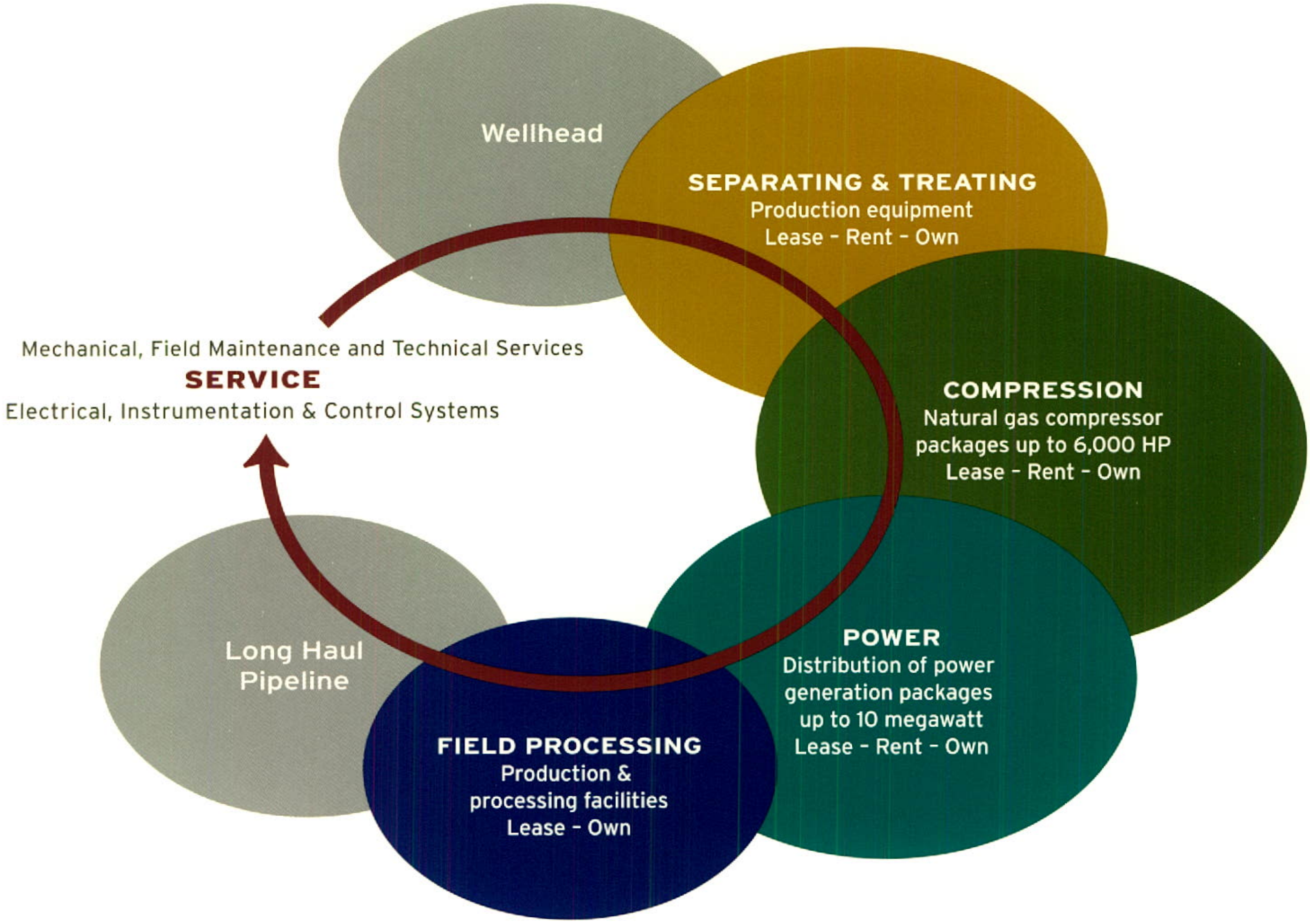
C

ENERFLEX

We're more than compression.

2002 ANNUAL REPORT


Wellhead
SEPARATING & TREATING
Production equipment
Lease - Rent - Own
Mechanical, Field Maintenance and Technical Services
SERVICE
Electrical, Instrumentation & Control Systems
COMPRESSION
Natural gas compressor
packages up to 6,000 HP
Lease - Rent - Own
Long Haul
Pipeline
POWER
Distribution of power
generation packages
up to 10 megawatt
Lease - Rent - Own
FIELD PROCESSING
Production &
processing facilities
Lease - Own

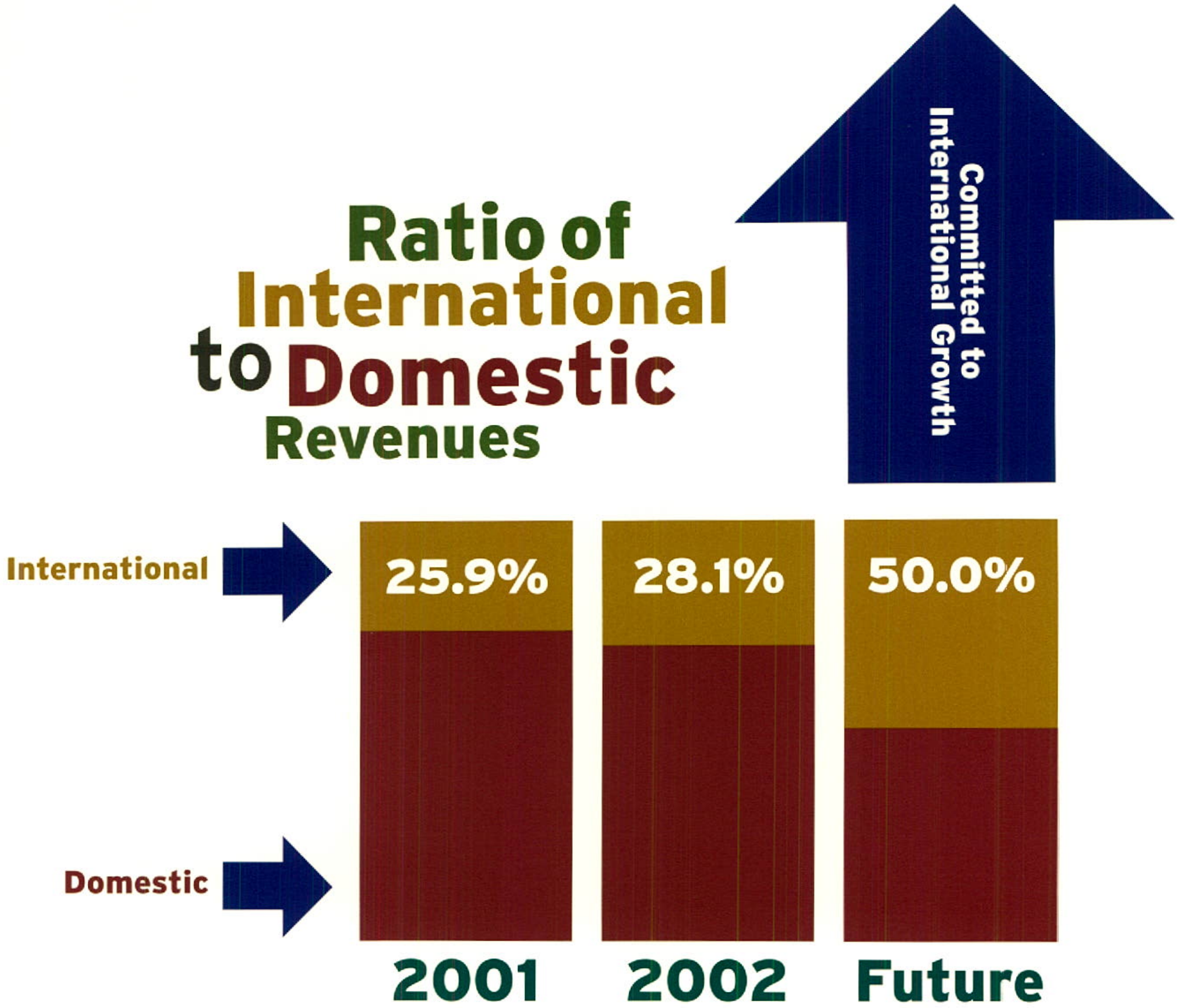
We're one-stop.

Today's oil and gas producers are looking for complete solutions, with best-of-class products and services. With the 2002 acquisition of EnSource, Enerflex now serves customers from the wellhead to the pipeline: from separation and treating, to compression, to power generation and field processing. Just as important, Enerflex provides industry-leading mechanical and electrical services. It's a big reason why Enerflex is a complete, international provider of oil and gas services.


Canada
Scotland
The Netherlands
Germany
Spain
Dubai
Pakistan
United States
Indonesia
Australia

We're a global player.

Building on our dominant position in western Canada, Enerflex does business anywhere in the world where oil and gas production companies operate. In 2002, 28% of Enerflex's revenues came from sources outside Canada. In 2003 and beyond, look for Enerflex to become more international in outlook and more diversified in terms of revenue. Key target markets for growth: the United States, Europe, southeast Asia and the Middle East.


Ratio of International to Domestic Revenues
Committed to International Growth
International
Domestic
25.9%
28.1%
50.0%
2001
2002
Future

We're poised for growth.

In 2000, Enerflex set an ambitious goal for growth: $1 billion in revenue by 2005. By the end of 2002, the Company was well on its way to achieving it. The acquisition of EnSource, combined with organic growth in Enerflex's previous businesses, provides the critical mass necessary to compete and win on the world stage.

Service

Provides a complete line of mechanical, electrical, instrumentation and controls, and field services to the oil and gas industry. With over 1,200 highly trained personnel, our service business operates in Canada, the United States, the United Kingdom, Germany, the Netherlands, Australia, Indonesia and Dubai.

Production & Processing

Designs and builds turnkey, integrated oil and gas production and processing facilities to meet the needs of the crude oil and natural gas industry around the world. Enerflex is uniquely qualified to provide large, custom facilities and handles all aspects of such projects, from initial consultation to training of operations and maintenance personnel.

Compression

A world-class packager of natural gas compression equipment, engineering and fabricating a complete line of reciprocating and screw compression packages throughout the five horsepower to 6,000 horsepower range.

Power

Designs and fabricates power generation systems as stand-alone equipment packages or on a turnkey, installed basis. Our expertise includes cogeneration facilities, turbine, diesel and gas reciprocating units. We offer a complete range of power solutions for the under 10 megawatt market.

Leasing

Offers customers flexible and innovative financing through which companies can acquire the use of a broad range of gas compression and power generation equipment. Leasing options include short-term rentals, long-term capital and operating leases and full-service contract operations.

We're Enerflex.

Enerflex Systems Ltd. is a leading supplier of products and services to the global oil and gas industry. Over the years, Enerflex has grown by both product segment and geography, adding new businesses through organic growth and through acquisition. The 2002 purchase of EnSource Energy Services stands as a milestone in the execution of Enerflex's growth-minded strategic plan for 2001–2005. Structurally, Enerflex is organized into three business segments – Service, Fabrication and Leasing. Taken together, they allow Enerflex to provide a complete suite of services. These services are delivered through five operating units – Service, Production & Processing, Compression, Power and Leasing.

