



# ENERFLEX

QUARTERLY REPORT FOR  
THE THREE MONTHS  
ENDED SEPTEMBER 30, 2014



## 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 unaudited interim condensed financial statements for the three and nine months ended September 30, 2014, the audited consolidated financial statements and MD&A for the year ended December 31, 2013, and the Business Acquisition Report, relating to an Arrangement with Axip Energy Services, LP ("Axip") dated September 5, 2014.

The interim condensed 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 November 6, 2014 and focuses on information and key statistics from the unaudited interim condensed financial statements, and pertains to known risks and uncertainties relating to the oil and gas service sector. This discussion should not be considered all-inclusive, as it excludes possible future changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex in the future. Additional information relating to the Company, including the Annual Information Form and Information Circular for the year ended December 31, 2013, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company's results from operations for the three and nine months ended September 30, 2014 include the results of the Axip business for the three months ended September 30, 2014. The acquisition of Axip was closed on June 30, 2014.

## 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. For further information on the nature of forward-looking statements, and the related risks, uncertainties and assumptions, refer to the Company's MD&A for the year ended December 31, 2013. 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; 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

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investments required to grow the business; the lack of availability of qualified personnel or management; and political unrest. As such, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds or dividends the Company and its shareholders, will derive therefrom. The forward-looking statements included in this MD&A are made as of the date of this MD&A and other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### THE COMPANY

Enerflex is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems and electric power equipment – plus in-house engineering and mechanical services expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission and service hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO<sub>2</sub> processing plants, refrigeration systems and electric power equipment serving the natural gas production industry.

Headquartered in Calgary, Canada, Enerflex has approximately 3,400 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint-ventures, operate in Canada, the United States of America, Argentina, Brazil, Colombia, Mexico, Peru, Australia, the United Kingdom, Russia, the United Arab Emirates ("UAE"), Oman, Bahrain, Indonesia, Malaysia, Singapore and Thailand.

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

#### Canada and Northern U.S.

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

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

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

### **International**

#### **Continuing Operations**

- AustralAsia division provides process facility construction for gas and power facilities and compression package assembly. This division also provides mechanical service and parts, as the authorized Waukesha distributor for the oil and gas industry in this region. The division has locations in Queensland, New South Wales, Southern Australia and Western Australia;
- Southeast Asia division, with locations and operations in Indonesia, Singapore, Thailand and Malaysia, provides processing and compression solutions, including rentals, to customers in the region. Service capabilities are also provided to Southeast Asia through the Indonesia, Malaysia and Thailand operations;
- Middle East and North Africa ("MENA") division provides engineering, procurement and construction services, compression and process package sales, as well as rentals, and operating and maintenance services for gas compression and processing facilities in the region. The division has locations in Bahrain, UAE and Oman; and
- Europe/Commonwealth of Independent States ("CIS") division provides customized compression, processing and high-end refrigeration solutions including CO<sub>2</sub> compression and liquefaction. The division has locations in the United Kingdom and Russia.

#### **Discontinued Operations**

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

On June 30, 2014, Enerflex completed the acquisition of the international contract compression and processing, as well as the after-market services business of Axiip for US\$431.0 million in cash, inclusive of closing purchase price adjustments. Axiip's international contract compression and processing business and after-market service is a leading provider of global energy services. Headquartered in Houston, Texas, Axiip had 173 employees with operations in Argentina, Brazil, Colombia, Mexico, Peru, Indonesia, Malaysia, Thailand and Bahrain. Axiip's energy infrastructure assets included a 448 unit compression fleet totaling approximately 285,000 hp and gas treating facilities in Mexico, Argentina and Peru. All members of the current Axiip international senior management team have stayed with the business following the closing of the acquisition. The

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acquisition did not include Axiip's U.S. assets. The acquisition included a backlog of \$29.5 million for an engineered system project in Latin America.

### Engineered Systems

The Engineered Systems product line includes engineering, fabrication and assembly of standard and custom-designed compression packages; production and processing equipment and facilities, including refrigeration systems and turnkey deep cut cryogenic gas processing packages; and electric power systems.

### Service

The Service product line includes support services, labour and parts sales to the oil and gas industry. Enerflex, directly or through wholly-owned Gas Drive Global LP ("Gas Drive") subsidiaries, is an authorized distributor and service provider, for GE's Waukesha gas engines and parts in Canada, the Northern U.S. (including Alaska), Australia, Indonesia and Papua New Guinea, and for Jenbacher gas engines and parts in Canada. The Company is also the exclusive authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems in Canada, Australia, and New Zealand. Outside of Gas Drive's designated distribution/service areas, after-market service continues to be provided under the Enerflex name. Service also provides parts and components, as well as operating, maintenance and overhaul services to customers who own compression, production, processing, gas treating and other equipment in Argentina, Brazil and Mexico.

### Rentals

The Rentals product line includes a variety of rental and leasing alternatives for natural gas compression, power generation and processing equipment. The rental fleet is deployed in Western Canada, the Northern U.S., Argentina, Brazil, Colombia, Mexico, Peru, Bahrain, Oman, the United Arab Emirates, Indonesia, Malaysia and Thailand. The Rentals product line encompasses 432,075 hp of equipment either on rental or available for rental globally.

### ENERFLEX STRATEGY

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

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

Enerflex will focus its efforts in Canada on leveraging its capabilities and expertise to continue to maintain its momentum in the traditional natural gas business particularly in liquids-rich reservoirs, to support the development of liquefied natural gas ("LNG") infrastructure on the West Coast, and to evolve its oil sands business, most notably in the SAGD module market. In

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addition, the Company will look to build on its 2013 successes in the electric power market, where a number of key bids for innovative power solutions were awarded.

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

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

Enerflex seeks to continue to diversify its revenue streams from multiple markets, to maintain a strong global backlog and to ensure profitable margins globally, with a medium-term goal of achieving a 10% earnings before interest and tax ("EBIT") margin. In addition, Enerflex seeks to expand the diversification of its product lines, with a goal to achieve 35%-40% recurring revenue (revenue from the service and rental product lines). The chart and table below demonstrates that the Company is on target to achieve its 2014 strategic objectives including these diversification goals, both in terms of revenue sources, and in terms of product lines.

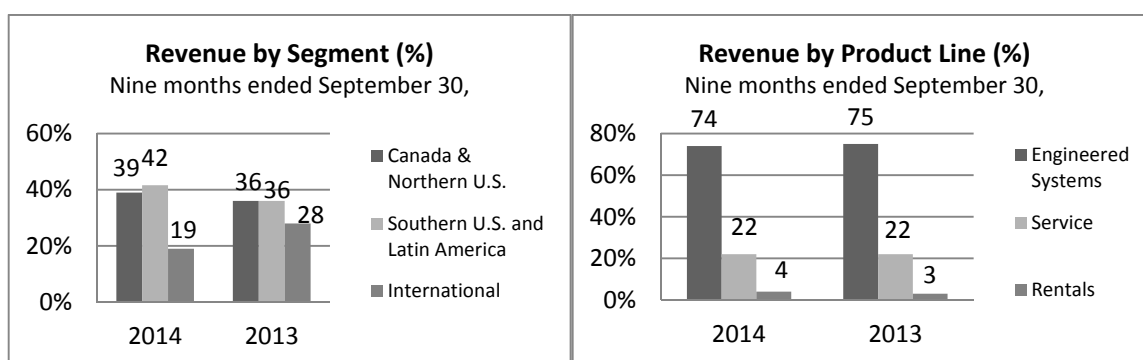
With the acquisition of Axiip, Enerflex has progressed significantly on a number of its strategic objectives, as indicated in the table below. Over the coming months, the Company will continue to focus on integrating Axiip's activities and assessing the required changes to its long-term strategy. An immediate area of focus is the growth expected in Mexico as a result of the ongoing energy reform, and growing operations in Argentina and Brazil.

<b>2014 Strategic Objective</b>	<b>Performance to September 30, 2014</b>	<b>Status</b>
Participating in global LNG growth in our three key LNG markets of Canada, the United States and AustralAsia.	Progress has been made in increasing LNG growth in the global markets, particularly in Australia, where bookings are primarily LNG related. In Canada, development is tied to final investment decision on LNG terminals on the West Coast of Canada, which might be later in 2014. In the U.S., terminals are under construction but the Company has not yet booked any LNG related work in 2014.	On target

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2014 Strategic Objective	Performance to September 30, 2014	Status
Expanding our product offering in the United States by building on the improving picture for liquids-rich gas plays.	During 2014, the Company has been able to expand its product offerings in the area of natural gas compression and processing. Bookings were \$552.8 million for the nine months ended September 30, 2014 compared to \$389.0 million in the same period of 2013.	Above target
Levering the improving economic picture in Canada, as well as growing our oil sands and electric power offerings.	Domestic Canada bookings increased to \$308.0 million in the first nine months of 2014 compared to \$224.1 million in the same period of 2013. The Company's presence in the Alberta oil sands continues to grow with bookings of \$21.3 million during the first nine months of 2014, and with expanded product offerings. In addition, the Company recorded \$24.2 million in electric power bookings during the first nine months of 2014.	On target
Continuing to grow our international operations while addressing ongoing project-related challenges.	International bookings, primarily in the AustralAsia region, slowed in the third quarter of 2014 but remain above 2013 levels at \$130.6 million for the first nine months of 2014 compared to \$97.6 million for the same period in 2013. Project related challenges in Oman continue to be addressed, and variation claims have been submitted to and are being vigorously pursued with the customer. Gas in, commissioning and mechanical completion have been achieved and variation claim discussions are progressing. The appointment of a President, International located in the UAE is intended to drive growth in the region. The acquisition of the rental and service business of AxiP has significantly expanded operations internationally, and already realized rental and service opportunities in the region.	Above target
Continue progress in safety management programs and improve the Company-wide total recordable injury rate ("TRIR") to 1.8 in 2014.	The TRIR at September 30, 2014 was at 1.83, which is 8% below the September 30, 2013 rate of 1.99 and in line with the 2014 goal of 1.80.	On target
Further building the service and rental businesses in progressing towards the goal of 35-40% recurring revenue.	Recurring revenue as a percentage of revenue for the period ended September 30, 2014 increased to 27.4% compared to 24.1% for the period ended September 30, 2013, calculated on a trailing 12 month basis. Recurring revenue will increase further over the remainder of 2014 with the acquisition of AxiP's rental and service business.	On target
Make measurable progress towards the medium-term objective of a 10% EBIT margin.	EBIT margin decreased to 6.4% for the period ended September 30, 2014 compared to 7.3% for the same period in 2013, calculated on a trailing 12 month basis as a result of cost increases on the large project in Oman, for which variation claims are being pursued but which have not been approved. The EBIT margin normalized for one time transaction expenses associated with the acquisition was 6.9% for the trailing 12 months ended September 30, 2014.	Behind target

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

### OVERVIEW

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

Building on momentum in liquids-rich plays in Canada and the U.S., and other opportunities in Canada, including electric power, bookings in the third quarter of 2014 were \$94.6 million higher than the same period of 2013.

