

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars unless otherwise stated. IFRS has been adopted in Canada as Generally Accepted Accounting Principles ("GAAP") and as a result, GAAP and IFRS are used interchangeably within this MD&A.

The MD&A has been prepared taking into consideration information that is available up to February 26, 2015 and focuses on information and key statistics from the audited annual consolidated financial statements, and pertains to known risks and uncertainties relating to the oil and gas services sector. This discussion should not be considered all-inclusive, as it excludes possible future changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex in the future. Additional information relating to the Company, including the Annual Information Form is available on SEDAR at www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, which are based on certain assumptions and analyses made by the Company derived from its experience and perceptions. Certain statements containing words such as "anticipate", "could", "expect", "seek", "may", "intend", "will", "believe" and similar expressions, statements that are based on current expectations and estimates about the markets in which the Company operates, and statements of the Company's belief, intentions and expectations about developments, results and events, which will or may occur in the future, constitute "forward-looking statements". Any statements, other than statements of historical fact contained in this MD&A may be forward-looking statements, including, without limitation: statements with respect to anticipated financial performance; future capital expenditures, including the amount and nature thereof; bookings and backlog; oil and gas prices and the impact of such prices on demand for Enerflex products and services; development trends in the oil and gas industry; seasonal variations in the activity levels of certain oil and gas markets; business prospects and strategy; expansion and growth of the business and operations, including market share and position in the energy service markets; the ability to raise capital; the ability of existing and expected cash flows and other cash resources to fund investments in working capital and capital assets; the impact of economic conditions on accounts receivable; expectations regarding future dividends; expectations and implications of changes in government regulation, laws and income taxes; and other such matters.

The forward-looking statements in this MD&A, primarily in the Enerflex Strategy and Outlook for Markets sections, are subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations. The critical risks, uncertainties, and assumptions relating to these sections, include, without limitation: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids, interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; and political unrest. As such, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given

that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds or dividends the Company and its shareholders, will derive therefrom. The forward-looking statements included in this MD&A are made as of the date of this MD&A and other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

THE COMPANY

Enerflex is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems and electric power equipment – plus in-house engineering and mechanical services expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission and service hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO₂ processing plants, refrigeration systems and electric power equipment serving the natural gas production industry.

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

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

Canada and Northern U.S.

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

Southern U.S. and Latin America

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

International

Continuing Operations

- The Process Construction business unit in the AustralAsia region designs, installs and commissions compression and gas processing systems. The Service division provides aftermarket parts and service, including as a GE Power Packager, throughout the region with locations in Queensland, New South Wales, Southern Australia and Western Australia;
- Southeast Asia division, with locations and operations in Indonesia, Singapore, Thailand and Malaysia, provides processing and compression solutions, including rentals, to customers in the region. Service capabilities are also provided to Southeast Asia through the Indonesia, Malaysia and Thailand operations;
- Middle East and North Africa (“MENA”) division provides engineering, procurement and construction services, compression and process package sales, as well as rentals, and operating and maintenance services for gas compression and processing facilities in the region. The division has locations in Bahrain, UAE and Oman; and
- Europe/Commonwealth of Independent States (“CIS”) division provides customized compression, processing and high-end refrigeration solutions including CO₂ compression and liquefaction. The division has locations in the United Kingdom and Russia.

Discontinued Operations

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

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

Reporting Segment Change

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

Engineered Systems

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

Service

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

Rentals

The Rentals product line includes a variety of rental and leasing alternatives for natural gas compression, power generation and processing equipment. The rental fleet is deployed in Western Canada, the Northern U.S., Argentina, Brazil, Colombia, Mexico, Peru, Bahrain, Oman, Indonesia, Malaysia and Thailand. The Rentals product line encompasses 424,175 hp of equipment either on rental or available for rental globally.

ENERFLEX STRATEGY

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

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

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

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

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

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

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

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

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

OVERVIEW

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

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

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

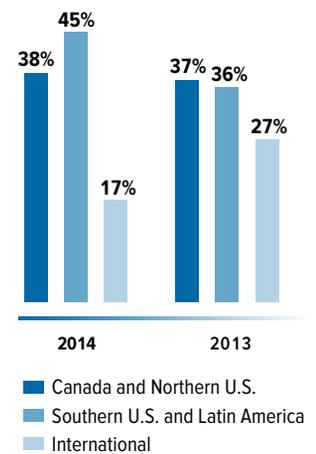
For the year ended December 31, 2014, results for the Canada and Northern U.S. and Southern U.S. and Latin America segments, as well as overall results for the Company, have improved when compared to the same period in 2013. Results normalized for one time transaction expenses associated with the purchase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

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

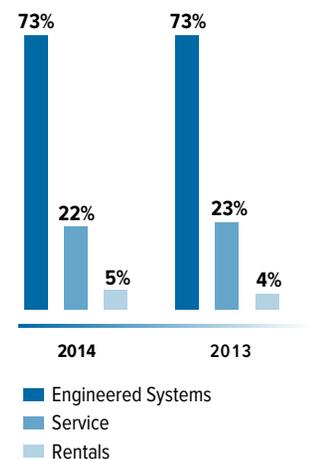
The increase in the fourth quarter was due to higher bookings in the Southern U.S. and Latin America, and International segments, with Canada and Northern U.S. bookings slightly lower than 2013 levels. For the 2014 year, bookings were higher in all segments compared to 2013.

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

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



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



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

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

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

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

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

OUTLOOK FOR MARKETS

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

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

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

Canada and Northern U.S.

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

Southern U.S. and Latin America

The performance of the Southern U.S. and Latin America segment has been largely dependent on activity in liquids-rich U.S. gas basins, which give rise to new orders for compression and processing equipment for this region. These liquids-rich resource basins can achieve superior returns for producers despite low natural gas prices due to the higher value that can be realized for the NGL. Activity typically remains strong in these basins as long as the frac spread (the differential between NGL prices and natural gas prices) remains high. In 2014, activity has been strong despite weaker NGL prices, and as a result of increased oil exploration and production, and the associated gas that results. That said, NGL prices have further weakened over the fourth quarter, given their dependency on oil prices. The significant decrease in oil prices, the impact on production levels and therefore associated gas levels, and the impact on NGL prices is expected to result in a slowdown in activity in at least the first half of 2015. There is still significant uncertainty as to the extent and duration of the slowdown. Despite the anticipated slowdown, Enerflex remains well-positioned given strong backlog levels, which stood at \$454.5 million at the end of 2014, compared to \$358.9 million at December 31, 2013.

