

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL POSITION

TO THE SHAREHOLDERS OF ENERFLEX LTD.

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

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

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

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

[signed] "J. Blair Goertzen"

J. Blair Goertzen

President, Chief Executive Officer, and Director

February 25, 2016

[signed] "D. James Harbilas"

D. James Harbilas

Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ENERFLEX LTD.

We have audited the accompanying consolidated financial statements of Enerflex Ltd., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

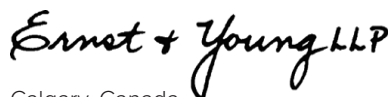
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Ernst & Young LLP

Chartered Professional Accountants

The signature is written in a black, cursive script. It reads "Ernst & Young LLP". The "E" is large and stylized, and the "Y" is also large and stylized. The "&" is in the middle, and "LLP" is at the end.

Calgary, Canada
February 25, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

CONSOLIDATED STATEMENTS OF EARNINGS

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

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Total accumulated other comprehensive income	Total shareholder's equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2014	\$ 220,901	\$ 654,538	\$ 50,476	\$ 7,303	\$ (1,556)	\$ 5,747	\$ 931,662	\$ -	\$ 931,662
Net earnings	-	-	70,349	-	-	-	70,349	869	71,218
Non-controlling interest acquired	-	-	-	-	-	-	-	3,002	3,002
Other comprehensive income (loss)	-	-	-	31,462	(390)	31,072	31,072	(369)	30,703
Effect of stock option plans	8,633	(914)	-	-	-	-	7,719	-	7,719
Dividends	-	-	(24,322)	-	-	-	(24,322)	-	(24,322)
At December 31, 2014	\$ 229,534	\$ 653,624	\$ 96,503	\$ 38,765	\$ (1,946)	\$ 36,819	\$ 1,016,480	\$ 3,502	\$ 1,019,982
Net earnings	-	-	45,746	-	-	-	45,746	2,299	48,045
Other comprehensive income (loss)	-	-	-	110,359	(209)	110,150	110,150	(1,827)	108,323
Effect of stock option plans	9,046	(504)	-	-	-	-	8,542	-	8,542
Dividends	-	-	(26,852)	-	-	-	(26,852)	-	(26,852)
At December 31, 2015	\$ 238,580	\$ 653,120	\$ 115,397	\$ 149,124	\$ (2,155)	\$ 146,969	\$ 1,154,066	\$ 3,974	\$ 1,158,040

See accompanying Notes to the Consolidated Financial Statements.

(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 2,300 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint-ventures, operate in Canada, the United States, Argentina, Brazil, Colombia, Mexico, Peru, Australia, the United Kingdom, Russia, the United Arab Emirates (“UAE”), Oman, Bahrain, Indonesia, Malaysia, Singapore, and Thailand. Enerflex operates three business segments: Canada, USA, and Rest of World.

The following table represents material subsidiaries of the Company:

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

Note 2. Basis of Presentation

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and were approved and authorized for issue by the Board of Directors on February 25, 2016. Certain prior year amounts have been reclassified to conform with the current period’s presentation.

(b) Basis of Measurement

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

(c) Functional Currency and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s presentation currency. Transactions of the Company’s individual entities are recorded in their own functional currency based on the primary economic environment in which it operates.

(d) Use of Estimates and Judgment

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

(e) Basis of Consolidation

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

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

Note 3. Summary of Significant Accounting Policies

(a) Investments in Associates and Joint Ventures

The Company uses the equity method to account for its 45 percent investment in Roska DBO and its 51 percent interest in the Enerflex-ES joint venture.

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

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

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

(b) Foreign Currency Translation

In the accounts of individual subsidiaries, transactions in currencies other than the Company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At year end, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rates of exchange at the date the fair value was determined. All foreign exchange gains and losses

