horsepower and ranging from low specification field compressors to high specification process compressors for onshore and offshore applications. The Company also provides retrofit solutions which includes re-engineering, reconfiguration, and repackaging of compressors for various field applications. For Electric Power, a typical power generation unit is comprised of a natural gas reciprocating engine driver, a generator, and control devices. Processing equipment includes plant compression, general processing, dew point control, dehydration and liquids separation, and amine sweetening to remove H_2S or CO_2. Facilities dedicated to the Engineered Systems product line occupy approximately 370,000 square feet of manufacturing space in Canada, approximately 120,000 square feet of shop space in the USA, and approximately 40,000 square feet of manufacturing space in Australia.

Service

Enerflex's Service division provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization programs, manufacturer warranties, exchange components, and technical services to our global customers. The division operates through an extensive network of branch offices and generally provides its services at the customer's wellsite location using trained technicians and mechanics. Enerflex is a Global Platinum partner under GE's recently created Power Packager program, which allows the Company to package and service Waukesha engines for its customers worldwide. Gas Drive is the authorized distributor for MAN and GE's Jenbacher engines and parts, in Canada. The Company is also the authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems, in all of its operating regions. Outside of Gas Drive's designated distribution/service areas, after-market service is provided under the Enerflex name. Enerflex's after-market service and support business includes more than 30 outlets situated in active natural gas producing areas, over 225 service vehicles, hundreds of skilled mechanics, and a sizable inventory of original equipment manufacturer parts from key manufactures.

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, the UAE, Indonesia, Malaysia, and Thailand. The Rentals product line encompasses a fleet of natural gas compressors totaling approximately 500,000 horsepower on rent or available for rent globally.

FINANCIAL OVERVIEW

($ Canadian thousands)	Three months ended December 31, 2016	Three months ended December 31, 2015	Twelve months ended December 31, 2016	Twelve months ended December 31, 2015
Total revenue	**$ 343,385**	$ 358,548	**$ 1,130,604**	$ 1,629,032
Gross margin	**69,152**	74,671	**243,784**	326,189
Selling and administrative expenses	**48,170**	62,133	**178,371**	204,430
Operating income	**20,982**	12,538	**65,413**	121,759
(Loss) earnings before finance costs and taxes ("EBIT")	**(36,284)**	(20,880)	**(81,472)**	94,877
Net (loss) earnings	**$ (45,488)**	$ (33,621)	**$ (104,140)**	$ 48,045
Key Financial Performance Indicators[1]				
Bookings	**$ 262,192**	$ 170,597	**$ 853,337**	$ 635,059
Backlog	**$ 621,397**	$ 427,204	**$ 621,397**	$ 427,204
Recurring revenue as a percentage of revenue[2]	**41.7%**	33.0%	**41.7%**	33.0%
Gross margin as a percentage of revenue	**20.1%**	20.8%	**21.6%**	20.0%
EBIT (loss) as a percentage of revenue[2]	**(7.2)%**	5.8%	**(7.2)%**	5.8%
(Loss) earnings before interest, tax, depreciation and amortization ("EBITDA")	**$ (12,442)**	$ 7,047	**$ 11,627**	$ 176,771
Return on capital employed	**(5.7)%**	6.2%	**(5.7)%**	6.2%
Cash from operations	**$ 4,351**	$ 59,340	**$ 91,792**	$ 104,173

[1] 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.

[2] Determined by taking the trailing 12-month period.

FOURTH QUARTER AND TWELVE MONTHS OF 2016 OVERVIEW

For the three months ending December 31, 2016:

- Recorded bookings of $262.2 million, a 53.7% increase compared to the $170.6 million recorded during the same period last year.
- Engineered Systems backlog at December 31, 2016 was $621.4 million, a 45.5% increase compared to the December 31, 2015 backlog of $427.2 million.
- Reduced net debt by $23.2 million during the quarter, resulting in the net debt to EBITDA ratio, as calculated for covenant compliance purposes, of below 1.3:1.
- Subsequent to December 31, 2016, the Company declared a quarterly dividend of $0.085 per share, payable on April 6, 2017, to shareholders on record on March 15, 2017.
- Generated revenue of $343.4 million, a 4.2% decrease compared to $358.5 million in the fourth quarter of 2015.
- The Company recognized a $5.9 million write down of rental equipment and inventory in cost of goods sold.
- Consolidated gross margin percentage of 20.1% was lower than the 20.8% margin in the fourth quarter of the prior year. The margin decreased due to higher inventory reserves, asset impairments and warranty costs experienced during the quarter, partially offset by stronger overhead absorption. The Company's geographic and product line diversification also helped keep margins relatively stable in a competitive and constrained economic environment caused by low commodity prices.
- Undertook additional restructuring actions in the Canadian service business including the closure of the Central Services distribution facility in Leduc. The costs of this restructuring of $1.7 million was recognized in cost of goods sold during the fourth quarter of 2016. In the fourth quarter of 2015, the Company recognized restructuring costs of $4.1 million, across all three business segments. Restructuring activities, including the recognition of onerous contracts, recorded in SG&A during the fourth quarter were $5.4 million, compared to $7.4 million in the same period in 2015. All of the restructuring activities have positioned the Company well for the future.
- Overall SG&A costs of $48.2 million in the fourth quarter of 2016 are down from $62.1 million in the same period last year. The SG&A costs have decreased period over period due to the effects of restructuring activities undertaken in prior periods. The Q4 2015 amounts also included a large FX loss as a result of the devaluation of the Argentine peso.
- Included in the 2016 results is a gain on sale of a building and PP&E of $11.5 million.
- The Company recognized a $68.8 million impairment of goodwill in the Canadian segment during the fourth quarter. A goodwill impairment related to the USA segment of $36.9 million was recognized in the fourth quarter of 2015.
- Reported EBIT loss of $36.3 million compared to a loss $20.9 million in the fourth quarter of 2015, driven primarily by the goodwill impairment.

For the twelve months ending December 31, 2016:

- Generated revenue of $1,130.6 million compared to $1,629.0 million during 2015. The decline is due to decreased revenues in Engineering Systems and Service as a result of low commodity prices in 2016.
- Gross margin percentage for 2016 was 21.6% compared to 20.0% in 2015. The low commodity prices continue to put pressure on margins but the Company has responded with cost reduction initiatives to maintain the gross margin percentage. Restructuring costs included in cost of goods sold for the year totaled $3.9 million compared to $5.8 million recognized in 2015.
- SG&A costs for 2016 were $178.4 million compared to $204.4 million in the prior year. The explanations for the reduction in SG&A costs in the fourth quarter apply for 2016 year, primarily the savings from restructuring activities. Restructuring costs, including onerous contract recognition, for 2016 totaled $9.9 million compared to $12.0 million in 2015.
- Goodwill impairment recognized in 2016 was $160.9 million versus $36.9 million in 2015. The impairment in 2016 relates to the Canadian business segment, while the 2015 impairment relates to the USA segment.
- Reported a negative EBIT of $81.5 million in 2016 compared to a positive EBIT of $94.9 million in 2015, driven primarily by the goodwill impairment.
- Issued 8,952,750 common shares for gross proceeds of $115.0 million, which will be used to fund future growth initiatives of the organization.

Adjusted EBIT and Adjusted EBITDA

The Company has recorded a number of items in its results that are not expected to recur in the normal course of business. The exclusion of these items presents a view of the results that should be more representative of the Company's normal operations. The presentation of adjusted EBIT and adjusted EBITDA should not be considered in isolation from EBIT or EBITDA as determined under IFRS. The adjusted EBIT and adjusted EBITDA may not be comparable to similar measures presented by other companies and should not be considered in isolation or as a replacement for measures prepared as determined under IFRS.

The items that have been adjusted for presentation purposes relate generally to two categories: 1) Impairment or gains on assets; and, 2) restructuring activities. Exclusion of these items should allow for a better understanding of on-going, normal operations of the Company.

($ Canadian thousands)

Three months ended December 31, 2016	Total	Canada	USA	ROW
Reported EBIT (loss)	$ (36,284)	$ (67,774)	$ 20,412	$ 11,078
Restructuring costs in COGS and SG&A	7,051	2,267	209	4,575
Write–down of equipment in COGS	5,853	3,997	–	1,856
(Gain) loss on disposal of PP&E	(11,386)	(11,387)	(29)	30
Goodwill impairment	68,802	68,802	–	–
Adjusted EBIT	$ 34,036	$ (4,095)	$ 20,592	$ 17,539
Depreciation and amortization	23,842	4,864	2,975	16,003
Adjusted EBITDA	$ 57,878	$ 769	$ 23,567	$ 33,542

($ Canadian thousands)

Three months ended December 31, 2015	Total	Canada	USA	ROW
Reported EBIT (loss)	$ (20,880)	$ 6,509	$ (18,800)	$ (8,589)
Restructuring costs in COGS and SG&A	11,487	1,075	325	10,087
Write–down of equipment in COGS	–	–	–	–
(Gain) loss on disposal of PP&E	228	(601)	(1,003)	1,832
Goodwill impairment	36,900	–	36,900	–
Adjusted EBIT	$ 27,735	$ 6,983	$ 17,422	$ 3,330
Depreciation and amortization	27,927	4,290	5,476	18,161
Adjusted EBITDA	$ 55,662	$ 11,273	$ 22,898	$ 21,491

($ Canadian thousands)

Twelve months ended December 31, 2016	Total	Canada	USA	ROW
Reported EBIT (loss)	$ (81,472)	$ (168,884)	$ 39,788	$ 47,624
Restructuring costs in COGS and SG&A	13,746	7,669	1,020	5,057
Write–down of equipment in COGS	5,853	3,997	–	1,856
(Gain) loss on disposal of PP&E	(11,523)	(11,402)	21	(142)
Goodwill impairment	160,894	160,894	–	–
Adjusted EBIT	$ 87,498	$ (7,726)	$ 40,829	$ 54,395
Depreciation and amortization	93,099	17,336	13,840	61,923
Adjusted EBITDA	$ 180,597	$ 9,610	$ 54,669	$ 116,318

($ Canadian thousands)

Twelve months ended December 31, 2015	Total	Canada	USA	ROW
Reported EBIT (loss)	$ 94,877	$ 42,458	$ 17,826	$ 34,593
Restructuring costs in COGS and SG&A	17,761	4,154	1,686	11,921
Write–down of equipment in COGS	–	–	–	–
(Gain) loss on disposal of PP&E	(1,256)	(725)	(2,384)	1,853
Goodwill impairment	36,900	–	36,900	–
Adjusted EBIT	$ 148,282	$ 45,887	$ 54,028	$ 48,367
Depreciation and amortization	81,894	16,644	13,263	51,987
Adjusted EBITDA	$ 230,176	$ 62,531	$ 67,291	$ 100,354

Once the effect of the impairment or gains on assets and the restructuring activities are removed, the adjusted EBIT and adjusted EBITDA for the three months and year ended December 31, 2016 show positive EBIT instead of an EBIT loss. While the adjusted EBITDA and adjusted EBIT for 2016 isn't as strong as 2015, the fourth quarter of 2016 shows improved adjusted EBIT and adjusted EBITDA over the same quarter in 2015. Please refer to the section "Segmented Results" for additional information about results by geographic location.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

The following table sets forth the bookings and backlog by reporting segment for the following periods:

($ Canadian thousands)	Three months ended December 31, 2016	Three months ended December 31, 2015	Twelve months ended December 31, 2016	Twelve months ended December 31, 2015
Bookings				
Canada	**$ 113,649**	$ 71,138	**$ 174,942**	$ 214,431
USA	**143,043**	41,187	**585,203**	282,354
Rest of World	**5,500**	58,272	**93,192**	138,274
Total bookings	**$ 262,192**	$ 170,597	**$ 853,337**	$ 635,059

($ Canadian thousands)	December 31, 2016	December 31, 2015
Backlog		
Canada	**$ 167,260**	$ 150,928
USA	**390,399**	152,931
Rest of World	**63,738**	123,345
Total backlog	**$ 621,397**	$ 427,204

Bookings were higher in the fourth quarter of 2016 compared to the same period of 2015 due to improved bookings in the Canada and USA segment, partially offset by decreased bookings in Rest of World. The improving commodity price deck has led to increased enquiries and bookings, particularly in the Canada and USA segment. While the improvement in commodity prices has prompted some companies to proceed with projects, activity has not returned to historical levels. Furthermore, competition for the pipeline of work continues to be intense, putting pressure on awarded margins.