The Company's financial results for the quarter were in line with expectations, and significantly improved on the same period last year. The results on a year to date basis, while improving, were still below expectations, largely as a result of the cost increases in the International segment, and the related impact on gross margin, and an increase in SG&A expenses. Where the cost increases have been customer driven, variation claims have been submitted, and are being vigorously pursued. For the nine months ended September 30, 2014, results for the Canada and Northern U.S. and Southern U.S. and Latin America segments, as well as overall results for the Company, have improved when compared to the same period in 2013. Results normalized for one time transaction expenses associated with the acquisition, which are included in SG&A and

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income tax expense, further improved compared with the prior year when looking at the nine months of 2014.

During the third quarter of 2014, Enerflex recorded bookings of \$342.2 million compared to \$247.6 million during the same period in 2013, an increase of \$94.6 million. During the nine months ended September 30, 2014, bookings were \$994.4 million compared to \$754.4 million during the same period in 2013, an increase of \$240.0 million. The increase in the third quarter was due to higher bookings in the Canada and Northern U.S., and Southern U.S. and Latin America segments, with International bookings slightly lower than 2013 levels. For the nine months ended September 30, 2014, bookings were higher in all segments compared to the same period in 2013.

Manufacturing activity levels for the Engineered Systems product line, and correspondingly revenue, increased in the third quarter of 2014 to \$343.7 million from \$293.0 million in the third quarter of 2013. For the nine months ended September 30, 2014, Engineered Systems revenue was higher at \$922.0 million compared to \$785.3 million for the same period in 2013. The higher revenue was primarily a result of a higher backlog in the Canada and Northern U.S. and Southern U.S. and Latin America regions, which at the start of 2014 were \$306.5 million and \$358.9 million, respectively, compared to \$158.8 million and \$227.6 million, respectively, at the start of 2013. This was partially offset by lower backlog in the International segment, which was \$128.6 million at the start of 2014 compared to \$296.8 million for 2013. With higher booking levels, which have exceeded the higher Engineered Systems revenue, the backlog has increased to \$866.4 million as at September 30, 2014 from \$794.0 million at the start of 2014.

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

Work on a third international project in Oman continues to experience customer driven scope and schedule challenges, with further cost increases identified during the third quarter of 2014, and a corresponding impact on gross margin of \$6.2 million, bringing the total impact to \$23.8 million for 2014. Progress has been made with completing the project and moving into commissioning; with gas in completed during the third quarter of 2014. During October, commissioning was completed, and mechanical completion achieved, in readiness for gas and condensate export. The Company has submitted and intends to vigorously pursue variation claims for cost increases on the project. Variation claims are filed once forecast costs on a fixed price project exceed budgeted costs, as a result of increased scope or design and schedule changes to the project. To the extent these cost increases are subsequently recovered through approved variation claims from customers, revenue will be recognized in the corresponding period. Variation claims are typically approved at the completion of the project. This results in volatility in gross margins as costs are recognized as incurred on these projects, while revenue resulting from variation claims is recognized in the period that these claims are approved. With the project nearing completion, the Company has been able to advance variation claim discussions with the customer.



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Service activity levels in 2014 improved over 2013 in all segments, with the Company continuing to benefit from increased activity in the Canada, United States and Latin America, MENA and AustralAsia regions. Company-wide, revenues from the Service product line in 2014 have increased 17.6% from \$86.6 million to \$101.8 million in the third quarter, and 20.3% from \$233.3 million to \$280.7 million in the first nine months of 2014, compared to the same periods in 2013.

On a global basis, the Company has a rental fleet of 432,075 horsepower. North American rental utilization levels remained the same during the third quarter of 2014, but resulted in lower Rental revenue as a result of a decrease in the total horsepower under rental contracts and a decrease in rental unit sales. Rental revenue for the International segment in the third quarter of 2014 increased from the same period in 2013, largely as a result of rental contracts acquired with the Axiom business. Rental revenues in the Southern U.S. and Latin America, and International segments increased from \$0.7 million in the third quarter of 2013 to \$4.7 million in the third quarter of 2014.

### Discontinued Operations

The European Service and CHP business, within the International segment, has been reported as a discontinued operation since the third quarter of 2011. In June 2013, Enerflex completed the sale of the European business to a company specializing in CHP fabrication and service. There are no results to report in 2014, as the operations were sold during 2013.

### OUTLOOK FOR MARKETS

After a significant increase in gas prices in the early part of 2014, gas prices steadily declined during the first half of 2014, but have been relatively flat since July 2014 at around USD \$4.00/mcf. North American working gas in storage is down year-over-year and has been trending below the five year average range since the beginning of 2014. The significantly lower storage resulting from record high withdrawals throughout 2013 drove natural gas prices to their highest levels in four years in early February 2014, and are not expected to result in a material decrease in natural gas prices in the near future. Natural gas fundamentals will improve as LNG projects in Western Canada progress, and as the development of the Duvernay shale play expands. In October, the British Columbia Government released its LNG two-tier tax regime, which should provide project owners with the fiscal clarity to move forward with investment decisions. Enerflex has seen increased activity in traditional processing equipment destined for the Alberta oil sands, and in compression and process equipment related to natural gas liquids opportunities such as in the Alberta Deep Basin, Duvernay and Montney reservoirs. Backlog in this segment remained strong during the first nine months of 2014, and stood at \$296.4 million at September 30, 2014, compared to \$306.5 million at December 31, 2013.

The performance of the Southern U.S. and Latin America segment has been largely dependent on activity in liquids-rich U.S. gas basins, which give rise to new orders for compression and processing equipment for this region. These liquids-rich resource basins can achieve superior returns for producers despite low natural gas prices due to the higher value that can be realized for the NGL. Activity typically remains strong in these basins as long as the frac spread (the differential between NGL prices and natural gas prices) remains high. In 2014, activity has been strong despite steady NGL prices, and as a result of increased oil exploration and production, and the associated gas that results. As such, Enerflex is optimistic yet cautious with respect to

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this region, and remains well-positioned given backlog, which stood at \$472.4 million at the end of the third quarter of 2014, compared to \$358.9 million at December 31, 2013.

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

The International segment continues to hold considerable long-term opportunity and experienced higher bookings activity during the first nine months of 2014. For the first nine months of 2014, bookings were \$130.6 million, compared to \$97.6 million during the same period in 2013. Enerflex remains adequately positioned in this segment given backlog levels, which stood at \$97.6 million at the end of the third quarter of 2014, compared to \$128.6 million at December 31, 2013.

Generally, bookings are reflected within the contracting entity. Therefore in assessing international prospects, consideration should also be given to bookings recorded in the Canada and Northern U.S., and Southern U.S. and Latin America segments, which are destined for international markets but are not presented in the International segment. Bookings for compression and processing equipment, destined for international markets, which were recorded and will be fabricated in the Canada and Northern U.S., and Southern U.S. and Latin America segments, totalled \$10.8 million for the third quarter of 2014 and \$18.4 million for the nine months of 2014 compared to \$19.4 million and \$117.7 million for the same periods in 2013.

**FINANCIAL HIGHLIGHTS**

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue				
Canada and Northern U.S.	\$ 169,739	\$ 134,901	\$ 495,097	\$ 377,320
Southern U.S. and Latin America	234,809	164,049	524,575	378,566
International	74,412	91,707	237,771	299,070
Total revenue	478,960	390,657	1,257,443	1,054,956
Cost of goods sold	386,600	329,301	1,027,821	868,192
Gross margin	92,360	61,356	229,622	186,764
Selling and administrative expenses	48,605	41,808	150,148	118,967
Operating income	43,755	19,548	79,474	67,797
Loss on disposal of property, plant and equipment	152	89	193	43
Equity earnings from associates and joint ventures	(1,869)	(1,527)	(6,728)	(3,091)
Earnings before finance costs and taxes	45,472	20,986	86,009	70,845
Finance costs, net of finance income	2,726	1,379	5,438	4,269
Earnings before taxes	42,746	19,607	80,571	66,576
Income tax expense	12,517	6,433	35,146	19,618
Loss from discontinued operations	-	(33)	-	(1,760)
Net earnings	\$ 30,229	\$ 13,141	\$ 45,425	\$ 45,198
<b>Key Financial Performance Indicators<sup>1</sup></b>				
Bookings	\$ 342,239	\$ 247,561	\$ 994,390	\$ 754,395
Backlog	\$ 866,399	\$ 652,336	\$ 866,399	\$ 652,336
Recurring revenue as a percentage of revenue <sup>2</sup>	27.4%	24.1%	27.4%	24.1%
Gross margin as a percentage of revenue	19.3%	15.7%	18.3%	17.7%
Selling and administrative expenses as a percentage of revenue	10.1%	10.7%	11.9%	11.3%
EBIT as a percentage of revenue <sup>2</sup>	6.4%	7.3%	6.4%	7.3%
Normalized EBIT <sup>3</sup>	\$ 45,472	\$ 20,986	\$ 95,117	\$ 100,719
Normalized EBIT percentage <sup>2,3</sup>	6.9%	7.3%	6.9%	7.3%
Earnings before interest, tax, depreciation and amortization ("EBITDA")	65,485	31,050	125,577	100,719
Return on capital employed	10.0%	11.9%	10.0%	11.9%
Net debt to EBITDA ratio	1.28:1	(0.11):1	2.01:1	(0.10):1
Cash from operations	\$ (38,005)	\$ 43,314	\$ 61,659	\$ (10,395)

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

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

<sup>3</sup> Normalized EBIT and normalized EBIT percentage have been adjusted for one-time transaction expenses associated with the acquisition.

### DEFINITIONS

The success of the Company and its business unit strategies is measured using a number of key financial performance indicators, some of which are outlined below. Some of these indicators do not have a standardized meaning as prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These non-GAAP measures are bookings and backlog, recurring revenue as a percentage of revenue, EBITDA, net (cash) debt to EBITDA ratio, and return on capital employed ("ROCE"). Further information on these non-GAAP measures is provided in the section, *Non-GAAP Measures*. Operating income and EBIT are both considered additional GAAP measures, and are presented in the Statement of Earnings, but may not be comparable with similar additional GAAP measures used by other entities.

### Operating Income

Operating income assists the reader in understanding the net contributions made from the Company's core businesses after considering all selling, general and administrative ("SG&A") expenses. Each operating segment assumes responsibility for its operating results as measured by, amongst other factors, operating income, which is defined as income before income taxes, interest (or finance) costs (net of interest income), equity earnings or loss and gain or loss on sale of assets. Financing and related charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments and income tax jurisdictions are not synonymous, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of business segments.