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

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

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

(c) IFRS 3 Business Combinations

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

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

(d) Property, Plant and Equipment

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

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

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

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

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

(e) Rental Equipment

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

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

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

(f) Goodwill

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

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

(g) Intangible Assets

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

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

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

At least annually, the Company reviews the carrying amounts of its tangible and intangible assets with finite lives to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. In assessing its value-in-use, the estimated future cash flows attributable to the asset are discounted to

their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(i) Inventories

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

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

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

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

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

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

(j) Trade Receivables

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

(k) Cash

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

(l) Provisions

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

(m) Decommissioning Liabilities

The fair value of future obligations for property abandonment, site restoration and subsequent monitoring is recognized as a decommissioning liability on the consolidated statement of financial position with a corresponding increase to the carrying amount of the rental asset. The recorded liability increases over time to its future amount through accretion charges to net earnings. Revisions to the estimated amount or timing of the obligations are reflected prospectively as increases or decreases to the recorded liability and the rental asset. Actual decommissioning expenditures, up to the recorded liability at the time, are charged against the liability as the costs are incurred. Amounts capitalized to the rental assets are amortized to net earnings consistent with the depreciation of the underlying assets.

(n) Onerous Contracts

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

(o) Employee Future Benefits

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

(p) Share-Based Payments

Equity-Settled Share-Based Payments

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

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

Cash-Settled Share-Based Payments

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

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

(q) Leases

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

Company as a Lessor

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

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

Company as a Lessee

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

(r) Revenue Recognition

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

- Product support services include sales of parts and servicing of equipment. For the sale of parts, revenue is recognized when the part is shipped to the customer. For servicing of equipment, revenue is recognized on a straight-line basis determined based on performance of the contracted upon service;

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

(s) Construction Contracts

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

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

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

(t) Financial Instruments

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

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

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an on-going basis;
- Level 2: Fair value measurements are those derived from inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs). In these instances, internally developed methodologies are used to determine fair value.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value

measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability and may affect placement within.

The Company has made the following classifications:

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

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

(u) Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

(v) Income Taxes

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

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

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

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Deferred income tax assets are recognized only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilized.

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

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

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

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

(w) Assets Held for Sale and Discontinued Operations

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

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

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

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

(x) Earnings Per Share

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

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

(y) Finance Costs and Income

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

Finance costs comprise interest expense on borrowings.

Note 4. Changes in Accounting Policies

(a) IFRS 2 Share-based Payments ("IFRS 2")

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

(b) IFRS 3 Business Combinations ("IFRS 3")

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

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

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

Note 5. Significant Accounting Estimates and Judgment

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

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

- *Revenue Recognition – Construction and Long-Term Service Contracts*

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

- *Provisions for Warranty*

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

- *Business Acquisitions*

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

- *Property, Plant and Equipment*

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

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

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

- *Allowance for Doubtful Accounts*

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

- *Impairment of Inventories*

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

- *Impairment of Non-Financial Assets*

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

- *Impairment of Goodwill*

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

- *Income Taxes*

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

responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

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

- *Share-Based Compensation*

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

- *Discontinued Operations*

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

- *Segment Change and Fair Value Allocation*

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

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

Note 6. Future Accounting Changes

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

- (a) **IFRS 9 Financial Instruments ("IFRS 9")**

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

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

(b) IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 specifies how and when to recognize revenue, and introduces more informative, relevant disclosures. The standard supersedes *IAS 18 Revenue*, *IAS 11 Construction Contracts*, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted.

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

(c) IFRS 16 Leases (“IFRS 16”)

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

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

Note 7. Acquisition

On June 30, 2014, Enerflex completed the acquisition of the international contract compression and processing, as well as the after-market services business of 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 finalized fair value of the identifiable assets acquired and liabilities assumed as at June 30, 2014 were as follows:

Cash and cash equivalents	\$	7,080
Accounts receivable		46,912
Inventories		14,092
Property, plant and equipment		1,243
Rental equipment		200,967
Intangible assets		28,326
Accounts payable and accrued liabilities		(45,075)
Deferred revenue		(18,341)
Deferred tax liabilities		(16,489)
Other assets and liabilities		14,518
Non-controlling interest acquired		(3,002)
Total identifiable net assets	\$	230,231
Excess consideration paid over identifiable net assets acquired allocated to goodwill		229,169
Preliminary purchase price	\$	459,400
Working capital adjustment		769
Final purchase price	\$	460,169

The fair value of the identifiable net assets and goodwill acquired effective June 30, 2014 was determined provisionally. The preliminary fair value of the rental assets was reduced by \$20.9 million to reflect the recoverability of certain assets under rental contract based on information regarding the renewability of those contracts, confirmed subsequent to the acquisition date.