The movement in exchange rates resulted in an increase of $10.8 million on U.S. dollar denominated bookings during the fourth quarter of 2016 and resulted in an increase of $1.2 million during the twelve months of 2016, compared to a favourable impact of $9.1 million for the fourth quarter of 2015 and a favourable impact of $70.6 million in the twelve months of 2015.

The Company is cautiously optimistic that further stability in commodity prices will cause customers to increase investment in the sector, which may lead to further increased demands for its products and services.

SEGMENTED RESULTS

Canada Segment Results

($ Canadian thousands)	Three months ended December 31, 2016	Three months ended December 31, 2015	Twelve months ended December 31, 2016	Twelve months ended December 31, 2015
Segment revenue	**$ 56,643**	$ 94,442	**$ 239,471**	$ 504,986
Intersegment revenue	**(3,375)**	(2,145)	**(6,646)**	(10,742)
Revenue	**$ 53,268**	$ 92,297	**$ 232,825**	$ 494,244
Revenue – Engineered Systems	**$ 32,293**	$ 65,733	**$ 158,610**	$ 363,029
Revenue – Service	**$ 15,637**	$ 23,381	**$ 59,311**	$ 111,522
Revenue – Rental	**$ 5,338**	$ 3,183	**$ 14,904**	$ 19,693
Operating (loss) income	**$ (10,510)**	$ 2,794	**$ (21,878)**	$ 33,674
EBIT[1]	**$ (67,774)**	$ 6,509	**$ (168,884)**	$ 42,458
EBITDA[1]	**(62,910)**	10,799	**(151,548)**	59,102
Segment revenue as a % of total revenue	**15.5%**	25.7%	**20.6%**	30.4%
Recurring revenue as a % of segment revenue	**39.4%**	28.8%	**31.9%**	26.5%
Operating (loss) income as a % of segment revenue	**(19.7)%**	3.0%	**(9.4)%**	6.8%
EBIT as a % of segment revenue	**(127.2)%**	7.1%	**(72.5)%**	8.6%
EBITDA as a % of segment revenue	**(118.1)%**	11.7%	**(65.1)%**	12.0%

[1] *Inclusive of goodwill impairment of $68.8 million and $160.9 million recorded during the fourth quarter and twelve months of 2016.*

The Canada segment is sensitive to capital expenditure budgets of oil and natural gas producers operating in Canada, which continue to be negatively affected by the significant decline in commodity prices.

The decrease in revenue of $39.0 million for the three months ended December 31, 2016 and $261.4 million for the twelve months of 2016, compared to the same periods in 2015, was attributable to lower revenue across the Engineered Systems and Service product lines, largely driven by the economic environment in 2016. Engineered Systems revenue was down on lower 2016 opening backlog of $150.9 million compared to $332.0 million at the start of 2015. For the twelve months ended December 31, 2016, lower Service revenue reflects lower parts sales and a decreased level of maintenance and overhaul work, while lower Rental revenue was due to a decrease in rental unit sales and reduced utilization of the Canadian rental fleet.

Operating income for the fourth quarter of 2016 decreased by $13.3 million primarily due to reduced gross margin. The decrease in gross margin was the result of lower revenues, lower project margins, reduced overhead absorption and the non-cash impairment of the rental fleet and inventory partially offset by improved warranty expense. Operating loss for the twelve months ended December 31, 2016 was $21.9 million, compared to operating income of $33.7 million in the prior year. The $55.6 million reduction was due to lower gross margin partially offset by decreased SG&A expenses. The decrease in gross margin was caused by the same drivers of the reduced gross margin in the fourth quarter. The reduction in SG&A expense was attributable to lower compensation expense on lower headcount.

For the twelve months of 2016, EBIT was unfavorably impacted by $160.9 million of goodwill impairments, $7.7 million of restructuring costs and $4.0 million of equipment impairments, partially offset by $11.4 million of gains on the sale of a building.

USA Segment Results

($ Canadian thousands)	Three months ended December 31, 2016	2015	Twelve months ended December 31, 2016	2015
Segment revenue	**$ 160,966**	$ 163,482	**$ 482,560**	$ 781,291
Intersegment revenue	**(2,855)**	(6,910)	**(16,459)**	(103,112)
Revenue	**$ 158,111**	$ 156,572	**$ 466,101**	$ 678,179
Revenue – Engineered Systems	**$ 129,123**	$ 118,040	**$ 347,735**	$ 541,757
Revenue – Service	**$ 26,548**	$ 35,015	**$ 106,107**	$ 127,948
Revenue – Rental	**$ 2,440**	$ 3,517	**$ 12,259**	$ 8,474
Operating income	**$ 20,385**	$ 18,107	**$ 39,809**	$ 53,305
EBIT[1]	**$ 20,412**	$ (18,800)	**$ 39,788**	$ 17,826
EBITDA[1]	**23,387**	(13,324)	**53,628**	31,089
Segment revenue as a % of total revenue	**46.0%**	43.7%	**41.2%**	41.6%
Recurring revenue as a % of segment revenue	**18.3%**	24.6%	**25.4%**	20.1%
Operating income as a % of segment revenue	**12.9%**	11.6%	**8.5%**	7.9%
EBIT as a % of segment revenue	**12.9%**	(12.0)%	**8.5%**	2.6%
EBITDA as a % of segment revenue	**14.8%**	(8.5)%	**11.5%**	4.6%

[1] *Inclusive of goodwill impairment of $36.9 million recorded during the fourth quarter of 2015.*

The increase in revenue of $1.5 million in the fourth quarter of 2016 compared to the fourth quarter of 2015 is the result of increased Engineered Systems revenue partially offset by lower Service and Rental revenue. Engineered Systems revenue increased due to the increased bookings in the back half of 2016 as compared to the back half of 2015. Service revenue was lower as a result of deferred maintenance, while Rental revenue was lower due to weaker utilization and rental rates. Revenue decreased by $212.1 million for the twelve months ended December 31, 2016 compared to 2015 due to lower Engineered Systems revenue on lower opening backlog and reduced Service revenue on lower parts sales and maintenance and overhaul work, partially offset by higher Rental revenue.

Operating income increased by $2.3 million during the fourth quarter of 2016 due to decreased SG&A expenses partially offset by lower gross margin. SG&A expenses decreased primarily due to lower compensation expense on lower headcount. Operating income decreased by $13.5 million during the twelve months of 2016 due to lower gross margin, partially offset by reduced SG&A expenses. Gross margin decreased primarily as a result of lower revenues and increased non-cash inventory impairments partially offset by project margin improvements and improved overhead absorption. The decrease in SG&A expenses was primarily a result of lower compensation expense on reduced headcount.

Rest of World Segment Results

($ Canadian thousands)	Three months ended December 31, 2016	2015	Twelve months ended December 31, 2016	2015
Segment revenue	**$ 132,010**	$ 110,610	**$ 439,676**	$ 458,260
Intersegment revenue	**(4)**	(931)	**(7,998)**	(1,651)
Revenue	**$ 132,006**	$ 109,679	**$ 431,678**	$ 456,609
Revenue – Engineered Systems	**$ 53,830**	$ 37,259	**$ 152,799**	$ 187,057
Revenue – Service	**$ 41,556**	$ 36,236	**$ 133,273**	$ 145,139
Revenue – Rental	**$ 36,620**	$ 36,184	**$ 145,606**	$ 124,413
Operating income (loss)	**$ 11,107**	$ (8,363)	**$ 47,482**	$ 34,780
EBIT	**$ 11,078**	$ (8,589)	**$ 47,624**	$ 34,593
EBITDA	**27,081**	9,572	**109,547**	86,580
Segment revenue as a % of total revenue	**38.4%**	30.6%	**38.2%**	28.0%
Recurring revenue as a % of segment revenue	**59.2%**	66.0%	**64.6%**	59.0%
Operating (loss) income as a % of segment revenue	**8.4%**	(7.6)%	**11.0%**	7.6%
EBIT as a % of segment revenue	**8.4%**	(7.8)%	**11.0%**	7.6%
EBITDA as a % of segment revenue	**20.5%**	8.7%	**25.4%**	19.0%

Rest of World revenue increased by $22.3 million in the fourth quarter due to increased Engineered Systems and Service revenue. Engineered Systems revenue was higher as a result of higher opening backlog, while Service and Rental revenue was higher as a result of new projects becoming operational during 2016 that were under construction in the same period last year. Revenue decreased by $24.9 million in the twelve months of 2016 due to a reduction in Engineered Systems revenue on lower opening backlog and a decrease in Service revenue, partially offset by an increase in Rental revenue with new rental projects in the Middle East and Latin America beginning to contribute revenue. Service revenue decreased on lower service activity in Latin America and Australia, and reduced parts sales in Australia and Asia, partially offset by higher activity in the MEA region.

Operating income increased by $19.5 million in the fourth quarter of 2016 as compared to the same period of 2015 as a result of improved gross margin and lower SG&A expenses. The increase in gross margin was a result of the overall increase in revenue, stronger overhead absorption, better warranty experience and project margin improvements. SG&A expenses decreased due to lower compensation expense on reduced headcount. The prior year SG&A was also negatively impacted by $4.5 million of foreign exchange losses primarily as a result of the devaluation of the Argentine peso.

Operating income for the twelve months of 2016 increased by $12.7 million due to higher gross margin and lower SG&A expenses. Higher gross margin was attributable to the impact of an increased proportion of higher margin Rental Revenues, partially offset by reduced Engineered Systems and Service revenues, lower awarded margins, and increased costs associated with unresolved customer warranty disputes. SG&A expenses were lower in 2016 compared to 2015 due to lower compensation expense on reduced headcount and reduced foreign exchange losses.

INCOME TAXES

Income tax expense totaled $6.5 million or 21.8% of earnings before tax excluding the goodwill impairment for the three months ended December 31, 2016 compared to $8.1 million or 70.0% of earnings before tax excluding the goodwill impairment in the same period of 2015. Income tax expense was lower primarily due to the effect of unrealized exchange rate fluctuations on tax bases in foreign jurisdictions largely offset by an increase in earnings before tax. The effective tax rate decreased primarily due to the effect of the exchange rate fluctuations on tax bases in foreign jurisdictions.

Income tax expense totaled $9.0 million or 13.8% of earnings before tax excluding the goodwill impairment for the year ended December 31, 2016 compared to an expense of $30.7 million or 26.3% of earnings before tax excluding the goodwill impairment in the same period of 2015. The decrease in income tax expense was as a result of lower earnings before tax and the effect of earnings taxed in foreign jurisdictions. The effective tax rate decreased primarily due to the mix of earnings taxed in foreign jurisdictions. Additional detail is provided in Note 18 to the 2016 consolidated financial statements.

OUTLOOK

The decline in global commodity prices continues to negatively impact demand for the Company's products and services. However, the Company's geographic diversity offsets some of the impact because the decline has been less drastic in some of the areas we operate in. Lower commodity prices have led customers to curtail investments in large green-field oil and natural gas developments which in turn has negatively impacted demand for the Engineered Systems product line.

That being said, stabilization of commodity prices in the second half of 2016 led to increased enquiries and continued strength in bookings in the fourth quarter, particularly in the Canada and USA segment. The improved bookings trend, which began in the third quarter of 2016 continued through the fourth quarter, which had a positive impact on bookings in the Canada and USA segments. The Company is cautiously optimistic that further stability or improvement in commodity prices may cause customers to increase investment, which should translate to further demand for the Company's products and services. The start of 2017 has been positive and we expect bookings to exceed $190 million in North America for the first quarter of 2017. The Rest of World segment continues to experience strong enquiries levels with near term projects expected to close in the first quarter of 2017.

Enerflex's financial performance also continues to benefit from strategic decisions to focus on the recurring revenue stream derived from new and existing long-term rental and service contracts, and develop a geographically diversified business. Consistent with this strategy, during the first quarter of 2017, Enerflex was engaged to operate certain gas processing facilities within the Delaware basin of the Permian for an initial term of 24 months. Enerflex will look to continue to preserve awarded gross margins and to aggressively manage SG&A expenses. Steps taken during 2015 and 2016 have allowed a greater focus on key market opportunities and resulted in a lower headcount, which led to material savings in 2016 and beyond.

Outlook by Segment

Canada

The Canadian segment experienced considerable headwinds during the first nine months of 2016, which resulted in multiple rounds of restructuring and impairments of assets, inventory and goodwill. This region recorded strong bookings in the fourth quarter of 2016, on strengthening commodity prices, increased activity levels by customers, and an improving outlook. Customers in this region have announced higher capital spending budgets, which has resulted in increased enquiry levels in the fourth quarter of 2016 and in the first quarter of 2017. If commodity prices remain stable, Enerflex remains cautiously optimistic with respect to higher activity levels and booking activity in this region for 2017, relative to 2016. The Company believes that the segment will not fully recover in 2017 in all product offerings, given the prolonged nature of this downturn. Enerflex believes that the recovery will be a slower process that will be dependent on stable commodity prices for producers.