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

International

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

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

FINANCIAL HIGHLIGHTS

	Three months ended December 31,		Twelve months ended December 31,	
(\$ Canadian thousands)	2014	2013	2014	2013
Revenue				
Canada and Northern U.S.	\$ 187,658	\$ 147,572	\$ 682,755	\$ 524,892
Southern U.S. and Latin America	274,481	125,192	799,056	503,758
International	61,148	77,302	298,919	376,372
Total revenue	523,287	350,066	1,780,730	1,405,022
Cost of goods sold	429,959	290,925	1,457,780	1,159,117
Gross margin	93,328	59,141	322,950	245,905
Selling and administrative expenses	56,515	44,908	206,663	163,875
Operating income	36,813	14,233	116,287	82,030
Loss on disposal of property, plant and equipment	(131)	(122)	62	(79)
Equity earnings from associates and joint ventures	(2,781)	(2,141)	(9,509)	(5,232)
Earnings before finance costs and taxes	39,725	16,496	125,734	87,341
Finance costs, net of finance income	4,333	1,249	9,771	5,518
Earnings before taxes	35,392	15,247	115,963	81,823
Income tax expense	9,598	4,487	44,745	24,105
Loss from discontinued operations	–	92	–	1,852
Net earnings	\$ 25,794	\$ 10,668	\$ 71,218	\$ 55,866
Key Financial Performance Indicators¹				
Bookings	\$ 422,490	\$ 386,409	\$ 1,416,880	\$ 1,140,801
Backlog	\$ 916,484	\$ 793,977	\$ 916,484	\$ 793,977
Recurring revenue as a percentage of revenue ²	27.3%	26.7%	27.3%	26.7%
Gross margin as a percentage of revenue	17.8%	16.9%	18.1%	17.5%
Normalized gross margin as a percentage of revenue ³	18.8%	16.9%	18.7%	17.5%
Selling and administrative expenses as a percentage of revenue	10.8%	12.8%	11.6%	11.7%
EBIT as a percentage of revenue ²	7.1%	6.2%	7.1%	6.2%
Normalized EBIT ³	\$ 49,897	\$ 20,288	\$ 150,612	\$ 91,601
Normalized EBIT as a percentage of revenue ^{2,3}	8.5%	6.5%	8.5%	6.5%
Earnings before interest, tax, depreciation and amortization (“EBITDA”)	56,956	26,217	182,533	126,936
Normalized EBITDA ³	67,128	30,009	207,411	131,196
Return on capital employed	11.2%	9.7%	11.2%	9.7%
Net debt (cash) to EBITDA ratio	1.52:1	(0.85):1	1.90:1	(0.70):1
Cash from operations	\$ 2,952	\$ 79,419	\$ 64,611	\$ 69,024

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

² Determined by taking the trailing 12-month period.

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

DEFINITIONS

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

Operating Income

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

Bookings and Backlog

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

Recurring Revenue

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

EBIT

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

EBITDA

EBITDA provides the results generated by the Company's primary business activities prior to consideration of how those activities are financed, assets are amortized or how the results are taxed in various jurisdictions.

Normalized Gross Margin, EBIT and EBITDA

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

ROCE

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

Net Debt to EBITDA

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

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

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

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

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

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

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

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

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

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

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

CANADA AND NORTHERN U.S. SEGMENT RESULTS

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

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

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

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

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

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

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

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

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

SOUTHERN U.S. AND LATIN AMERICA SEGMENT RESULTS

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

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

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

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

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

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

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

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

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

INTERNATIONAL SEGMENT RESULTS

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

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

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

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

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

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

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

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

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

QUARTERLY SUMMARY

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

¹ Amounts presented are from continuing operations.

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

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

NON-GAAP MEASURES

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

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

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

FINANCIAL POSITION

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

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

LIQUIDITY

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

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

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

Summarized Statements of Cash Flow

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

Operating Activities

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

Investing Activities

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

Financing Activities

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

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

RISK MANAGEMENT

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

Project Execution Risk

Enerflex engineers, designs, manufactures, constructs, commissions and services hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO₂ processing plants, refrigeration systems, and electric power equipment serving the natural gas production industry. Some of the projects that the Company participates in have a relatively larger size and scope than the majority of its projects, which may translate into more technically challenging conditions or performance specifications for its products and services. The Company's ability to profitably execute on these solutions for customers is dependent on numerous factors which include, but are not limited to, changes in project scope, the availability and timeliness of external approvals and other required permits, skilled labour availability and productivity, availability and cost of material and services, design, engineering and construction errors, and the availability of contractors to deliver on commitments. A number of these risks are discussed in more detail below.

The Company has made significant progress on a multi-year initiative to integrate its systems and processes, while bringing its facilities to world-class standards. In addition, continuous improvement initiatives are in place to achieve accurate, complete and timely provision of deliverables. Nonetheless, project risks can translate into performance issues and delays, as well as project costs being in excess of cost estimates, as evidenced by recent experience in the International segment and the Alberta oil sands business. The Company has introduced formal targets around project estimating and any deviations from the originally bid project margins. These targets include recovery of costs where driven by changes in the scope originally requested by the customer.

Energy Prices and Industry Conditions

The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. These capital expenditures, along with those of midstream companies who service these oil and gas producers and explorers, drive the demand for Enerflex equipment. Capital expenditure decisions are based on various factors, including but not limited to demand for hydrocarbon and prices of related products, exploration and development prospects in various jurisdictions, production levels of their reserves and access to capital – none of which can be accurately predicted. Periods of prolonged or substantial reductions in commodity prices may lead to reduced levels of exploration and production activities, and therefore capital expenditures, which may negatively impact the demand for the products and services that Enerflex offers.

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

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

International Operations

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

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

Enerflex exercises caution with respect to the countries in which it chooses to operate, and expand into, through a thorough assessment of the operational and political risks, and subsequently through ongoing risk monitoring of changing conditions. To the extent that conditions change quickly, the Company is therefore positioned to respond appropriately.

Personnel

Enerflex's Engineered Systems product line requires skilled engineering and design professionals in order to maintain customer satisfaction and engage in product innovation. Enerflex competes for these professionals, not only with other companies in the same industry, but with oil and gas producers and other industries. In periods of high energy activity, demand for the skills and expertise of these professionals increases, making the hiring and retention of these individuals more difficult.

Enerflex's Service product line relies on the skills and availability of trained and experienced tradesmen and technicians to provide efficient and appropriate services to Enerflex and its customers. Hiring and retaining such individuals is critical to the success of Enerflex's businesses. Demographic trends are reducing the number of individuals entering the trades, making Enerflex's access to skilled individuals more difficult. There are few barriers to entry in a number of Enerflex's businesses, so retention of staff is essential in order to differentiate Enerflex's businesses and compete in its various markets.

Additionally, in increasing measures, Enerflex is dependent upon the skills and availability of various professional and administrative personnel to meet the increasing demands of the requirements and regulations of various professional and governmental bodies.

In order to retain skilled professionals, reward high performing employees, and create alignment between employee performance and business objectives, Enerflex maintains a Total Rewards approach, which includes elements of compensation, benefits, work life balance, performance and recognition, and career development.