Enerflex at a Glance

($ millions, except per share data and ratios)	**2002**	2001	2000
RESULTS			
Revenue	**326.7**	375.0	286.3
EBITDA[1]	**30.0**	47.8	28.9
Income before income taxes	**14.3**	36.5	17.7
Net income	**9.2**	22.5	11.3
Per common share – basic	**0.51**	1.51	0.76
Cash from operations before changes in non-cash working capital	**22.7**	30.0	18.5
Capital expenditures, net			
Rental equipment	**8.5**	10.0	7.9
Property, plant and equipment	**2.2**	2.5	4.3
Dividends per common share	**0.40**	0.40	0.40
FINANCIAL POSITION			
Working capital	**68.7**	62.1	57.9
Total assets	**451.2**	222.1	192.7
Long-term debt	**69.0**	30.0	30.2
Shareholders' equity	**260.9**	118.5	104.1
KEY RATIOS			
Gross margin as a percentage of revenue	**21.4**	19.5	18.8
Pre-tax income as a percentage of revenue	**4.4**	9.7	6.2
Return on average equity[2] *(%)*	**4.9**	20.2	10.9

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

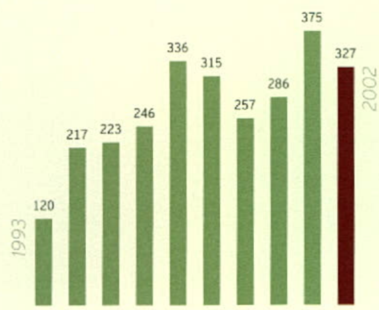
Enerflex calculates EBITDA as follows *($ thousands)*:	**2002**
Income before interest and income taxes	**17,919**
Depreciation and amortization	**12,054**
	29,973

(2) Return on average equity is calculated as net income divided by the simple average of shareholders' equity at the beginning and end of the year.

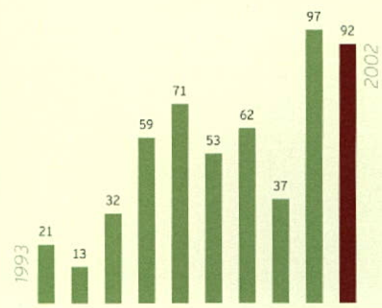
This document contains forward-looking statements, which are subject to certain risks, uncertainties and assumptions. Should one or more of these factors materialize, or should assumptions prove incorrect, actual results may vary significantly from those expected.

Financial Highlights

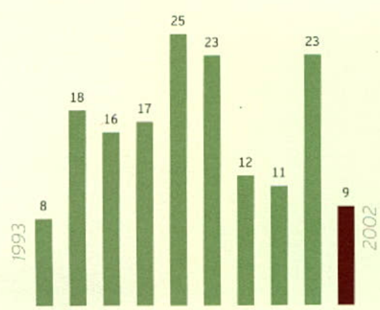
REVENUE
$ millions



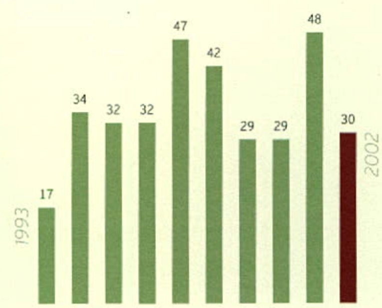
INTERNATIONAL REVENUE
$ millions



NET INCOME
$ millions



EBITDA
$ millions



Letter to Shareholders

During 2002, the market presented difficult conditions to companies in the oilfield services sector. However, Enerflex made the best of a challenging year. Through the $167 million acquisition of EnSource Energy Services Inc., and other steps, we are creating the conditions for future domestic and international success. Two years in, Enerflex's 2001–2005 strategic plan is firmly on track.

For most of its history, Enerflex has been associated with the Canadian market for natural gas compression. Over the past two years, your Company has taken decisive steps to diversify our business beyond Canada, and to broaden our product offering beyond the manufacture and servicing of gas compression equipment.

Increasingly, our business is derived from international markets for natural gas production equipment and compression services such as maintenance and refurbishment. These markets provide greater opportunity for growth, while taking full advantage of Enerflex's worldwide track record in service.

In 2002, the rationale for this strategy was once again validated. Canadian energy producers were reluctant to invest in new equipment. As a result, sales of new equipment by Enerflex's Compression, Production & Processing and Power units were well below the levels of 2001. More favourable market conditions for the Service and Leasing businesses provided stability.

> Over the past two years, your Company has taken decisive steps to diversify our business beyond Canada, and to broaden our product offering beyond the manufacture and servicing of gas compression equipment.

Financial Performance

In 2002, Enerflex delivered a profitable year despite market conditions that were difficult on many fronts. Total revenue was $326.7 million for the year, a reduction of 12.9% compared to 2001's $375.0 million. Enerflex recorded net income of $9.2 million ($0.51 per share, diluted), compared to $22.5 million ($1.49 per share, diluted) the previous year.

From left to right: Yves Tremblay, Malcolm Cox, Sean Ulmer, Kelly Smith, Lawrence Sedore, Louise Torrance, Derek MacKenzie and Dale Hohm.

To be profitable in such a challenging year is a vivid demonstration of the skill, imagination and commitment of Enerflex staff worldwide. This was a year in which Enerflex's disciplined cost control truly paid dividends.

By completing the EnSource acquisition in exchange for Enerflex common shares, and establishing a new $175 million bank credit facility, the Company is strong financially and well positioned to meet the opportunities that lie ahead.

The Plan is On Track

In Enerflex's 2000 annual report, we presented the key priorities of the Company's strategic plan for 2001–2005. The goal of this plan was to transform Enerflex from a Canadian market leader to an international leader with revenues of $1 billion.

Last year, we were pleased to report substantial progress. Despite an uncooperative economic environment in 2002, we continued to make progress on these five core strategic goals.

> The acquisition of EnSource Energy Services Inc. is a milestone in Enerflex's growth. It significantly advances our position as an international provider of services and equipment used in the production and processing of crude oil and natural gas.

1. Continue to expand internationally by establishing service and sales operations in key markets. Historically, Enerflex has grown internationally through acquisition. From Australia's Gas Drive Systems many years ago, to Europe's Landré Ruhaak bv in 2001, such acquisitions have allowed us to enter new markets at reasonable cost. The acquisition of EnSource Energy Services Inc., discussed more fully below, is a milestone in Enerflex's growth. It significantly advances our position as an international provider of services and equipment used in the production and processing of crude oil and natural gas. Smaller, but still significant in 2002, was Enerflex's acquisition of the assets of Texas-based VR Systems.

2. Aggressively expand our rental business. The acquisition of EnSource's leasing assets builds our Leasing business in a highly complementary fashion. We now have over 300 units in our lease fleet with over 70,000 horsepower.

> Enerflex is committed to delivering top performance on two measures above all: growth in earnings per share, and return on capital employed.

3. Maintain an efficient and responsive organizational structure. Enerflex is now comprised of five operating units: Service, Production & Processing, Compression, Power and Leasing. The structure has been calibrated to enhance customer relationships and maximize cross-selling of bundled services.

4. Foster a culture and corporate philosophy of operational excellence. Consistently, from year to year, Enerflex works to deliver the best value proposition to our customers. Our new colleagues from the former EnSource companies fundamentally share this philosophy.

5. Further explore worldwide opportunities to expand our power generation business. Power generation is a key growth area for Enerflex. The addition of EnSource's power generation capabilities in gas turbines, combined with Enerflex's expertise in the design, supply and installation of natural gas reciprocating power generation, has allowed Enerflex to emerge with a powerful offering of alternatives in the under 10 megawatt domestic and international markets.

The New Enerflex: from Wellhead to Pipeline

Enerflex is committed to delivering top performance on two measures above all: growth in earnings per share, and return on capital employed. The question is: how does a Canadian-based firm generate acceptable returns on equity and capital when the domestic market shows clear signs of maturity?

Enerflex's answer is: by doing more for our customers, in more places around the world. That is the strategic reason behind our acquisition of Calgary-based EnSource Energy Services Inc. Of all acquisition targets, EnSource presented the best strategic fit and the best prospects going forward.

The two companies' lines of business were remarkably complementary. Now, the 1,850 people of the new Enerflex offer our worldwide customers services and products from wellhead to pipeline. When we bundle these together – as our sales strategy is increasingly geared to do – our customers receive better value and Enerflex captures better margins.

This capability allows us to seek and win larger production projects. Prior to the acquisition, Enerflex might have participated in 5% of the value of a new natural gas facility. Now, with capabilities in electrical instrumentation, controls and production and processing equipment, we can deliver a turnkey solution for our customers. In addition, Enerflex will have the inside track on many years of related service work.

The integration of the EnSource assets is proceeding well. Following the acquisition of EnSource, Enerflex initiated the rationalization of fabrication facilities. We closed a fabrication facility in Nisku, Alberta, and a power fabrication facility in Calgary. All fabrication of power equipment packages is now conducted at our main facility in Calgary. More capacity rationalization is planned.

We are also expecting to improve plant utilization through the fabrication of complementary products, such as compressed natural gas equipment for international markets, in our production facilities, and through fabrication of components that were previously outsourced.

Staff from all operating units are working more and more as an integrated sales and service team. We have already experienced successes with this approach, and the Production & Processing, Electrical Instrumentation and Controls, and Compression groups are working closely on a number of substantial cross-selling opportunities.

In 2003, we will ensure that Enerflex captures every dollar's worth of savings, sales and synergy this business combination offers.

Growth in Enerflex revenues and earnings will come from cross-selling our complete range of products to our customers and from increased penetration of United States and other international areas where Enerflex has a low market share or the market is growing.

Outlook for 2003

In years past, Enerflex depended upon a strong correlation between natural gas prices, natural gas exploration and new compression demand. Most industry analysts expect that, in the absence of significant discoveries, North American natural gas production will decrease and that this will result in higher gas prices. However, the natural gas price is not the key indicator of strength or weakness of demand for our Company's products (and, to a lesser extent, services). The strongest indicator of demand for the Company's products is natural gas production volumes. Simply put, increasing production requires more compression and processing equipment.

It is our view that the North American market will improve in 2003. However, Enerflex cannot rely solely on increased capital spending in Canada to drive sustained improvements in our business. Growth in Enerflex revenues and earnings will come from cross-selling our complete range of products to our customers and from increased penetration of United States and other international areas where Enerflex has a low market share or the market is growing. Our compression and processing equipment order backlog is now larger than at any time in 2002, primarily as a result of recent international sales.

We want to thank each of our 1,850 employees worldwide, and our Board of Directors, for their excellent work in 2002.

Two years into our five-year strategic plan, we are pleased by the progress we have made. For Enerflex, 2003 is a year to deliver on our tremendous global potential.

Yours sincerely,

P. John Aldred
Executive Chairman
Enerflex Systems Ltd.

Malcolm Cox
President and Chief Executive Officer
Enerflex Systems Ltd.

February 5, 2003

Review of Operations

he acquisition of EnSource propels Enerflex into the first rank of global nergy services companies. Now, our business moves significantly eyond compression, offering customers a complete range of products nd services from wellhead to pipeline. Geographically, we've added ey markets with tremendous opportunity, from the United States the Middle East. With this one decisive move, Enerflex is more versified, more international and more ready to seize the future of obal energy services.

Review of Operations

Enerflex Systems Ltd. is a leading provider of products and services to the global oil and gas production industry. The Company is headquartered in Calgary, Canada, with operations in Canada, the United States, the United Kingdom, Germany, the Netherlands, Australia, Pakistan, Indonesia and the United Arab Emirates. The Company employs approximately 1,850 people worldwide.

Structurally, Enerflex is organized into three business segments: Service, Fabrication and Leasing. Taken together, they allow Enerflex to provide a complete suite of products and services from wellhead to pipeline. Operationally, these services are delivered through five operating units: Service, Production & Processing, Compression, Power and Leasing.

EnSource Acquisition Adds Product Breadth, International Scope

The defining event of 2002 was Enerflex's acquisition and integration of EnSource Energy Services Inc. The acquisition, which closed on July 18, is highly complementary. The addition of the EnSource assets allows Enerflex to offer products and services from wellhead to pipeline.

The EnSource acquisition significantly advances the internationalization of Enerflex.

Now, oil and gas companies around the world can look to Enerflex for complete, turnkey natural gas production equipment and services – anywhere in the world.

A key element of Enerflex's business plan is to increase revenue from international markets. In 2002, Enerflex derived 28% of its revenue from outside Canada. The EnSource acquisition, which contributed new products and new global customers, makes a critical difference by significantly advancing the internationalization of Enerflex. International operations are targeted to contribute 50% of your Company's revenues and earnings in the future.

Operating Structure

Enerflex has five operating units: Service, Production & Processing, Compression, Power and Leasing. The following section will review 2002 operations for each, and provide an outlook for 2003.