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 recent partial recovery in oil, natural gas, and NGL prices have led to an improvement in enquiries and bookings in the USA segment. The improvement in commodity prices in the back half of 2016 caused some customers to proceed with investment in the sector and Enerflex is cautiously optimistic that further stability in commodity prices will continue to drive increased enquiries and bookings into 2017.

Rest of World

Enerflex remains cautiously optimistic about the outlook in the Latin America region. The Company expects Argentina will see additional growth, where the continuing development of the Vaca Muerta shale play could, in the short- to medium-term, generate more material opportunities for the Company's products and services. In Mexico, Enerflex sees more medium- to long-term opportunities developing as a result of the on-going Energy Reform. In Brazil, the Company is expecting a more stable environment and an increased interest in natural gas-fueled projects as a means to reduce dependency on hydroelectric power. This interest, coupled with the associated gas expected from pre-salt oil production, presents interesting opportunities for surface facilities in Brazil. Additionally, Enerflex expects its new foothold in Bolivia and infrastructure developments in Colombia and Peru will result in an increased Enerflex presence in these countries. Overall the Company will continue to focus on securing additional build-own-operate-maintain ("BOOM") and integrated turnkey projects and expanding the after-market service business.

Within the MEA region, three large rental projects have increased the rental fleet in the region to over 100,000 horsepower, and will continue to contribute to results in 2017 and beyond. In addition, the Company is pursuing a number of large Engineering Systems and recurring revenue opportunities in the region.

ENERFLEX STRATEGY

Enerflex's vision is "Transforming natural gas to meet the world's energy needs". 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 complex 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, there is a focus 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 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 2016. In Brazil, Enerflex has repositioned itself to capitalize on future opportunities, particularly for natural gas-fueled 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.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue[1]	Net earnings[1]	Earnings per share – basic[1]	Earnings per share – diluted[1]
December 31, 2016	**$ 343,385**	**$ (45,488)**	**$ (0.54)**	**$ (0.54)**
September 30, 2016	262,449	17,596	0.23	0.23
June 30, 2016	253,068	16,841	0.21	0.21
March 31, 2016	271,702	(93,477)	(1.18)	(1.18)
December 31, 2015	358,548	(33,423)	(0.42)	(0.42)
September 30, 2015	425,242	31,938	0.40	0.40
June 30, 2015	389,721	26,827	0.34	0.34
March 31, 2015	455,521	23,548	0.30	0.30

[1] *Amounts presented are from continuing operations.*

($ Canadian thousands, except per share amounts)	Total Assets	Total Non-Current Financial Liabilities	Cash Dividends Declared Per Share
December 31, 2016	**$ 1,881,943**	**$ 393,963**	**$ 0.34**
December 31, 2015	2,209,264	528,140	0.34
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 consolidated statement of (loss) 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, **2016**	Three months ended December 31, 2015	Twelve months ended December 31, **2016**	Twelve months ended December 31, 2015
EBITDA				
(Loss) earnings before finance costs and taxes	**$ (36,284)**	$ (20,880)	**$ (81,472)**	$ 94,877
Depreciation and amortization[1]	**23,842**	27,927	**93,099**	81,894
EBITDA	**$ (12,442)**	$ 7,047	**$ 11,627**	$ 176,771
Recurring Revenue				
Service	**$ 83,741**	$ 94,632	**$ 298,691**	$ 384,609
Rental	**44,398**	42,884	**172,769**	152,580
Total Recurring Revenue	**$ 128,139**	$ 137,516	**$ 471,460**	$ 537,189
ROCE				
Trailing 12-month EBIT earnings	**$ (81,472)**	$ 94,877	**$ (81,472)**	$ 94,877
Capital Employed - beginning of period				
Net Debt	**$ 249,564**	$ 412,208	**$ 420,559**	$ 347,007
Shareholders' equity	**1,158,957**	1,098,940	**1,158,040**	1,019,982
	$ 1,408,521	$ 1,511,148	**$ 1,578,599**	$ 1,366,989
Capital Employed - end of period				
Net Debt	**$ 226,402**	$ 420,559	**$ 226,402**	$ 420,559
Shareholders' equity	**1,117,627**	1,158,040	**1,117,627**	1,158,040
	$ 1,344,029	$ 1,578,599	**$ 1,344,029**	$ 1,578,599
Average Capital Employed[2]	**$ 1,430,147**	$ 1,522,217	**$ 1,430,147**	$ 1,522,217
Return on Capital Employed	**(5.7)%**	6.2%	**(5.7)%**	6.2%

[1] Depreciation and amortization from continuing operations.

[2] 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, 2016 compared to December 31, 2015:

($ Canadian millions)	Increase (Decrease)	Explanation
Working capital	$101.1	The increase in working capital reflects the lower earnings and activity levels in 2016. Accounts receivable, inventory and accounts payable have all decreased. The decline in deferred revenues, which has decreased significantly over the prior year balance, has been a major contributor to the increased working capital. Additionally, the current portion of long-term debt of $50.5 million was repaid during the year.
Rental equipment	$(61.2)	The decrease in rental assets is due to reduced capital spend during 2016, depreciation, and a weakening U.S. dollar relative to the Canadian dollar when comparing the December 31, 2016 exchange rate to December 31, 2015.
Total assets	$(327.3)	The decrease in total assets is primarily related to the decrease in accounts receivable, fixed asset depreciation outpacing capital expenditures, and the weakening U.S. dollar relative to the Canadian dollar on a year-to-date basis, which unfavorably impacts U.S. dollar denominated assets. In addition to the factors discussed above, a goodwill impairment of $160.9 million was recorded in 2016.
Long-term debt	$(184.7)	The decrease in long-term debt is the result of the repayment of $50.5 million of senior notes in June 2016 in addition to the continued repayment of drawing on the Bank Facility during 2016. In addition, long term debt decreased due to a stronger Canadian dollar at December 31, 2016 as compared to December 31, 2015, which impacted the revaluation of U.S. dollar denominated debt.
Shareholders' equity before non-controlling interest	$(39.1)	Shareholders' equity before non-controlling interest decreased due to net losses of $104.7 million and dividends of $27.7 million. The Company also recognized a $21.7 million unrealized loss on translation of foreign operations. These amounts were offset by a $114.7 million increase to share capital, largely due to the net $111.3 million of equity financing that closed during 2016.

There were no significant developments in the quarter related to the arbitration proceedings against Oman Oil Exploration and Production LLC ("OOCEP"). Previously disclosed variation claims are subject to the outcome of the arbitration proceedings. Approximately $31.2 million in milestone payments due from OOCEP are overdue and remain unpaid. Enerflex is unable to predict when the arbitration will be resolved.

BOUGHT DEAL EQUITY ISSUANCE

On September 7, 2016, the Company closed the offering by issuing a total of 8,952,750 common shares at a price of $12.85 per common share for gross proceeds of approximately $115.0 million. The share issuance costs were approximately $5.1 million resulting in net proceeds of approximately $109.9 million. While the net proceeds of the offering are intended to fund growth initiatives, the net proceeds were immediately used to reduce amounts drawn on the Bank Facility.

LIQUIDITY

The Company expects that continued cash flows from operations in 2017, 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. As at December 31, 2016, the Company held cash and cash equivalents of $167.6 million and had cash drawings of $357.8 million against the Bank Facility, leaving it with access to $349.7 million for future drawings. The Company continues to meet its Bank Facility covenant requirements with a net debt to EBITDA ratio of less than 1.3:1 compared to the maximum ratio of 3:1.

Summarized Statements of Cash Flow

($ Canadian thousands)	Three months ended December 31, 2016	Three months ended December 31, 2015	Twelve months ended December 31, 2016	Twelve months ended December 31, 2015
Cash, beginning of period	**$ 162,360**	$ 135,154	**$ 158,081**	$ 158,069
Cash (used in) provided by:				
Operating activities	**4,351**	59,340	**91,792**	104,173
Investing activities	**23,430**	(17,894)	**18,887**	(159,770)
Financing activities	**(23,302)**	(18,917)	**(99,529)**	51,353
Exchange rate changes on foreign currency cash	**722**	398	**(1,670)**	4,256
Cash, end of period	**$ 167,561**	$ 158,081	**$ 167,561**	$ 158,081

Operating Activities

For the three and twelve months ended December 31, 2016, as compared with the same periods in 2015, cash provided by operating activities decreased primarily due the decrease in revenues as customers reduced their spending due to low commodity prices.

Investing Activities

For the three and twelve months ended December 31, 2016 cash provided by investing activities increased due to decreased capital expenditures on rental assets and increased receipts on the disposal of both rental assets and property, plant and equipment.

Financing Activities

For the three and twelve months ended December 31, 2016, cash used in financing activities increased due to the Company reducing the cash drawings on the Bank Facility. The repayments were funded with the net proceeds of the equity offering and free cash flow generated by the Company.

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, Industry Conditions, and the Cyclical Nature of the Energy Industry

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 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 hydrocarbons 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, which are currently being experienced, 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. Even the perception of lower oil or gas prices over the long term can result in a decision to cancel or postpone exploration and production capital expenditures, which may lead to a reduced demand for products and services offered by Enerflex.

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 of time, 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 oil and gas producing 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.

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 to customers.

The Company may not be able to take advantage of certain opportunities or make certain investments because of debt levels and other obligations. Any of these competitive pressures could have a material adverse effect on the Company's business, financial condition, and results of operations.

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_2 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. These projects typically specify delivery dates, performance criteria and penalties for the failure to perform. 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. Any failure to execute on such larger projects in a timely and cost effective manner could have a material adverse effect on our business, financial condition, results of operation and cash flows.

The Company has made significant progress on a multi-year initiative to integrate its systems and processes, while bringing its facilities to world-class standards. In addition, continuous improvement initiatives are in place to achieve accurate, complete, and timely provision of deliverables. Nonetheless, project risks can translate into performance issues and project delays, as well as project costs being in excess of cost estimates, as evidenced by recent experience in the ROW segment. While the Company will assess the recoverability of these cost overruns, there can be no assurance that these costs will be reimbursed, which may result in a material adverse effect on our business, financial condition, results of operations, and cash flows.

Personnel and Contractors

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 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 business. 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.

There are certain jurisdictions where Enerflex relies on third party contractors to carry out the operation and maintenance of its equipment. The ability of our third party contractors to find and retain individuals with the proper technical background and training is critical to the continued success of the contracted operations in these jurisdictions. If Enerflex's third party contractors are unable to find and retain qualified operators, or the cost of these qualified operators increases substantially, the contract operations business could materially impacted.

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.

Contracted Revenue

Many of our customers finance their exploration and development activities through cash flow from operations, incurrence of debt or issuance of equity. During times when oil or natural gas prices weaken, our customers are more likely to experience decreased cash flow from operations and limitations on their ability to incur debt or raise equity, which could result in customers seeking to preserve capital by seeking price concessions on contracted recurring revenue contracts, cancelling contracts or determining not to renew contracted recurring revenue contracts with us. In addition, we may be unable to renew recurring revenue contracts with customers on favorable commercial terms, if at all. Terms of new contracts or renegotiated contracts may also transfer additional risk of liquidated damages, consequential loss, liability caps, and indemnities to the Company. These factors may lead to a reduction in our revenue and net income, which could have a material adverse effect on our business, financial condition, results from operations and cash flows. To the extent that we are unable to renew our existing contracts or enter into new contracts that are on favorable terms to us, our overall revenue mix may change over time which could have a material adverse effect on our business, results from operations and cash flows.

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 Enerflex's 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.

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. While the Company expects that the probability of a targeted attack is low, security measures have been implemented to protect the Company's information technology systems and network infrastructure. Despite the implementation of security measures, technology systems may be vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism, and other causes. Additionally, Enerflex is reliant on third party service providers for certain information technology applications. While the Company believes that these third party service providers have adequate security measures, there can be no assurance that these security measures will prevent any cyber events or computer viruses from impacting the applications that Enerflex relies on. If Enerflex's information technology systems were to fail and the Company 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.

Information Technology

As Enerflex continues to expand internationally, provide 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.