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

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

Note 8. Assets Held for Sale and Discontinued Operations

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

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

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

The following table summarizes cash from discontinued operations:

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

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

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

Note 9. Accounts Receivable

Accounts receivable consisted of the following:

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

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

Notes to the Consolidated Financial Statements

Aging of trade receivables:

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

Movement in allowance for doubtful accounts:

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

Note 10. Inventories

Inventories consisted of the following:

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

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold during 2015 was \$1,302.8 million (December 31, 2014 - \$1,365.8 million). Cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount charged to the statement of earnings and included in cost of goods sold in 2015 was \$4.0 million (December 31, 2014 - \$3.1 million).

Notes to the Consolidated Financial Statements

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

Notes to the Consolidated Financial Statements

	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

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

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

Note 12. Other Assets

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

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

(a) Net Investment in Finance Leases

The Company entered into finance lease arrangements for certain of its rental assets. Leases are denominated in Canadian dollars. The terms of the leases entered into range from 3 to 7 years.

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

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

The average interest rates inherent in the leases are fixed at the contract date for the entire lease term and are approximately 6.7 percent per annum (December 31, 2014 – 3.9 percent). The finance lease receivables at the end of the reporting period are neither past due nor impaired.

Note 13. Intangible Assets

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

	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

Note 14. Goodwill and Impairment Review of Goodwill

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

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Goodwill acquired through business combinations has been allocated to the Canada, USA and Rest of World business segments, and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. For the year ended December 31, 2015 goodwill was not impaired.

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

The recoverable amounts for the segments have been determined based on value-in-use calculations, using discounted cash flow projections as at December 31, 2015. Management has adopted a four-year projection period to assess each segment's value-in-use. The cash flow projections are based on financial budgets approved by the Board of Directors.

Key Assumptions Used in Value-In-Use Calculations:

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

- **Earnings Before Finance Costs and Taxes:** Management has made estimates relating to the amount and timing of revenue recognition for projects included in backlog, and the assessment of the likelihood of maintaining and growing market share. For each 1 percent change in earnings before finance costs and taxes, the average impact on the value-in-use of the Company's three segments would be \$4.2 million; and
- **Discount Rate:** Management has used an average post-tax discount rate of 10.42 percent per annum which is derived from the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the Company's estimated equity market risk premium, the Company's cost of debt, and the tax rate in the local jurisdiction. For each 1 percent change in the discount rate, the average impact on the value-in-use of the Company's three segments would be \$64.1 million.

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

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

Note 15. Accounts Payable and Accrued Liabilities

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

Note 16. Provisions

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

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

2014	Warranty provision	Restructuring provision	Legal Provision	Total
Balance, January 1	\$ 14,645	\$ -	\$ 503	\$ 15,148
Additions during the year	23,620	4,275	156	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	<u>\$ 19,392</u>	<u>\$ 4,275</u>	<u>\$ 510</u>	<u>\$ 24,177</u>

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

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

Note 17. Long-Term Debt

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

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

Notes to the Consolidated Financial Statements

served to decrease the amount available for future increases to the Bank Facility from \$200.0 million to \$100.0 million. Any future increases in the Bank Facility continues to remain subject to the lenders' consent. The maturity date of the Bank Facility remained unchanged at June 30, 2019. There is no required or scheduled repayment of principal until the maturity date of the Bank Facility.

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

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

The Bank Facility is unsecured and ranks pari passu with the Notes. The Company is required to maintain certain covenants on the Bank Facility and the Notes. As at December 31, 2015, the Company was in compliance with these covenants.

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

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

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

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

Note 18. Guarantees, Commitments, and Contingencies

At December 31, 2015, the Company had outstanding letters of credit of \$64.2 million (December 31, 2014 - \$70.9 million).