SERVICE

Enerflex supplies field services for construction, mechanical, electrical, instrumentation and controls. These services are provided by 1,200 highly trained professionals through a responsive network of 50 locations in Canada, the United States, Scotland, Germany, the Netherlands, Australia, Indonesia and the United Arab Emirates.

> Now, oil and gas companies around the world can look to Enerflex for complete, turnkey natural gas production equipment and services.

2002 Operational Highlights

- completed 100,687 service assignments, compared to a combined 74,312 for the Enerflex and EnSource service groups in 2001.
- began integration of Syntech's service operations, which add electrical service expertise to Enerflex's strength in mechanical service. This process includes rationalization of operations in locations served by both Enerflex and Syntech facilities.
- through Syntech, extended Enerflex's electrical service capabilities into the Middle East.
- The Canadian Service operation had significant success through a carefully planned reorganization of sales and marketing. Through enhanced training, process measurement and follow-through, the sales force has consistently delivered better service to our customers.
- Landré Ruhaak bv achieved a significant customer win in the Ukraine, resolving a serious customer engine problem by leveraging remanufactured inventory in the Calgary-based Re-Engineered Solutions group. The customer's gas compression plant was back in service in record time.
- Syntech installed and commissioned a \$3.5 million SCADA integration project with a major producer in the Lloydminster, Alberta area. Designed to provide better maintenance response times to improve well production uptime and revenue, the system alerts Syntech maintenance crews in real time to ensure the fastest possible response to prevent production interruptions.

2003 Outlook

Overall, the expectation is for stronger demand and better results compared to 2002. It is anticipated that international markets will be relatively stronger than the Canadian market in 2003. Domestically, many customers are presenting a wait-and-see attitude with regard to capital spending.

For 2003, the Service unit will seek to increase margins and reduce selling, general and administrative expenses as a percentage of revenue. The unit's investment in information systems for Canada and Europe, as well as planned branch expansions in Europe and Australasia, are expected to improve customer service and management controls.

PRODUCTION & PROCESSING

Enerflex designs and builds turnkey, integrated production and processing facilities for oil and gas companies around the world. This includes engineering, transportation and field services, production equipment rentals and flare systems. Enerflex's

Production & Processing business is carried out by three former EnSource units: Presson, Mactronic and Canadian Select.

2002 Operational Highlights

- slow Canadian activity relating to new gas plants and oil facilities, balanced by a comparatively vibrant international market.
- strongest international results were in Pakistan and Indonesia.
- Mactronic supplied a flare tip and ignition equipment to Malaysia's Cakerawala offshore project in the Gulf of Thailand. This flare tip is believed to be the world's largest.
- began sales integration with other Enerflex operating units, in particular cross-selling with Compression and Syntech, in order to provide customers with end-to-end solutions.

2003 Outlook

For 2003, the Production & Processing unit will focus on the international market, expecting that Canadian market conditions will continue to be slow. Production & Processing is initiating a strategy of targeting smaller, standard projects (through Canadian Select) and larger, custom projects (through Presson). Canadian Select's drilling equipment rental business was sold on January 31, 2003.

COMPRESSION

Enerflex designs, manufactures and installs a wide variety of new gas compression packages for customers around the world. These are engineered and assembled by Enerflex at three fabrication facilities: Calgary and Stettler, Alberta and Odessa, Texas. Packages are standard-built or custom-designed screw and reciprocating compressors, with components supplied by leaders and innovators within the global industry.

Important market opportunities are seen outside of North America, in areas such as southeast Asia and the Middle East.

2002 Operational Highlights

- began integration of operations of Jiro (from EnSource) and VR Systems of Odessa, Texas. This process involved the closing of Jiro's Nisku, Alberta facility.
- began major cross-selling initiatives with other business units.
- broadened product offering significantly. Enerflex was a world-class packager of reciprocating gas compression equipment between 400 HP and 6,000 HP, while Jiro was a leader in the sub-400 HP screw compressor market. Enerflex now supplies gas compression across the full horsepower range.
- with the acquisition of VR Systems, Compression significantly increased its United States sales capability and captured significant new expertise in specialty compression packages such as refrigeration and vapor recovery.
- improved and enhanced workflow, processes and procedures to make compression products more competitive and improve customer satisfaction.
- leveraged larger company advantage to enhance purchasing power, provide inter-company services, provide a wider product and service offering and increase customer contacts.
- targeted new product lines to decrease impact of gas compression market swings and increase facility utilization.

2003 Outlook

High gas prices and increased drilling are expected to result in a strengthening of demand for compression equipment in the second half of 2003. A key driver of the year's results will be facility utilization and manufacturing efficiency. Important market opportunities are seen outside of North America, in areas such as southeast Asia and the Middle East. In these areas, the potential for an increase in market share is greater and new natural gas drilling and production activity is expected to be higher.

POWER

Enerflex designs and fabricates power generation systems as stand-alone equipment packages or on a turnkey, installed basis. This includes natural gas and diesel fuelled reciprocating and turbine driven power generation packages including co-generation applications. With the addition of EnSource's GridLink assets, Enerflex now offers a complete range of power solutions for the under 10 megawatt market.

2002 Operational Highlights

- business conditions generally marked by restrained capital spending and therefore restrained demand.
- first year as stand-alone operating unit, led by a dedicated senior manager. Power was separated from the former Compression & Power to improve business focus on this important market.
- integrated GridLink assets following EnSource acquisition. This involved the closing of GridLink's production facility, and consolidating fabrication in Enerflex's Calgary fabrication facility to reduce capacity and costs.
- awarded a $3.3 million turnkey project by Star Oil & Gas Ltd. for a flared gas power generation project at Red Earth Creek and Loon Lake, 100 km north of Slave Lake.

With the addition of EnSource's GridLink assets, Enerflex now offers a complete range of power solutions for the under 10 megawatt market.

2003 Outlook

On balance, the expectation is for a better year than 2002. Much depends on capital spending, which could accelerate in the second half of the year. The power market may also be helped by volatility in the electricity commodity market. Targeted international markets show signs of having significant potential for growth. Strategic plant utilization and cost control will allow this business to be managed in the most profitable manner possible.

LEASING

Enerflex offers customers many flexible and innovative financing alternatives, through which companies can obtain the use of a broad range of gas compression and power generation equipment. Leasing options include short-term rentals, long-term capital and operating leases and full-service contract operations. Once again, the EnSource influence is complementary, adding Jiro's sub-250 horsepower screw and reciprocating compressor fleet to the higher-horsepower Enerflex rental fleet. Enerflex currently has rental units throughout western Canada, as well as in Alaska, Montana, North Dakota and Australia.

2002 Operational Highlights

- excess supply in the market pressured utilization and rental rates and therefore margins.
- introduced a large-horsepower, trailer-mounted unit to provide clients with a means to maintain gas production while an existing compressor is being overhauled.
- relocated rental fleet and fleet maintenance to Stettler, Alberta, in order to consolidate facilities, provide more timely customer service and reduce transportation costs.
- fleet size doubled with the integration of the Jiro rental fleet. Enerflex's fleet now exceeds 300 units, with over 70,000 HP covering the range from 5 HP to 1,500 HP.
- completed and installed nearly 3,000 HP on a two-year rental arrangement to a customer in Alaska.
- 2002's busiest market segment was in sub-100 HP compressors.

Leasing will continue to selectively expand the range of equipment offered, including the addition of diesel generation sets and larger horsepower screw compressors.

2003 Outlook

Enerflex's Leasing unit forecasts an increase in demand for rental units in 2003. However, with producers' increased cash flow, Enerflex also expects a greater than normal number of customers to exercise their options to purchase this equipment. The Canadian market is expected to be stable relative to 2002, which could be offset by anticipated higher activity in the United States, particularly Alaska, Montana and Wyoming. Leasing will continue to selectively expand the range of equipment offered, including the addition of diesel generation sets and larger horsepower screw compressors.

Management's Discussion and Analysis

Enerflex Systems Ltd. is a leading Canadian supplier of products and services to the global oil and gas production industry. The oilfield service sector in Canada, where Enerflex's operations are currently concentrated, was characterized by difficult market conditions in 2002 despite high oil and gas prices. In this challenging environment, Enerflex remained profitable and took a major step forward in the implementation of its strategic plan with the acquisition and integration of EnSource Energy Services Inc.

Management's Discussion and Analysis

The following discussion and analysis highlights key business results and statistics for 2002 and 2001 and should be read in conjunction with the consolidated financial statements and accompanying notes on pages 35 to 50 of this Annual Report.

The MD&A is reviewed and approved by the Company's Audit Committee at the end of each quarter. At year-end, the Board of Directors also reviews and approves the MD&A and the audited, consolidated financial statements. The MD&A contains forward-looking statements which are subject to risks, uncertainties and assumptions. Should one or more of these risk factors materialize, or should assumptions be incorrect, actual results may vary significantly from those expected.

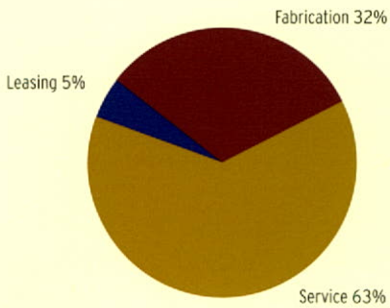
Results of Consolidated Operations Enerflex Systems Ltd. is a leading Canadian supplier of products and services to the global oil and gas production industry. The oilfield service sector in Canada, where Enerflex's operations are currently concentrated, was characterized by difficult market conditions in 2002 despite high oil and gas prices.

In this challenging environment, Enerflex remained profitable and took a major step forward in the implementation of its strategic plan with the acquisition and integration of EnSource Energy Services Inc. (EnSource). Key results for 2002 include:

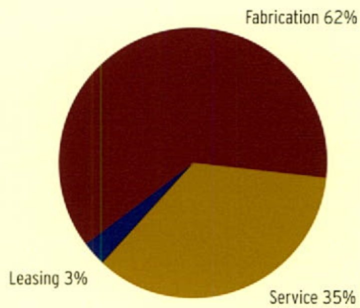
- Generating total revenue of $326.7 million, compared with $375.0 million in 2001;
- Earning net income of $9.2 million ($0.51 per share), compared with $22.5 million ($1.49 per share) in 2001;
- Generating a return on capital employed(1) of 6.6%, compared to 23.6% in 2001;
- Completing the acquisition of EnSource in exchange for Enerflex common shares to broaden the Company's product offering and increase exposure to international business;
- Establishing new secured bank credit facilities totalling $175.0 million to supply ongoing capital requirements and support Enerflex's growth objectives;
- Initiating the rationalization of production facilities to improve utilization and future profitability;

(1) Return on capital employed is calculated as pre-tax income plus interest expense divided by the simple average of capital employed at the beginning and the end of the year. Capital employed is the sum of shareholders' equity plus current and long-term bank indebtedness, net of cash.

2002 REVENUE – $326.7
$ millions



2001 REVENUE – $375.0
$ millions



- Implementing selling, general and administrative cost reduction plans to realize the synergies of the combined Enerflex and EnSource businesses; and
- Streamlining and simplifying the corporate legal structure by amalgamating 18 wholly owned subsidiaries.

Following the business combination with EnSource, Enerflex established three business segments: Service, Fabrication and Leasing. The Fabrication segment is the aggregation of the Compression, Power, and Production and Processing operating units.

The Company's operating units are comprised of the following parts of the former Enerflex and EnSource organizations:

1. Service – Enerflex Service and EnSource's Syntech and Jiro service businesses;
2. Fabrication
   a) Compression – Enerflex Compression, including the Calgary, Alberta and Odessa, Texas facilities, and EnSource's Jiro facility in Stettler, Alberta;
   b) Power – Enerflex's Power unit, formerly part of Compression and Power, and EnSource's Gridlink power subsidiary;
   c) Production and Processing – EnSource's Presson, Mactronic, and Canadian Select businesses; and
3. Leasing – Enerflex Leasing and Jiro's leasing assets.