Compensation is designed to reinforce Enerflex's values and culture and reflect market practices, as well as best practices. Enerflex strives to provide a compensation program that is externally competitive and internally equitable. Elements include base salary, a bonus for certain employees that is tied to corporate and business segment performance, share options and share units that vest over future periods, and an employee share purchase plan. In addition, as part of its Total Rewards strategy, Enerflex offers a comprehensive benefits program, which allows employees to tailor their retirement, wellness, health and dental, and work-life balance benefits to their needs. Enerflex requires the development and monitoring of performance goals for most employees and recognizes long-term service to the Company. Training and career development are a constant focus, with recent efforts including customer service training for many employees.

Credit Risk

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

Bank Facility and Senior Notes

Enerflex relies on its cash as well as the credit and capital markets to provide some of the capital required to continue operations. Enerflex relies on its Bank Facility and Senior Notes to meet its funding and liquidity requirements. The Senior Notes are due on two separate dates with \$50.5 million, at a coupon of 4.8%, due on June 22, 2016 and \$40.0 million, at a coupon of 6.0%, due on June 22, 2021. The Bank Facility is unsecured, is subject to floating rates of interest, is due on June 1, 2018 and may be renewed annually with the consent of the lenders. Significant instability or disruptions to the capital markets, including the credit markets,

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

The Bank Facility and Note Agreement also contain a number of covenants and restrictions. The company's ability to comply with these covenants and restrictions may be affected by events beyond its control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, Enerflex's ability to comply with these covenants may be impaired. Failure to meet any of these covenants, financial ratios or financial tests could result in events of default under each agreement and impair the Company's ability to access the capital markets for financing. While Enerflex is currently in compliance with all covenants, financial ratios and financial tests, there can be no assurance that it will be able to comply with these covenants, financial ratios and financial tests in future periods. These events could restrict the Company's and other guarantors' ability to fund its operations, meet its obligations associated with financial liabilities or declare and pay dividends.

Foreign Exchange Risk

Enerflex reports its financial results to the public in Canadian dollars; however, a significant percentage of its revenues and expenses are denominated in currencies other than Canadian dollars. The Company identifies and hedges all significant transactional currency risks and its hedging policy is unchanged in the current year. Further information on Enerflex's hedging activities is provided in Note 27 to the consolidated financial statements.

Transaction Exposure

The Canadian operations of the Company source the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company also sells compression and processing packages in foreign currencies, primarily the U.S. dollar and the Australian dollar. Most of Enerflex's international orders are manufactured in the United States if the contract is denominated in U.S. dollars. This minimizes the Company's foreign currency exposure on these contracts.

The Company identifies and hedges all significant transactional currency risks. The Company has implemented a hedging policy, applicable primarily to the Canadian domiciled business units, with the objective of securing the margins earned on awarded contracts denominated in currencies other than Canadian dollars. In addition, the Company may hedge input costs that are paid in a currency other than the home currency of the subsidiary executing the contract. The Company utilizes a combination of foreign denominated debt and currency forward contracts to meet its hedging objective.

Under IFRS, derivative instruments that do not qualify for hedge accounting are subject to mark-to-market at the end of each period with the changes in fair value recognized in current period net earnings. The Company applies hedge accounting to the majority of its forward contracts. As such, the gains or losses on the forward contracts are deferred to accumulated other comprehensive income and reclassified to the statement of earnings when the hedged transaction affects the statement of earnings. Any hedge ineffectiveness is recognized immediately in net earnings. However, there can be no assurance that the Company will apply or qualify for hedge accounting in the future. As such, the use of currency forwards may introduce significant volatility to the Company's reported earnings.

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

Translation Exposure

The Company's earnings from and net investment in foreign subsidiaries are exposed to fluctuations in exchange rates. The currencies with the most significant impact are the U.S. dollar, Australian dollar and the British Pound.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Non-monetary assets and liabilities measured at historical cost are translated using the rates of exchange at the date of the transaction. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. The cumulative currency translation adjustments are recognized in earnings when there has been a reduction in the net investment in the foreign operations.

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net earnings. Such exchange rate fluctuations have historically not been material year-over-year relative to the overall earnings or financial position of the Company. As such, the Company does not hedge its exposure to net investments in foreign subsidiaries.

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

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

Inflationary Pressures

Strong economic conditions and competition for available personnel, materials and major components may result in significant increases in the cost of obtaining such resources. To the greatest extent possible, Enerflex passes such cost increases on to its customers and it attempts to reduce these pressures through proactive procurement and human resource practices.

Climatic Factors and Seasonal Demand

Demand for natural gas fluctuates largely with the heating and electric power requirements caused by the changing seasons in North America. Cold winters typically increase demand for, and the price of, natural gas. This increases customers' cash flow which can have a positive impact on Enerflex. At the same time, access to many western Canadian oil and gas properties is limited to the period when the ground is frozen so that heavy equipment can be transported. As a result, the first quarter of the year is generally accompanied by increased winter deliveries of equipment. Warm winters in western Canada, however, can both reduce demand for natural gas and make it difficult for producers to reach well locations. This restricts drilling and development operations, reduces the ability to supply gas production in the short-term and can negatively impact the demand for Enerflex's products and services.

Distribution Agreements

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

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

Competition

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

Availability of Raw Materials, Component Parts or Finished Products

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

Though Enerflex is generally not dependent on any single source of supply, the ability of suppliers to meet performance, quality specifications and delivery schedules is important to the maintenance of customer satisfaction.

A challenge to achieving improved profitability will be the timely availability of certain original equipment manufacturer components and repair parts, which will generally be in steady demand.

Information Technology

As Enerflex continues to expand internationally, access engineering and other technical skills in foreign locations, develop web-based applications and monitoring products, and improve its business software applications, information technology assets and protocols become increasingly important to Enerflex. Enerflex has attempted to reduce this exposure by improving its information technology general controls, updating or implementing new business applications and hiring or training specific employees with respect to the protection and use of information technology assets.

Cyber Attacks or Terrorism

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

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

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

Environmental Considerations

Demand for the Company's products and services could be adversely affected by changes to Canadian, U.S. or other countries' laws or regulations pertaining to the emission of CO₂ and other greenhouse gases ("GHGs") into the atmosphere. Although the Company is not a large producer of GHGs, the products and services of the Company are primarily related to the production of hydrocarbons including crude oil and natural gas, whose ultimate consumption are generally considered a major source of GHG emissions. Changes in the regulations concerning the release of GHG into the atmosphere, including the introduction of so-called "carbon taxes" or limitations over the emissions of GHGs, may adversely impact the demand for hydrocarbons and ultimately the demand for the Company's products and services.