### Bookings and Backlog

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

### Recurring Revenue

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

### EBIT

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

### Normalized EBIT

Normalized EBIT provides the results of the Company adjusted for the impact of one-time transaction expenses associated with the Axiq acquisition.

### 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.

## Management's Discussion and Analysis

### ROCE

ROCE is a measure to analyze operating performance and efficiency of the Company's capital allocation process. The ratio is calculated by taking EBIT for the 12-month trailing period divided by capital employed. Capital employed is the average of four previous quarters plus current month balance (short-term debt + long-term debt + equity – cash).

### Net Debt to EBITDA

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

### CONSOLIDATED RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

During the third quarter of 2014, the Company generated \$479.0 million in revenue compared to \$390.7 million in the third quarter of 2013. During the nine months ended September 30, 2014, revenue was \$1,257.4 million compared to \$1,055.0 million in the same period of 2013. The increases of \$88.3 million and \$202.4 million, respectively, were due to higher revenue in the Canada and Northern U.S., and Southern U.S. and Latin America segments, partially offset by lower International segment revenue. As compared to the three and nine months period ended September 30, 2013:

- Canada and Northern U.S. segment revenue increased by \$34.8 million during the third quarter of 2014, and by \$117.8 million for the nine months ended September 30, 2014, as a result of an increase in Engineered Systems and Service revenues for the nine months ended September 30, 2014, partially offset by lower Rental revenue;
- Southern U.S. and Latin America segment revenue increased by \$70.8 million in the third quarter of 2014, and by \$146.0 million for the nine months ended September 30, 2014, due to higher Engineered Systems, Service and Rental revenues; and
- International segment revenue decreased by \$17.3 million in the third quarter of 2014, and by \$61.3 million for the nine months ended September 30, 2014, on account of lower Engineered Systems revenue, partially offset by higher Service and Rental revenues.

**Gross Margin** for the three months ended September 30, 2014 was \$92.4 million or 19.3% of revenue compared to \$61.4 million or 15.7% of revenue for the same period of 2013. Gross margin for the nine months ended September 30, 2014 was \$229.6 million or 18.3% of revenue compared to \$186.8 million or 17.7% of revenue for the nine months ended September 30, 2013. The increases were due to higher gross margin in the Canada and Northern U.S., and Southern U.S. and Latin America segments, and for the third quarter of 2014 the International segment, partially offset in the nine months ended September 30, 2014 by lower gross margin in the International segment.

**SG&A** expenses were \$48.6 million or 10.1% of revenue during the three months ended September 30, 2014, compared to \$41.8 million or 10.7% of revenue in the same period of 2013. SG&A expenses were \$150.1 million or 11.9% of revenue during the nine months ended September 30, 2014, compared to \$119.0 million or 11.3% of revenue in the same period of 2013. The increases were a result of higher compensation expense, higher office and occupancy costs, and higher depreciation and amortization expense, and for the nine months ended September 30, 2014, due to third party services associated with the Axiom acquisition, partially offset by favourable foreign exchange movements. The increase in compensation expense was

## Management's Discussion and Analysis

as a result of modest salary increases, and an increase in the number of employees to support the Company's growth, and for the nine months ended September 30, 2014, due to market adjustments on share based payment expense arising from the increase in the share price during the first half of 2014.

**Operating Income** during the third quarter of 2014 was \$43.8 million or 9.1% of revenue compared to \$19.5 million or 5.0% of revenue in the same period of 2013. Operating income during the first nine months of 2014 was \$79.5 million or 6.3% of revenue compared to \$67.8 million or 6.4% of revenue in the same period of 2013. The increases were attributable to the higher gross margin, partially offset by higher SG&A expenses.

**EBIT** for the third quarter of 2014 was \$45.5 million or 9.5% of revenue compared to \$21.0 million or 5.4% of revenue in the same period of 2013. EBIT for the first nine months of 2014 was \$86.0 million or 6.8% compared to \$70.8 million or 6.7% of revenue in the same period of 2013. The increases were due to the higher operating income and higher earnings from associates and joint ventures, which increased from \$1.5 million in the third quarter of 2013 to \$1.9 million in the third quarter of 2014, and from \$3.1 million for the nine months ended September 30, 2013 to \$6.7 million in the same period of 2014. Normalized EBIT for the first nine months of 2014 was \$95.1 million or 7.6% of revenue.

**Income Tax Expense** totalled \$12.5 million or 29.3% of earnings before tax for the three months ended September 30, 2014 compared to \$6.4 million or 32.8% of earnings before tax in the same period of 2013. Income tax expense totalled \$35.1 million or 43.6% of earnings before tax for the nine months ended September 30, 2014 compared to an expense of \$19.6 million or 29.5% of earnings before taxes in the same period of 2013. The increase in income tax expense for the third quarter was as a result of higher earnings before tax. The increase in income tax expense and the effective tax rate for the nine months ended September 30, 2014, was due to higher earnings before taxes, withholding taxes incurred on dividends received from foreign subsidiaries, the impact of earnings taxed in foreign jurisdictions, and acquisition related expenses not deductible for tax purposes. After normalizing EBIT and income tax expense for one time transaction expenses associated with the acquisition, and the tax impact of repatriating cash to Canada to partially finance the acquisition, income tax totalled \$29.5 million or 32.9% of normalized earnings before tax for the first nine months of 2014.

**Net Earnings** from continuing operations for the third quarter of 2014 were \$30.2 million or \$0.39 per share, compared to \$13.2 million or \$0.16 per share in the same period of 2013. The increase in net earnings was a result of higher EBIT, partially offset by higher income tax expense. Net earnings from continuing operations for the nine months of 2014 were \$45.4 million or \$0.58 per share, compared to \$45.2 million or \$0.60 per share in the same period of 2013. The decrease in net earnings was caused by higher income tax expense, partially offset by higher EBIT. Earnings normalized for one time transaction costs expensed as part of the acquisition, and the related tax impacts of partially funding the acquisition internally, were \$60.2 million, or \$0.77 per share for the first nine months of 2014.

Loss from discontinued operations reflects the results of EE during 2013. The business unit recorded a nominal loss and \$1.8 million for the third quarter and for the nine months ended September 30, 2013, respectively. As the operations were sold during 2013 no further loss was recognized.

## Management's Discussion and Analysis

**EBITDA** from continuing operations for the third quarter of 2014 was \$65.5 million, compared to \$31.1 million in the same period of 2013. EBITDA from continuing operations for the nine months ended September 30, 2014 was \$125.6 million, compared to \$100.7 million in the same period of 2013.

**ROCE** from continuing operations for the third quarter and first nine months of 2014 was 10.0%, compared to 11.9% in the same periods of 2013.

### CANADA AND NORTHERN U.S. SEGMENT RESULTS

Building on momentum in liquids-rich plays in Canada, and other opportunities including electric power, bookings for the first nine months of 2014 were higher compared to the same period in 2013. Financial results for the Canada and Northern U.S. segment in the third quarter of 2014, and for the first nine months of 2014, have improved compared with the same periods in 2013, on increased revenues and the corresponding impact on gross margin, and improved warranty experience, partially offset by reduced project margins, and in the nine months ended September 30, 2014, higher SG&A expenses.

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Segment revenue	\$ 172,047	\$ 149,716	\$ 502,035	\$ 440,576
Intersegment revenue	(2,308)	(14,815)	(6,938)	(63,256)
Revenue	<b>\$ 169,739</b>	\$ 134,901	<b>\$ 495,097</b>	\$ 377,320
Revenue – Engineered Systems	\$ 111,664	\$ 71,229	\$ 321,107	\$ 206,311
Revenue – Service	\$ 52,261	\$ 53,347	\$ 147,239	\$ 136,962
Revenue – Rental	\$ 5,814	\$ 10,325	\$ 26,751	\$ 34,047
Operating income	\$ 11,460	\$ 8,083	\$ 21,353	\$ 16,499
EBIT	\$ 13,354	\$ 9,452	\$ 28,110	\$ 19,531
Segment revenue as a % of total revenue	<b>35.4%</b>	34.5%	<b>39.4%</b>	35.8%
Recurring revenue as a % of segment revenue	<b>34.2%</b>	47.2%	<b>35.1%</b>	45.3%
Operating income as a % of segment revenue	<b>6.8%</b>	6.0%	<b>4.3%</b>	4.4%
EBIT as a % of segment revenue	<b>7.9%</b>	7.0%	<b>5.7%</b>	5.2%

Canada and Northern U.S. revenue totalled \$169.7 million and \$495.1 million in the third quarter and first nine months of 2014, respectively, compared to \$134.9 million and \$377.3 million for the same periods of 2013. The increases in revenue of \$34.8 million and \$117.8 million, respectively, were a result of higher Engineered Systems revenue due to higher opening backlog, and during the nine months ended September 30, 2014, higher Service revenue due to increased parts sales. These increases were partially offset by lower Rental revenue as a result of a decrease in the total horsepower under rental contracts and a decrease in rental unit sales.

## Management's Discussion and Analysis

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Revenue</b>				
Canada and United States	\$ 158,804	\$ 128,057	\$ 468,854	\$ 362,246
International <sup>1</sup>	10,935	6,844	26,243	15,074
	<u>\$ 169,739</u>	<u>\$ 134,901</u>	<u>\$ 495,097</u>	<u>\$ 377,320</u>

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

Operating income increased by \$3.4 million to \$11.5 million in the third quarter of 2014, and by \$4.9 million to \$21.3 million for the nine months ended September 30, 2014, compared to the same periods of 2013, on higher gross margin, partially offset by higher SG&A expenses in the nine months ended September 30, 2014. The higher gross margin resulted from the positive impact of higher revenue, lower warranty expense and for the nine months ended September 30, 2014, stronger plant utilization. These positive gross margin impacts were partially offset by lower project margins. The higher SG&A in the nine months ended September 30, 2014 was due to an increase in compensation expense, third party services related to the Axiq acquisition, and higher depreciation and amortization expense. The increase in compensation expense was attributable to modest salary increases, an increase in the number of employees to support growth in the segment, and higher mark to market adjustments on share based payment expense due to the increase in the share price during the first half of 2014.

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Bookings</b>				
Canada and United States	\$ 95,957	\$ 73,545	\$ 308,034	\$ 224,119
International <sup>2</sup>	3,536	1,445	2,906	43,683
	<u>\$ 99,493</u>	<u>\$ 74,990</u>	<u>\$ 310,940</u>	<u>\$ 267,802</u>

<sup>2</sup> International bookings represent orders for equipment that will be manufactured in this segment and delivered to international markets that Enerflex services.

Backlog in the Canada and Northern U.S. segment was \$296.4 million at September 30, 2014 compared to \$306.5 million at December 31, 2013, a decrease of \$10.1 million. The increase in bookings during the first nine months of 2014, due to an increase in domestic activity levels despite continued weakness in natural gas prices, and penetration into the Alberta oil sands and electric power markets, was more than offset by higher revenue during the same period, resulting in the decrease in backlog at September 30, 2014.