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

Notes to the Consolidated Financial Statements

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

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

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

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

2016	\$	131,903
2017		1,485
2018		-

Note 19. Income Taxes

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

Years ended December 31,		2015		2014
Current tax	\$	32,097	\$	45,949
Deferred income tax		(1,420)		2,089
	\$	<u>30,677</u>	\$	<u>48,038</u>

Reconciliation of Tax Expense

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

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

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

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

(b) Income Tax Recognized in Other Comprehensive Income

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

(c) Net Deferred Tax Assets (Liabilities)

Deferred tax assets and liabilities arise from the following:

	Accounting provisions and accruals	Tax losses	Long-term assets	Other	Exchange rate effects on tax bases	Cash flow hedges	Total ¹
January 1, 2015	\$ 28,843	\$ 9,648	\$ (41,347)	\$ 1,308	\$ -	\$ 566	\$ (982)
Charged to net earnings	557	726	7,857	(257)	(7,166)	-	1,717
Charged to OCI	-	-	-	-	-	114	114
Exchange differences	1,735	901	2,233	-	(830)	(7)	4,032
December 31, 2015	\$ 31,135	\$ 11,275	\$ (31,257)	\$ 1,051	\$ (7,996)	\$ 673	\$ 4,881

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

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

(d) Unrecognized Deferred Tax Assets

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

Note 20. Share Capital Authorized

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

Issued and Outstanding

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

Notes to the Consolidated Financial Statements

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

Note 21. Contributed Surplus

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

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

Note 22. Revenue

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

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

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

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

Note 23. Share-Based Compensation**(a) Share-Based Compensation Expense**

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

Year ended December 31,	2015	2014
Stock options	\$ 2,080	\$ 1,965
Deferred share units	37	1,020
Phantom share units	(107)	332
Performance share units	(297)	1,819
Restricted share units	1,406	3,162
Total share-based compensation expense	\$ 3,119	\$ 8,298

(b) Stock Options

The Company's current stock option program provides grants to certain employees. Under the plan, up to 7.8 million options may be granted for subsequent exercise in exchange for common shares.

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

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

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

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

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

	December 31, 2015	December 31, 2014
Expected life (years)	5.18	5.31
Expected volatility ¹	28.8%	29.4%
Dividend yield	2.9%	1.5%
Risk-free rate	1.4%	2.1%
Estimated forfeiture rate	0.8%	0.7%

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

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

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

(c) Deferred Share Units

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

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

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

DSUs represent an indexed liability of the Company relative to the Company's share price. For the year ended December 31, 2015, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled \$1.9 million (December 31, 2014 – \$1.3 million).

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

The carrying amount of the liability relating to DSUs as at December 31, 2015 included in current liabilities was \$0.2 million (December 31, 2014 – nil) and in other long-term liabilities was \$5.1 million (December 31, 2014 – \$4.6 million).

(d) Phantom Share Rights

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

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

In 2015, the Board of Directors granted 199,986 SARs (December 31, 2014 – 101,159). The intrinsic value of the vested awards at December 31, 2015 was \$0.5 million (December 31, 2014 – \$1.0 million).

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

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

(e) Performance Share Units

The Company offers a PSU plan for officers of the Company or its related entities. The PSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the number of vested PSUs multiplied by the weighted average price per share at which the shares of the Company have traded on the TSX during the last 5 trading days immediately preceding the grant. Vesting is based on the achievement of performance measures and objectives specified by the

Board of Directors. The Board of Directors assesses performance of the officer to determine the vesting percentage, which can range from 0 percent to 200 percent. On the 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.

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

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

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

(f) Restricted Share Units

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

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

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

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

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

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

The Company offers a CPT plan to certain key employees of the Company or its related entities. The CPT plan is a long-term incentive program for non-executive U.S. based-employees. The plan is denominated in USD and may be granted at the discretion of the Board of Directors. Although the liability associated with the CPT plan follows Enerflex share performance no actual shares or securities are issued under the plan. The cash payment fluctuates based on the percentage of appreciation or depreciation in the share price over the life of the award, which is calculated using the last 5 days immediate preceding the vesting date. The cash grants are held for three years, and vest at a rate of one-third on the first, second, and third anniversaries of the award date. Within 30 days of the vesting date, the holder will be paid for the vested cash grants, at the discretion of the Company.

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

(h) Employee Share Ownership Plan

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

Note 24. Retirement Benefit Plans

The Company sponsors arrangements for substantially all of its employees through defined contribution plans in Canada, UK, Asia, and Australia, and a 401(k) matched savings plan in the United States. In the case of the defined contribution plans, regular contributions are made to the employees’ individual accounts, which are administered by a plan trustee, in accordance with the plan document. Both in the case of the defined contribution plans and the 401(k) matched savings plan, the pension expenses

Notes to the Consolidated Financial Statements

recorded in earnings are the amounts of actual contributions the Company is required to make in accordance with the terms of the plans.