Liability Claims

Enerflex's operations entail inherent risks, including equipment defects, malfunctions and failures and natural disasters, which could result in uncontrollable flows of natural gas or well fluids, fires and explosions. These risks may expose the Company to substantial liability claims, which could adversely affect its projections, business, results of operations and financial condition. Some of the Company's products are used in hazardous applications where an accident or a failure of a product could cause personal injury, loss of life, damage to property, equipment or the environment, as well as the suspension of the end-user's operations. If the Company's products were to be involved in any of these incidents, the Company could face litigation and may be held liable for those losses. The Company may not be able to adequately protect itself contractually and insurance coverage may not be available or adequate in risk coverage or policy limits to cover all losses or liabilities that it may incur. Moreover, the Company may not be able in the future to maintain insurance at levels of risk coverage or policy limits that management deems adequate. Any claims made under the Company's policies likely will cause its premiums to increase. Any future damages deemed to be caused by the Company's products or services that are not covered by insurance, or that are in excess of policy limits or subject to substantial deductibles, could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

Insurance

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

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

Government Regulation

The Company is subject to health, safety and environmental laws and regulations that expose it to potential financial liability. The Company's operations are regulated under a number of federal, provincial, state, local, and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage, and disposal of hazardous materials. Compliance with these environmental laws is a major consideration in the manufacturing of the Company's products, as the Company uses, generates, stores and disposes of hazardous substances and wastes in its operations. The Company may be subject to material financial liability for any investigation and clean-up of such hazardous materials. In addition, many of the Company's current and former properties are or have been used for industrial purposes. Accordingly, the Company also may be subject to financial liabilities relating to the investigation and remediation of hazardous materials resulting from the actions of previous owners or operators of industrial facilities on those sites. Liability in certain instances may be imposed on the Company regardless of the legality of the original actions relating to the hazardous or toxic substances or whether or not the Company knew of, or was responsible for, the presence of those substances. The Company is also subject to various Canadian and U.S. federal, provincial, state and local laws and regulations, as well as foreign laws and regulations relating to safety and health conditions in its manufacturing facilities. Those laws and regulations may also subject the Company to material financial penalties or liabilities for any non-compliance, as well as potential business disruption if any of its facilities or a portion of any facility is required to be temporarily closed as a result of any violation of those laws and regulations. Any such financial liability or business disruption could have a material adverse effect on the Company's projections, business, results of operations and financial condition.

Tax Indemnity Agreement

The Company could be exposed to substantial tax liabilities if certain requirements of the "butterfly" rules in section 55 of the Income Tax Act are not complied with. Failure to comply with these requirements could give rise to tax liabilities resulting from the 2011 Plan of Arrangement with Toromont Industries Limited ("Toromont"), which would require the Company to indemnify Toromont for the resulting tax.

Interest Rate Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. Accounts payable are primarily due within 45 days and will be satisfied from current working capital. Liquidity risk is managed through the use of credit facilities, with the Company having access to \$184.2 million for future drawings.

CAPITAL RESOURCES

On January 31, 2015, Enerflex had 78,639,526 shares outstanding. Enerflex has not established a formal dividend policy and the Board of Directors anticipates setting the quarterly dividends based on the availability of cash flow and anticipated market conditions, taking into consideration business opportunities and the need for growth capital. During the fourth quarter of 2014, the Company declared an increase to its quarterly dividend to \$0.085 per share, the third annual increase in the Company's dividend to shareholders since re-emerging as a publicly-traded entity in June 2011 and its fifteenth consecutive dividend.

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

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

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

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

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

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

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

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

The majority of the Company's lease commitments are operating leases for Service vehicles.

The majority of the Company's purchase commitments relate to major components for the Engineered Systems product line and to long-term information technology and communications contracts entered into in order to reduce the overall cost of services received.

The Company does not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity or capital expenditures.

RELATED PARTIES

Related parties include Total Production Services Inc. ("Total"), the Company's 45% equity investment, the Company's 51% joint venture interest in Enerflex-ES and the Company's 50% joint venture interest in Geogas.

All transactions occurring with related parties were in the normal course of business operations under the same terms and conditions as transactions with unrelated companies. All related party transactions are settled in cash. A summary of the financial statement impacts of all transactions with all related parties is as follows:

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

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2014. The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue Recognition – Long-Term Contracts and Service Contracts

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

Provisions for Warranty

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

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation, including any asset impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of items of property, plant and equipment are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of

property, plant and equipment items requires judgment and is based on currently available information. Property, plant and equipment is also reviewed for potential impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Changes in circumstances, such as technological advances and changes to business strategy, can result in actual useful lives and future cash flows differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of items of property, plant and equipment or future cash flows constitute a change in accounting estimate and are applied prospectively.

Allowance for Doubtful Accounts

An estimate for doubtful accounts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired receivables are derecognized when they are assessed as uncollectible. Amounts estimated represent management's best estimate of the probability of collection of amounts from customers.

Impairment of Inventories

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

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from each asset or CGU and also to determine a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of Goodwill

The Company tests whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the groups of CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from each group of CGUs and also to determine a suitable discount rate in order to calculate the present value of those cash flows.

Income Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Share-Based Compensation

The Company employs the fair value method of accounting for stock options and phantom share appreciation rights. The determination of the share-based compensation expense for stock options and phantom shares requires the use of estimates and assumptions based on exercise prices, market conditions, vesting criteria, length of employment and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation. Details concerning the assumptions used are shown in Note 22 to the annual consolidated financial statements.

Discontinued Operations

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

NEW ACCOUNTING POLICIES

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

IFRS 3 Business Combinations

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

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

IAS 32 Offsetting Financial Assets and Financial Liabilities (“IAS 32”)

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

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and financial liabilities, including derecognition. IFRS 9 requires all recognized financial assets under the scope of the current *IAS 39 Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. In addition, IFRS 9 requires that changes in fair value attributable to a financial liability's credit risk must be presented in other comprehensive income, rather than in profit or loss. The new standard will be effective for annual periods beginning on or after January 1, 2018.

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

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

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2014, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on that evaluation, management has concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as at December 31, 2014, to provide reasonable assurance that a) material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities, and b) information required to be disclosed is recorded, processed, summarized and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting were adequate and effective as at December 31, 2014, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP.

There have been no significant changes in the design of the Company's ICFR during the twelve month period ended December 31, 2014 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

While the Officers of the Company have designed the Company's disclosure controls and procedures and internal controls over financial reporting, they expect that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

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

For the six months ended December 31, 2014
(\$ Canadian millions)

Revenue	\$	118.9
EBIT		23.0

As at December 31, 2014:

(\$ Canadian millions)		Azip
Current assets	\$	64.4
Non-current assets		507.7
Current liabilities		40.3
Non-current liabilities		48.8
Non-controlling interest		3.5

SUBSEQUENT EVENTS

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL POSITION

TO THE SHAREHOLDERS OF ENERFLEX LTD.

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of finance data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The Audit Committee is appointed by the Board of Directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Ernst & Young LLP on behalf of the shareholders in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

[signed] "J. Blair Goertzen"

J. Blair Goertzen

President, Chief Executive Officer and Director

February 26, 2015

[signed] "D. James Harbilas"

D. James Harbilas

Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ENERFLEX LTD.