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

Market fundamentals in the Southern U.S. have remained steady despite weak NGL prices. Domestic bookings are significantly higher in the third quarter and first nine months of 2014 but were partially offset by lower bookings destined for international markets, when compared to the same periods in 2013. The financial results improved in the three and nine months ended June 30, 2014, on improved revenues and the associated impact on gross margin, and higher



## Management's Discussion and Analysis

project margins in the first nine months of 2014, partially offset by higher SG&A expenses. The results also improved as a result of the contribution of the acquired Axip business in Latin America during the third quarter of 2014.

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Segment revenue	\$ 235,394	\$ 166,419	\$ 529,565	\$ 393,061
Intersegment revenue	(585)	(2,370)	(4,990)	(14,495)
Revenue	\$ 234,809	\$ 164,049	\$ 524,575	\$ 378,566
Revenue – Engineered Systems	\$ 185,102	\$ 149,272	\$ 439,278	\$ 336,783
Revenue – Service	\$ 26,777	\$ 14,777	\$ 62,367	\$ 41,783
Revenue - Rental	\$ 22,930	\$ -	\$ 22,930	\$ -
Operating income	\$ 30,514	\$ 18,438	\$ 60,403	\$ 42,800
EBIT	\$ 30,345	\$ 18,437	\$ 60,234	\$ 42,798
Segment revenue as a % of total revenue	49.0%	42.0%	41.7%	35.9%
Recurring revenue as a % of segment revenue	21.2%	9.0%	16.3%	11.0%
Operating income as a % of segment revenue	13.0%	11.2%	11.5%	11.3%
EBIT as a % of segment revenue	12.9%	11.2%	11.5%	11.3%

Southern U.S. and Latin America revenue totalled \$234.8 million and \$524.6 million, respectively, in the three and nine months ended September 30, 2014, compared to \$164.0 million and \$378.6 million in the same periods of 2013. The increases in revenue of \$70.8 million and \$146.0 million, respectively, were attributable to higher Engineered Systems revenue as a result of higher opening backlog, higher Service revenue on increased service calls and parts sales, and the contribution of the business acquired from Axip, compared to the same periods in 2013. In addition, revenue for the three and nine months ended September 30, 2014 increased due to higher Rental revenue as a result of the business acquired from Axip on June 30, 2014.

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Revenue</b>				
United States and Latin America	\$ 217,349	\$ 127,049	\$ 463,943	\$ 313,669
International <sup>1</sup>	17,460	37,000	60,632	64,897
	\$ 234,809	\$ 164,049	\$ 524,575	\$ 378,566

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

Operating income increased by \$12.1 million in the third quarter of 2014 to \$30.5 million, and by \$17.6 million to \$60.4 million for the nine months ended September 30, 2014, compared to the same periods of 2013, due to higher gross margin, partially offset by higher SG&A expenses.

## Management's Discussion and Analysis

The increase in gross margin was attributable to higher revenues, in part due to the Azip acquisition, improved plant utilization and during the nine months ended September 30, 2014, improved project margins, partially offset by lower warranty releases. SG&A expenses were higher in 2014 compared to 2013 as a result of higher compensation expense, higher office and occupancy costs, higher depreciation and amortization expense, and for the nine months ended September 30, 2014, increased third party services related to the Azip acquisition. These increases were partially offset by foreign exchange gains in the three and nine months ended September 30, 2014. The increase in compensation expense was due to modest salary increases, an increase in the number of employees partly due to the Azip acquisition and partly to support growth, and higher mark to market adjustments on share based payment expense resulting from the increase in the share price during the first half of 2014.

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Bookings</b>				
United States and Latin America	\$ 215,743	\$ 133,238	\$ 537,320	\$ 314,979
International <sup>1</sup>	7,239	17,942	15,483	73,974
	<u>\$ 222,982</u>	<u>\$ 151,180</u>	<u>\$ 552,803</u>	<u>\$ 388,953</u>

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

Southern U.S. and Latin America backlog was \$472.4 million at the end of the third quarter of 2014 compared to \$358.9 million at December 31, 2013, an increase of \$113.5 million. The increase in backlog was a result of bookings exceeding Engineered Systems revenue during the second and third quarters of 2014, and to a lesser extent during the first quarter of 2014. Bookings for the quarter ended September 30, 2014 increased as a result of significantly higher domestic bookings on stable market fundamentals, partially offset by lower bookings destined for international markets. The backlog at September 30, 2014 also benefitted from bookings in Latin America that resulted from the Azip acquisition.

### INTERNATIONAL SEGMENT RESULTS

In the International segment, increased activity in the AustralAsia region led to an increase in bookings in the first half of 2014 compared to the same period in 2013. Bookings in the third quarter were slightly lower than the same period in 2013. Service activity levels in both MENA and AustralAsia improved during 2014.

The results for the third quarter of 2014 were an improvement over the same period in 2013, but primarily due to higher cost increases on international projects in the third quarter of 2013 that negatively impacted gross margin and operating income, and due to higher SG&A expenses. Despite the improvement in results for the third quarter of 2014, the financial results for the nine months ended September 30, 2014, are still significantly below the same period in 2013 primarily due to the cost increases, and the associated impact on gross margin, of the large project in Oman, and to a lesser extent due to higher SG&A expenses. Variation claims have been submitted for the Oman project, and are being vigorously pursued. Progress has been

## Management's Discussion and Analysis

made on these claims with the project in Oman having achieved gas in, mechanical completion and commissioning in readiness for gas and condensate export.

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Segment revenue	\$ 74,759	\$ 91,707	\$ 240,615	\$ 299,355
Intersegment revenue	(347)	-	(2,844)	(285)
Revenue	<u>\$ 74,412</u>	<u>\$ 91,707</u>	<u>\$ 237,771</u>	<u>\$ 299,070</u>
Revenue – Engineered Systems	\$ 46,935	\$ 72,502	\$ 161,583	\$ 242,168
Revenue – Service	\$ 22,791	\$ 18,487	\$ 71,117	\$ 54,605
Revenue – Rental	\$ 4,686	\$ 718	\$ 5,071	\$ 2,297
Operating income (loss)	\$ 1,781	\$ (6,973)	\$ (2,282)	\$ 8,498
EBIT	\$ 1,773	\$ (6,903)	\$ (2,336)	\$ 8,516
Segment revenue as a % of total revenue	15.5%	23.5%	18.9%	28.3%
Recurring revenue as a % of segment revenue	36.9%	20.9%	32.0%	19.0%
Operating income (loss) as a % of segment revenue	2.4%	(7.6)%	(1.0)%	2.8%
EBIT as a % of segment revenue	2.4%	(7.5)%	(1.0)%	2.8%

International revenue totalled \$74.4 million and \$237.8 million, respectively, in the third quarter and first nine months of 2014, compared to \$91.7 million and \$299.1 million in the same periods of 2013. The decreases of \$17.3 million and \$61.3 million, respectively, were a result of lower Engineered Systems revenue due to lower opening backlog. These decreases in revenue for the three and nine months ended September 30, 2014 were partially offset by higher Service and Rental revenues as a result of increased activity in the AustralAsia and MENA regions, and due to the contribution of the rental business acquired from Axiip.

Operating income was \$1.8 million for the third quarter of 2014, compared to \$7.0 million operating loss in the same period of 2013, as a result of improved gross margin, partially offset by higher SG&A expenses. For the third quarter, higher gross margin was due to improved project margins partially offset by the impact of lower revenues and the corresponding impact on gross margin. In the third quarter of 2013, cost increases on three international projects as a result of scope and design variations, and to a lesser extent due to project execution challenges, resulting in a \$11.5 million deterioration in gross margin during the quarter. SG&A expenses were higher in 2014 compared to 2013 on higher compensation expense, and foreign exchange losses.

For the nine months ended September 30, 2014, operating loss was \$2.3 million compared to \$8.5 million operating income for the same period in 2013. The decrease in operating income was attributable to lower gross margin and higher SG&A expenses. Lower gross margin in the first nine months of 2014 was driven primarily by cost increases on the Oman project due to scope and design variations, and schedule delays. During October 2014, commissioning was complete and mechanical completion achieved in readiness for gas and condensate export. The

## Management's Discussion and Analysis

Oman project cost increases resulted in a \$23.8 million deterioration in gross margin during the nine months ended September 30, 2014, compared to \$8.7 million during the same period in 2013. Variation claims, where appropriate, have been submitted, and are being vigorously pursued. To the extent these cost increases are subsequently recovered through variation claims from customers, revenue will be recognized in the corresponding period. Volatility in gross margins arises when cost increases are recognized as incurred on projects, while revenue resulting from any variation claims is recognized in the period that these claims are approved, which is typically at the completion of the project. With the project nearing completion, the Company has been able to advance variation claim discussions with the customer.

In addition, lower revenues negatively impacted gross margin. SG&A increased due to higher compensation expense and higher third party services related to the Axip acquisition. Compensation expense increased as a result of modest salary increases, and higher mark to market adjustments on share based payment expense due to the increase in the share price during the first half of 2014.

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013

### Bookings

International <sup>1</sup>	\$	<b>19,764</b>	\$	21,391	\$	<b>130,647</b>	\$	97,640
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<sup>1</sup>International bookings for the three and nine months ended September 30, 2014 do not include orders of \$10.8 million and \$18.4 million, respectively, for equipment that will be manufactured in the Canada and Northern U.S., and Southern U.S. and Latin America segments, and be delivered to international markets that Enerflex services (September 30, 2013: \$19.4 million and \$117.7 million, respectively).

International backlog was \$97.6 million at September 30, 2014 compared to \$128.6 million at December 31, 2013, a decrease of \$31.0 million. The decrease was primarily due to booking levels being lower than the conversion of backlog to revenue in the first nine months of 2014, despite higher booking levels. The higher booking levels in the first nine months of 2014 resulted from increased activity in the AustralAsia region.

**QUARTERLY SUMMARY**

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

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

<sup>2</sup> Earnings per share for the quarter ended June 30, 2014 normalized for one-time transaction expenses associated with the acquisition were \$0.33 per share.