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, or a reduction in their ability to incur debt or access equity financing. A reduction in borrowing bases under reserved-based credit facilities, the lack of availability of debt or equity financing or other factors that negatively impact a customers' financial condition may impair their ability to pay for products or services rendered. 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.

The Company has remained diligent during 2016 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 2016, 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, at a fixed coupon of 6.011%, are due on June 22, 2021. The Company's 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 renegotiate all or part of its Bank Facility prior to its due date, and the cash available for dividends to shareholders and to fund on-going operations could be adversely affected. As at December 31, 2016, the Company had $349.7 million available in borrowing base.

The Company's Bank Facility and the Note Purchase Agreement also contain a number of covenants and restrictions which Enerflex and its subsidiaries must comply with, including but not limited to use of proceeds, limitations on our ability to incur additional indebtedness, transactions with affiliates, mergers and acquisitions, and our ability to sell assets. 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, the Company'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 which may require the Company to repay our indebtedness under those agreements 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 the Company's revenue. Enerflex 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;
- Confiscation, expropriation, or nationalization of property without fair compensation;
- 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.

In addition, Enerflex may expand our business to markets where we have not previously conducted business. The risks inherent in establishing new business ventures, especially in international markets where local customs, laws, and business procedures present special challenges, may affect our ability to be successful in these ventures.

To the extent Enerflex's international operations are affected by unexpected or adverse economic, political and other conditions, the Company's business, financial condition, and results of operations may be adversely affected.

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 noncompliance, as well as potential business disruption if any of its facilities, or a portion of any facility, is required to be temporarily closed as a result of any violation of those laws and regulations. Any such financial liability or business disruption could have a material adverse effect on the Company's projections, business, results of operations, and financial condition.

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 26 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 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, the British pound, and Brazilian real.

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

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net earnings. Such exchange rate fluctuations could be material year-over-year relative to the overall earnings or financial position of the Company.

For the twelve months ended December 31, 2016, a 5% depreciation in the Canadian dollar against the U.S. dollar, Australian dollar, British pound and Brazilian real would increase AOCI by $12.2 million. A 5% depreciation of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real would increase net earnings before tax by $3.6 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 AOCI along with the translation gains and losses on the debt being used to hedge the net investments. The AOCI at December 31, 2015 was $147.0 million, which decreased to $125.2 million at December 31, 2016 as a result of changes in the value of the Canadian dollar against the U.S. dollar, Australian dollar, British pound and Brazilian real.

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, 2016 are at fixed interest rates and therefore will not be impacted by fluctuations in market interest rates. The Company's Bank Facility, however, is subject to changes in market interest rates. As at December 31, 2016 the Company had $263.8 million of indebtedness that is effectively subject to floating interest rates. Changes in economic conditions outside of Enerflex's control could result in higher interest rates, thereby increasing Enerflex's interest expense which may have a material adverse impact on Enerflex's financial results, financial condition or ability to declare and pay dividends.

For each 1% change in the rate of interest on the Bank Facility, the change in interest expense for the twelve months ended December 31, 2016 would be $2.6 million. All interest charges are recorded in finance costs on the consolidated statements of earnings in finance costs. Any increase in market interest rates could have a material adverse impact on the Company's financial results, financial condition, or ability to declare and pay dividends.

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

The Company'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_2 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, the ultimate consumption of which is 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. Should these efforts not be successful, the gross margin and profitability of Enerflex could be adversely affected.

Insurance

Enerflex's operations are subject to risks inherent in the oil and gas services industry, such as equipment defects, malfunctions and failures, and natural disasters with resultant uncontrollable flows of oil and gas, fires, spills, and explosions. These risks 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, 2017, Enerflex had 88,328,918 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 2016, the Company declared a quarterly dividend of $0.085 per share.

At December 31, 2016, the Company had drawn $357.8 million against the Bank Facility (December 31, 2015 - $493.0 million). The weighted average interest rate on the Bank Facility at December 31, 2016 was 2.4% (December 31, 2015 – 2.3%).

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

($ Canadian thousands)	**December 31, 2016**	December 31, 2015
Drawings on Bank Facility	**$ 357,829**	$ 492,953
Notes due June 22, 2016	**–**	50,500
Notes due June 22, 2021	**40,000**	40,000
Deferred transaction costs	**(3,866)**	(4,813)
	$ 393,963	$ 578,640

At December 31, 2016, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $397.8 million.

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

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

($ Canadian thousands)	Leases	Purchase Obligations	Total
2017	$ 16,723	$ 170,036	$ 186,759
2018	12,793	1,824	14,617
2019	9,259	1,371	10,630
2020	5,834	–	5,834
2021	4,966	–	4,966
Thereafter	4,178	–	4,178
Total contractual obligations	**$ 53,753**	**$ 173,231**	**$ 226,984**

The Company's lease commitments are operating leases for premises, equipment, and 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

Enerflex transacts with certain related parties as a normal course of business. Related parties include Roska DBO, the Company's 45 percent equity investment, and the Company's 50 percent controlling interest in Geogas consortium.

On October 5, 2016, the Company entered into an agreement to sell the Company's 51 percent interest in the Enerflex-ES joint venture. All transactions with the joint venture up to October 5, 2016 have been included as related party transactions.

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,	**2016**	2015
Associate – Roska DBO		
Revenue	**$ 696**	$ 7,583
Purchases	**–**	–
Accounts receivable	**10**	2,078
Joint Operation – Geogas		
Revenue	**$ 666**	$ 671
Purchases	**145**	236
Accounts receivable	**134**	–
Accounts payable	**68**	171
Joint Venture – Enerflex – ES		
Revenue	**$ 53**	$ 59
Purchases	**–**	–
Accounts receivable	**–**	–

All related party transactions are settled in cash.

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, 2016. 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 22 to the Annual Consolidated Financial Statements.

Discontinued Operations

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

NEW ACCOUNTING POLICIES

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

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS ("IAS 1")

The amendments to IAS 1 provide clarification to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The amendments have been adopted effective January 1, 2016. There were no changes to the Consolidated Financial Statements as a result of the adoption.

IAS 16 PROPERTY, PLANT AND EQUIPMENT ("IAS 16") AND IAS 38 INTANGIBLE ASSETS ("IAS 38")

The amendments to IAS 16 and IAS 38 provide clarification to ensure that preparers do not use revenue-based methods to calculate charges for the depreciation or amortization of items of property, plant and equipment or intangible assets. The amendments provide clarification that an entity is to use a depreciation or amortization method that reflects a pattern of economic benefits being generated from the asset, rather than a pattern of consumption of the asset's economic benefits. The amendments have been adopted effective January 1, 2016. There were no changes to the Consolidated Financial Statements as a result of the adoption.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 9 FINANCIAL INSTRUMENTS ("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.

During the year ended December 31, 2016, an initial diagnostic assessment was completed on IFRS 9. Overall, the Company expects no significant impact on its statement of financial position or equity. The classification and measurement, and hedge accounting components of IFRS 9 are expected to have nominal impacts. However, IFRS 9 will impact the Company's current policies and procedures regarding impairments on trade receivables.

Currently, trade receivables are carried at the original invoice amount less any amounts estimated to be uncollectable. IFRS 9 requires the use of an expected credit loss model for its trade receivables. This change is anticipated to shift provisioning on trade receivables to earlier in the process, but given the short term nature of these receivables, the Company does not expect these changes will have a material financial impact.

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 new standard will be adopted on the effective date using the modified retrospective approach. During the year, the Company began assessing the impacts of IFRS 15 and has identified changes to the timing of revenue recognition on construction contracts and to presentation and disclosure requirements.

Under IFRS 15, it is anticipated that percentage-of-completion revenue recognition will start earlier in a project's lifecycle. The new standard requires that revenue be recognized to the extent costs are incurred until the entity is able to reasonably able to estimate its progress. The existing standard, IAS 11, allows for zero-margin revenue recognition when a final outcome cannot be estimated but does not require revenue to be recognized if any question exists regarding final consideration to be received. Under the Company's existing policies, revenue recognition begins only when the outcome can be estimated reliably.

IFRS 15 contains presentation and disclosure requirements which are more expansive than the current standards. This includes expanded detail on current disclosures and other disclosures, such as discussions on future performance obligations, which are specific to the new standard. The Company has started to consider the impact of these new disclosures on policies and procedures, IT systems, and internal controls.

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. A lessee can apply the standard using either a full retrospective or a modified retrospective approach. In 2017, the Company will complete an assessment detailing the potential impacts of IFRS 16 on its consolidated financial statements.

IAS 12 INCOME TAXES ("IAS 12")

IAS 12 prescribes the accounting treatment for income taxes, specifically current and future tax consequences of both the future recovery (settlement) of the carrying amounts of assets (liabilities) recognized by the Company on the statement of financial position and the transactions that are recognized in the Company's financial statements in the current period.

Amendments were made to IAS 12, effective for annual periods beginning on or after January 1, 2017. These amendments specify that an entity should consider if tax law imposes any restrictions on the sources of taxable profits against which it may make deductions on the reversal of a deductible temporary difference, and, if restrictions exist, that the deductible temporary difference is assessed only in combination with other deductible temporary differences of the appropriate type.

The amendments also refine the extent to which a deferred tax asset may be recognized, specifying that future taxable profit, against which a deductible temporary difference can be utilised, may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The Company expects no impact on the Company's consolidated financial statements resulting from the amendments to IAS 12.

IAS 7 STATEMENT OF CASH FLOWS ("IAS 7")

IAS 7 requires the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

Amendments made to IAS 7 specify that an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017.

The Company expects to apply the amendments beginning January 1, 2017, including providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities in the December 31, 2017 consolidated financial statements.

IFRS 2 SHARE-BASED PAYMENT ("IFRS 2")

IFRS 2 requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

Amendments made to IFRS 2 provide clarification on accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features, and accounting for modifications of share- based payment transaction from cash-settled to equity settled. These amendments will be effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Company expects to apply the amendments beginning January 1, 2018, and is currently assessing the impact of the amendments to the standard on the Company's consolidated financial statements.

The initial views presented on the future accounting changes are based on work completed to date and may be subject to change as the assessments continue.

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, 2016, 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, 2016, 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, 2016, 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, 2016 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, 2016, the Company announced a quarterly dividend of $0.085 per share, payable on April 6, 2017, to shareholders of record on March 15, 2017.

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

[signed] "D. James Harbilas"

D. James Harbilas

Executive Vice President and Chief Financial Officer

March 2, 2017

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, 2016 and 2015 and the consolidated statements of (loss) earnings, comprehensive (loss) 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, 2016 and 2015 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

Ernst + Young LLP

Calgary, Canada
March 2, 2017

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)		December 31, 2016		December 31, 2015
Assets				
Current assets				
Cash and cash equivalents	$	**167,561**	$	158,081
Accounts receivable (Note 8)		**310,625**		330,270
Inventories (Note 9)		**163,943**		200,099
Income taxes receivable		**4,861**		7,937
Derivative financial instruments (Note 26)		**137**		1,131
Other current assets		**6,693**		10,547
Total current assets		**653,820**		708,065
Property, plant and equipment (Note 10)		**121,692**		144,979
Rental equipment (Note 10)		**388,092**		449,249
Deferred tax assets (Note 18)		**55,934**		41,714
Other assets (Note 11)		**54,042**		58,177
Intangible assets (Note 12)		**36,537**		44,301
Goodwill (Note 13)		**571,826**		748,604
	$	**1,881,943**	$	2,195,089
Assets held for sale (Note 7)		**–**		14,175
Total assets	$	**1,881,943**	$	2,209,264
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities (Note 14)	$	**205,872**	$	245,459
Provisions (Note 15)		**21,171**		25,228
Income taxes payable		**4,228**		3,259
Deferred revenues		**82,086**		143,509
Current portion of long-term debt (Note 16)		**–**		50,500
Derivative financial instruments (Note 26)		**194**		922
Total current liabilities		**313,551**		468,877
Long-term debt (Note 16)		**393,963**		528,140
Decommissioning liability		**8,994**		8,548
Deferred revenues		**294**		443
Deferred tax liabilities (Note 18)		**34,335**		36,833
Other liabilities		**13,179**		8,078
	$	**764,316**	$	1,050,919
Liabilities related to assets held for sale (Note 7)		**–**		305
Total liabilities	$	**764,316**	$	1,051,224
Shareholders' equity				
Share capital (Note 19)	$	**353,263**	$	238,580
Contributed surplus (Note 20)		**653,503**		653,120
Retained (deficit) earnings		**(17,000)**		115,397
Accumulated other comprehensive income		**125,224**		146,969
Total shareholders' equity before non-controlling interest		**1,114,990**		1,154,066
Non-controlling interest		**2,637**		3,974
Total shareholders' equity and non-controlling interest		**1,117,627**		1,158,040
Total liabilities and shareholders' equity	$	**1,881,943**	$	2,209,264

See accompanying Notes to the Consolidated Financial Statements, including guarantees, commitments and contingencies (Note 17).

CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS

($ Canadian thousands, except per share amounts)		2016		Years ended December 31, 2015
Revenue (Note 21)	$	**1,130,604**	$	1,629,032
Cost of goods sold		**886,820**		1,302,843
Gross margin		**243,784**		326,189
Selling and administrative expenses		**178,371**		204,430
Operating income		**65,413**		121,759
Gain on disposal of property, plant and equipment		**11,523**		1,256
Equity earnings from associate and joint venture		**2,486**		8,762
Impairment of goodwill (Note 13)		**(160,894)**		(36,900)
(Loss) earnings before finance costs and income taxes		**(81,472)**		94,877
Net finance costs (Note 24)		**14,056**		15,310
(Loss) earnings before income taxes		**(95,528)**		79,567
Income taxes (Note 18)		**9,000**		30,677
Net (loss) earnings from continuing operations	$	**(104,528)**	$	48,890
Earnings (loss) from discontinued operations (Note 7)		**388**		(845)
Net (loss) earnings	$	**(104,140)**	$	48,045
Net (loss) earnings attributable to:				
Controlling interest	$	**(104,705)**	$	45,746
Non-controlling interest		**565**		2,299
	$	**(104,140)**	$	48,045
(Loss) earnings per share – basic (Note 25)				
Continuing operations	$	**(1.28)**	$	0.62
Discontinued operations	$	**0.01**	$	(0.01)
(Loss) earnings per share – diluted (Note 25)				
Continuing operations	$	**(1.28)**	$	0.62
Discontinued operations	$	**0.01**	$	(0.01)
Weighted average number of shares – basic		**82,018,985**		78,963,963
Weighted average number of shares – diluted		**82,062,123**		79,142,456

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

($ Canadian thousands)		Years ended December 31, **2016**		2015
Net (loss) earnings	**$**	**(104,140)**	$	48,045
Other comprehensive (loss) income 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		**(54)**		(1,272)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		**1,175**		1,063
Unrealized gain (loss) on translation of foreign denominated debt		**9,792**		(59,049)
Unrealized (loss) gain on translation of financial statements of foreign operations		**(34,560)**		167,581
Other comprehensive (loss) income	**$**	**(23,647)**	$	108,323
Total comprehensive (loss) income	**$**	**(127,787)**	$	156,368
Other comprehensive (loss) income attributable to:				
Controlling interest	**$**	**(21,745)**	$	110,150
Non-controlling interest		**(1,902)**		(1,827)
	$	**(23,647)**	$	108,323

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Canadian thousands)	Years ended December 31, 2016	2015
Operating Activities		
Net (loss) earnings	**$ (104,140)**	$ 48,045
Items not requiring cash and cash equivalents:		
Depreciation and amortization	**93,099**	82,771
Equity earnings from associate and joint venture	**(2,486)**	(8,762)
Deferred income taxes (Note 18)	**(11,598)**	(1,717)
Share–based compensation expense (Note 22)	**9,731**	3,305
Gain on sale of property, plant and equipment	**(12,323)**	(1,118)
Impairment of goodwill (Note 13)	**160,894**	36,900
	133,177	159,424
Net change in non–cash working capital and other (Note 28)	**(41,385)**	(55,251)
Cash provided by operating activities	**$ 91,792**	$ 104,173
Investing Activities		
Additions to:		
Property, plant and equipment (Note 10)	**$ (4,764)**	$ (12,898)
Rental equipment (Note 10)	**(17,705)**	(167,300)
Proceeds on disposal of:		
Property, plant and equipment	**18,420**	2,924
Rental equipment	**8,293**	10,956
Change in other assets	**14,643**	6,548
Cash provided by (used in) investing activities	**$ 18,887**	$ (159,770)
Financing Activities		
Proceeds from equity financing (Note 19)	**$ 115,043**	$ –
Share issuance costs related to equity financing (Note 19)	**(5,135)**	–
(Repayment of) proceeds from issuance of long-term debt	**(186,186)**	71,696
Dividends	**(26,921)**	(26,804)
Stock option exercises	**3,670**	6,461
Cash (used in) provided by financing activities	**$ (99,529)**	$ 51,353
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (1,670)**	$ 4,256
Increase in cash and cash equivalents	**9,480**	12
Cash and cash equivalents, beginning of period	**158,081**	158,069
Cash and cash equivalents, end of period	**$ 167,561**	$ 158,081

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

($ Canadian thousands)	Share capital	Contributed surplus	Retained (deficit) 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, 2015	$ 229,534	$ 653,624	$ 96,503	$ 38,765	$ (1,946)	$ 36,819	$ 1,016,480	$ 3,502	$ 1,019,982
Net (loss) earnings	–	–	45,746	–	–	–	45,746	2,299	48,045
Other comprehensive (loss) income	–	–	–	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
Net (loss) earnings	–	–	(104,705)	–	–	–	(104,705)	565	(104,140)
Other comprehensive (loss) income	–	–	–	(22,866)	1,121	(21,745)	(21,745)	(1,902)	(23,647)
Bought deal equity financing	111,294	–	–	–	–	–	111,294	–	111,294
Effect of stock option plans	3,389	383	–	–	–	–	3,772	–	3,772
Dividends	–	–	(27,692)	–	–	–	(27,692)	–	(27,692)
At December 31, 2016	**$ 353,263**	**$ 653,503**	**$ (17,000)**	**$ 126,258**	**$ (1,034)**	**$ 125,224**	**$ 1,114,990**	**$ 2,637**	**$ 1,117,627**

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_2 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 1,800 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint ventures, operate in Canada, the United States, Argentina, Bolivia, 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
Enerflex Energy Systems PTY Ltd.	Melbourne, Australia	100.0 percent	Rest of World
Enerflex Compression Services BV	Netherlands	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 March 2, 2017. 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.

The Company holds a 50 percent ownership interest in a joint operation in Brazil (Geogas). 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. 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 (loss) 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 (loss) 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.

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.

All foreign exchange gains and losses are taken to the consolidated statement of (loss) 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 (loss) earnings.

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

(c) 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 (loss) 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 (loss) 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 (loss) 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 (loss) 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 (loss) 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 22.

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"), Restricted Share Unit ("RSU") and Cash Performance Target ("CPT") plan to certain employees and non-employee directors (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 (loss) 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 (loss) 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 (loss) 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 (loss) 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 (loss) 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 (loss) earnings. Amounts charged to accumulated other comprehensive income are reclassified to the consolidated statement of (loss) earnings when the hedged transaction affects the consolidated statement of (loss) 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 differ from earnings as reported in the consolidated statement of (loss) earnings because it excludes temporary and permanent differences. The Company's current tax assets and liabilities are 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 (loss) 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 (loss) 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 (loss) 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) IAS 1 Presentation of Financial Statements ("IAS 1")

The amendments to IAS 1 provide clarification to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The amendments have been adopted effective January 1, 2016. There were no changes to the Consolidated Financial Statements as a result of the adoption.

(b) IAS 16 Property, Plant and Equipment ("IAS 16") and IAS 38 Intangible Assets ("IAS 38")

The amendments to IAS 16 and IAS 38 provide clarification to ensure that preparers do not use revenue-based methods to calculate charges for the depreciation or amortization of items of property, plant and equipment or intangible assets. The amendments provide clarification that an entity is to use a depreciation or amortization method that reflects a pattern of economic benefits being generated from the asset, rather than a pattern of consumption of the asset's economic benefits. The amendments have been adopted effective January 1, 2016. There were no changes to the Consolidated Financial Statements as a result of the adoption.

NOTE 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENT

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

REVENUE RECOGNITION – CONSTRUCTION AND LONG-TERM SERVICE CONTRACTS

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

PROVISIONS FOR WARRANTY

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

BUSINESS ACQUISITIONS

In a business acquisition, the Company may acquire assets and assume certain liabilities of an acquired entity. Estimates are made as to the fair value of property, plant and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant and equipment and intangible assets acquired, the Company relies on independent third-party valuators. 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 share appreciation rights 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 22.

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.

During the year ended December 31, 2016, an initial diagnostic assessment was completed on IFRS 9. Overall, the Company expects no significant impact on its statement of financial position or equity. The classification and measurement, and hedge accounting components of IFRS 9 are expected to have nominal impacts. However, IFRS 9 will impact the Company's current policies and procedures regarding impairments on trade receivables.

Currently, trade receivables are carried at the original invoice amount less any amounts estimated to be uncollectable, as detailed in Note 3(j). IFRS 9 requires the use of an expected credit loss model for its trade receivables. This change is anticipated to shift provisioning on trade receivables to earlier in the process, but given the short term nature of these receivables, the Company does not expect these changes will have a material financial impact.

(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 new standard will be adopted on the effective date using the modified retrospective approach. During the year, the Company began assessing the impacts of IFRS 15 and has identified changes to the timing of revenue recognition on construction contracts, as defined in note 3(s), and to presentation and disclosure requirements.

Under IFRS 15, it is anticipated that percentage-of-completion revenue recognition will start earlier in a project's lifecycle. The new standard requires that revenue be recognized to the extent costs are incurred until the entity is able to reasonably able to estimate its progress. The existing standard, IAS 11, allows for zero-margin revenue recognition when a final outcome cannot be estimated but does not require revenue to be recognized if any question exists regarding final consideration to be received. Under the Company's existing policies, revenue recognition begins only when the outcome can be estimated reliably.

IFRS 15 contains presentation and disclosure requirements which are more expansive than the current standards. This includes expanded detail on current disclosures and other disclosures, such as discussions on future performance obligations, which are specific to the new standard. The Company has started to consider the impact of these new disclosures on policies and procedures, IT systems, and internal controls.

(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. A lessee can apply the standard using either a full retrospective or a modified retrospective approach. In 2017, the Company will complete an assessment detailing the potential impacts of IFRS 16 on its consolidated financial statements.

(d) IAS 12 Income Taxes ("IAS 12")

IAS 12 prescribes the accounting treatment for income taxes, specifically current and future tax consequences of both the future recovery (settlement) of the carrying amounts of assets (liabilities) recognized by the Company on the statement of financial position and the transactions that are recognized in the Company's financial statements in the current period.

Amendments were made to IAS 12, effective for annual periods beginning on or after January 1, 2017. These amendments specify that an entity should consider if tax law imposes any restrictions on the sources of taxable profits against which it may make deductions on the reversal of a deductible temporary difference, and, if restrictions exist, that the deductible temporary difference is assessed only in combination with other deductible temporary differences of the appropriate type.

The amendments also refine the extent to which a deferred tax asset may be recognized, specifying that future taxable profit, against which a deductible temporary difference can be utilised, may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The Company expects no impact on the Company's consolidated financial statements resulting from the amendments to IAS 12.

(e) IAS 7 Statement of Cash Flows ("IAS 7")

IAS 7 requires the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

Amendments made to IAS 7 specify that an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017.

The Company expects to apply the amendments beginning January 1, 2017, including providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities in the December 31, 2017 consolidated financial statements.

(f) IFRS 2 Share-Based Payment ("IFRS 2")

IFRS 2 requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

Amendments made to IFRS 2 provide clarification on accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features, and accounting for modifications of share- based payment transaction from cash-settled to equity settled. These amendments will be effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Company expects to apply the amendments beginning January 1, 2018, and is currently assessing the impact of the amendments to the standard on the Company's consolidated financial statements.

Please note that the initial views presented on the future accounting changes are based on the work completed to date and may be subject to change as the assessments continue.

NOTE 7. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On February 3, 2015, the Company announced its intention to close the Production and Processing ("P&P") 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, and was subsequently shut down. The assets and liabilities of the P&P business unit were disposed, with the exception of one facility and the related equipment of that facility.

At December 31, 2016 the Company had determined that it was no longer highly probable, being significantly more likely than probable, that the remaining facility would be sold within the required timeframe, and therefore the facility and related assets no longer met the definition of assets held for sale. The assets and liabilities were reclassified to continuing operations, accordingly.