We have audited the accompanying consolidated financial statements of Enerflex Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

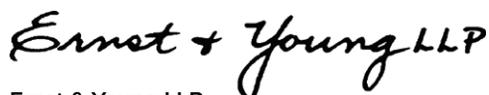
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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



Ernst & Young LLP

Chartered Accountants

Calgary, Canada

February 26, 2015

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

CONSOLIDATED STATEMENTS OF EARNINGS

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

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

See accompanying Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands of Canadian dollars, except per share amounts or as otherwise noted.)

NOTE 1. NATURE AND DESCRIPTION OF THE COMPANY

Enerflex Ltd. (“Enerflex” or “the Company”) is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems and electric power equipment – plus in-house engineering and mechanical services expertise. The Company’s broad in-house resources provide the capability to engineer, design, manufacture, construct, commission and service hydrocarbon handling systems. Enerflex’s expertise encompasses field production facilities, compression and natural gas processing plants, CO₂ processing plants, refrigeration systems and electric power equipment serving the natural gas production industry.

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

The following table represents material subsidiaries of the Company:

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

NOTE 2. BASIS OF PRESENTATION

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and were approved and authorized for issue by the Board of Directors on February 26, 2015. Certain prior year amounts have been reclassified to conform with the current period’s presentation.

(b) Basis of Measurement

The consolidated financial statements are prepared on a historical cost basis except as detailed in the accounting policies disclosed in Note 3. The accounting policies described in Note 3 and Note 4 have been applied consistently to all periods presented in these financial statements. Standards and guidelines not effective for the current accounting period are described in Note 6.

(c) Functional Currency and Presentation Currency

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

(d) Use of Estimates and Judgment

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the financial statements are described in Note 5.

(e) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, and continue to be consolidated until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group balances, income and expenses, and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

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

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Investments in Associates and Joint Ventures

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

Under the equity method, the investments are carried on the consolidated statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate or joint venture.

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

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

(b) Foreign Currency Translation

In the accounts of individual subsidiaries, transactions in currencies other than the Company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At year end, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rates of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the consolidated statement of earnings with the exception of exchange differences arising on monetary assets and liabilities that form part of the Company's net investment in subsidiaries. These are taken directly to other comprehensive income until the disposal of the foreign subsidiary at which time the unrealized gain or loss is recognized in the consolidated statement of earnings.

The assets and liabilities on the statements of financial position of foreign subsidiaries are translated into Canadian dollars at the rates of exchange prevailing at the reporting date. The consolidated statements of earnings of foreign subsidiaries are translated at average exchange rates for the reporting period. Exchange differences arising on the translation of net assets are taken to accumulated other comprehensive income.

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

(c) IFRS 3 Business Combinations

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

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

(d) Property, Plant and Equipment

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

Asset class	Estimated useful life range
Buildings	5 to 20 years
Equipment	3 to 20 years

Major renewals and improvements are capitalized when they are expected to provide future economic benefit. When significant components of property, plant and equipment are required to be replaced at intervals, the Company derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. No depreciation is charged on land or assets under construction. Repairs and maintenance costs are charged to operations as incurred.

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of property, plant and equipment is included in the consolidated statement of earnings when the item is derecognized.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted, if appropriate, at each year end.

(e) Rental Equipment

Rental equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are generally between 5 and 15 years.

When, under the terms of a rental contract, the Company is responsible for major maintenance and overhauls, the actual overhaul cost is capitalized and depreciated over the estimated useful life of the overhaul, generally between 2 and 5 years. Repairs and maintenance costs are charged to operations as incurred.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted, if appropriate, at each year end.

(f) Goodwill

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

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

(g) Intangible Assets

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

Acquired identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Customer relationships, software and other intangible assets have an estimated useful life range of 3 to 8 years.

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

At least annually, the Company reviews the carrying amounts of its tangible and intangible assets with finite lives to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. In assessing its value-in-use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. A corresponding impairment loss is recognized in the consolidated statement of earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Any impairment reversal is recognized in the consolidated statement of earnings.

(i) Inventories

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

Cost of equipment, repair and distribution parts and direct materials includes purchase cost and costs incurred in bringing each product to its present location and condition. Serialized inventory is determined on a first-in first-out basis. Non-serialized inventory is determined based on a weighted average cost.

Cost of work-in-process includes cost of direct materials, labour and an allocation of manufacturing overheads, based on normal operating capacity.

Cost of inventories includes the transfer from accumulated other comprehensive income of gains and losses on qualifying cash flow hedges in respect of the purchase of inventory.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. Inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write down previously recorded is reversed.

(j) Trade Receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any amounts estimated to be uncollectible. An allowance for doubtful accounts is recorded when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Trade receivables are derecognized when they are assessed as uncollectible.

(k) Cash

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

(l) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(m) Decommissioning Liabilities

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

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

(n) Onerous Contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(o) Employee Future Benefits

The Company sponsors various defined contribution pension plans, which cover substantially all employees and are funded in accordance with applicable plan and regulatory requirements. Regular contributions are made by the Company to the employees' individual accounts, which are administered by a plan trustee, in accordance with the plan document. The actual cost of providing benefits through defined contribution pension plans is charged to earnings in the period in respect of which contributions become payable.

(p) Share-Based Payments

Equity-Settled Share-Based Payments

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

The fair value of equity-settled share-based payments is expensed over a five-year vesting period with a corresponding increase in equity. Stock options have a seven-year expiry and are exercisable at the designated common share price, which is determined by the average of the market price of the Company's shares on the five days preceding the date of the grant. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

Cash-Settled Share-Based Payments

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

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

(q) Leases

Leases which transfer substantially all of the benefits and risk of ownership of the asset to the lessee are classified as finance leases; all other leases are classified as operating leases.

Company as a Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Company recognizes selling profit or loss in the period for outright sales relating to manufacturer type leases. Amounts due from finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of leases.

Company as a Lessee

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

(r) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, and is reduced for discounts, rebates, sales taxes and duties. The following describes the specific revenue recognition policies for each major category of revenue:

- Product support services include sales of parts and servicing of equipment. For the sale of parts, revenue is recognized when the part is shipped to the customer. For servicing of equipment, revenue is recognized on a straight-line basis determined based on performance of the contracted upon service;
- Revenue from long-term service contracts is recognized on a stage of completion basis proportionate to the service work that has been performed based on parts and labour service provided. At the completion of the contract, any remaining profit on the contract is recognized as revenue. Any expected losses on such projects are charged to operations when determined; and
- Revenue from equipment rentals is recognized in accordance with the terms of the relevant agreement with the customer on a straight-line basis over the term of the agreement. Certain rental contracts contain an option for the customer to purchase the equipment at the end of the rental period. Should the customer exercise this option to purchase, revenue from the sale of the equipment is recognized directly in the consolidated statement of earnings.

(s) Construction Contracts

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

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

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

(t) Financial Instruments

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

The Company primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2: Fair value measurements are those derived from inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: Fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs). In these instances, internally developed methodologies are used to determine fair value.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability and may affect placement within.