**NON-GAAP MEASURES**

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

## Management's Discussion and Analysis

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Normalized EBIT</b>				
Earnings before finance costs and taxes	\$ 45,472	\$ 20,986	\$ 86,009	\$ 70,845
Acquisition-related costs	-	-	9,109	-
Normalized EBIT	\$ 45,472	\$ 20,986	\$ 95,118	\$ 70,845
<b>EBITDA</b>				
Earnings before finance costs and taxes	\$ 45,472	\$ 20,986	\$ 86,009	\$ 70,845
Depreciation and amortization	20,013	10,064	39,568	29,874
EBITDA	\$ 65,485	\$ 31,050	\$ 125,577	\$ 100,719
<b>Net Debt</b>				
Short and long-term debt, net of deferred transaction costs	\$ 450,091	\$ 88,657	\$ 450,091	\$ 88,657
Less:				
Cash and cash equivalents	114,107	101,990	114,107	101,990
Net Debt	\$ 335,984	\$ (13,333)	\$ 335,984	\$ (13,333)
<b>Net Debt to EBITDA</b>				
Net Debt	\$ 335,984	\$ (13,333)	\$ 335,984	\$ (13,333)
Annualized EBITDA	261,940	124,200	167,436	134,292
Net Debt to EBITDA ratio	1.28:1	(0.11):1	2.01:1	(0.10):1
<b>Recurring Revenue</b>				
Service	\$ 101,829	\$ 86,611	\$ 280,723	\$ 233,350
Rental	33,430	11,043	54,752	36,344
Total Recurring Revenue	\$ 135,259	\$ 97,654	\$ 335,475	\$ 269,694
<b>ROCE</b>				
Trailing 12-month EBIT	\$ 102,505	\$ 107,605	\$ 102,505	\$ 107,605
Capital Employed - beginning of period				
Net Debt (Cash)	\$ 285,793	\$ 17,696	\$ (89,038)	\$ (48,519)
Shareholders' equity	956,137	913,408	931,662	886,679
	\$ 1,241,930	\$ 931,104	\$ 842,624	\$ 838,160
Capital Employed - end of period				
Net Debt (Cash)	\$ 335,984	\$ (13,333)	\$ 335,984	\$ (13,333)
Shareholders' equity and Non-controlling interest	976,731	915,891	976,731	915,891
	\$ 1,312,715	\$ 902,558	\$ 1,312,715	\$ 902,558
Average Capital Employed	\$ 1,029,624	\$ 900,929	\$ 1,029,624	\$ 900,929
Return on Capital Employed	10.0%	11.9%	10.0%	11.9%

## Management's Discussion and Analysis

### FINANCIAL POSITION

The following table outlines significant changes in the Consolidated Statements of Financial Position as at September 30, 2014 as compared to December 31, 2013, which are inclusive of the balances acquired from Axiip, as summarized below.

The fair value of Axiip's identifiable assets acquired and liabilities at June 30, 2014 were:

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

(\$ Canadian millions)	Increase (Decrease)	Explanation
<b>Assets:</b>		
Cash	(67.9)	The decrease in cash compared to the year-end balance is due to higher working capital requirements entering the fourth quarter, primarily in the Southern U.S. and Latin America segment, and due to the partial funding in cash of the Axiip acquisition at the end of June 2014.
Accounts receivable	67.0	The increase in accounts receivable was driven by balances acquired from the Axiip entities and an increase in trade receivables driven by the progress billings on Engineered Systems projects.
Inventories	99.0	The increase in inventories is due to a buildup of work-in-process, as costs have accumulated on jobs prior to recognition of revenue, in addition to inventory acquired in the Axiip acquisition. Direct materials purchased for use in manufacturing jobs increased in response to the strong backlog levels entering the fourth quarter of 2014.

## Management's Discussion and Analysis

<i>(\$ Canadian millions)</i>	<b>Increase (Decrease)</b>	<b>Explanation</b>
Property, plant and equipment	12.0	The increase in property, plant and equipment was due to assets acquired from Azip, and additional investment in development of the Company's ERP system, partially offset by the periodic depreciation charge.
Rental equipment	216.8	Rental equipment increased due primarily to the acquisition of fleet equipment from Azip. This was partially offset by a decrease in rental equipment in Canada for Enerflex due to disposal of rental equipment from the fleet and the periodic depreciation charge.
Intangibles	21.5	The balance of intangible assets increased due to identifiable intangible assets recognized on the Azip purchase price allocation, which was partially offset by the periodic amortization of intangible assets, inclusive of the Company's ERP system in use.
Goodwill	238.0	Goodwill increased due to the Azip purchase price allocation and the impact of foreign exchange revaluation on goodwill allocated to the Southern U.S. and Latin America, and International segments.
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	73.4	The increase in accounts payable is in line with the build-up of inventory in response to strong booking activity and backlog levels, in addition to liabilities assumed as part of the Azip acquisition.
Deferred revenue - current	55.2	The increase in deferred revenue relates to the timing of progress billings and revenue recognition on Engineered Systems projects, as a number of projects have not yet met the criteria for recognition.
Deferred revenue – non current	5.8	The increase in long-term deferred revenue is due to the assumption of deferred revenue balances from the Azip acquisition, where the corresponding revenue will be recognized after a period of greater than one year.
Income tax payable	8.8	The increase in the balance is due to current tax liabilities assumed by Enerflex on the Azip acquisition and taxes payable on current period earnings.
Deferred tax liability	37.3	The increase in the balance is due to deferred tax liabilities assumed by Enerflex on the Azip acquisition, in addition to the tax impact of the purchase price allocation.
Long Term Debt	357.2	The increase in long-term debt is due to drawings on the Company's credit facilities to fund the June 30, 2014 acquisition of Azip and ongoing working capital requirements.

### LIQUIDITY

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

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



## Management's Discussion and Analysis

The Company expects that continued cash flows from operations in 2014, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

### Statements of Cash Flow

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cash, beginning of period	\$ 129,594	\$ 78,084	\$ 181,973	\$ 144,988
Cash (used in) provided by:				
Operating activities	(38,005)	43,314	61,659	(10,395)
Investing activities	(6,671)	(7,697)	(474,539)	(12,255)
Financing activities	28,671	(11,442)	344,161	(20,789)
Exchange rate changes on foreign currency cash	518	(269)	853	441
Cash, end of period	\$ 114,107	\$ 101,990	\$ 114,107	\$ 101,990

### Operating Activities

Cash used in operating activities totalled \$38.0 million in the third quarter of 2014 compared to \$43.3 million provided by operating activities in the same period in 2013. The decrease in cash from operations was due to higher working capital requirements driven partly by the Axiop acquisition, which more than offset the increased earnings from operations for the quarter. Cash provided by operating activities totalled \$61.7 million in the first nine months of 2014 compared to \$10.4 million of cash used in the same period of 2013, due to better working capital management resulting from the timing of progress billings and vendor payments, which more than offset lower earnings from operations.

### Investing Activities

Cash used in investing activities totalled \$6.7 million and \$474.5 million in the third quarter and nine months of 2014, respectively, compared to \$7.7 million and \$12.3 million used in investing activities for the same period of 2013. The Axiop acquisition represented a \$459.4 million use of cash in 2014. Net investment in property, plant and equipment and rental equipment for the third quarter and first nine months of 2014 was \$12.1 million and \$22.6 million, respectively, compared to net investment of \$6.6 million and \$13.9 million in the same periods of 2013.

### Financing Activities

Cash provided by financing activities totalled \$28.7 million and \$344.2 million in the third quarter and first nine months of 2014, compared to \$11.4 million and \$20.8 million cash used by financing activities for the same periods of 2013. In the second quarter of 2014, the Company drew proceeds of \$331.0 from its credit facility in order to fund the Axiop acquisition. In addition, cash proceeds received from stock option exercises were \$0.7 million lower in the third quarter of 2014 compared to 2013, however \$1.6 million higher on a year-to-date basis.

At September 30, 2014, the annualized net debt to EBITDA ratio was 2.01:1 compared to (0.10:1) at September 30, 2013. The increase in net debt was primarily due to drawings on the Company's credit facilities, which were used to fund the Axiop acquisition, despite higher annualized EBITDA for the first nine months of 2014 compared to 2013.

### **RISK MANAGEMENT**

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

#### **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, as described in the most recent annual MD&A, is unchanged in the current year. Further information on Enerflex's hedging activities is provided in Note 8 to the interim condensed financial statements.

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.

The Company is also subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar and British pound. For the nine months ended September 30, 2014, a 5% depreciation in the Canadian dollar against the U.S. dollar, Australian dollar and British pound would decrease other comprehensive income by \$12.7 million. A 5% depreciation of the U.S. dollar against the Mexican peso would increase net earnings before tax by \$4.2 million.

Enerflex hedges the risk of foreign currency volatility exposure on its foreign currency borrowing against the exposure that arises from foreign subsidiaries that are translated to the Canadian dollar through a net investment hedge. As a result, exchange gains and losses on the translation of designated foreign currency borrowings are included in accumulated other comprehensive income ("AOCI"). In addition, exchange gains and losses on net investments in foreign subsidiaries are included in AOCI. The AOCI at December 31, 2013 was \$5.7 million, which increased to \$13.3 million at September 30, 2014 as a result of changes in the value of the Canadian dollar against U.S. dollar, Australian dollar and British pound.

#### **Interest Rate Risk**

The Company's notes outstanding at September 30, 2014 are at fixed interest rates and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facilities however, are subject to changes in market interest rates.

The Company has entered into interest rate swaps to exchange the floating rate interest payments for fixed rate interest payments which fix the London Interbank Offered Rates ("LIBOR") components of its interest payments on \$210.0 million of its outstanding term debt until September 2015, \$140.0 million of its outstanding term debt until September 2016 and \$70.0 million of its outstanding term debt until September 2017.

## Management's Discussion and Analysis

Under the interest rate swap agreement, the Company pays a fixed rate of 0.785% per annum. The interest rate swap agreement has an aggregate notional principal amount of \$210.0 million, the principal balance of the Bank Facility. The fair value of the interest rate swap arrangement is the difference between the forward interest rates and the contract discounted. As at September 30, 2014, the fair value of the interest rate swaps was \$0.2 million.

For each 1% change in the rate of interest on the remaining \$155.3 million Bank Facilities, the change in interest expense for the nine months ended would be \$1.6 million, (December 31, 2013 – nominal). All interest charges are recorded on the interim condensed statement of earnings as Finance Costs.

### Credit Risk

The Company has accounts receivable from clients engaged in various industries including natural gas producers, natural gas transport, agriculture, chemical and petrochemical processing, and the generation and sale of electricity. These specific industries may be affected by economic factors that may impact collectability of accounts receivable. Enerflex has entered into a number of significant projects through 2014 and beyond. For the nine months ended September 30, 2014, the Company had no individual customers which accounted for more than 10% of its revenue.

### CAPITAL RESOURCES

On November 1, 2014, Enerflex had 78,592,326 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 2013, the Company declared an increase to its quarterly dividend to \$0.075 per share, the second annual increase in the Company's dividend to shareholders since re-emerging as a publicly-traded entity in June 2011 and its eleventh consecutive dividend.

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

At September 30, 2014, the Company had drawn \$365.3 million against the Bank Facilities (December 31, 2013 - \$5.0 million). The weighted average interest rate on the Bank Facilities at September 30, 2014 was 2.2% (December 31, 2013 – 3.1%).