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

Years ended December 31,		**2016**		2015
Revenues	**$**	**–**	$	32,946
(Recoveries) expenses		**(532)**		34,088
Earnings (loss) before income taxes		**532**		(1,142)
Income tax expense (recoveries)		**144**		(297)
Earnings (loss) from discontinued operations	**$**	**388**	$	(845)

The following table summarizes cash flows from discontinued operations:

Years ended December 31,		**2016**		2015
Cash used in operating activities	**$**	**(377)**	$	(8,324)
Cash provided by investing activities	**$**	**377**	$	1,281
Net cash flow for the period	**$**	**–**	$	(7,043)

Upon reclassification, the Company measured the assets previously defined as held for sale at the lower of the carrying amount before the assets were classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the assets not been classified as held for sale and the recoverable amount of the assets. The amount of the depreciation that would have been recognised had the assets not been classified as held for sale was $1.2 million, and has been included in the statement of (loss) earnings for the year ended December 31, 2016. The carrying value of the assets before the reclassification was $10.3 million, as such, the remaining carrying value of $9.1 million, including the catch up depreciation entry, was reclassified to continuing operations.

The following table summarizes the assets and related liabilities held for sale:

December 31,		**2016**		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 8. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

December 31,	2016	2015
Trade receivables	$ 192,783	$ 209,301
Less: allowance for doubtful accounts	(1,808)	(2,968)
Trade receivables, net	190,975	206,333
Other receivables[1]	119,650	123,937
Total accounts receivable	$ 310,625	$ 330,270

[1] Included in Other receivables at December 31, 2016 is $86.1 million relating to amounts due from customers under construction contracts (December 31, 2015 - $61.1 million).

Aging of trade receivables:

December 31,	2016	2015
Current to 90 days	$ 171,283	$ 175,530
Over 90 days	21,500	33,771
	$ 192,783	$ 209,301

Movement in allowance for doubtful accounts:

December 31,	2016	2015
Balance, beginning of year	$ 2,968	$ 1,573
Impairment provision additions on receivables	1,208	1,218
Amounts written off during the year as uncollectible	(2,339)	(51)
Currency translation effects	(29)	228
Balance, end of year	$ 1,808	$ 2,968

NOTE 9. INVENTORIES

Inventories consisted of the following:

December 31,	2016	2015
Equipment	$ 12,755	$ 16,650
Repair and distribution parts	46,762	58,886
Direct materials	57,318	67,174
Work-in-process	47,108	57,389
Total inventories	$ 163,943	$ 200,099

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold during 2016 was $886.8 million (December 31, 2015 – $1,302.8 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 (loss) earnings and included in cost of goods sold in 2016 was $9.1 million (December 31, 2015 – $4.0 million).

NOTE 10. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment
Cost						
January 1, 2016	$ 32,726	$ 123,044	$ 70,520	$ 20,430	$ 246,720	$ 570,016
Additions	207	216	1,300	3,041	4,764	17,705
Reclassification	–	489	738	(16,442)	(15,215)	10,714
Disposals	(3,266)	(5,733)	(6,849)	–	(15,848)	(15,613)
Assets held for sale	4,878	12,771	831	–	18,480	–
Currency translation effects	(505)	(1,269)	(197)	(3,429)	(5,400)	(12,672)
December 31, 2016	**$ 34,040**	**$ 129,518**	**$ 66,343**	**$ 3,600**	**$ 233,501**	**$ 570,150**
Accumulated depreciation						
January 1, 2016	$ –	$ (49,649)	$ (52,092)	$ –	$ (101,741)	$ (120,767)
Depreciation charge	–	(7,282)	(7,223)	–	(14,505)	(65,103)
Impairment	–	(597)	(13)	–	(610)	(5,040)
Reclassification	–	–	–	–	–	–
Disposals	–	3,554	6,197	–	9,751	7,320
Assets held for sale	–	(3,931)	(393)	–	(4,324)	–
Currency translation effects	–	(208)	(172)	–	(380)	1,532
December 31, 2016	**$ –**	**$ (58,113)**	**$ (53,696)**	**$ –**	**$ (111,809)**	**$ (182,058)**
Net book value – December 31, 2016	**$ 34,040**	**$ 71,405**	**$ 12,647**	**$ 3,600**	**$ 121,692**	**$ 388,092**

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment
Cost						
January 1, 2015	$ 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
December 31, 2015	**$ 32,726**	**$ 123,044**	**$ 70,520**	**$ 20,430**	**$ 246,720**	**$ 570,016**
Accumulated depreciation						
January 1, 2015	$ –	$ (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)
December 31, 2015	**$ –**	**$ (49,649)**	**$ (52,092)**	**$ –**	**$ (101,741)**	**$ (120,767)**
Net book value – December 31, 2015	**$ 32,726**	**$ 73,395**	**$ 18,428**	**$ 20,430**	**$ 144,979**	**$ 449,249**

Depreciation of property, plant and equipment and rental equipment included in earnings for the twelve months ended December 31, 2016 was $79.6 million (December 31, 2015 – $67.1 million), of which $72.7 million was included in cost of goods sold and $6.9 million was included in selling and administrative expenses (December 31, 2015 – $60.7 million and $6.4 million, respectively).

Impairment of property, plant and equipment and rental equipment included in earnings for the twelve months ended December 31, 2016 was $5.7 million (December 31, 2015 – $4.8 million). The impairment relates to write down of assets in the Canada and Rest of World segments due to a decrease in the recoverable amounts of certain rental assets. Management determined the recoverable amounts of these rental assets based on the fair value of the assets or the components of the assets in an active market, less costs of disposal.

NOTE 11. OTHER ASSETS

December 31,	2016	2015
Investment in associates and joint ventures	**$ 18,396**	$ 21,754
Other prepaid deposits	**2,376**	1,934
Long-term receivable[1]	**31,248**	31,906
Net investment in finance leases	**2,022**	2,583
	$ 54,042	$ 58,177

[1] *Other assets include 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.*

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:

	Minimum lease payments		Present value of minimum lease payments	
December 31,	2016	2015	2016	2015
Less than one year	**$ 582**	$ 664	**$ 561**	$ 641
Between one and five years	**1,925**	2,041	**1,528**	1,637
Greater than five years	**97**	542	**63**	340
	$ 2,604	$ 3,247	**$ 2,152**	$ 2,618
Less: unearned finance income	**(452)**	(629)	**–**	–
	$ 2,152	$ 2,618	**$ 2,152**	$ 2,618

The average interest rates inherent in the leases are fixed at the contract date for the entire lease term and are approximately 7.2 percent per annum (December 31, 2015 – 6.7 percent). The finance lease receivables at the end of reporting period are neither past due nor impaired.

NOTE 12. INTANGIBLE ASSETS

	Customer relationships and other	Software	Total intangible assets
Acquired value			
January 1, 2016	$ 67,604	$ 43,789	$ 111,393
Additions	–	11	11
Reclassification	–	4,500	4,500
Disposal	–	(1,913)	(1,913)
Currency translation effects	(748)	(455)	(1,203)
December 31, 2016	**$ 66,856**	**$ 45,932**	**$ 112,788**
Accumulated amortization			
January 1, 2016	$ (38,441)	$ (28,651)	$ (67,092)
Amortization charge	(4,275)	(7,021)	(11,296)
Disposal	–	1,861	1,861
Currency translation effects	(14)	290	276
December 31, 2016	**$ (42,730)**	**$ (33,521)**	**$ (76,251)**
Net book value – December 31, 2016	**$ 24,126**	**$ 12,411**	**$ 36,537**

		Customer relationships and other		Software		Total intangible assets
Acquired value						
January 1, 2015	$	62,467	$	34,218	$	96,685
Additions		–		10		10
Reclassification		–		7,830		7,830
Currency translation effects		5,137		1,731		6,868
December 31, 2015	$	67,604	$	43,789	$	111,393
Accumulated amortization						
January 1, 2015	$	(33,561)	$	(21,020)	$	(54,581)
Amortization charge		(4,481)		(6,476)		(10,957)
Currency translation effects		(399)		(1,155)		(1,554)
December 31, 2015	$	(38,441)	$	(28,651)	$	(67,092)
Net book value – December 31, 2015	$	29,163	$	15,138	$	44,301

NOTE 13. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

		2016		2015
Balance, January 1	**$**	**748,604**	$	707,913
Adjustment		**–**		4,363
Impairment		**(160,894)**		(36,900)
Currency translation effects		**(15,884)**		73,228
Balance, December 31	**$**	**571,826**	$	748,604

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.

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, 2016. Management has adopted a five-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, including an inflation factor of 2.00 percent (December 31, 2015 – 2.00 percent) for years beyond the budget period, consistent with the approach taken by management in the prior year.

Key Assumptions Used in Value-In-Use Calculations:

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

- » **Earnings Before Finance Costs and Taxes:** Management has made estimates relating to the amount and timing of revenue recognition for projects included in backlog, and the assessment of the likelihood of maintaining and growing market share. For each 1 percent change in earnings before finance costs and taxes, the average impact on the value-in-use of the Company's three segments would be $5.9 million; and
- » **Discount Rate:** Management has used an average post-tax discount rate of 11.25 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 a djusted 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 $86.7 million.

The Company completed its annual assessment for goodwill impairment and determined that the recoverable amount for the USA and Rest of World segments exceeded the carrying amount using a 9.37 percent (December 31, 2015 – 9.03 percent) and 12.88 percent (December 31, 2015 – 12.31 percent) post-tax discount rate, respectively. However, the Canada segment's recoverable amount was determined to be less than its carrying value of $270.0 million using an 11.50 percent post-tax discount rate. This resulted in a goodwill impairment charge of $160.9 million for the year ended December 31, 2016. The impairment in the Canada segment was primarily triggered by reduced customer capital budgets resulting in a lower activity levels over the period covered by the budget.

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

NOTE 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31,	2016	2015
Accounts payable and accrued liabilities	$ 195,304	$ 236,374
Accrued dividend payable	7,497	6,727
Cash-settled share-based payments	3,071	2,358
	$ 205,872	$ 245,459

NOTE 15. PROVISIONS

December 31,	2016	2015
Warranty provision	$ 13,471	$ 20,208
Restructuring provision	1,418	2,623
Legal provision	47	50
Onerous lease provision	6,235	2,347
	$ 21,171	$ 25,228

2016	Warranty provision	Restructuring provision	Legal Provision	Lease Provision	Total
Balance, January 1	$ 20,208	$ 2,623	$ 50	$ 2,347	$ 25,228
Additions during the year	1,428	4,723	11	6,201	12,363
Amounts settled and released in the year	(6,978)	(5,984)	(16)	(2,217)	(15,195)
Currency translation effects	(1,187)	56	2	(96)	(1,225)
Balance, December 31	$ 13,471	$ 1,418	$ 47	$ 6,235	$ 21,171

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

During the year, the Company committed to and implemented a plan to restructure the Canadian business segment due to deteriorating business conditions. The Company recognized a restructuring provision of $4.7 million for expected severance costs. The restructuring provision also includes remaining severance amounts related to the restructuring of the Process Construction business in Australia, accrued at December 31, 2015. The balance of the provision as of December 31, 2016 is $0.9 million for Canada and $0.5 million for Australia.

The Company previously entered into non-cancellable leases for several office spaces in Canada. Due to the restructuring of the Canadian business, the Company ceased using these premises in March 2016. The majority of the leases will expire in 2017 and one in 2021. A provision of $2.3 million was recognized representing future payments, net of anticipated sub-lease recoveries. During the year, $0.7 million of the provision was reversed due to office sublets.

During the year, an additional lease provision of $3.9 million was recognized for facilities in Perth and Brisbane, Australia. The leases for the Perth and Brisbane facilities expire in December 2019 and June 2020, respectively. The sub-lease recovery assumption used in determining the required provision for the Perth facility was reduced from 80 percent to 40 percent to reflect current market conditions. The Brisbane facility is currently underutilized and the Company has assumed a 50 percent sub-lease recovery in determining the required provision.

NOTE 16. LONG-TERM DEBT

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

The Company has a syndicated revolving credit facility ("Bank Facility") with an amount available of $775.0 million. The Bank Facility has a maturity date of June 30, 2019 ("Maturity Date"), but may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facility may be increased by $100.0 million at the request of the Company, subject to the lenders' consent. There is no required or scheduled repayment of principal until the maturity date of the Bank Facility.

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

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

The Bank Facility is unsecured and ranks pari passé with the Notes. The Company is required to maintain certain covenants on the Bank Facility and the Notes. As at December 31, 2016, the Company was in compliance with these covenants.

The weighted average interest rate on the Bank Facility for the year ended December 31, 2016 was 2.4 percent (December 31, 2015 – 2.3 percent).