The Company has made the following classifications:

- Cash and cash equivalents are classified as assets-held-for-trading and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in the consolidated statement of earnings;
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest rate method; and
- Accounts payable, accrued liabilities and long-term debt are classified as other financial liabilities. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for financial instruments classified or designated as fair value through profit or loss. Transaction costs related to other financial liabilities are added to the value of the instrument at acquisition and taken into the consolidated statement of earnings using the effective interest rate method.

(u) Derivative Financial Instruments and Hedge Accounting

The Company formally documents its risk management objectives and strategies to manage exposures to fluctuations in foreign currency exchange rates and interest rates. The risk management policy permits the use of certain derivative financial instruments, including forward foreign exchange contracts and interest rate swaps, to manage these fluctuations. The Company does not enter into derivative financial agreements for speculative purposes.

Derivative financial instruments are measured at their fair value upon initial recognition and are remeasured to their fair value at the end of each reporting period. The fair value of quoted derivatives is equal to their positive or negative market value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company elected to apply hedge accounting for foreign exchange forward contracts for anticipated transactions. These are designated as cash flow hedges. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of taxes. The ineffective portion of the fair value changes is recognized in the consolidated statement of earnings. Amounts charged to accumulated other comprehensive income are reclassified to the consolidated statement of earnings when the hedged transaction affects the consolidated statement of earnings.

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

On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

(v) Income Taxes

Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. Taxable earnings differs from earnings as reported in the consolidated statement of earnings because it excludes temporary and permanent differences. The Company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is recognized on all temporary differences at the reporting date based on the difference between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Deferred income tax assets are recognized only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the reporting date.

Current and deferred income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity in the same period. Otherwise, income tax is recognized in the consolidated statement of earnings.

(w) Discontinued Operations

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

(x) Earnings Per Share

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

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

(y) Finance Costs and Income

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

Finance costs comprise interest expense on borrowings.

NOTE 4. CHANGES IN ACCOUNTING POLICIES

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

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

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

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

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

NOTE 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENT

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

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

Revenue Recognition – Construction and Long-Term Service Contracts

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

Provisions for Warranty

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

Business Acquisitions

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property, plant and equipment are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment requires judgment and is based on currently available information. Property, plant and equipment are also reviewed for potential impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Changes in circumstances, such as technological advances and changes to business strategy can result in actual useful lives differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of property, plant and equipment constitute a change in accounting estimate and are applied prospectively.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired receivables are derecognized when they are assessed as uncollectible. Amounts estimated represent management's best estimate of probability of collection of amounts from customers.

Impairment of Inventories

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

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or group of assets exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model, which requires the Company to estimate future cash flows and use judgment to determine a suitable discount rate to calculate the present value of those cash flows.

Impairment of Goodwill

The Company tests goodwill for impairment at least on an annual basis. This requires an estimation of the value-in-use of the groups of CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from each group of CGUs and use judgment to determine a suitable discount rate in order to calculate the present value of those cash flows.

Income Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Share-Based Compensation

The Company employs the fair value method of accounting for stock options and phantom share appreciation rights. The determination of the share-based compensation expense for stock options and phantom shares requires the use of estimates and assumptions based on exercise prices, market conditions, vesting criteria, length of employment and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation. Details concerning the assumptions used are described in Note 23.

Discontinued Operations

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

NOTE 6. FUTURE ACCOUNTING CHANGES

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

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, including derecognition. IFRS 9 requires all recognized financial assets under the scope of the current *IAS 39 Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. In addition, IFRS 9 requires that changes in fair value attributable to a financial liability's credit risk must be presented in other comprehensive income, rather than in profit or loss. The new standard will be effective for annual periods beginning on or after January 1, 2018.

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

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

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

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

NOTE 7. ACQUISITION

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

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

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

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

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

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

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

NOTE 8. DISCONTINUED OPERATIONS

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

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

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

The following table summarizes cash from discontinued operations:

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

NOTE 9. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

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

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

Aging of trade receivables:

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

Movement in allowance for doubtful accounts:

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

NOTE 10. INVENTORIES

Inventories consisted of the following:

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

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold during 2014 was \$1,457.8 million (December 31, 2013 – \$1,159.1 million). Cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount charged to the consolidated statement of earnings and included in cost of goods sold in 2014 was \$2.5 million (December 31, 2013 – \$1.6 million).

NOTE 11. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

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

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

NOTE 12. OTHER ASSETS

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

(a) Net Investment in Finance Leases

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

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

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

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

NOTE 13. INTANGIBLE ASSETS

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

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

NOTE 14. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

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

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

In assessing whether goodwill has been impaired, the carrying amount of the segment (including goodwill) is compared with its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value-in-use.

The recoverable amounts for the segments have been determined based on value-in-use calculations, using discounted cash flow projections as at December 31, 2014. Management has adopted a four-year projection period to assess each segment's value-in-use. The cash flow projections are based on financial budgets approved by the Board of Directors, extrapolated over a four-year period at a growth rate of 2.0 percent per annum. Management considers this a conservative long-term growth rate relative to both the economic outlook for the units in their respective markets within the oil and gas industry and the long-term growth rates experienced in the recent past by each segment.

Key Assumptions Used in Value-In-Use Calculations:

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

- Earnings Before Finance Costs and Taxes: Management has made estimates relating to the amount and timing of revenue recognition for projects included in backlog, and the assessment of the likelihood of maintaining and growing market share. For each 1 percent change in earnings before finance costs and taxes, the average impact on the value-in-use of the Company's three segments would be \$5.9 million; and
- Discount Rate: Management has used an average pre-tax discount rate of 9.4 percent per annum which is derived from the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the Company's estimated equity market risk premium, the Company's cost of debt, and the tax rate in the local jurisdiction. For each 1 percent change in the discount rate, the average impact on the value-in-use of the Company's three segments would be \$83.3 million.

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

NOTE 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

NOTE 16. PROVISIONS

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

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

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

NOTE 17. LONG-TERM DEBT

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

The Company has a syndicated revolving credit facility (“Bank Facility”) with an amount available of \$675.0 million. The Bank Facility have a maturity date of June 30, 2018 (“Maturity Date”), but may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facility may be increased by \$200.0 million at the request of the Company, subject to the lenders’ consent. There is no required or scheduled repayment of principal until the Maturity Date of the Bank Facility.

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

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

The Bank Facility is unsecured and ranks pari passu with the Notes. The Company is required to maintain certain covenants on the Bank Facility and the Notes. As at December 31, 2014, the Company was in compliance with these covenants.

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

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

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

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

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

NOTE 18. GUARANTEES, COMMITMENTS AND CONTINGENCIES

At December 31, 2014, the Company had outstanding letters of credit of \$70.9 million (December 31, 2013 – \$87.9 million).

The Company is involved in litigation and claims associated with normal operations against which certain provisions have been made in the financial statements. Management is of the opinion that any resulting settlement arising from the litigation would not materially affect the financial position, results of operations or liquidity of the Company.