Service

(Thousands)	**2002**	2001
Segment revenue	**$ 212,269**	$ 135,659
Intersegment revenue	**(6,265)**	(6,191)
External revenue	**$ 206,004**	$ 129,468
Income before interest and taxes	**$ 15,585**	$ 14,500

The Service business unit provides a complete line of re-engineering, mechanical, electrical, instrumentation and controls field services to the oil and gas industry through an extensive branch network in Canada, as well as operations in the United States, Scotland, Germany, the Netherlands, Australia, Indonesia, and the United Arab Emirates. Service is the Company's largest business unit, accounting for nearly two-thirds of consolidated revenue in 2002 and employing 65% of our staff. Key performance metrics include top line revenue, gross margin percentages, and general and administrative costs as a percentage of revenue.

Service revenue was $206.0 million in 2002, compared with $129.5 million in 2001. Contributing to the increase in revenue were the service operations of EnSource companies, which added $70.6 million to revenue and $2.6 million to earnings before interest and taxes post July 18, 2002 (date of acquisition), primarily from electrical, instrumentation and controls field construction and services. Revenue from our Canadian mechanical parts and service operations was 8% lower in 2002 than in 2001 as customers have reduced maintenance expenditures. The reduction in spending is more pronounced in the refurbishment and re-engineering business, which experienced a 37% reduction in revenue due to lower capital spending by Canadian natural gas producers. Our continental European service business offset revenue declines in the Canadian operations.

The mechanical Service groups have successfully maintained gross margin percentages at or slightly above prior-year levels. However, margins realized by the former EnSource businesses are lower, and general and administrative costs as a percentage of revenue are higher, than the same measures the Enerflex Service group has achieved. This creates the opportunity to improve bottom-line performance through identifying best practices and rationalization of branch service operations in western Canada. The Service group is investing in information systems in Canada and Europe to improve management controls and customer service, and to facilitate reductions in working capital requirements.

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Fabrication

(Thousands)	**2002**	2001
Segment revenue	**$ 118,210**	$ 248,208
Intersegment revenue	**(13,445)**	(15,056)
External revenue	**$ 104,765**	$ 233,152
(Loss) income before interest and taxes	**$ (5,383)**	$ 18,748

The Fabrication business segment engineers and assembles standard and custom-designed compression packages, production and processing equipment and facilities, and natural gas-fuelled power generation systems. The key performance driver for this business segment is capacity utilization for the industry as a whole and at Enerflex. When industry fabrication facilities are operating near full capacity, market prices tend to rise, resulting in higher gross margins. The converse applies when surplus capacity exists. In addition, plant overhead costs, which are charged to jobs at a fixed rate per labour hour, are over-absorbed and credited to cost of sales in periods of high activity, and under-absorbed and charged to cost of sales in periods of low activity. This has a significant impact on margins over the course of a business cycle.

The 2001 year was very active for oilfield service fabrication businesses as natural gas producers invested in new infrastructure, particularly in the first half of the year. Commencing in mid-2001, new equipment orders declined sharply, so the Company's fabrication revenues in the second half were largely derived from the backlog developed earlier in the year. In 2002, capital spending by North American natural gas producers on compression, power, and production and processing equipment remained low throughout the year. Surplus fabrication capacity in Canada has led to intense competition and lower market prices.

Fabrication results for 2002 include revenue of $32.4 million and income before interest and taxes of $0.0 million from production equipment and low-horsepower compression fabrication of former EnSource subsidiaries post July 18, 2002. Excluding the EnSource contribution, revenues are approximately one-third of those realized in the prior year. At low sales volumes, plant overheads cannot be fully absorbed, resulting in negative margins. However, gross margins before underapplied overheads have been maintained despite competitive pricing pressures due to process efficiency improvements in our main Calgary fabrication facility.

As a result of low 2002 capital investment and high reservoir decline rates, analysts estimate that North American natural gas production decreased by approximately 5% in 2002. Declining production negatively impacts the fabrication business. However, high natural gas prices have encouraged producers to increase drilling activity in recent months. To the extent that successful 2002/03 winter drilling results in increasing North American gas production, facility utilization, revenues and gross margins should improve in the last half of 2003.

The Company's fabrication business plan reflects the view that the North American market may improve in 2003, but that the majority of income growth will come from:

- Increased penetration of international markets;
- Cross-selling our complete range of products to our customers;
- Improving plant utilization through fabrication of complementary products in our production facilities and through fabrication of components that were previously outsourced; and
- Vigilant cost control.

In the near and long term, the Company believes revenue growth will be achieved through delivery of larger turnkey production, compression, and power packages in Canada and, more importantly, international markets. The infrastructure and expertise of the Enerflex design, fabrication and sales groups provide the resources for this key business development initiative.

Following the acquisition of EnSource, Enerflex initiated the rationalization of fabrication facilities. We closed one fabrication facility in Nisku, Alberta, and a power fabrication facility in Calgary. All fabrication of power equipment packages is now conducted at our main facility in Calgary. In addition, the rental fleet maintenance and operations centre has been centralized in Stettler, Alberta, to improve the utilization of our low-horsepower compression fabrication facility.

The Compression and Power operating units have followed the policy of recording revenue upon substantial technical completion of a project (the "completed project" method), while the production and processing operating units have followed the percentage of completion method. The completed project method can result in lumpy earnings when large projects are being undertaken, because revenue and cost of sales are not recognized in the statement of income until the project is substantially complete. As the Company's business plan is to direct more resources to large, turnkey projects, the percentage of completion method of revenue recognition will be adopted throughout our Fabrication business unit in 2003. This change in accounting policy will be made prospectively since the information needed for retroactive application is not reasonably determinable. The impact of this change is not expected to materially affect net income in 2003.

In the near and long term, the Company believes revenue growth will be achieved through delivery of larger turnkey production, compression, and power packages in Canada and, more importantly, international markets.

Leasing

(Thousands)	**2002**	2001
Segment revenue	**$ 15,943**	$ 12,420
Intersegment revenue	**(6)**	–
External revenue	**$ 15,937**	$ 12,420
Income before interest and taxes	**$ 7,717**	$ 5,913
Capital expenditures, net of proceeds on disposal	**$ 7,297**	$ 9,999

Our Leasing business segment provides our customers with a variety of leasing and rental options for gas compression and power generation equipment. The Enerflex lease fleet is comprised of 300 units and over 70,000 horsepower. The key performance drivers in this business are the fleet utilization rate, which is controllable by the Company, and rental rates, which are market driven. The Company's lease fleet is located primarily in western Canada. Expansion into the United States is planned, but is currently being done on a selective basis as lease rates for standard equipment in that market are low.

The leasing business is a significant contributor to earnings, despite its low proportion of overall company revenue.

In 2002, fleet utilization rates, measured by horsepower in use, were lower than in 2001, reflecting reduced activity levels of natural gas producers. Historically, utilization rates approximated 85%, while in the last half of 2002 utilization fell below 80%. Sub-400 horsepower compressors have a high utilization rate, while some higher-horsepower equipment is idle. The Company records depreciation on equipment regardless of whether or not it is generating revenue, so increasing the utilized horsepower, while divesting of underutilized assets, is important to the profitability of this business.

The leasing business is a significant contributor to earnings, despite its low proportion of overall company revenue. With the addition of EnSource, segment revenues increased to $15.9 million in 2002, compared with $12.4 million in 2001. In the last half of 2002, revenue of $3.2 million and earnings before interest and taxes of $1.9 million were contributed by acquired operations.

Accounting practices in the compression leasing business vary significantly from company to company. Key accounting policies followed by our equipment leasing business are as follows:

- All equipment and related debt are recorded on the balance sheet. No equipment is in special purpose entities. There is no "off balance sheet" debt.
- Compression equipment is depreciated over its useful life, which has been estimated to be approximately 14 years.
- When, under the terms of a rental contract, the Company is responsible for maintenance and overhauls, the expense is accrued monthly to match maintenance expense with the related revenue. Maintenance and overhaul costs incurred are charged to the accrued maintenance liability.

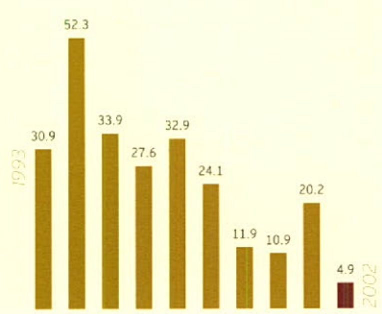
Selling, general and administrative (SG&A) expenses were $53.4 million in 2002 compared with $35.2 million in the prior year. Costs in 2002 included additional SG&A of $15.9 million from EnSource and $5.0 million for continental European service operations acquired in the fourth quarter of 2001. The Service business unit generally has higher SG&A as a percent of revenue than the Fabrication business unit, due to the service branch infrastructure. Low Fabrication revenues and a higher proportion of Service revenues caused SG&A to increase to 16.3% of revenue in 2002 compared with 9.4% in the prior year.

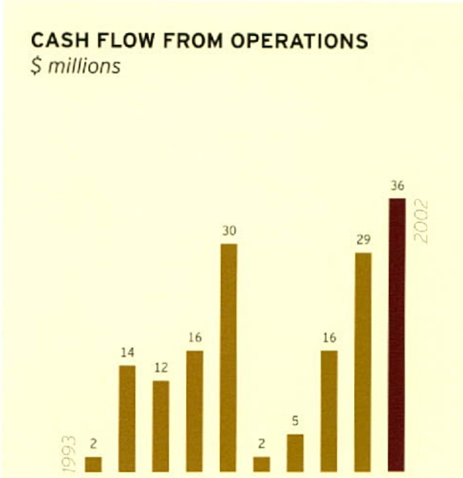
Following the acquisition of EnSource, Enerflex reduced SG&A costs of the combined organization through elimination of duplicate corporate and head office costs. At the end of the year, Enerflex eliminated 18 subsidiaries through a corporate reorganization which simplified our legal structure and will reduce administrative costs. Additional cost reductions are expected to be realized in 2003 through the rationalization of sales and service branches. Our goal is to cut SG&A costs of the combined organization by 10 to 15%, or $7 to $10 million.

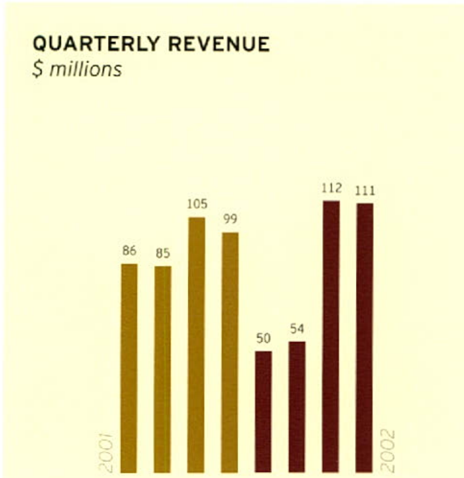
Interest costs increased to $3.6 million in 2002, compared with $2.7 million in 2001, as a result of debt assumed and costs incurred for the acquisition of EnSource. Enerflex is benefiting from low interest rates as its bank debt is subject to floating rates. However, wider corporate credit spreads in the market, combined with the greater leverage Enerflex carries following the EnSource acquisition, increased the Company's borrowing margin by approximately 1.25%. The Company pays its lenders a margin over the Canadian bankers' acceptance rate or the U.S. LIBOR rate, which varies depending on the ratio of debt to EBITDA (earnings before interest, taxes, depreciation and amortization) for the trailing 12 months. The margin is currently 2.0% on the operating loan and 2.5% on the term loan, and declines by up to 1.0% if the debt to EBITDA ratio is less than 1. Enerflex has reduced its total debt, net of cash, from $131.0 million at September 30, 2002, following the acquisition of EnSource, to $109.2 million at year-end.

Income tax expense was $5.1 million in 2002 compared with $14.0 million in the prior year. The decrease in tax expense is primarily a result of lower pre-tax earnings in the current year. The effective rate of income tax in 2002 was 35.3%, compared to 38.5% in 2001. A favourable tax adjustment of a prior year contributed to the lower average tax rate in 2002. Before this $0.4 million fourth-quarter adjustment, the effective rate in the current year was 38.3%. The Company expects its income tax rate to be reduced by approximately 1% per year over the next two years as a result of future tax rate reductions in Canada and increased earnings in countries with a lower tax rate.