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

December 31,		2016		2015
Drawings on Bank Facility	**$**	**357,829**	$	492,953
Notes due June 22, 2016		**–**		50,500
Notes due June 22, 2021		**40,000**		40,000
Deferred transaction costs		**(3,866)**		(4,813)
Subtotal	**$**	**393,963**	$	578,640
Less: current portion of long-term debt		**–**		50,500
Long–term debt	**$**	**393,963**	$	528,140

At December 31, 2016, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $397.8 million.

NOTE 17. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At December 31, 2016, the Company had outstanding letters of credit of $67.5 million (December 31, 2015 - $64.2 million).

The Company is involved in litigation and claims associated with normal operations against which certain provisions have been made in the financial statements. Management is of the opinion that any resulting 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:

2017	$	16,723
2018		12,793
2019		9,259
2020		5,834
2021		4,966
Thereafter		4,178
Total	$	53,753

Over the next three years, the Company has purchase obligations as follows:

2017	$ 170,036
2018	1,824
2019	1,371

NOTE 18. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

Years ended December 31,	2016	2015
Current tax	**$ 20,742**	$ 32,097
Deferred income tax	**(11,742)**	(1,420)
	$ 9,000	$ 30,677

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,	2016	2015
(Loss) Earnings before income taxes	**$ (95,528)**	$ 79,567
Canadian statutory rate	**27%**	26.0%
Expected income tax provision	**$ (25,793)**	$ 20,688
Add (deduct)		
Impairment of goodwill not deductible for tax purposes	**43,441**	9,594
Exchange rate effects on tax bases	**6,591**	7,166
Earnings taxed in foreign jurisdictions	**(13,691)**	(3,317)
(Income) expenses not deductible (taxable) for tax purposes	**(627)**	639
Impact of equity-accounted earnings	**(824)**	(2,871)
Revaluation of Canadian deferred tax assets at new statutory rate	**–**	(1,069)
Other	**(97)**	(153)
Income tax expense	**$ 9,000**	$ 30,677

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 (2015 – 15.0 percent) and the provincial income tax rate of 12.0 percent (2015 – 11.0 percent).

(b) Income Tax Recognized in Other Comprehensive Income

Years ended December 31,	2016	2015
Deferred Tax		
Arising on income and expenses recognized in other comprehensive income:		
Fair value remeasurement of hedging instruments entered into for cash flow hedges	**$ 29**	$ (329)
Arising on income and expenses reclassified from other comprehensive income to net earnings:		
Relating to cash flow hedges	**355**	215
Total income tax recognized in other comprehensive income	**$ 384**	$ (114)

(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[1]
January 1, 2016	$	**31,135**	$	**11,275**	$	**(31,257)**	$	**1,051**	$	**(7,996)**	$	**673**	$	**4,881**
Charged to net earnings		**1,563**		**7,639**		**9,451**		**(464)**		**(6,591)**		**–**		**11,598**
Charged to OCI		**–**		**–**		**–**		**–**		**–**		**(384)**		**(384)**
Charged to share capital		**–**		**–**		**–**		**1,386**		**–**		**–**		**1,386**
Exchange differences		**(1,048)**		**(615)**		**5,353**		**–**		**366**		**62**		**4,118**
December 31, 2016	$	**31,650**	$	**18,299**	$	**(16,453)**	$	**1,973**	$	**(14,221)**	$	**351**		**21,599**

[1]Net deferred tax assets at December 31, 2016 of $21.6 million consist of assets of $55.9 million net of liabilities of $34.3 million.

		Accounting provisions and accruals		Tax losses		Long-term assets		Other		Exchange rate effects on tax bases		Cash flow hedges		Total[1]
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

Management has determined that it is appropriate to continue to recognize the full amount of the deferred tax asset, which largely consists of accounting provision and tax losses, as all the deductible temporary difference at December 31, 2016 are expected to be utilized against future taxable profit.

(d) Unrecognized Deferred Tax Assets

The Company has unused tax losses of $61.5 million for the year ended December 31, 2016 (December 31, 2015 – $63.2 million). Certain of these unrecognized tax losses are subject to expiration in the years 2017 through 2023. Deferred tax assets totaling $15.3 million on these tax losses have not been recognized in the consolidated statements of financial position at December 31, 2016 (December 31, 2015 – $15.6 million).

NOTE 19. SHARE CAPITAL AUTHORIZED

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

Issued and Outstanding

		2016			2015
	Number of common shares		**Common share capital**	Number of common shares		Common share capital
Balance, January 1	**79,156,492**	**$**	**238,580**	78,618,026	$	229,534
Exercise of stock options	**187,576**		**3,389**	538,466		9,046
Equity financing	**8,952,750**		**111,294**	–		–
Balance, December 31	**88,296,818**	**$**	**353,263**	79,156,492	$	238,580

On September 7, 2016, the Company closed a bought deal equity financing (the “Offering”) for gross proceeds of $115.0 million. An aggregate of 8,952,750 common shares were issued at a price of $12.85 per share, which includes 1,167,750 common shares issued pursuant to the exercise in full of the over-allotment option. In connection with the Offering, the Company incurred $5.1 million ($3.7 million net of tax) in transaction costs which included $4.6 million in agent fees. Total transaction costs, net of tax, were applied against the gross proceeds in share capital.

Total dividends declared in the year were $27.7 million, or $0.085 per share each quarter (December 31, 2015 – $26.9 million, or $0.085 per share per quarter).

NOTE 20. 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:

	2016	2015
Balance, January 1	$ **653,120**	$ 653,624
Share-based compensation	**1,489**	2,081
Exercise of stock options	**(1,106)**	(2,585)
Balance, December 31	$ **653,503**	$ 653,120

NOTE 21. REVENUE

Years ended December 31,	2016	2015
Engineered Systems	$ **659,144**	$ 1,091,843
Service	**298,691**	384,609
Rentals	**172,769**	152,580
Total Revenue	$ **1,130,604**	$ 1,629,032

Proceeds received and receivable from the sale of rental equipment included in revenue for the year ended December 31, 2016 was $8.3 million (2015 – $11.0 million).

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

Years ended December 31,	2016	2015
United States of America	$ **346,299**	$ 619,540
Canada	**213,617**	459,395
Argentina	**96,286**	60,826
Mexico	**88,894**	94,250
Oman	**82,912**	72,722
Australia	**70,774**	147,639
Kuwait	**66,551**	793
Bahrain	**45,812**	35,230
Croatia	**21,112**	–
United Arab Emirates	**19,307**	6,122
Indonesia	**13,981**	6,448
Brazil	**12,129**	24,672
Nigeria	**11,278**	31,530
Bolivia	**6,274**	10,099
Other	**35,378**	59,766
Total Revenue	$ **1,130,604**	$ 1,629,032

NOTE 22. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

Years ended December 31,	2016	2015
Stock options	$ **1,489**	$ 2,080
Deferred share units	**3,235**	37
Phantom share appreciation rights plan	**467**	(107)
Performance share units	**2,189**	(297)
Restricted share units	**1,780**	1,406
Cash performance target	**571**	186
Total share-based compensation expense	$ **9,731**	$ 3,305

(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.

	2016		2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, January 1	**2,776,268**	**$ 13.47**	2,550,224	$ 13.71
Granted	**599,428**	**13.27**	781,092	11.69
Exercised[1]	**(187,576)**	**12.17**	(538,466)	12.00
Forfeited	**(53,477)**	**12.96**	(15,082)	14.69
Expired	**(134,886)**	**14.61**	(1,500)	12.58
Options outstanding, December 31	**2,999,757**	**$ 13.47**	2,776,268	$ 13.47
Options exercisable, December 31	**1,363,363**	**$ 13.22**	1,156,525	$ 12.92

[1] The weighted average share price of options at the date of exercise for the year ended December 31, 2016 was $15.49 (December 31, 2015 - $14.67).

The Company granted 599,428 stock options during 2016 (2015 – 781,092). Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted during the year ended December 31, 2016 was $2.83 per option (December 31, 2015 – $2.31).

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

	December 31, 2016	December 31, 2015
Expected life (years)	**5.23**	5.18
Expected volatility[2]	**31.5%**	28.8%
Dividend yield	**2.6%**	2.9%
Risk-free rate	**1.0%**	1.4%
Estimated forfeiture rate	**1.5%**	0.8%

[2] 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, 2016:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding	Weighted average exercise price (years)	Weighted average exercise price	Number outstanding	Weighted average exercise price
$11.04 – $11.76	1,195,693	4.30	$ 11.67	575,072	$ 11.65
$11.77 – $13.80	1,076,129	4.46	12.78	421,646	12.24
$13.81 – $20.75	727,935	4.09	17.42	366,645	16.78
Total	2,999,757	4.31	$ 13.47	1,363,363	$ 13.22

(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, 2016, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled $1.5 million (December 31, 2015 – $1.9 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2016	396,436	$	14.00
Granted or elected	128,132		11.58
Exercised	(29,136)		14.83
In lieu of dividends	12,863		11.84
DSUs outstanding, December 31, 2016	**508,295**	**$**	**13.29**

The carrying amount of the liability relating to DSUs as at December 31, 2016 included in current liabilities was nil (December 31, 2015 – $0.2 million) and in other long-term liabilities was $8.7 million (December 31, 2015 – $5.1 million).

(d) Phantom Share Appreciation Rights Plan

The Company utilizes a Phantom Share Appreciation Rights ("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 2016, the Board of Directors granted 156,708 SARs (December 31, 2015 – 199,986). The intrinsic value of the vested awards at December 31, 2016 was $0.4 million (December 31, 2015 – $0.5 million).

	Number of SARs		Weighted average grant date fair value per unit
SARs outstanding, January 1, 2016	321,115	$	13.13
Granted	156,708		13.27
Exercised	(57,459)		12.21
Forfeited	(97,583)		13.21
SARs outstanding, December 31, 2016	**322,781**	**$**	**13.33**

The carrying amount of the liability relating to the SARs as at December 31, 2016 included in current liabilities was $0.4 million (December 31, 2015 – $0.3 million) and in other long-term liabilities was $0.3 million (December 31, 2015 – $0.1 million).

(e) Performance Share Units

The Company offers a PSU plan for officers of the Company or its related entities. The PSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the number of vested PSUs multiplied by the weighted average price per share at which the shares of the Company have traded on the TSX during the last 5 trading days immediately preceding the grant. Vesting is based on the achievement of performance measures and objectives specified by the Board of Directors. The Board of Directors assesses performance of the officer to determine the vesting percentage, which can range from 0 percent to 200 percent. On the 14th day after the determination of the vesting percentage, the holder will be paid for the vested PSUs either in cash or in shares of the Company acquired 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 2016, the Company paid $1.0 million for the period ended December 31, 2016 representing units vested in the year (December 31, 2015 – $1.9 million).

	Number of PSUs		Weighted average grant date fair value per unit
PSUs outstanding, January 1, 2016	350,220	$	14.36
Granted	122,736		13.27
In lieu of dividends	10,321		11.91
Vested	(84,226)		12.23
Forfeited	(8,670)		14.33
PSUs outstanding, December 31, 2016	**390,381**	**$**	**$14.41**

The carrying amount of the liability relating to PSUs as at December 31, 2016 included in current liabilities was $1.3 million (December 31, 2015 – $1.0 million) and in other long-term liabilities was $1.8 million (December 31, 2015 – $0.9 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 2016, the Board of Directors granted 132,943 RSUs to officers or key employees of the Company (2015 – 206,296). The Company paid $1.7 million for the period ended December 31, 2016 representing units vested in the year (December 31, 2015 – $1.9 million).

	Number of RSUs		Weighted average grant date fair value per unit
RSUs outstanding, January 1, 2016	344,423	$	12.47
Granted	132,943		13.29
In lieu of dividends	9,106		11.82
Vested	(141,426)		12.23
Forfeited	(77,572)		13.81
RSUs outstanding, December 31, 2016	**267,474**	**$**	**12.59**

The carrying amount of the liability included in current liabilities relating to RSUs at December 31, 2016 was $1.0 million (December 31, 2015 – $1.0 million).

(g) Cash Performance Target 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 2016, the Board of Directors distributed $1.2 million of CPT cash grants (2015 – $1.1 million). The Company paid $0.3 million for the period ended December 31, 2016 representing units vested in the year (December 31, 2015 – nil). The weighted average grant date fair value per was $13.27 (December 31, 2015 – $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, 2016 was $0.4 million (December 31, 2015 – $0.2 million).