Operating leases relate to leases of equipment, automobiles and premises with lease terms between one and ten years. The material lease arrangements generally include renewal and escalation clauses.

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

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

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

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

NOTE 19. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

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

Reconciliation of Tax Expense

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

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

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

(b) Income Tax Recognized in Other Comprehensive Income

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

(c) Net Deferred Tax Assets (Liabilities)

Deferred tax assets and liabilities arise from the following:

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

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

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

(d) Unrecognized Deferred Tax Assets

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

NOTE 20. SHARE CAPITAL

Authorized

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

Issued and Outstanding

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

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

NOTE 21. CONTRIBUTED SURPLUS

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

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

NOTE 22. REVENUE

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

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

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

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

NOTE 23. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

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

(b) Stock Options

The Company current stock option program provides grants to certain employees. Under the plan, up to 7.7 million options may be granted for subsequent exercise in exchange for common shares.

The stock option plan entitles the holder to acquire shares of the Company at the strike price, established at the time of the grant, after vesting and before expiry. The strike price of each option equals the weighted average of the market price of the Company's shares on the five days preceding the effective date of the grant. The options have a seven-year term and vest at a rate of one-fifth on each of the five anniversaries of the date of the grant.

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

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

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

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

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

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

The following table summarizes options outstanding and exercisable at December 31, 2014:

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

(c) Deferred Share Units

The Company offers a DSU plan for executives and non-employee directors, whereby they may elect on an annual basis to receive all or a portion of their annual bonus, or retainer and fees, respectively, in deferred share units. In addition, the Board may grant discretionary DSUs to executives. A specified component of non-employee directors' compensation must be received in DSUs. A DSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the implied market value calculated as the number of DSUs multiplied by the weighted average price per share at which Enerflex's shares on the TSX for the five trading days immediately preceding the grant.

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

DSUs may be granted to eligible participants on an annual basis and will vest upon being credited to the executive or non-employee director's account. Participants are not able to cash in their DSUs until they are no longer employed by or cease to be directors of Enerflex. The Company satisfies its payment obligation through cash payments to the participant.

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

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

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

(d) Phantom Share Rights

The Company utilizes a SAR plan for key employees of affiliates located in Australia, the UAE and Singapore, for whom the Company's stock option plan would have negative personal taxation consequences.

The exercise price of each SAR equals the average of the market price of the Company's shares on the five days preceding the date of the grant. The SARs vest at a rate of one-fifth on each of the first five anniversaries of the date of the grant and expire on the fifth anniversary. The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

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

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

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

(e) Performance Share Units

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

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

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

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

(f) Restricted Share Units

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

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

During 2014, the Board of Directors granted 173,666 RSUs to officers or key employees of the Company (2013 – 223,713). The Company paid \$2.8 million for the period ended December 31, 2014 representing units vested in the year (December 31, 2013 – \$1.1 million).

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

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

(g) Employee Share Ownership Plan

The Company offers an employee share ownership plan whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match of up to \$1,000 per employee per annum based on contributions by the Company of \$1 for every \$3 contributed by the employee. Company contributions vest to the employee immediately. Company contributions are charged to selling and administrative expense when paid. This plan is administered by a third party.

NOTE 24. RETIREMENT BENEFIT PLANS

The Company sponsors arrangements for substantially all of its employees through defined contribution plans in Canada, the Middle East and Australia, and a 401(k) matched savings plan in the United States. In the case of the defined contribution plans, regular contributions are made to the employees' individual accounts, which are administered by a plan trustee, in accordance with the plan document. Both in the case of the defined contribution plans and the 401(k) matched savings plan, the pension expenses recorded in earnings are the amounts of actual contributions the Company is required to make in accordance with the terms of the plans.

Years ended December 31,	2014	2013
Defined contribution plans	\$ 9,281	\$ 9,374
401(k) matched savings plan	1,495	1,124
Net pension expense	\$ 10,776	\$ 10,498

NOTE 25. FINANCE COSTS AND INCOME

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

NOTE 26. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

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

NOTE 27. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

The Company has designated its financial instruments as follows:

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

Fair Values of Financial Assets and Liabilities

The following table presents information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis as at December 31, 2014 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2014, there were no transfers between Level 1 and Level 2 fair value measurements.

Fair values are determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Fair values determined using inputs including forward market rates and credit spreads that are readily observable and reliable, or for which unobservable inputs are determined not to be significant to the fair value, are categorized as Level 2. If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data where possible, including recent arm's-length market transactions, and comparisons to the current fair value of similar instruments; but where this is not feasible, inputs such as liquidity risk, credit risk and volatility are used.

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

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and other long-liabilities are reported at amounts approximating their fair values on the statement of financial position. The fair values approximate the carrying values for these instruments due to their short-term nature.

The fair value of derivative financial instruments is measured using the discounted value of the difference between the contract's value at maturity based on the contracted foreign exchange rate and the contract's value at maturity based on prevailing exchange rates. The financial institution's credit risk is also taken into consideration in determining fair value.

Long-term debt associated with the Company's Notes is recorded at amortized cost using the effective interest rate method. The amortized cost of the Notes is equal to the face value as there were no premiums or discounts on the issuance of the debt. Transaction costs associated with the debt were deducted from the debt and are being recognized using the effective interest rate method over the life of the related debt. The fair value of these Notes determined on a discounted cash flow basis, using a weighted average discount rate of 3.3 percent, was \$97.1 million at December 31, 2014.

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations and cash receipts related to purchases of inventory and sales of products.

The following table summarizes the Company's commitments to buy and sell foreign currencies as at December 31, 2014:

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

Management estimates that a loss of \$1.3 million would be realized if the contracts were terminated on December 31, 2014. Certain of these forward contracts are designated as cash flow hedges and accordingly, a loss of \$1.8 million has been included in other comprehensive income for the 2014 year (December 31, 2013 – \$2.9 million). These gains or losses are not expected to affect net earnings as the gains will be reclassified to net earnings and will offset losses recorded on the underlying hedged items, namely foreign currency denominated accounts payable and accounts receivable. The amount removed from other comprehensive income during the year and included in the carrying amount of the hedged items for the year 2014 was a gain of \$1.4 million (December 31, 2013 – \$0.3 million).

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

Risks Arising from Financial Instruments and Risk Management

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

Foreign Currency Translation Exposure

In the normal course of operations, the Company is exposed to movements in the U.S. dollar, the Australian dollar and the British pound. In addition, Enerflex has significant international exposure through export from its Canadian operations as well as a number of foreign subsidiaries, the most significant of which are located in the United States, Australia, Mexico, Argentina and the United Arab Emirates.

The types of foreign exchange risk and the Company's related risk management strategies are as follows:

Transaction Exposure

The Canadian operations of the Company source the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company also sells compression and processing packages in foreign currencies, primarily the U.S. dollar and the Australian dollar. Most of Enerflex's international orders are manufactured in the United States if the contract is denominated in U.S. dollars. This minimizes the Company's foreign currency exposure on these contracts.