RETURN ON AVERAGE EQUITY
percent







Financial Condition and Liquidity Enerflex generated cash flow from operations of $36.3 million in 2002, compared with $29.1 million in 2001. Cash generated funded a reduction in debt, net of cash, of $11.3 million, $8.5 million of net additions to rental assets, the $4.1 million acquisition of the assets of Texas-based VR Systems, and payments of $8.8 million to shareholders for dividends and share repurchases. In 2002, 71,600 common shares were purchased for a total of $1.4 million, compared with 85,900 common shares for $2.0 million in 2001. In the last half of 2002, Enerflex did not purchase common shares pursuant to its Normal Course Issuer Bid. In the near term, Enerflex plans to direct the majority of cash generated from operations, asset sales and working capital reductions to repay debt.

The acquisition of EnSource was effected by issuing 7.4 million Enerflex common shares and the assumption of EnSource debt, as shown in Note 2 to the financial statements. Following the acquisition of EnSource, the Company established new bank credit facilities. The Credit Agreement provides for a $100 million revolving operating facility and a $75 million extendible revolving term loan facility. The availability of the operating facility is subject to a monthly borrowing base calculation which considers eligible accounts receivable and inventories. Under the term loan facility, Enerflex has drawn $69.0 million. If the term loan is not extended at the end of its term, which is extendible at the bank's option on June 30 of each year, it will be repayable in 24 equal consecutive monthly principal installments. The loans are secured by a first floating charge over all of the assets of the Company, and require the Company to meet certain covenants, including a limitation on the debt to EBITDA ratio. Enerflex was in compliance with these covenants at December 31, 2002. These credit facilities provide the financing required to support our growth objectives.

Enerflex generated cash flow from operations of $36.3 million in 2002, compared with $29.1 million in 2001.

On January 31, 2003, Enerflex sold the assets of its surface drilling equipment rental business, Canadian Select Energy West, a small part of EnSource Energy Services Inc. which was acquired by Enerflex in 2002. This business did not align with the Company's core expertise of delivering products and services between the wellhead and major pipeline transportation systems. Proceeds from the divestiture, including working capital not included in the sale, of approximately $6.0 million, have been applied to reduce bank indebtedness.

Other accounting matters Over the past 18 months, the Company has acquired three businesses, in accordance with its strategic objectives of expanding internationally and into complementary lines of business. Enerflex has allocated the excess of the purchase price over the value attributed to net tangible and intangible assets to goodwill. The book value of goodwill at December 31, 2002 is $112.5 million, of which $104.9 million arises from the EnSource acquisition, and has been allocated to each of the Company's three business segments. Goodwill is assessed for impairment at least annually. An assessment was performed during the fourth quarter of 2002 and it was determined that there was no impairment in the value of goodwill in any of our business units.

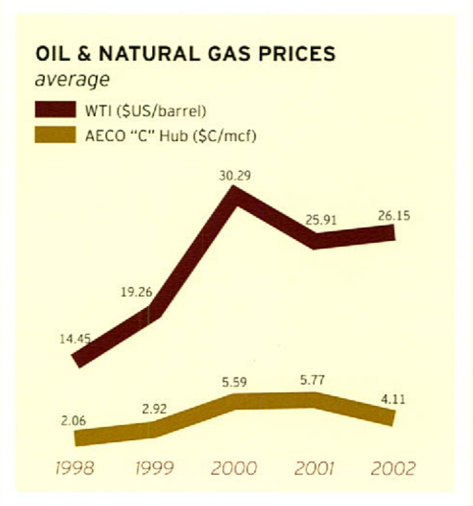
Stock options have become a controversial topic in the past year. Enerflex has a practice of granting options once per year, at market prices. Although the majority of Enerflex options outstanding have exercise prices higher than the current market price, the Company has no intention of repricing options or cancelling options and issuing replacement options. Stock options are a long-term incentive program and employees benefit only if shareholders also realize appreciation in the value of their investment. The Canadian Institute of Chartered Accountants is examining alternatives for accounting for stock options. Pending the completion of this work, Enerflex measures compensation cost based on the intrinsic value of the award on the date the options are granted. Accordingly, as the exercise price and the market price at the grant date are equal, no stock option compensation cost needs to be recognized. Details concerning our accounting policy are shown in the notes to our financial statements.

Outlook for markets and competition As a Canadian-based provider of equipment and services to the global oil and gas industry, Enerflex's business prospects will be influenced by several market factors. These include the business outlook for oil and gas producers, prospects for natural gas infrastructure development, as well as the business outlook and competitive environment within the natural gas compression industry.

Sustained growth in Enerflex capital goods revenues must come from the United States and other international areas where the Company has a low market share and/or the market is growing.

Industry Outlook – Oil and Gas Producers

While Enerflex is continuing to develop an international presence, the Company's fortunes are largely tied to oil and gas spending in western Canada. In 2003, industry analysts forecast that capital expenditures on plants and equipment will approach 2001 levels. The Petroleum Services Association of Canada (PSAC) estimates that the number of wells drilled in western Canada will increase from 15,100 in 2002 to 16,500 in 2003. PSAC forecasts that natural gas drilling will account for over 60% of all wells drilled in Canada. Most forecasters expect that, in the absence of significant discoveries, North American natural gas production will decrease and that this will result in higher prices. However, the natural gas price is not the key indicator of whether demand for the Company's products (and, to a lesser extent, services) is strong or weak. The strongest indicator of demand for the Company's products is natural gas production volumes.



There has been a lot of discussion in Canada about the impact of merger and acquisition activity and royalty trusts on capital investment. Lower western Canadian oil and gas capital spending has followed corporate acquisitions and growth in royalty trusts. However, the maturity of the western Canadian sedimentary basin may be the more significant cause of reduced investment. Exploration and production companies invested heavily in natural gas exploration and development in 2000 and 2001, but production volumes have not grown. Success in exploration, rather than in development of areas with existing infrastructure, drives capital spending on production and compression equipment.

In summary, increasing natural gas exploration success is required to improve prospects for our capital goods businesses in western Canada. However, the Company cannot rely on significant increases in capital spending in Canada to drive improvements in our business. Sustained growth in Enerflex capital goods revenues must come from the United States and other international areas where the Company has a low market share and/or the market is growing.

Competitive Issues in the Compression Industry The natural gas compression industry has undergone many changes over the past few years. Although the Canadian market continues to have distinct differences from the United States market, it is clear that the industry is becoming a single North American market and ultimately a global business. For this reason, investors should be aware of certain competitive issues in Canada, the United States and overseas markets.

Canada With at least five major competitors, the Canadian compressor packaging market continues to have more suppliers and more capacity than the market will currently support.

The service business has not changed significantly over the last year. Enerflex remains the market leader in Canada.

While more compression equipment is being rented each year in Canada, only about 5% of the existing population of compression equipment in Canada, measured by horsepower, is rented. The remaining 95% is owned by producers. Enerflex is a leader in the rental industry, supplying an estimated 25% of the Canadian market (calculated by horsepower).

United States There are only two major competitors in the United States compression fabrication business. We believe that the United States market provides Enerflex with a strong opportunity to expand our business, which led to our strategic acquisition of the assets of VR Systems, a specialty natural gas compression equipment packager in Odessa, Texas.

In the United States, there is no dominant service provider such as Enerflex. In 2002, Enerflex evaluated a number of service company acquisition opportunities to provide access to the United States service market. We plan to use our Odessa, Texas facility as a platform to establish a service business in this large, fragmented market.

The United States market provides Enerflex with a strong opportunity to expand our business, which led to our strategic acquisition of the assets of VR Systems.

The United States market continues to be more heavily weighted towards compression rentals than the Canadian market. Approximately 30% of the United States market is served by rental compression equipment, while 70% is owned by producers and pipeline companies. Rental rates are low in the United States as there has been a surplus of available equipment. When potential returns on capital improve, Enerflex plans to compete in this market.

International Internationally, we face the same competitors as in North America. Most significant North American production equipment and compression fabricators pursue international business.

Through our Australian subsidiary, Gas Drive Systems, expansion into Indonesia, and the acquisition of Landré Ruhaak bv in late 2001, Enerflex has become a significant player in the international service market.

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Business Risks While demand for Enerflex's product and services is largely a function of supply, demand and price of natural gas, many other factors can affect the fortunes of the business either positively or negatively. Enerflex encourages all investors to read and be aware of business risks and the Company's response to them.

Markets and operations Energy prices affect Enerflex, as the majority of our customers generate cash flow from both crude oil and natural gas. The prices for these commodities are determined by supply, demand, government regulations relating to natural gas production and processing, and international political events. In common with commodity prices, the market for capital goods required by our customers is both cyclical and, at times, highly volatile.

Foreign exchange Enerflex, a Canadian company, is exposed to foreign exchange risk when it buys or sells goods or services in foreign currencies. The Company manages most of this inherent risk through a variety of contractual means, but currency risk cannot be eliminated entirely. Enerflex has material foreign subsidiaries in Australia, the Netherlands and the United States, which expose the Company to changes in the exchange rates for the Australian dollar, Euro, and U.S. dollar, respectively.

The cyclical nature of the energy industry Enerflex is structured to be profitable in both high and low periods of the energy cycle. This is done through product breadth, international diversification and access to a variety of equipment financing methods. Over the past 10 years, Enerflex has generated positive cash flow even in challenging times.

Foreign operations Enerflex sells products and services throughout the world. While this diversification is desirable, it can expose the Company to risk related to issues such as quality of receivables. The Company mitigates this risk by dealing with credit-worthy institutions, and using credit insurance and letters of credit where appropriate.

Distribution agreements One of the Company's strategic assets is its distribution agreements with leading manufacturers, notably Ariel Corporation, for compressors, and the Waukesha engine division of Dresser Industries, for engines and parts. Enerflex and its people make it a priority to maintain and enhance these strategic relationships.

Insurance Enerflex carries insurance to protect the Company in the event of the destruction of, or damage to, its property and equipment. Liability insurance is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. Extreme weather conditions and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage.

Climatic factors In North America, cold winters typically increase demand for, and the price of, natural gas, which increases customers' cash flow and is positive for Enerflex. Warm winters in western Canada, however, can both reduce demand for natural gas and make it difficult for producers to reach well locations. This restricts drilling and compression operations and is negative for Enerflex.

Seasonal demand Demand for natural gas production equipment and services, and hence Enerflex business prospects, is influenced by seasonal demand. The first quarter of the year is generally accompanied by increased winter deliveries of equipment. Service is more active in the summer as producers overhaul equipment when natural gas prices tend to be lower.

Environment Enerflex regularly conducts third-party environmental audits to ensure that environmental issues do not materially affect financial condition or performance.

Management's Responsibility for Financial Information

To the Shareholders of Enerflex Systems 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. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial 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.

On June 3, 2002, the Canadian firm of Deloitte & Touche LLP completed a transaction with the Canadian firm of Arthur Andersen LLP (Andersen Canada), who were the auditors of Enerflex Systems Ltd. for the year ended December 31, 2001, to integrate substantially all of the partners and staff of Andersen Canada into Deloitte & Touche LLP. On June 10, 2002, Deloitte & Touche LLP, an independent firm of chartered accountants, was appointed by the Board of Directors to audit the consolidated financial statements and to provide an independent professional opinion thereon.

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

P. John Aldred
Executive Chairman

Malcolm R. Cox
President and Chief Executive Officer

February 5, 2003

Auditors' Report

To the Shareholders of Enerflex Systems Ltd. We have audited the consolidated balance sheet of Enerflex Systems Ltd. as at December 31, 2002 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2001 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated February 1, 2002.

Deloitte & Touche LLP.