(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 23. 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,		2016		2015
Defined contribution plans	$	5,430	$	8,133
401(k) matched savings plan		1,502		1,737
Net pension expense	$	6,932	$	9,870

NOTE 24. FINANCE COSTS AND INCOME

Years ended December 31,		2016		2015
Finance Costs				
Short and long-term borrowings	$	14,845	$	16,264
Finance Income				
Bank interest income	$	612	$	687
Income from finance leases		177		267
Total finance income	$	789	$	954
Net finance costs	$	14,056	$	15,310

NOTE 25. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

Years ended December 31		2016 Net earnings	2016 Weighted average shares outstanding		2016 Per share		2015 Net earnings	2015 Weighted average shares outstanding		2015 Per share
Basic	$	(104,140)	82,018,985	$	(1.27)	$	48,045	78,963,963	$	0.62
Dilutive effect of stock option conversion		–	43,138		–		–	178,493		(0.01)
Diluted	$	(104,140)	82,062,123	$	(1.27)	$	48,045	79,142,456	$	0.61

NOTE 26. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

The Company has designated its financial instruments as follows:

December 31, 2016		Carrying value		Estimated fair value
Financial Assets				
Cash and cash equivalents	$	167,561	$	167,561
Derivative instruments in designated hedge accounting relationships		137		137
Loans and receivables:				
Accounts receivable		310,625		310,625
Financial Liabilities				
Derivative instruments in designated hedge accounting relationships		194		194
Other financial liabilities:				
Accounts payable and accrued liabilities		205,872		205,872
Long-term debt – bank facility		357,829		357,829
Long-term debt – notes		40,000		42,095
Other long-term liabilities		13,179		13,179

December 31, 2015	Carrying value	Estimated fair value
Financial Assets		
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
Financial Liabilities		
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

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, 2016 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2016, 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		Fair Value	
		Level 1	Level 2	Level 3
Financial Assets				
Derivative financial instruments	$ 137	$ –	$ 137	$ –
Financial Liabilities				
Derivative financial instruments	$ 194	$ –	$ 194	$ –
Long-term debt – notes	$ 40,000	$ –	$ 42,095	$ –

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 was determined on a discounted cash flow basis, using a weighted average discount rate of 4.79 percent, was $42.1 million at December 31, 2016.

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, 2016:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**6,301**	January 2017 – July 2017
Sales contracts	USD	**(7,688)**	January 2017 – June 2017
Great Britain Pound Denominated Contracts			
Sales contracts	EUR	**(1,062)**	January 2017 – August 2017

Management estimates that a loss of $0.1 million would be realized if the contracts were terminated on December 31, 2016. Certain of these forward contracts are designated as cash flow hedges and accordingly, a loss of $0.1 million has been included in other comprehensive income for the 2016 year (December 31, 2015 – $1.3 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 2016 was a gain of $1.2 million (December 31, 2015 – $1.1 million gain).

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, the British pound, and the Brazilian real. 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, British pound, and Brazilian real.

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 2016 of a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real, 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	BRL
Net earnings (loss) before tax	$ 3,489	$ (397)	$ (7)	$ (20)

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, British pound, and Brazilian real. 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, 2016 and for the year then ended.

Canadian dollar weakens by 5 percent	USD	AUD	GBP	BRL
Financial instruments held in foreign operations				
Other comprehensive income	$ 10,363	$ 1,377	$ 287	$ 128
Financial instruments held in Canadian operations				
Net earnings before tax	$ 3,579	$ –	$ –	$ –

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, 2016 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$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$70.0 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, 2016, the fair value of the interest rate swap was nominal.

For each 1 percent change in the rate of interest on the remaining $263.8 million Bank Facility, the change in interest expense for the year ended would be $2.6 million. All interest charges are recorded on the annual consolidated statement of (loss) 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, 2016 and 2015, 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, 2016 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, 2016, the Company held cash and cash equivalents of $167.6 million and had drawn $357.8 million against the Bank Facility, leaving it with access to $349.7 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, 2016:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 188	$ 6	$ –	$ 194
Accounts payable and accrued liabilities	205,760	–	–	205,760
Long-term debt - Bank Facility	–	–	357,829	357,829
Long-term debt - Notes	–		40,000	40,000
Other long-term liabilities	–	–	13,179	13,179

The Company expects that cash flows from operations in 2017, 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 27. CAPITAL DISCLOSURES

The capital structure of the Company consists of shareholders' equity plus net debt. The Company manages its capital to ensure that entities in the Company will be able to continue to grow while maximizing the return to shareholders through the optimization of the debt and equity balances. The Company 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. At December 31, 2016, the net debt to EBITDA ratio was:

December 31,	2016	2015
Short and long-term debt	**$ 393,963**	$ 578,640
Cash and cash equivalents	**(167,561)**	(158,081)
Net debt	**$ 226,402**	$ 420,559
(Loss) earnings before finance costs and income taxes	**$ (81,472)**	$ 94,877
Depreciation and amortization[1]	**93,099**	81,894
EBITDA	**$ 11,627**	$ 176,771
Net debt to EBITDA ratio	**19.47:1**	2.38:1

[1] Depreciation and amortization from continuing operations.

The net debt to EBITDA ratio, as defined above is not equivalent to the net debt to EBITDA as defined by the Company's lenders. As at December 31, 2016, the Company is in compliance with its covenants.

NOTE 28. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,	2016	2015
Changes of non-cash working capital		
Accounts receivable	$ 19,645	$ 117,958
Inventories	36,156	80,294
Deferred revenue	(61,572)	(131,249)
Accounts and taxes payable and accrued liabilities and provisions	(42,980)	(20,108)
Foreign currency and other	7,366	(102,146)
	$ (41,385)	$ (55,251)

Cash paid and received during the period:

Years ended December 31,	2016	2015
Interest paid	$ 14,493	$ 15,179
Interest received	1,377	1,522
Taxes paid	15,959	41,218
Taxes received	870	1,379

NOTE 29. 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, and the Company's 50 percent controlling interest in Geogas consortium.

On October 5, 2016, the Company entered into an agreement to sell the Company's 51 percent interest in the Enerflex-ES joint venture. All transactions with the joint venture up to October 5, 2016 have been included as related party transactions.

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,	2016	2015
Associate – Roska DBO		
Revenue	$ 696	$ 7,583
Purchases	–	–
Accounts receivable	10	2,078
Joint Operation – Geogas		
Revenue	$ 666	$ 671
Purchases	145	236
Accounts receivable	134	–
Accounts payable	68	171
Joint Venture – Enerflex - ES		
Revenue	$ 53	$ 59
Purchases	–	–
Accounts receivable	–	–

All related party transactions are settled in cash.

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

Years ended December 31,	2016	2015
Short-term compensation	$ 4,229	$ 4,253
Post-employment compensation	425	431
Share-based payments	3,559	3,978

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

NOTE 30. SEASONALITY

The oil and natural gas service sector in Canada 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 31. SEGMENTED INFORMATION

The Company has three reportable operating segments as outlined below, each supported by the Corporate office. Corporate overheads are allocated to the operating segments based on revenue. For each of the operating segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For year ended December 31, 2016, the Company had no individual customers which accounted for more than 10 percent 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,	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Segment revenue	**$ 239,471**	$ 504,986	**$ 482,560**	$ 781,291	**$ 439,676**	$ 458,260	**$ 1,161,707**	$ 1,744,537
Intersegment revenue	**(6,646)**	(10,742)	**(16,459)**	(103,112)	**(7,998)**	(1,651)	**(31,103)**	(115,505)
External revenue	**$ 232,825**	$ 494,244	**$ 466,101**	$ 678,179	**$ 431,678**	$ 456,609	**$ 1,130,604**	$ 1,629,032
Operating income	**$ (21,878)**	$ 33,674	**$ 39,809**	$ 53,305	**$ 47,482**	$ 34,780	**$ 65,413**	$ 121,759

	Canada		USA		Rest of World		Total	
Years ended December 31,	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Segment assets	**$ 376,518**	$ 406,343	**$ 406,680**	$ 401,265	**$ 723,931**	$ 793,743	**$ 1,507,129**	$ 1,601,351
Goodwill	**88,367**	249,261	**141,430**	148,134	**342,029**	351,209	**571,826**	748,604
Corporate	**–**	–	**–**	–	**–**	–	**(197,012)**	(154,866)
	$ 464,885	$ 655,604	**$ 548,110**	$ 549,399	**$ 1,065,960**	$ 1,144,952	**$ 1,881,943**	$ 2,195,089
Assets held for sale	**–**	14,175	**–**	–	**–**	–	**–**	14,175
Total segment assets	**$ 464,885**	$ 669,779	**$ 548,110**	$ 549,399	**$ 1,065,960**	$ 1,144,952	**$ 1,881,943**	$ 2,209,264

NOTE 32. SUBSEQUENT EVENT

Subsequent to December 31, 2016, the Company declared a dividend of $0.085 per share, payable on April 6, 2017, to shareholders of record on March 15, 2017.

QUARTERLY AND SHARE DATA

QUARTERLY DATA

(unaudited)	2016				2015			
($ millions, except per share data and percentages)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**343.4**	**262.4**	**253.1**	**271.7**	358.5	425.2	389.7	455.5
Operating Income	**21.0**	**23.9**	**21.8**	**(1.3)**	12.5	38.6	37.0	33.6
Earning before finance cost and income taxes	**(36.3)**	**24.1**	**21.9**	**(91.1)**	(20.9)	40.6	38.1	37.1
Net earnings – continuing operations	**(45.4)**	**17.6**	**16.8**	**(93.5)**	(33.4)	31.9	26.8	23.6
Net earnings – discontinued operations	**0.0**	**0.6**	**(0.1)**	**(0.1)**	(0.2)	0.2	(0.1)	(0.7)
Earning per share – continuing operations	**(0.54)**	**0.23**	**0.21**	**(1.18)**	(0.42)	0.40	0.34	0.30
Earning per share – discontinued operations	**0.00**	**0.01**	**0.00**	**0.00**	0.00	0.00	0.01	0.00
Depreciation and amortization	**23.8**	**23.7**	**23.0**	**22.6**	27.9	20.0	16.5	18.3
Cash from operations	**4.3**	**19.1**	**18.0**	**50.4**	31.9	48.2	40.6	38.6
Capital expenditure, net								
Property, Plant and equipment	**1.5**	**1.1**	**0.9**	**1.3**	0.8	3.5	1.1	4.6
Rental equipment	**1.5**	**0.3**	**6.3**	**9.6**	29.3	31.8	28.7	66.6
Dividends (declared)	**7.5**	**6.8**	**6.7**	**6.7**	6.7	6.7	6.7	6.7
Dividends per share	**0.085**	**0.085**	**0.085**	**0.085**	0.085	0.085	0.085	0.085
Pre-tax earnings (continuing as % of revenue)	**(11.4)%**	**7.9%**	**7.2%**	**(35.1)%**	(7.1)%	8.7%	8.9%	7.3%

SHARE DATA

(unaudited)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trading price range of shares ($)								
High	**18.06**	**14.60**	**12.40**	**13.57**	17.08	18.84	20.99	20.99
Low	**13.65**	**10.40**	**8.59**	**9.56**	10.28	10.28	13.37	14.63
Close	**17.05**	**14.07**	**10.68**	**10.21**	13.29	13.19	13.50	15.36
Trading volume *(millions)*	**13.44**	**12.48**	**10.71**	**11.18**	8.88	7.50	6.67	6.38
Shares *(millions)*								
Outstanding at the end of the period	**88.297**	**88.160**	**79.197**	**79.178**	79.156	79.085	79.049	78.729
Weighted averages – basic	**88.204**	**81.435**	**79.197**	**79.178**	79.172	79.003	78.946	78.321

DIRECTORS AND EXECUTIVES

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

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

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

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

H. Stanley Marshall [3]
Director
Paradise, NL

Stephen J. Savidant
Chairman
Calgary, AB

Michael A. Weill [6]
Director
Houston, TX

Helen J. Wesley [6]
Director
Calgary, AB

1 Chair of the Nominating and Corporate Governance Committee
2 Member of the Nominating and Corporate Governance Committee
3 Chair of the Human Resources and Compensation Committee
4 Member of the Human Resources and Compensation Committee
5 Chair of the Audit Committee
6 Member of the Audit Committee

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
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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

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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
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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.

ANNUAL GENERAL MEETING INFORMATION

Shareholders of Enerflex Ltd. are invited to attend the Annual General Meeting, which will be held on May 5, 2017 at 10:00 a.m. MDT. The meeting will be held at the Sheraton Suites Eau Claire, 255 Barclay Parade SW, Calgary, Alberta.

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