The Company identifies and hedges all significant transactional currency risks. The Company has implemented a hedging policy, applicable primarily to the Canadian domiciled business units, with the objective of securing the margins earned on awarded contracts denominated in currencies other than Canadian dollars. In addition, the Company may hedge input costs that are paid in a currency other than the home currency of the subsidiary executing the contract.

Translation Exposure

The Company's earnings from and net investment in foreign subsidiaries are exposed to fluctuations in exchange rates. The currencies with the most significant impact are the U.S. dollar, Australian dollar and British pound.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rates in effect at the reporting dates. Non-monetary assets and liabilities measured at historical cost are translated using the rates of exchange at the date of the transaction. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. The cumulative currency translation adjustments are recognized in earnings when there has been a reduction in the net investment in the foreign operations.

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net earnings. The following table shows the effect on net earnings before tax for the year 2014 of a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar and British pound, everything else being equal. A 5 percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis is provided as an indicative range in a volatile currency environment.

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

Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and other comprehensive income. Financial instruments affected by currency risk include cash and cash equivalents, accounts receivable, accounts payable and derivative financial instruments. The following table shows the Company's sensitivity to a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound. A 5 percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis relates to the position as at December 31, 2014 and for the year then ended.

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

The movement in net earnings before tax in Canadian operations is a result of a change in the fair values of financial instruments. The majority of these financial instruments are hedged.

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at December 31, 2014 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facility however, are subject to changes in market interest rates.

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

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

For each 1 percent change in the rate of interest on the remaining \$210.0 million Bank Facility, the change in interest expense for the year ended would be \$2.1 million (December 31, 2013 – nil). All interest charges are recorded on the annual consolidated statement of earnings as Finance Costs.

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents, accounts receivable, net investment in finance lease, and derivative financial instruments.

The Company has accounts receivable from clients engaged in various industries. These specific industries may be affected by economic factors that may impact accounts receivable. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Credit is extended based on an evaluation of the customer's financial condition and, generally, advance payment is not required. For the years ended December 31, 2014 and 2013, the Company had no individual customers which accounted for more than 10 percent of its revenues. Outstanding customer receivables are regularly monitored and an allowance for doubtful accounts is established based upon specific situations.

The Company evaluates the concentration of risk at December 31, 2014 with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in this note. The Company does not hold collateral as security.

The credit risk associated with the net investment in finance leases arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into finance lease transactions only in select circumstances. Close contact is maintained with the customer over the duration of the lease to ensure visibility to issues as and if they arise.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly-rated financial institutions.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its U.S. Facility and Bank Facility for future drawings to meet the Company's future growth targets. As at December 31, 2014, the Company held cash and cash equivalents of \$158.1 million and had drawn \$420.0 million against the Bank Facility, leaving it with access to \$184.2 million for future drawings.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at December 31, 2014:

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

The Company expects that cash flows from operations in 2015, together with cash and cash equivalents on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital, and capital assets.

NOTE 28. CAPITAL DISCLOSURES

The capital structure of the Company consists of shareholders' equity plus net debt (cash). The Company manages its capital to ensure that entities in the Company will be able to continue to grow while maximizing the return to shareholders through the optimization of the debt and equity balances. The Company makes adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new Company shares, or access debt markets.

The Company formally reviews the capital structure on an annual basis and monitors it on an ongoing basis. As part of this review, the cost of capital and the risks associated with each class of capital are considered. In order to position itself to execute its long-term plan to maintain its status as a leading supplier of products and services to the global energy sector, the Company is maintaining a conservative statement of financial position. The Company uses the following measure to monitor its capital structure:

Net Debt (Cash) to EBITDA Ratio

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

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

NOTE 29. SUPPLEMENTAL CASH FLOW INFORMATION

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

Cash paid and received during the period:

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

NOTE 30. RELATED PARTIES

Enerflex transacts with certain related parties as a normal course of business. Related parties include Total Production Services Inc. ("Total"), the Company's 45 percent equity investment, the Company's 51 percent joint venture interest in Enerflex-ES, and the Company's 50 percent controlling interest in Geogas consortium.

All transactions occurring with related parties were in the normal course of business operations under the same terms and conditions as transactions with unrelated companies. A summary of the financial statement impacts of all transactions with all related parties is as follows:

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

All related party transactions are settled in cash.

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

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

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

NOTE 31. SEASONALITY

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

NOTE 32. SEGMENTED INFORMATION

The Company has three reportable operating segments as outlined below, each supported by the Corporate office. Corporate overheads are allocated to the operating segments based on revenue. For each of the operating segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis.

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

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

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

The accounting policies of the reportable operating segments are the same as those described in the summary of significant accounting policies.

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

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

NOTE 33. SUBSEQUENT EVENTS

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

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

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

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

QUARTERLY AND SHARE DATA

QUARTERLY DATA

(unaudited)

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

SHARE DATA

(unaudited)

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

DIRECTORS AND EXECUTIVES

Robert S. Boswell^{1,4}

Director
Denver, CO

W. Byron Dunn^{2,4}

Director
Dallas, TX

J. Blair Goertzen

Director
President and Chief Executive Officer
Calgary, AB

Wayne S. Hill^{2,5}

Director
Toronto, ON

H. Stanley Marshall³

Director
Paradise, NL

Stephen J. Savidant

Chairman
Calgary, AB

Michael A. Weill⁶

Director
Houston, TX

Helen J. Wesley⁶

Director
Calgary, AB

D. James Harbilas

Executive Vice President and
Chief Financial Officer
Calgary, AB

Jerauld Fraelic*

President, Americas
Houston, TX

Bradley Beebe

President, Canada
Calgary, AB

Marc Rossiter

President, United States of America
Houston, TX

Patricia Martinez

President, Latin America
Houston, TX

Phil Pyle

President, International
Abu Dhabi, UAE

William Moore

Senior Vice President,
Business Development and Strategy
Calgary, AB

Greg Stewart

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

Carol Ionel

Vice President,
Human Resources
Calgary, AB

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

¹ Chair of the Nominating and Corporate Governance Committee

² Member of the Nominating and Corporate Governance Committee

³ Chair of the Human Resources and Compensation Committee

⁴ Member of the Human Resources and Compensation Committee

⁵ Chair of the Audit Committee

⁶ Member of the Audit Committee

Head Office

Enerflex Ltd.
Suite 904, 1331 Macleod Trail SE
Calgary, AB T2G 0K3 Canada

Tel: +1.403.387.6377
Fax: +1.403.236.6816
Email: ir@enerflex.com
Web: www.enerflex.com

Whistleblower Contact

Tel: +1.866.296.8654
Email: whistleblower@enerflex.com
ener@openboard.info
ener.hr@openboard.info
Web: www.openboard.info/ener/