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

February 5, 2003

CONSOLIDATED BALANCE SHEETS

(Thousands)	December 31 2002	2001
Assets		
Current assets		
Cash	**$ 5,027**	$ –
Accounts receivable	**89,327**	67,987
Inventory (Note 3)	**81,241**	59,343
Income taxes receivable (Note 12)	**5,905**	–
Assets held for sale (Notes 2 and 6)	**4,591**	–
Future income taxes (Note 12)	**9,470**	2,521
Total current assets	**195,561**	129,851
Rental equipment (Note 4)	**68,092**	39,042
Property, plant and equipment (Note 5)	**70,309**	45,149
Future income taxes (Note 12)	**1,907**	1,138
Intangible assets	**2,815**	2,815
Goodwill, net of accumulated amortization	**112,527**	4,151
	$ 451,211	$ 222,146
Liabilities and Shareholders' Equity		
Current liabilities		
Operating bank loans (Note 7)	**$ 45,254**	$ 23,886
Accounts payable and accrued liabilities	**62,112**	34,758
Income taxes payable (Note 12)	**–**	9,122
Future income taxes (Note 12)	**2,235**	–
Current portion of long-term debt (Note 7)	**17,250**	–
Total current liabilities	**126,851**	67,766
Long-term debt (Note 7)	**51,750**	30,000
Future income taxes (Note 12)	**11,708**	5,879
	190,309	103,645
Commitments and contingencies (Note 11)		
Shareholders' equity		
Share capital (Note 8)	**176,589**	35,412
Cumulative translation adjustment	**595**	–
Retained earnings	**83,718**	83,089
	260,902	118,501
	$ 451,211	$ 222,146

See accompanying notes to the Consolidated Financial Statements.

On behalf of the Board:

P. John Aldred, Director

Michael A. Grandin, Director

CONSOLIDATED STATEMENTS OF INCOME

(Thousands, except share amounts)	Year Ended December 31 2002	2001
Revenue	**$ 326,706**	$ 375,040
Cost of goods sold	**256,929**	301,816
Gross margin	**69,777**	73,224
Selling, general and administrative expenses	**53,350**	35,151
Gain on sale of assets	**(1,492)**	(1,088)
Income before interest and income taxes	**17,919**	39,161
Interest	**3,641**	2,680
Income before income taxes	**14,278**	36,481
Income taxes (Note 12)	**5,046**	14,027
Net income	**$ 9,232**	$ 22,454
Net income per common share – basic (Note 9)	**$ 0.51**	$ 1.51
– diluted	**$ 0.51**	$ 1.49
Weighted average number of common shares	**18,166,000**	14,916,964

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Thousands)	Year Ended December 31 2002	2001
Retained earnings, beginning of year	**$ 83,089**	$ 68,494
Net income	**9,232**	22,454
Common shares purchased for cancellation	**(1,181)**	(1,807)
Stock options purchased	**(20)**	(87)
Dividends	**(7,402)**	(5,965)
Retained earnings, end of year	**$ 83,718**	$ 83,089

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
(Thousands)	**2002**	2001
Operating Activities		
Net income	**$ 9,232**	$ 22,454
Depreciation and amortization	**12,054**	8,636
Future income taxes	**2,868**	(46)
Gain on sale of assets	**(1,492)**	(1,088)
	22,662	29,956
Changes in non-cash working capital	**13,642**	(889)
	36,304	29,067
Investing Activities		
Acquisition of EnSource Energy Services Inc. (Note 2)	**(3,029)**	–
Acquisition of assets of VR Systems, Inc. (Note 2)	**(4,061)**	–
Acquisition of Landré Ruhaak (Note 2)	**(97)**	(9,154)
Purchase of:		
Rental equipment	**(17,711)**	(16,293)
Property, plant and equipment	**(3,325)**	(3,150)
Proceeds on disposal of:		
Rental equipment	**9,219**	6,310
Property, plant and equipment	**1,116**	678
	(17,888)	(21,609)
Changes in non-cash working capital	**815**	126
	(17,073)	(21,483)
Financing Activities		
Decrease in operating bank loans	**(16,244)**	(752)
Increase in (repayment of) long-term debt	**9,940**	(200)
Common shares purchased for cancellation	**(1,352)**	(2,012)
Stock options purchased	**(31)**	(141)
Stock options exercised	**153**	–
Dividends	**(7,402)**	(5,965)
	(14,936)	(9,070)
Changes in non-cash working capital	**732**	1,486
	(14,204)	(7,584)
Increase in cash	**5,027**	–
Cash, beginning of year	**–**	–
Cash, end of year	**$ 5,027**	$ –
Supplemental disclosure of cash flow information		
Interest paid	**$ 3,472**	$ 3,918
Interest received	**$ 322**	$ 807
Income taxes paid	**$ 15,094**	$ 6,620
Income taxes received	**$ 16**	$ 337

See accompanying notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF ACCOUNTING POLICIES

(Tabular dollar amounts in thousands, except per share/option amounts)

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. Certain prior year amounts have been reclassified to conform with the current year's presentation.

Incorporation and Basis of Presentation Enerflex Systems Ltd. (the "Company") is incorporated under the Canada Business Corporations Act. The consolidated financial statements include the accounts of Enerflex Systems Ltd. and its subsidiaries. The accounts of EnSource Energy Services Inc. and its subsidiaries are included from July 19, 2002 (see Note 2).

Use of Estimates The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

Revenue Recognition Revenues from the design, manufacture and installation of compression and power equipment are recorded upon substantial technical completion. Unearned revenue is applied against work in progress for financial statement presentation. Any foreseeable losses on contracts are charged to operations at the time they become evident. Revenues on the fabrication of production and processing equipment are recognized on the basis of percentage of completion. Revenues from parts and service are recognized when goods are shipped and services rendered. Revenue from equipment leases is recorded over the lease term. Substantially all revenue from equipment leases is from operating leases.

Inventory Manufacturing materials are recorded at the lower of cost (principally on the first-in, first-out method) and net realizable value. Repair parts are recorded at the lower of cost (weighted average) and net realizable value. Work in progress includes material, labour and manufacturing overhead, and is recorded net of amounts billed in advance of recognition as revenue on a contract by contract basis.

Rental Equipment and Property, Plant and Equipment Rental equipment and property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets:

Asset Class	Estimated useful life range
Buildings	3 to 25 years
Equipment	2 to 20 years
Rental Assets	10 to 15 years

Major renewals and improvements are capitalized. A provision is made in advance for major overhauls on rental equipment. No depreciation is provided on assets under construction. Repairs and maintenance costs are charged to operations as incurred.

Goodwill Goodwill represents the excess of the purchase price over the value attributed to net tangible and intangible assets acquired. In accordance with new accounting standards, goodwill arising before July 1, 2001 was amortized over 40 years until December 31, 2001. Goodwill arising after July 1, 2001 was not amortized in 2001. In 2002, goodwill has not been amortized.

Goodwill is assessed for impairment at least annually. The impairment test is based on earnings before interest, taxes, depreciation and amortization using multiples similar to those which would be used to value acquisitions of similar third-party businesses, having regard to current economic circumstances.

Intangible Assets Intangible assets comprise the fair value of distributorship agreements acquired (see Note 2). Management has determined these intangible assets have indefinite lives and, therefore, intangible assets are not amortized. Intangible assets are assessed for impairment at least annually.

Warranty Obligations The Company accrues a liability for warranty obligations on the basis of historical claims specific to each business unit. Actual warranty expenditures are charged against this liability.

Income Taxes The Company uses the liability method of accounting for income taxes. Under this method, temporary differences between the tax basis of the Company's assets and liabilities and their carrying amounts result in future income tax assets and liabilities. Future income taxes are measured using income tax rates that, at the balance sheet date, are expected to apply when the liability is settled or the asset is realized.

Forward Exchange Contracts In the normal course of business, the Company enters into short-term foreign currency forward exchange contracts with financial institutions to hedge assets, liabilities or future commitments denominated in a foreign currency. Gains and losses arising from these contracts offset the losses and gains from the underlying hedged transactions.

Foreign Currency Translation Transactions and non-monetary balances denominated in foreign currency are translated into Canadian dollars using the exchange rates at the dates of the transactions; monetary balances are translated using the exchange rate at the date of the balance sheet. Translation gains or losses are included in the statement of income.

The assets and liabilities of foreign operations considered financially and operationally independent are translated into Canadian dollars from their functional currencies using exchange rates at the balance sheet dates. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from this translation process are included in the cumulative translation adjustment in shareholders' equity in the consolidated balance sheets.

Stock-based Compensation Plan The Company's stock-based compensation plan is described in Note 10. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

NOTE 1. CHANGES IN ACCOUNTING POLICY

(a) Goodwill

Effective January 1, 2002, the Company prospectively adopted new recommendations on accounting for goodwill. Under the new method, goodwill is no longer amortized to income, and instead is subject to periodic (at least annual) tests for impairment. In addition, goodwill is now included in the assets of the segment to which it relates for segmented reporting. Previously, goodwill was reported in the Corporate segment assets; goodwill has been reclassified in the 2001 comparative information in Note 14. No impairment of goodwill has been recorded in the financial statements of the Company. Amortization of goodwill in the year ended December 31, 2001 was $41,000.

(b) Stock Options

Effective January 1, 2002, the Company adopted new recommendations on accounting for stock options.

The Company's stock option plan is described in Note 10 of these consolidated financial statements. In 2002, the plan was modified such that the Company will no longer purchase options for cash. On February 19, 2002, the Company issued 276,600 stock options to employees and directors at an exercise price of $19.79. On July 19, 2002, pursuant to the acquisition of EnSource Energy Services Inc., the Company issued 8,124 replacement options at an exercise price of $21.54 and 167,050 replacement options at an exercise price of $26.92.

The Company measures compensation cost based on the intrinsic value of the award at the date of issuance. As the exercise price and the market price are the same at the grant date, no stock option compensation cost has been recognized. Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant date for awards made under the plan subsequent to January 1, 2002, consistent with the fair value method of accounting for stock-based compensation, the Company's net income and earnings per share would have been as follows:

		Year Ended December 31, 2002
Net income	As reported	$ 9,232
	Pro forma	8,743
Earnings per share – basic	As reported	$ 0.51
	Pro forma	0.48
Earnings per share – diluted	As reported	$ 0.51
	Pro forma	0.48

The estimated fair value of the options has been determined using a modified Black-Scholes option-pricing model with the following assumptions:

	February Issue	July Issue
Weighted average fair value per option	$ 4.85	$ 1.62
Weighted average risk-free interest rate	4.5%	4.0%
Weighted average expected life	5 years	4 years
Estimated volatility in the market price of the common shares	25.0%	25.0%
Dividend yield	2.0%	2.0%

NOTE 2. ACQUISITIONS

On July 18, 2002, the Company acquired 92.4% of the issued and outstanding common shares of EnSource Energy Services Inc. ("EnSource"). On July 23, 2002, Enerflex mailed a Notice of Compulsory Acquisition to the holders of the remaining EnSource common shares which were not tendered to the offer, pursuant to Enerflex's right of compulsory acquisition under the *Business Corporations Act* (Alberta). As a result, EnSource became a wholly owned subsidiary of Enerflex.

The acquisition is accounted for using the purchase method and the results of the operations of EnSource have been included with those of the Company from July 19, 2002.

The cost of the acquisition is $144,645,000 comprised of:

- 7,384,288 Enerflex shares valued at $19.10 per share, being the average closing price of Enerflex shares for the period May 24 to May 31, 2002, the three-day periods before and after the acquisition was announced;
- 175,174 options issued by Enerflex to EnSource employees to replace EnSource options, the fair value of which is $197,163; and
- transaction costs of approximately $3,408,000, of which $3,029,000 had been paid at December 31, 2002.

The purchase price allocation is as follows:

Shares issued	$ 141,040
Transaction costs	3,408
Fair value of options issued	197
	$ 144,645
Non-cash working capital	$ 38,631
Future income taxes	2,522
Property, plant and equipment	29,145
Rental equipment	24,054
Assets held for sale	4,591
Other long-term assets	431
Goodwill	104,924
Operating bank loans	(37,612)
Long-term debt	(22,041)
	$ 144,645

The purchase price has been adjusted from that disclosed in the third quarter as a result of the Company's ongoing integration and rationalization planning and the receipt of outstanding information. These adjustments resulted in a reduction in working capital acquired of $257,000, an increase in the future income tax assets acquired of $551,000, a reclassification of assets between property, plant and equipment and rental assets and assets held for sale of $4,591,000 and an increase in goodwill of $421,000. Other reclassifications have occurred to conform to Enerflex's financial statement presentation.