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

<i>(\$ Canadian thousands)</i>	<b>September 30, 2014</b>		<b>December 31, 2013</b>	
Drawings on Bank Facilities	\$	<b>365,317</b>	\$	5,000
Notes due June 22, 2016		<b>50,500</b>		50,500
Notes due June 22, 2021		<b>40,000</b>		40,000
Deferred transaction costs		<b>(5,726)</b>		(2,565)
	<b>\$</b>	<b>450,091</b>	<b>\$</b>	<b>92,935</b>

## Management's Discussion and Analysis

At September 30, 2014, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are \$415.8 million and \$40.0 million thereafter.

### **NEW ACCOUNTING POLICY**

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

#### **IFRS 3 *Business Combinations***

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

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

### **FUTURE ACCOUNTING PRONOUNCEMENTS**

Effective January 1, 2014, the Company adopted the amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*. There was no financial impact related to the application of this revised Standard.

IFRS 9 *Financial Instruments* sets out the requirements for the classification and measurement of financial assets and liabilities and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on January 1, 2018.

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

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

### **RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS**

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

## Management's Discussion and Analysis

including disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

### INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the nine month period ended September 30, 2014 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

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

#### For the three and nine months ended September 30, 2014:

(\$ Canadian millions)

	<u>Azip</u>
Revenue	\$ 59.5
Net earnings for the period	6.8

#### As at September 30, 2014:

(\$ Canadian millions)

	<u>Azip</u>
Current assets	\$ 74.5
Non-current assets	467.5
Current liabilities	44.8
Non-current liabilities	177.1
Non-controlling interest	3.3

### SUBSEQUENT EVENT

Subsequent to September 30, 2014, the Company announced a 13.3% increase in the quarterly dividend to \$0.085 per share, payable on January 8, 2015, to shareholders of record on November 20, 2014.

Interim Condensed Financial Statements

**INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION** *(unaudited)*

<i>(\$ Canadian thousands)</i>	<b>September 30, 2014</b>		December 31, 2013
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$	<b>114,107</b>	\$ 181,973
Accounts receivable		<b>398,172</b>	331,170
Inventories (Note 3)		<b>265,030</b>	166,023
Income taxes receivable		<b>1,912</b>	320
Derivative financial instruments (Note 8)		<b>473</b>	358
Other current assets		<b>12,741</b>	9,368
<b>Total current assets</b>		<b>792,435</b>	689,212
Property, plant and equipment (Note 4)		<b>145,955</b>	133,933
Rental equipment (Note 4)		<b>292,216</b>	75,336
Deferred tax assets		<b>29,775</b>	31,999
Other assets		<b>13,952</b>	10,463
Intangible assets		<b>45,413</b>	23,922
Goodwill (Note 2)		<b>689,180</b>	451,214
<b>Total assets</b>	<b>\$</b>	<b>2,008,926</b>	<b>\$ 1,416,079</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$	<b>229,889</b>	\$ 156,484
Provisions		<b>18,949</b>	15,148
Income taxes payable		<b>11,033</b>	2,241
Deferred revenues		<b>264,443</b>	209,268
Derivative financial instruments (Note 8)		<b>693</b>	1,518
<b>Total current liabilities</b>		<b>525,007</b>	384,659
Long-term debt (Note 5)		<b>450,091</b>	92,935
Decommissioning liability		<b>4,778</b>	-
Deferred revenue		<b>5,782</b>	-
Deferred tax liabilities		<b>37,318</b>	-
Other liabilities		<b>9,219</b>	6,823
<b>Total liabilities</b>	<b>\$</b>	<b>1,032,195</b>	<b>\$ 484,417</b>
Shareholders' equity			
Share capital	\$	<b>229,129</b>	\$ 220,901
Contributed surplus		<b>653,266</b>	654,538
Retained earnings		<b>77,740</b>	50,476
Accumulated other comprehensive income		<b>13,282</b>	5,747
<b>Total shareholders' equity before non-controlling interest</b>		<b>973,417</b>	931,662
Non-controlling interest		<b>3,314</b>	-
<b>Total shareholders' equity and non-controlling interest</b>		<b>976,731</b>	931,662
<b>Total liabilities and shareholders' equity</b>	<b>\$</b>	<b>2,008,926</b>	<b>\$ 1,416,079</b>

See accompanying Notes to the Interim Condensed Financial Statements, including guarantees, commitments and contingencies (Note 11).

Interim Condensed Financial Statements

**INTERIM CONDENSED STATEMENTS OF EARNINGS** *(unaudited)*

(\$ Canadian thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue (Note 10, 13)	\$ 478,960	\$ 390,657	\$ 1,257,443	\$ 1,054,956
Cost of goods sold	386,600	329,301	1,027,821	868,192
Gross margin	92,360	61,356	229,622	186,764
Selling and administrative expenses	48,605	41,808	150,148	118,967
Operating income	43,755	19,548	79,474	67,797
Loss on disposal of property, plant and equipment	152	89	193	43
Equity earnings from associate and joint venture	(1,869)	(1,527)	(6,728)	(3,091)
Earnings before finance costs and income taxes	45,472	20,986	86,009	70,845
Finance costs	2,907	1,506	5,998	4,709
Finance income	(181)	(127)	(560)	(440)
Earnings before income taxes	42,746	19,607	80,571	66,576
Income taxes (Note 6)	12,517	6,433	35,146	19,618
Net earnings from continuing operations	\$ 30,229	\$ 13,174	\$ 45,425	\$ 46,958
Loss from discontinued operations	-	(33)	-	(1,760)
Net earnings	\$ 30,229	\$ 13,141	\$ 45,425	\$ 45,198
Net earnings attributable to:				
Controlling interest	\$ 29,713	\$ 13,141	\$ 44,909	\$ 45,198
Non-controlling interest	516	-	516	-
	\$ 30,229	\$ 13,141	\$ 45,425	\$ 45,198
Earnings (loss) per share – basic				
Continuing operations	\$ 0.39	\$ 0.16	\$ 0.58	\$ 0.60
Discontinued operations	\$ -	\$ -	\$ -	\$ (0.02)
Earnings (loss) per share – diluted				
Continuing operations	\$ 0.38	\$ 0.16	\$ 0.57	\$ 0.60
Discontinued operations	\$ -	\$ -	\$ -	\$ (0.02)
Weighted average number of shares – basic	78,321,341	77,827,608	78,408,304	77,878,927
Weighted average number of shares – diluted	79,152,429	78,201,975	79,139,399	78,178,006

See accompanying Notes to the Interim Condensed Financial Statements.

## Interim Condensed Financial Statements

### INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*

<i>(\$ Canadian thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	<b>2014</b>	2013	<b>2014</b>	2013
Net earnings	\$ 30,229	\$ 13,141	\$ 45,425	\$ 45,198
Other comprehensive (loss) income:				
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 recovery (2014: \$(306); 2013: \$(451))	(558)	957	(707)	(2,317)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense (2014: \$459; 2013: \$142)	181	24	1,173	328
Unrealized gain on translation of foreign denominated debt	16,314	-	16,314	-
Unrealized loss on translation of financial statements of foreign operations	(20,805)	(7,811)	(9,449)	(2,586)
Other comprehensive (loss) income	\$ (4,868)	\$ (6,830)	\$ 7,331	\$ (4,575)
Total comprehensive income	<u>\$ 25,361</u>	<u>\$ 6,311</u>	<u>\$ 52,756</u>	<u>\$ 40,623</u>
Total comprehensive income attributable to:				
Controlling interest	\$ 25,565	\$ 6,311	\$ 52,960	\$ 40,623
Non-controlling interest	(204)	-	(204)	-
	<u>\$ 25,361</u>	<u>\$ 6,311</u>	<u>\$ 52,756</u>	<u>\$ 40,623</u>

See accompanying Notes to the Interim Condensed Financial Statements.



## Interim Condensed Financial Statements

### INTERIM CONDENSED STATEMENTS OF CASH FLOWS *(unaudited)*

(\$ Canadian thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Operating Activities</b>				
Net earnings	\$ 30,229	\$ 13,141	\$ 45,425	\$ 45,198
Items not requiring cash and cash equivalents:				
Depreciation and amortization	20,013	10,064	39,568	29,874
Equity earnings from associate and joint venture	(1,869)	(1,527)	(6,728)	(3,091)
Deferred income taxes (Note 6)	3,173	1,624	6,411	2,558
Share-based compensation expense (Note 7)	1,378	1,774	7,741	4,477
Loss on sale of property, plant and equipment	152	89	193	43
	<b>53,076</b>	25,165	<b>92,610</b>	79,059
Net change in non-cash working capital and other (Note 9)	(91,081)	18,149	(30,951)	(89,454)
Cash (used in) provided by operating activities	\$ (38,005)	\$ 43,314	\$ 61,659	\$ (10,395)
<b>Investing Activities</b>				
Acquisition (Note 2)	\$ -	\$ -	\$ (459,400)	\$ -
Additions to:				
Property, plant and equipment (Note 4)	(7,747)	(7,795)	(20,881)	(16,451)
Rental equipment (Note 4)	(4,689)	(1,970)	(10,855)	(10,785)
Proceeds on disposal of:				
Property, plant and equipment	8	103	125	271
Rental equipment	320	3,026	9,023	13,021
Change in other assets	5,437	(1,061)	7,449	1,689
Cash used in investing activities	\$ (6,671)	\$ (7,697)	\$ (474,539)	\$ (12,255)
<b>Financing Activities</b>				
Proceeds from (repayment of) long-term debt	\$ 33,926	\$ (7,301)	\$ 356,253	\$ (8,376)
Dividends	(5,881)	(5,454)	(17,606)	(16,338)
Stock option exercises	626	1,313	5,514	3,925
Cash provided by (used in) financing activities	\$ 28,671	\$ (11,442)	\$ 344,161	\$ (20,789)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	\$ 518	\$ (269)	\$ 853	\$ 441
(Decrease) increase in cash and cash equivalents	(15,487)	23,906	(67,866)	(42,998)
Cash and cash equivalents, beginning of period	129,594	78,084	181,973	144,988
Cash and cash equivalents, end of period	\$ 114,107	\$ 101,990	\$ 114,107	\$ 101,990

See accompanying Notes to the Interim Condensed Financial Statements.