Years ended December 31,	2015	2014
Defined contribution plans	\$ 8,133	\$ 9,281
401(k) matched savings plan	1,737	1,495
Net pension expense	<u>\$ 9,870</u>	<u>\$ 10,776</u>

Note 25. Finance Costs and Income

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

Note 26. Reconciliation of Earnings per Share Calculations

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

Note 27. Financial Instruments**Designation and Valuation of Financial Instruments**

The Company has designated its financial instruments as follows:

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

Fair Values of Financial Assets and Liabilities

The following table presents information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis as at December 31, 2015 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

Notes to the Consolidated Financial Statements

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	\$ 1,131	\$ -	\$ 1,131	\$ -
Financial Liabilities				
Derivative financial instruments	\$ 922	\$ -	\$ 922	\$ -

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

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

Long-term debt associated with the Company's Notes is recorded at amortized cost using the effective interest rate method. The amortized cost of the Notes is equal to the face value as there were no premiums or discounts on the issuance of the debt. Transaction costs associated with the debt were deducted from the debt and are being recognized using the effective interest rate method over the life of the related debt. The fair value of these Notes determined on a discounted cash flow basis, using a weighted average discount rate of 4.14 percent, was \$93.2 million at December 31, 2015.

Derivative Financial Instruments and Hedge Accounting

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

The following table summarizes the Company's commitments to buy and sell foreign currencies as at December 31, 2015:

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

Management estimates that a gain of \$0.2 million would be realized if the contracts were terminated on December 31, 2015. Certain of these forward contracts are designated as cash flow hedges and accordingly, a loss of \$1.3 million has been included in other comprehensive income for the 2015 year (December 31, 2014 – \$1.8 million). These gains or losses are not expected to affect net earnings as the gains will be reclassified to net earnings and will offset losses recorded on the underlying hedged items, namely foreign currency denominated accounts payable and accounts receivable. The amount removed from other comprehensive income during the year and included in the carrying amount of the hedged items for the year 2015 was a gain of \$1.1 million (December 31, 2014 - \$1.4 million).

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

Risks Arising from Financial Instruments and Risk Management

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

Foreign Currency Translation Exposure

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

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

Transaction Exposure

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

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

Translation Exposure

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

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

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net earnings. The following table shows the effect on net earnings before tax for the year 2015 of a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound, everything else being equal. A 5 percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis is provided as an indicative range in a volatile currency environment.

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

Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and other comprehensive income. Financial instruments affected by currency risk include cash and cash equivalents, accounts receivable, accounts payable, and derivative financial instruments. The following table shows the Company's sensitivity to a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound. A 5 percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis relates to the position as at December 31, 2015 and for the year then ended.

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

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

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at December 31, 2015 include interest rates that are fixed and therefore

the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facility however, are subject to changes in market interest rates.

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

Under the interest rate swap agreement, the Company pays a fixed rate of 0.785 percent per annum. The interest rate swap agreement has an aggregate notional principal amount of USD\$140.0 million, the principal balance of the Bank Facility being hedged. The fair value of the interest rate swap arrangement is the difference between the forward interest rates and the discounted contract rate. As at December 31, 2015, the fair value of the interest rate swap was nominal.

For each 1 percent change in the rate of interest on the remaining \$299.2 million Bank Facility, the change in interest expense for the year ended would be \$3.0 million (December 31, 2014 – \$2.1 million). All interest charges are recorded on the annual consolidated statement of earnings as finance costs.

Credit Risk

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

The Company has accounts receivable from clients engaged in various industries. These specific industries may be affected by economic factors that may impact accounts receivable. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Credit is extended based on an evaluation of the customer's financial condition and, generally, advance payment is not required. For the years ended December 31, 2015 and 2014, the Company had no individual customers which accounted for more than 10 percent of its revenues. Outstanding customer receivables are regularly monitored and an allowance for doubtful accounts is established based upon specific situations.