Goodwill is not expected to be deductible for income tax purposes.

2002 – Acquisition of Operating Assets of VR Systems Inc.

On March 20, 2002, the Company acquired the operating assets of VR Systems, Inc., a specialty natural gas compression equipment packager located in Odessa, Texas, for cash consideration of $4,061,000, including estimated acquisition costs. The acquisition was accounted for using the purchase method. The purchase price is allocated as follows:

Purchase price	$	4,061
Non-cash working capital	$	(99)
Fixed assets		1,044
Goodwill		3,116
	$	4,061

The preliminary purchase price allocation has been adjusted for amended foreign currency translation and an increase in accounts receivable as a result of receiving outstanding information. These adjustments decreased goodwill by $124,000.

2001 – Acquisition of Landré Ruhaak bv

On October 29, 2001, Enerflex Systems Ltd., through its wholly owned subsidiary, Enerflex European Holdings bv, acquired 100% of the issued and outstanding shares of Landré Ruhaak bv, a Netherlands company, for cash consideration of $8,566,000 including acquisition costs. In addition, the Company retired a bank overdraft of $588,000 for cash of $588,000. The results of the operations of Landré Ruhaak bv have been included in the consolidated statements of income from the acquisition date. The acquisition was accounted for using the purchase method. The purchase price is allocated as follows:

Purchase price	$	8,566
Non-cash working capital	$	2,880
Fixed assets		230
Intangible assets		2,815
Goodwill		3,229
Bank overdraft		(588)
	$	8,566

The preliminary purchase price allocation has been adjusted following the receipt of outstanding information concerning the pension plan obligations of Landré Ruhaak bv at the time of acquisition. The adjustment increased goodwill by $336,000.

NOTE 3. INVENTORY

	December 31	
	2002	2001
Finished goods	**$ 11,442**	$ 4,972
Manufacturing materials	**23,409**	21,773
Repair parts	**34,203**	27,114
Work in progress:		
Costs in excess of related billings	**19,716**	38,195
Billings in excess of related costs	**(7,529)**	(32,711)
	$ 81,241	$ 59,343

NOTE 4. RENTAL EQUIPMENT

	December 31	
	2002	2001
Cost	**$ 78,637**	$ 47,613
Less accumulated depreciation	**(10,545)**	(8,571)
Net book value	**$ 68,092**	$ 39,042

Depreciation of rental equipment included in income in 2002 was $4,866,000 (2001 – $3,508,000).

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2002		December 31, 2001	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$ 9,699**	**$ –**	$ 7,197	$ –
Buildings	**53,196**	**(8,210)**	34,839	(6,043)
Equipment	**41,269**	**(25,645)**	30,655	(21,499)
Total	**$ 104,164**	**$ (33,855)**	$ 72,691	$ (27,542)
Net book value		**$ 70,309**		$ 45,149

Depreciation of property, plant and equipment included in income in 2002 was $7,188,000 (2001 – $5,087,000).

NOTE 6. ASSETS HELD FOR SALE AND SUBSEQUENT EVENT

At December 31, 2002, the Company had assets held for sale of $4,591,000, comprising the assets of the Company's surface drilling equipment rental business, Canadian Select Energy West. The revenue and pretax income of these assets were $1,600,000 and $243,000, respectively, in the period July 19 to December 31, 2002. Canadian Select Energy West is included in the Fabrication segment for the purposes of segmented reporting.

On January 31, 2003, the assets held for sale were sold. There will be no significant impact on income in 2003 resulting from this disposition.

NOTE 7. OPERATING BANK LOANS AND LONG-TERM DEBT

	December 31	
	2002	2001
Bank term loan	**$ 69,000**	$ 30,000
Less current portion of bank term loan	**17,250**	–
Long-term debt	**$ 51,750**	$ 30,000

(a) In November 2002, the Company entered into a new $175,000,000 credit facility comprised of a $100,000,000 extendible operating line and a $75,000,000 extendible revolving term loan facility, which are secured by a $250,000,000 demand debenture, a general security agreement, and a guarantee from each material subsidiary. The credit facilities require the Company to meet certain covenants. The Company was in compliance with these covenants at December 31, 2002.

At December 31, 2002, $45,254,000 of the operating line was drawn, and was financed through: bankers' acceptances of $43,000,000 which bear interest at bankers' acceptance rates plus a margin; and LIBOR borrowings of US$5,000,000 which bear interest at the London Interbank Offer Rate plus a margin, offset by deposits of $5,644,000. If the operating facility is not renewed at the end of its term, it will be repayable on June 30, 2003.

At December 31, 2002, $69,000,000 of the extendible revolving term loan facility was drawn and was financed through bankers' acceptances. If the term loan facility is not renewed at the end of its term, it will be repayable in 24 equal consecutive monthly principal installments, commencing in July 2003.

(b) Principal payments due over the next three years, without considering renewal at similar terms, are:

2003	$ 17,250
2004	34,500
2005	17,250

(c) Interest on long-term debt was $2,017,000 (2001 – $1,703,000).

NOTE 8. SHARE CAPITAL

Authorized The Company is authorized to issue an unlimited number of common shares and first preferred shares.

At February 5, 2003, the Company had 22,191,188 common shares outstanding.

	December 31, 2002		December 31, 2001	
Issued	**Common Shares**	**Amount**	Common Shares	Amount
Balance, beginning of year	**14,861,100**	**$ 35,412**	14,947,000	$ 35,617
Shares and fair value of options issued pursuant to EnSource acquisition, net of issue costs	**7,384,288**	**141,195**	–	–
Stock options exercised	**17,400**	**153**	–	–
Common shares purchased	**(71,600)**	**(171)**	(85,900)	(205)
Balance, end of year	**22,191,188**	**$ 176,589**	14,861,100	$ 35,412

Common Shares Purchased Under the provisions of its normal course issuer bid, the Company purchased and cancelled 71,600 common shares at an average price of $18.88, for a total cost of $1,352,000 including commissions (2001 – 85,900 shares at an average price of $23.42, for a total cost of $2,011,000).

NOTE 9. RECONCILIATION OF NET INCOME PER SHARE CALCULATION

	December 31, 2002				December 31, 2001			
	Net Income	**Weighted Average Shares Outstanding**	**Per Share**		Net Income	Weighted Average Shares Outstanding	Per Share	
Basic	**$ 9,232**	**18,166,000**	**$**	**0.51**	$ 22,454	14,916,964	$	1.51
Options assumed exercised		**164,200**				297,600		
Shares assumed purchased		**(80,765)**				(149,481)		
Diluted	**$ 9,232**	**18,249,435**	**$**	**0.51**	$ 22,454	15,065,083	$	1.49

NOTE 10. OPTIONS

Stock Options Purchased During 2002, before the plan modification described in Note 1(b), stock options to purchase 5,600 common shares were purchased for $20,000, net of income tax benefits of $11,000 (2001 – 10,000 common shares for $87,000, net of income tax benefits of $54,000).

Stock Options Outstanding The Company has reserved 1,500,000 common shares under the terms of its stock option plan, of which 420,420 are available for issuance at December 31, 2002. The exercise price of each option equals the average of the market price of the Company's shares on the five days preceding the date of the grant. Options normally vest at the rate of 20% on each of the five anniversaries of the date of grant, and expire on the tenth anniversary.

In addition, in 2002, the Company reserved 175,174 common shares under the terms of the conversion plan for EnSource stock option holders. The exercise price of each option equals the exercise price of the previous EnSource stock option divided by the share conversion factor of 0.26 Enerflex shares per EnSource share. Options which replaced vested EnSource options were immediately vested at the time of grant, and the remaining vesting period is three years.

A summary of the status of the plan as at December 31, 2002 and 2001 and changes during the years then ended is presented below:

	2002			2001		
	Options	**Weighted Average Exercise Price**		Options	Weighted Average Exercise Price	
Outstanding, beginning of year	**727,280**	**$**	**23.81**	635,630	$	22.86
Granted	**451,774**		**22.46**	138,650		29.36
Exercised	**(17,400)**		**8.82**	–		–
Purchased	**(5,600)**		**15.43**	(10,000)		16.38
Cancelled	**(180,720)**		**25.97**	(37,000)		30.29
Outstanding, end of year	**975,334**	**$**	**23.05**	727,280	$	23.81
Options exercisable, end of year	**501,213**			390,466		

The following table summarizes information about the stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 7.81 - $ 9.33	164,200	2.3	$ 8.81	164,200	$ 8.81
$19.79 – $29.50	645,854	6.7	23.91	235,461	24.60
$32.63 – $38.18	165,280	6.2	33.85	101,552	33.99
$ 7.81 – $38.18	975,334	5.9	$ 23.05	501,213	$ 21.33

NOTE 11. COMMITMENTS AND CONTINGENCIES

At December 31, 2002, the Company had outstanding letters of credit issued in lieu of holdbacks and performance guarantees aggregating to $6,140,000 (2001 – $5,504,000).

The aggregate minimum lease payments for operating leases for equipment, automobiles and premises are $31,039,000 and amounts payable over the next five years and thereafter are:

2003	$ 8,500
2004	6,784
2005	4,971
2006	2,748
2007	2,133
Thereafter	5,903

The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position or results of operations of the Company.

NOTE 12. INCOME TAXES

The difference between the income tax provision using statutory income tax rates and the actual income tax provision is explained as follows:

	2002	2001
Income before income taxes	**$ 14,278**	$ 36,481
Canadian statutory rate	**39.24%**	41.62%
Income taxes calculated at statutory rates	**5,603**	15,183
Manufacturing and processing profit reduction	**(21)**	(1,039)
Other	**(536)**	(117)
Income tax provision	**$ 5,046**	$ 14,027

The composition of the income tax provision is as follows:

	2002	2001
Current income taxes	$ 2,178	$ 14,073
Future income taxes	2,868	(46)
Income tax provision	$ 5,046	$ 14,027

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities as at December 31 are as follows:

	2002		2001	
	Assets	Liabilities	Assets	Liabilities
Provisions	$ 9,470	$ 2,235	$ 2,521	$ –
Capital assets	1,907	11,708	1,138	5,818
Other	–	–	–	61
	$ 11,377	$ 13,943	$ 3,659	$ 5,879

Current future income tax assets result from deductible temporary differences between the tax basis of the Company's current assets and liabilities (primarily consisting of provisions for overhaul, restructuring costs, doubtful accounts receivable and warranty expense and non-capital loss carryforwards) and their carrying amounts.

Long-term future income tax assets result from deductible temporary differences between the tax basis of the Company's property, plant and equipment and its carrying amount.

Current future income tax liabilities result from deductible temporary differences between the tax basis of accrued revenue and progress billings and their carrying amount.

Long-term future income tax liabilities result from taxable temporary differences between the tax basis of the Company's rental equipment and its carrying amount.

NOTE 13. FINANCIAL INSTRUMENTS

Foreign Exchange In the normal course of operations, the Company is exposed to movements in the U.S. dollar, Australian dollar, the Pound Sterling and EURO exchange rates, relative to the Canadian dollar. In order to minimize the exposures, the Company utilizes hedging instruments to create offsetting positions to specific exposures. These instruments are employed in connection with an underlying asset, liability or anticipated transaction, and are not used for speculative purposes.

At December 31, 2002, the Company had contracted to sell $3,500,000 (Australian) at an average rate of Cdn$/AUD$0.8603 in March and April 2003. The fair value of these contracts at December 31, 2002 was a liability of approximately Cdn$100,000.

Credit Risk A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers.

Interest Rate Risk The Company's liabilities include certain long-term debt and bank indebtedness that are subject to fluctuations in interest rates. For each 1% change in the rate of interest on these loans, the change in interest expense would be approximately $1,100,000 based upon the loan balances at December 31, 2002.

Fair Values of Financial Assets and Liabilities The fair values of financial instruments that are included in the consolidated balance sheets, other than long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of long-term debt does not differ significantly from its carrying amount.