## Interim Condensed Financial Statements

### INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY *(unaudited)*

<i>(\$ Canadian thousands)</i>	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Total accumulated other comprehensive income (loss)	Total shareholder's equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2013	\$ 212,875	\$ 655,879	\$ 16,826	\$ (11)	\$ 1,110	\$ 1,099	\$ 886,679	-	\$ 886,679
Net earnings	-	-	45,198	-	-	-	45,198	-	45,198
Other comprehensive loss	-	-	-	(2,586)	(1,989)	(4,575)	(4,575)	-	(4,575)
Effect of stock option plans	6,073	(1,123)	-	-	-	-	4,950	-	4,950
Dividends	-	-	(16,361)	-	-	-	(16,361)	-	(16,361)
<b>At September 30, 2013</b>	<b>\$ 218,948</b>	<b>\$ 654,756</b>	<b>\$ 45,663</b>	<b>\$ (2,597)</b>	<b>\$ (879)</b>	<b>\$ (3,476)</b>	<b>\$ 915,891</b>	<b>-</b>	<b>\$ 915,891</b>
At January 1, 2014	\$ 220,901	\$ 654,538	\$ 50,476	\$ 7,303	\$ (1,556)	\$ 5,747	\$ 931,662	-	\$ 931,662
Net earnings	-	-	44,909	-	-	-	44,909	516	45,425
Non-controlling interest acquired	-	-	-	-	-	-	-	3,002	3,002
Other comprehensive income (loss)	-	-	-	7,069	466	7,535	7,535	(204)	7,331
Effect of stock option plans	8,228	(1,272)	-	-	-	-	6,956	-	6,956
Dividends	-	-	(17,645)	-	-	-	(17,645)	-	(17,645)
<b>At September 30, 2014</b>	<b>\$ 229,129</b>	<b>\$ 653,266</b>	<b>\$ 77,740</b>	<b>\$ 14,372</b>	<b>\$ (1,090)</b>	<b>\$ 13,282</b>	<b>\$ 973,417</b>	<b>3,314</b>	<b>\$ 976,731</b>

See accompanying Notes to the Interim Condensed 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. Summary of Significant Accounting Policies

#### (a) Statement of Compliance

These interim condensed financial statements have been prepared in accordance with *IAS 34 Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These interim condensed financial statements were approved and authorized for issue by the Board of Directors on November 6, 2014.

#### (b) Basis of Presentation and Measurement

These interim condensed financial statements for the three and nine months ended September 30, 2014 and 2013 were prepared in accordance with IAS 34 and accordingly, do not include all the disclosures included in the Company's annual consolidated financial statements for the year ended December 31, 2013. Accordingly, these interim condensed financial statements should be read in conjunction with the annual consolidated financial statements. Certain prior year amounts have been reclassified to conform with the current period's presentation.

These interim condensed financial statements are presented in Canadian dollars rounded to the nearest thousands, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost convention with certain financial assets and financial liabilities recorded at fair value. There have been no significant changes in accounting policies compared to those described in the annual consolidated financial statements for the year ended December 31, 2013, other than those identified below under New Policies, Standards, Interpretations and Amendments.

#### (c) New Policies, Standards, Interpretations and Amendments

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

##### **IFRS 3 Business Combinations**

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

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

Effective January 1, 2014, the Company adopted the amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*. There was no financial impact related to the application of this new standard.

The Company continues to assess the impact of adopting the following pronouncements from the IASB:

IFRS 9 *Financial Instruments* sets out the requirements for the classification and measurement of financial assets and liabilities and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on January 1, 2018.

## Notes to the Consolidated Financial Statements

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

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

### Note 2. Acquisition

On June 30, 2014, Enerflex completed the acquisition of the international contract compression and processing, as well as the after-market services business of Axi Energy Services, LP ("Axi") for approximately USD \$431.0 million (CAD \$460.2 million), including closing purchase price adjustments. Axi's international contract compression, processing and after-market service business is a leading provider of global energy services. Headquartered in Houston, Texas, Axi had 173 employees with operations in Argentina, Brazil, Colombia, Mexico, Peru, Indonesia, Malaysia, Thailand and Bahrain. Axi's energy infrastructure assets include a 448 unit compression fleet totaling approximately 285,000 hp and gas treating facilities in Mexico, Argentina and Peru. All members of the current Axi international senior management team have stayed with the business. The acquisition did not include Axi's U.S. assets. The purchase of Axi was funded by \$128.0 million from cash-on-hand with the remaining balance funded by drawing on the Company's credit facilities, as discussed in Note 5.

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

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

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

## Notes to the Consolidated Financial Statements

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

Acquisition costs relating to external legal, consulting, due diligence, financial advisory and other closing costs for the nine months ended September 30, 2014 were \$9.1 million and have been included in selling, general and administrative expenses in the Company's interim condensed statements of earnings. There were no acquisition costs incurred in the third quarter of 2014.

Revenue would have been approximately \$70.5 million higher and net earnings would have been approximately \$5.4 million higher if the business was acquired on January 1, 2014.

### Note 3. Inventories

Inventories consisted of the following:

	September 30, 2014		December 31, 2013	
Equipment	\$	10,482	\$	10,536
Repair and distribution parts		67,374		48,893
Direct materials		60,688		26,358
Work-in-process		126,486		80,236
Total inventories	\$	265,030	\$	166,023

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold for the three and nine months ended September 30, 2014 was \$386.6 million and \$1,027.8 million, respectively, (September 30, 2013 - \$329.3 million and \$868.2 million, respectively). 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 interim condensed statement of earnings and included in cost of goods sold for the three and nine months ended September 30, 2014 was \$0.1 million and \$1.1 million, respectively (September 30, 2013 - (\$0.4) million and \$0.7 million, respectively).

### Note 4. Property, Plant and Equipment and Rental Equipment

During the three and nine months ended September 30, 2014, the Company acquired \$7.7 million and \$20.9 million in property, plant and equipment (September 30, 2013 - \$7.8 million and \$16.5 million) and \$4.7 million and \$10.9 million in rental equipment, respectively (September 30, 2013 - \$2.0 million and \$10.8 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended September 30, 2014 was \$15.6 million (September 30, 2013 - \$6.8 million), of which \$13.6 million was included in cost of goods sold and \$2.0 million was included in selling and administrative expenses (September 30, 2013 - \$4.6 million and \$2.2 million, respectively).

Depreciation of property, plant and equipment and rental equipment included in earnings for the nine months ended September 30, 2014 was \$28.4 million (September 30, 2013 - \$20.4 million), of which \$22.3 million was included in cost of goods sold and \$6.1 million was included in selling and administrative expenses (September 30, 2013 - \$14.1 million and \$6.3 million, respectively).

## Notes to the Consolidated Financial Statements

### Note 5. Long-Term Debt

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

	September 30, 2014		December 31, 2013	
Drawings on Bank Facility	\$	365,317	\$	5,000
Notes due June 22, 2016		50,500		50,500
Notes due June 22, 2021		40,000		40,000
Deferred transaction costs		(5,726)		(2,565)
	\$	450,091	\$	92,935

The weighted average interest rate on the Bank Facility for the nine months ended September 30, 2014 was 2.2% (December 31, 2013 – 3.1%). At September 30, 2014, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are \$415.8 million, and \$40.0 million thereafter.

### Note 6. Income Taxes

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Current income taxes	\$ 9,344	\$ 4,809	\$ 28,735	\$ 17,060
Deferred income taxes	3,173	1,624	6,411	2,558
	\$ 12,517	\$ 6,433	\$ 35,146	\$ 19,618

#### 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:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Earnings before income taxes from continuing operations	\$ 42,746	\$ 19,607	\$ 80,571	\$ 66,576
Canadian statutory rate	25.0%	25.0%	25.0%	25.0%
Expected income tax provision	10,687	4,902	20,143	16,644
Add (deduct):				
Earnings taxed in foreign jurisdictions	2,053	1,802	8,460	3,452
Withholding tax on dividends received from foreign subsidiaries	-	-	5,653	-
Expenses not deductible for tax purposes	322	96	2,666	348
Impact of equity earnings	(468)	(364)	(1,682)	(774)
Other	(77)	(3)	(94)	(52)
Income tax expense from continuing operations	\$ 12,517	\$ 6,433	\$ 35,146	\$ 19,618

The Canadian statutory rate is the aggregate of the Canadian federal income tax rate of 15.0% (2013 - 15.0%) and the provincial income tax rate of 10.0% (2013 - 10.0%).

**Note 7. Share-Based Compensation**

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Equity settled share-based payments	\$ 500	\$ 317	\$ 1,442	\$ 1,024
Cash settled share-based payments	878	1,457	6,299	3,453
<b>Total share-based compensation expense</b>	<b>\$ 1,378</b>	<b>\$ 1,774</b>	<b>\$ 7,741</b>	<b>\$ 4,477</b>

Deferred share units (“DSUs”), phantom share rights (“SARs”), performance share units (“PSUs”) and restricted share units (“RSUs”) are all classified as cash settled share-based payments. Stock options are equity settled share-based payments.

During the the third quarter, the Board of Directors granted granted PSUs, RSUs, SARs and options to officers and key employees. The RSU, PSU and DSU holders had dividends credited to their account during the period. The carrying amount of the liability relating to all cash settled share-based payments at September 30, 2014 was \$10.1 million (December 31, 2013 - \$6.3 million).

**(a) Equity Settled Share-Based Payments**

	September 30, 2014		December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	2,679,202	\$ 12.30	2,655,575	\$ 11.71
Granted	391,712	20.75	507,557	14.33
Exercised	(465,497)	17.43	(461,980)	11.22
Forfeited	(27,493)	12.22	(17,600)	11.71
Expired	(2,000)	11.20	(4,350)	10.72
<b>Options outstanding, end of period</b>	<b>2,575,924</b>	<b>\$ 13.69</b>	<b>2,679,202</b>	<b>\$ 12.30</b>
<b>Options exercisable, end of period</b>	<b>1,023,593</b>	<b>\$ 12.09</b>	<b>1,109,253</b>	<b>\$ 11.82</b>

The Company granted 391,712 stock options for the period ended September 30, 2014.(December 31, 2014 – 507,557). Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted for the period ended September 30, 2014 was \$5.28 per option (December 31, 2013 - \$3.81).

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

	September 30, 2014	December 31, 2013
Expected life (years)	5.31	5.0
Expected volatility <sup>1</sup>	29.42%	30.8%
Dividend yield	1.45%	2.1%
Risk-free rate	2.1%	2.6%
Estimated forfeiture rate	0.7%	0.4%

<sup>1</sup>Expected volatility is based on Enerflex and its peers over a five-year period, consistent with the expected life of the option.

## Notes to the Consolidated Financial Statements

The following table summarizes options outstanding and exercisable at September 30, 2014:

Range of exercise prices	Options Outstanding			Options Exercisable		
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price
\$9.61 - \$11.75	746,410	3.63	\$ 11.22	361,412	3.01	\$ 10.78
\$11.76 - \$13.65	936,500	3.30	12.37	561,925	2.71	12.53
\$13.66 - \$20.75	893,014	6.30	17.15	100,256	5.86	14.33
<b>Total</b>	<b>2,575,924</b>	<b>4.44</b>	<b>\$ 13.69</b>	<b>1,023,593</b>	<b>3.12</b>	<b>\$ 12.09</b>

### (b) Cash Settled Share-Based Payments

During the three and nine months ended September 30, 2014, directors fees and executive bonuses elected to be received in DSUs totalled \$0.2 million and \$1.1 million, respectively (September 30, 2013 - \$0.2 million and \$1.2 million, respectively).