The Company evaluates the concentration of risk at December 31, 2015 with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in this note. The Company does not hold collateral as security.

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

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

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its U.S. Facility and Bank Facility for future drawings to meet the Company's future growth targets. As at December 31, 2015, the Company held cash and cash equivalents of \$158.1 million and had drawn \$493.0 million against the Bank Facility, leaving it with access to \$217.9 million for future drawings.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at December 31, 2015:

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

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

Note 28. Capital Disclosures

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

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

Net Debt to EBITDA Ratio

Net debt to EBITDA is defined as short and long-term debt less cash and cash equivalents at the end of the period divided by annualized EBITDA. The Company targets a net debt to EBITDA ratio of less than 2.50:1. At December 31, 2015, the net debt to EBITDA ratio was:

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

¹ Depreciation and amortization from continuing operations.

Note 29. Supplemental Cash Flow Information

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

Cash paid and received during the period:

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

Note 30. Related Parties

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

Notes to the Consolidated Financial Statements

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

December 31,		2015		2014
Associate – Roska DBO				
Revenue	\$	7,583	\$	8,343
Purchases		-		-
Accounts receivable		2,078		1,215
Joint Venture – Enerflex - ES				
Revenue	\$	59	\$	-
Purchases		-		-
Accounts receivable		-		-
Consortium – Geogas				
Revenue	\$	-	\$	-
Purchases		236		11
Accounts payable		171		-

All related party transactions are settled in cash.

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

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

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

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

Note 31. Seasonality

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

Notes to the Consolidated Financial Statements

Note 32. Segmented Information

The Company has three reportable operating segments as outlined below, each supported by the Corporate office. Corporate overheads are allocated to the operating segments based on revenue. For each of the operating segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For year ended December 31, 2015, the Company had no individual customers which accounted for more than 10% of its revenue.

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

- Canada generates revenue from manufacturing (primarily compression equipment), service, and rentals;
- USA generates revenue from the manufacture of natural gas compression equipment and process equipment in addition to generating revenue from product support services and rentals; and
- Rest of World generates revenue from manufacturing primarily process equipment, service, and rentals.

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

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

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

Note 33. Subsequent Event

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

DIRECTORS AND EXECUTIVES

Robert S. Boswell ^{1,4}

Director
Denver, CO

W. Byron Dunn ^{2,4}

Director
Dallas, TX

J. Blair Goertzen

Director,
President, and
Chief Executive Officer
Calgary, AB

Wayne S. Hill ^{2,5}

Director
Toronto, ON

H. Stanley Marshall ³

Director
Paradise, NL

Stephen J. Savidant

Chairman
Calgary, AB

Michael A. Weill ⁶

Director
Houston, TX

Helen J. Wesley ⁶

Director
Calgary, AB

D. James Harbilas

Executive Vice President and
Chief Financial Officer
Calgary, AB

Bradley Beebe

President, Canada
Calgary, AB

Marc Rossiter

President, United States of America
Houston, TX

Patricia Martinez

President, Latin America
Houston, TX

Phil Pyle

President, International
Abu Dhabi, UAE

Greg Stewart

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

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

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Whistleblower Contact

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ener@openboard.info
ener.hr@openboard.info
Web: www.openboard.info/ener/

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRUSTEE, REGISTRAR, AND TRANSFER AGENT

CST Trust Company

Calgary, AB Canada

For shareholder inquiries:

CST Trust Company

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Email: inquiries@canstockta.com

Web: www.canstockta.com

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

AUDITORS

Ernst & Young

Calgary, AB Canada

BANKERS

The Toronto Dominion Bank

Calgary, AB Canada

The Bank of Nova Scotia

Toronto, ON Canada

INVESTOR RELATIONS

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Requests for Enerflex's Annual Report, Quarterly Reports, and other corporate communications should be directed to ir@enerflex.com.

ANNUAL GENERAL MEETING INFORMATION

Shareholders of Enerflex Ltd. are invited to attend the Annual General Meeting, which will be held on May 5, 2016 at 10:30 a.m. MDT. The meeting will be held at the Marriott Downtown Hotel (Sunalta Room) 110 - 9th Avenue SE, Calgary, Alberta. Those unable to attend are encouraged to sign and return the proxy form mailed to them.