	Number of DSUs	Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2014	198,350	\$ 12.27
Granted	64,245	17.61
In lieu of dividends	2,802	17.54
<b>DSUs outstanding, September 30, 2014</b>	<b>265,397</b>	<b>\$ 13.62</b>

## Note 8. Financial Instruments

### Designation and Valuation of Financial Instruments

Financial instruments at September 30, 2014 were classified in the same manner as they were at December 31, 2013. Accordingly, with the exception of the Company's Unsecured Notes ("Notes"), the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at September 30, 2014 was \$90.5 million and \$99.0 million, respectively (December 31, 2013 - \$90.5 million and \$95.0 million, respectively). The fair value of these Notes at September 30, 2014 was determined on a discounted cash flow basis with a weighted average discount rate of 3.2% (December 31, 2013 - 4.1%).

### 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 September 30, 2014.



## Notes to the Consolidated Financial Statements

		Notional amount	Maturity
<b>Canadian dollar denominated contracts</b>			
Purchase contracts	USD	8,571	October 2014 – June 2015
Sales contracts	USD	31,060	October 2014 – May 2015

At September 30, 2014, the fair value of derivative financial instruments classified as financial assets was \$0.5 million, and as financial liabilities was \$0.7 million (December 31, 2013 - \$0.4 million and \$1.5 million, respectively).

### Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Mexican peso. Enerflex uses foreign currency borrowings to hedge against the exposure that arises from foreign subsidiaries that are translated to the Canadian dollar through a net investment hedge. As a result, exchange gains and losses on the translation of the \$310.0 million USD in designated foreign currency borrowings are included in accumulated other comprehensive income for September 30, 2014. The following table shows the Company's sensitivity to a 5% weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound and a 5% weakening of the U.S. dollar against the Mexican pesos.

Canadian dollar weakens by 5%	USD	AUD	MXN	GBP
Earnings from foreign operations				
Earnings before income taxes	\$ 1,982	\$ 1,141	\$ -	\$ 164
Financial instruments held in foreign operations				
Other comprehensive income	\$ 10,112	\$ 2,265	\$ -	\$ 308
Earnings before income taxes	-	-	4,239	-
Financial instruments held in Canadian operations				
Earnings before income taxes	\$ 236	\$ -	\$ -	\$ -

### Interest Rate Risk

The Company's liabilities include long-term debt subject to fluctuations in interest rates. The Company's Notes outstanding at September 30, 2014 were at fixed interest rates and therefore the related interest expense would not be impacted by fluctuations in interest rates. The Company's Bank Facility, however, is 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 London Interbank Offered Rates components of its interest payments on \$210.0 million of its outstanding term debt until September 2015, \$140.0 million of its outstanding term debt until September 2016, and \$70.0 million of its outstanding term debt until September 2017.

## Notes to the Consolidated Financial Statements

Under the interest rate swap agreement, the Company pays a fixed rate of 0.785% per annum. The interest rate swap agreement has an aggregate notional principal amount of \$210.0 million, the principal balance of the Bank Facility. The fair value of the interest rate swap arrangement is the difference between the forward interest rates and the discounted contract rate. As at September 30, 2014, the fair value of the interest rate swap was \$0.2 million.

For each 1% change in the rate of interest on the remaining \$155.3 million Bank Facilities, the change in interest expense for the nine months ended would be \$1.6 million (December 31, 2013 – nil). All interest charges are recorded on the interim condensed statement of earnings as Finance Costs.

### 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 committed facility with a U.S. lender, and a Bank Facility for future drawings to meet the Company's future growth targets. As at September 30, 2014, the Company held cash and cash equivalents of \$114.1 million and had drawn \$365.3 million against the Bank Facility, leaving it with access to \$241.3 million for future drawings.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows associated with the maturity of the Company's financial liabilities as at September 30, 2014:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Foreign currency forward contracts	\$ 456	\$ 237	\$ -	\$ 693
Accounts payable and accrued liabilities	229,889	-	-	229,889
Long-term debt – Bank Facility	-	-	365,317	365,317
Long-term debt - Notes	-	-	90,500	90,500
Other long-term liabilities	-	-	9,219	9,219

The Company expects that continued cash flows from operations in 2014, 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 9. Supplemental Cash Flow Information**

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Cash (used in) provided by changes of non-cash working capital</b>				
Accounts receivable	\$ (42,903)	\$ (5,744)	\$ (20,090)	\$ (53,984)
Inventories	(32,384)	13,357	(84,915)	5,423
Deferred revenues	4,909	(20,142)	45,236	(16,739)
Accounts and taxes payable and accrued liabilities	(3,425)	39,211	40,923	(23,171)
Foreign currency and other	(17,278)	(8,533)	(12,105)	(983)
	<u>\$ (91,081)</u>	<u>\$ 18,149</u>	<u>\$ (30,951)</u>	<u>\$ (89,454)</u>

Cash paid during the period:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest	\$ 1,266	\$ 663	\$ 3,606	\$ 3,077
Taxes	11,324	5,861	26,779	21,252

**Note 10. Revenue**

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Australia	\$ 52,628	\$ 54,373	\$ 163,222	\$ 193,481
Canada	144,537	111,863	414,688	300,368
Oman	12,374	18,307	52,505	80,940
United States	162,771	140,248	449,329	366,232
Mexico	27,008	102	36,990	212
Other	79,642	65,754	140,709	113,723
Total Revenue	<u>\$ 478,960</u>	<u>\$ 390,657</u>	<u>\$ 1,257,443</u>	<u>\$ 1,054,956</u>

**Note 11. Guarantees, Commitments and Contingencies**

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.

## Notes to the Consolidated Financial Statements

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

2014	\$	4,279
2015		15,621
2016		13,479
2017		11,135
2018		8,974
Thereafter		17,145
Total	\$	<u>70,633</u>

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

2014	\$	20,917
2015		2,104
2016		1,820

### Note 12. Seasonality

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

## Notes to the Consolidated Financial Statements

### Note 13. 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 nine months ended September 30, 2014, the Company had no individual customers which accounted for more than 10% of its revenue.

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

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

Three months ended September 30,	Canada and Northern U.S.		Southern U.S. and Latin America		International		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Segment revenue	\$ 172,047	\$ 149,716	\$ 235,394	\$ 166,419	\$ 74,759	\$ 91,707	\$ 482,200	\$ 407,842
Intersegment revenue	(2,308)	(14,815)	(585)	(2,370)	(347)	-	(3,240)	(17,185)
External revenue	\$ 169,739	\$ 134,901	\$ 234,809	\$ 164,049	\$ 74,412	\$ 91,707	\$ 478,960	\$ 390,657
Operating income (loss)	\$ 11,460	\$ 8,083	\$ 30,514	\$ 18,438	\$ 1,781	\$ (6,973)	\$ 43,755	\$ 19,548

Nine months ended September 30,	Canada and Northern U.S.		Southern U.S. and Latin America		International		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Segment revenue	\$ 502,035	\$ 440,576	\$ 529,565	\$ 393,061	\$ 240,615	\$ 299,355	\$ 1,272,215	\$ 1,132,992
Intersegment revenue	(6,938)	(63,256)	(4,990)	(14,495)	(2,844)	(285)	(14,772)	(78,036)
External revenue	\$ 495,097	\$ 377,320	\$ 524,575	\$ 378,566	\$ 237,771	\$ 299,070	\$ 1,257,443	\$ 1,054,956
Operating income (loss)	\$ 21,353	\$ 16,499	\$ 60,403	\$ 42,800	\$ (2,282)	\$ 8,498	\$ 79,474	\$ 67,797

## Notes to the Consolidated Financial Statements

As at	Canada and Northern U.S.		Southern U.S. and Latin America		International		Total	
	Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013
Segment assets	\$ 517,626	\$ 461,205	\$ 588,387	\$ 300,162	\$ 281,290	\$ 226,166	\$ 1,387,303	\$ 987,533
Goodwill	249,261	249,261	308,415	77,821	131,504	124,132	689,180	451,214
Corporate	-	-	-	-	-	-	(67,557)	(22,668)
<b>Total segment assets</b>	<b>\$ 766,887</b>	<b>\$ 710,466</b>	<b>\$ 896,802</b>	<b>\$ 377,983</b>	<b>\$ 412,794</b>	<b>\$ 350,298</b>	<b>\$ 2,008,926</b>	<b>\$ 1,416,079</b>

### Note 14. Subsequent Event

Subsequent to September 30, 2014, the Company declared a 13.3% increase to its dividend to \$0.085 per share, payable on January 8, 2015, to shareholders of record on November 20, 2014.

# DIRECTORS AND EXECUTIVES

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

Director  
Denver, CO

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

Director  
Dallas, TX

**J. Blair Goertzen**

Director  
President and  
Chief Executive Officer  
Calgary, AB

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

Director  
Toronto, ON

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

Director  
Paradise, NL

**Stephen J. Savidant**

Chairman  
Calgary, AB

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

Director  
Houston, TX

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

Director  
Calgary, AB

**D. James Harbilas**

Executive Vice President and  
Chief Financial Officer  
Calgary, AB

**Jerauld Fraelic**

President, Americas  
Houston, TX

**Bradley Beebe**

President, Canada  
Calgary, AB

**Marc Rossiter**

President, United States of America  
Houston, TX

**Patricia Martinez**

President, Latin America  
Houston, TX

**Phil Pyle**

President, International  
Abu Dhabi, UAE

**William Moore**

Senior Vice President,  
Business Development and Strategy  
Calgary, AB

**Greg Stewart**

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

**Carol Ionel**

Vice President,  
Human Resources  
Calgary, AB

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

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

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

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

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

<sup>6</sup> Member of the Audit Committee

**Head Office**

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# SHAREHOLDERS' INFORMATION

## Common Shares

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

## Trustee, Registrar and Transfer Agent

CST Trust Company  
Calgary, AB Canada

For shareholder inquiries:

CST Trust Company  
2001 University Street, Suite 1600  
Montreal, QC H3A 2A6 Canada

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

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

Web: [www.canstockta.com](http://www.canstockta.com)

## Auditors

Ernst & Young  
Calgary, AB Canada

## Bankers

The Toronto Dominion Bank  
Calgary, AB Canada

The Bank of Nova Scotia  
Toronto, ON Canada

## Investor Relations

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

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



The image features the Enerflex logo in a bold, dark red font. The background is white with several large, abstract, light blue shapes that resemble stylized arrows or paths pointing in various directions. A large, solid blue shape is positioned in the bottom right corner, partially overlapping the white background.

**ENERFLEX**

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