NOTE 14. SEGMENTED INFORMATION

The Company has three reportable segments: Service, Fabrication, and Leasing. The Fabrication reportable segment is the aggregation of the Production and Processing, and Compression and Power operating segments. The accounting policies of the segments are the same as those disclosed in the Summary of Accounting Policies.

	Service		Fabrication		Leasing		Consolidated	
Year ended December 31	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
Segment revenue	**$ 212,269**	$ 135,659	**$ 118,210**	$ 248,208	**$ 15,943**	$ 12,420	**$ 346,422**	$ 396,287
Intersegment revenue	**(6,265)**	(6,191)	**(13,445)**	(15,056)	**(6)**	–	**(19,716)**	(21,247)
External revenue	**206,004**	129,468	**104,765**	233,152	**15,937**	12,420	**326,706**	375,040
Depreciation and amortization	**2,889**	2,039	**4,897**	3,070	**4,268**	3,527	**12,054**	8,636
Income (loss) before interest and taxes	**15,585**	14,500	**(5,383)**	18,748	**7,717**	5,913	**17,919**	39,161
Segment assets	**132,490**	69,117	**140,306**	106,744	**63,981**	40,101	**336,777**	215,962
Corporate							**1,907**	2,033
Allocation of goodwill	**52,926**	4,151	**52,245**	–	**7,356**	–	**112,527**	4,151
	185,416	73,268	**192,551**	106,744	**71,337**	40,101	**451,211**	222,146
Capital expenditures	**$ 3,502**	$ 2,064	**$ 959**	$ 1,059	**$ 16,516**	$ 16,309	**20,977**	19,432
Corporate							**59**	11
							$ 21,036	$ 19,443

The Company derived revenue of $91,942,000 (2001 – $97,275,000) from foreign countries, including gross exports from domestic operations of $37,383,000 (2001 – $75,317,000). Included in revenues from other countries are revenues from the United States of $18,962,000 (2001 – $51,703,000); Australia of $17,581,000 (2001 – $20,642,000); Pakistan of $14,574,000 (2001 – $nil); and the Netherlands of $15,983,000 (2001 – $3,280,000). Revenue is attributed to countries by the destination of the sale.

Total assets in foreign countries are $30,068,000 (2001 – $15,172,000), including $15,791,000 (2001 – $12,237,000) in the Netherlands and $9,079,000 (2001 – $143,000) in the United States. Assets in other countries are not individually material. Total assets are attributed to countries by the location of the business.

TEN-YEAR HISTORICAL REVIEW

($ millions, except per share data and ratios; unaudited)	**2002**	2001	2000	1999	1998	1997	1996	1995	1994	1993
Results										
Revenue	**326.7**	375.0	286.3	256.7	314.5	336.2	245.9	222.7	217.3	120.0
EBITDA(1)	**30.0**	47.8	28.9	29.1	42.4	46.7	32.4	32.2	33.8	17.0
Income before income taxes	**14.3**	36.5	17.7	20.4	38.1	42.7	27.8	26.9	30.2	13.6
Net income	**9.2**	22.5	11.3	12.1	22.6	25.2	16.5	16.1	17.8	7.7
Per common share – basic	**0.51**	1.51	0.76	0.81	1.50	1.67	1.10	1.07	1.17	0.51
Interest expense (income)	**3.6**	2.7	3.6	1.9	(0.3)	(0.1)	0.7	1.3	1.3	1.1
Depreciation and amortization	**12.1**	8.6	7.6	6.8	4.6	4.1	3.9	4.0	2.3	2.3
Cash from operations before changes in non-cash working capital	**22.7**	30.0	18.5	18.7	26.0	28.8	19.7	21.9	18.9	8.9
Capital expenditures, net										
Rental equipment	**8.5**	10.0	7.9	5.6	10.2	0.6	(2.2)	0.2	8.6	2.7
Property, plant and equipment	**2.2**	2.5	4.3	14.8	23.5	3.3	2.7	3.7	7.2	1.6
Dividends on common shares	**7.4**	6.0	6.0	6.0	6.0	4.5	3.8	3.8	2.6	2.6
Financial Position										
Working capital	**68.7**	62.1	57.9	60.0	56.0	58.0	37.7	26.9	13.0	12.5
Rental equipment	**68.1**	39.0	31.7	26.0	22.2	13.4	13.8	16.9	18.1	9.5
Property, plant and equipment	**70.3**	45.1	47.3	47.7	36.7	16.2	15.5	15.2	13.8	8.0
Total assets	**451.2**	222.1	192.7	186.1	159.5	142.7	106.4	91.8	102.5	62.0
Long-term debt	**51.8**	30.0	30.0	30.0	15.2	–	–	4.6	4.7	4.8
Shareholders' equity	**260.9**	118.5	104.1	103.0	100.1	87.0	66.4	53.6	41.6	26.5
Key Ratios										
Gross margin as a percentage of revenue	**21.4**	19.5	18.8	19.8	22.4	21.7	21.4	22.3	23.6	23.2
Pre-tax income as a percentage of revenue	**4.4**	9.7	6.2	8.0	12.1	12.7	11.3	12.1	13.9	11.3
Return on average equity(2) *(%)*	**4.9**	20.2	10.9	11.9	24.1	32.9	27.6	33.9	52.3	30.9
Return on capital employed *(%)*	**6.6**	23.6	13.8	16.4	39.9	63.0	42.3	45.1	64.6	25.8

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Enerflex calculates EBITDA as follows *($ thousands)*:	**2002**
Income before interest and income taxes	**17,919**
Depreciation and amortization	**12,054**
	29,973

(2) Return on average equity is calculated as net income divided by the simple average of shareholders' equity at the beginning and end of the year.

QUARTERLY DATA

($ millions, except as otherwise indicated; unaudited)	2002 Q4	2002 Q3	2002 Q2	2002 Q1	2001 Q4	2001 Q3	2001 Q2	2001 Q1
Revenue	**110.7**	**112.0**	**54.3**	**49.7**	98.9	104.9	85.2	86.0
EBITDA(1)	**9.7**	**9.6**	**7.9**	**2.8**	10.9	13.9	11.7	11.3
Income before income taxes	**4.0**	**4.8**	**5.3**	**0.2**	8.5	11.2	8.7	8.1
Net income	**3.1**	**2.9**	**3.2**	**0.0**	5.4	6.7	5.4	5.0
Per common share – basic *($)*	**0.14**	**0.14**	**0.22**	**0.00**	0.37	0.45	0.36	0.33
Depreciation and amortization	**4.3**	**3.6**	**2.1**	**2.1**	2.1	2.2	2.2	2.1
Cash from operations before changes in non-cash working capital	**7.9**	**7.2**	**5.4**	**2.2**	7.3	9.6	6.5	6.6
Capital expenditures, net								
Rental equipment	**0.7**	**4.6**	**1.2**	**2.0**	0.4	3.5	1.5	4.6
Property, plant and equipment	**1.6**	**0.1**	**0.3**	**0.2**	0.1	1.1	0.5	0.8
Dividends on common shares	**2.2**	**2.2**	**1.5**	**1.5**	1.5	1.5	1.5	1.5
Dividends per common share *(¢)*	**10.0**	**10.0**	**10.0**	**10.0**	10.0	10.0	10.0	10.0
Pre-tax income as a percentage of revenue *(%)*	**3.6**	**4.3**	**9.7**	**0.4**	8.6	10.7	10.3	9.4

COMMON SHARE DATA

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Trading price range of										
common stock ($) – high	**26.50**	32.40	42.00	40.00	45.60	44.00	18.25	9.00	9.75	8.75
– low	**13.20**	18.60	25.00	29.50	23.85	16.75	8.19	6.12	7.00	6.00
– close	**15.00**	19.75	31.00	37.50	29.50	32.50	16.50	8.38	8.69	7.50
Trading volume *(millions)*	**7.0**	5.2	6.8	5.0	7.5	7.7	3.0	4.5	5.5	2.6
Common shares *(millions)*										
Outstanding December 31	**22.2**	14.9	15.0	15.0	15.0	15.1	15.1	15.1	15.1	15.1
Weighted average – basic	**18.2**	14.9	15.0	15.0	15.1	15.1	15.1	15.1	15.1	15.1

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Enerflex calculates EBITDA as follows *($ thousands)*:	**2002**
Income before interest and income taxes	**17,919**
Depreciation and amortization	**12,054**
	29,973

CORPORATE DIRECTORY

Directors and Officers

P. John Aldred
Director, Officer of the Corporation
Executive Chairman
Enerflex Systems Ltd.
Calgary, Alberta

Malcolm R. Cox
Director, Officer of the Corporation
President and Chief Executive Officer
Enerflex Systems Ltd.
Chestermere, Alberta

Patrick D. Daniel(1)
Director
President and Chief Executive Officer
Enbridge Inc.
Calgary, Alberta

Michael A. Grandin(1)
Director
Chairman and Chief Executive Officer
Fording Canadian Coal Trust
Calgary, Alberta

Douglas J. Haughey
Director
President
Gas Transmission West,
Duke Energy Corporation
Calgary, Alberta

Geoffrey F. Hyland(2)
Director
President and Chief Executive Officer
ShawCor Ltd.
Rexdale, Ontario

John R. King
Director
Managing Partner
RedTree Capital Corporation
Calgary, Alberta

J. Nicholas Ross(1)(2)
Director
Chairman and Chief Executive Officer
Rover Capital Corporation
Toronto, Ontario

Hon. Barbara J. Sparrow(1)
Director
President
Sparrow Holdings Ltd.
Calgary, Alberta

Robert C. Williams(2)
Director
Managing Director,
Equity Capital Markets/Syndication,
Scotia Capital Inc.
Toronto, Ontario

Dale J. Hohm
Officer of the Corporation
Vice-President and Chief Financial Officer
Calgary, Alberta

Derek E. S. MacKenzie
Officer of the Corporation
Vice-President, Service
Calgary, Alberta

Lawrence R. Sedore
Officer of the Corporation
Vice-President, Marketing
Calgary, Alberta

Kelly R. Smith
Officer of the Corporation
Vice-President,
Production & Processing
Edmonton, Alberta

Louise S. Torrance
Officer of the Corporation
Vice-President,
Corporate Development
Bragg Creek, Alberta

Yves J. Tremblay
Officer of the Corporation
Vice-President, Power
Airdrie, Alberta

Sean R. Ulmer
Officer of the Corporation
Vice-President, Leasing
Stettler, Alberta

Notes:
(1) Member of Audit Committee.
(2) Member of Corporate Governance and Compensation Committee.

SHAREHOLDER INFORMATION

Shares
The common shares of the Company are listed and traded on the Toronto Stock Exchange under the share symbol "EFX." The Company is a constituent of the S&P/TSX Composite Index.

Registrar and Transfer Agent
Computershare Trust Company of Canada
600, 530 8 Avenue SW
Calgary Alberta T2P 3S8
Tel: 1.800.564.6253
Dir: 1.403.267.6555
Fax: 1.403.267.6592
Internet: www.computershare.com
Email: caregistryinfo@computershare.com

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

Auditors
Deloitte & Touche LLP
Calgary, Alberta

Bankers
Canadian Imperial Bank of Commerce
HSBC Bank Canada
Calgary, Alberta

Solicitors
Bennett Jones LLP
Calgary, Alberta

Investor Information
Requests for the Company's Annual Report, Quarterly Reports and other corporate communications should be directed to:

Investor Relations
Enerflex Systems Ltd.
4700 47 Street SE
Calgary Alberta T2B 3R1
Tel: 1.403.236.6800
Email: info@enerflex.com

Shares held in nominee name
To ensure that shareholders whose shares are not held in their name receive all Company reports and releases on a timely basis, a direct mailing list is maintained by the Company. If you would like your name added to this list, please forward your request to Investor Relations at Enerflex.

Annual General Meeting
The Annual Meeting of Shareholders of Enerflex Systems Ltd. will be held on April 16, 2003, at the Sheraton Suites Eau Claire, 255 Barclay Parade SW, Calgary, Alberta, at 11:00 a.m. Calgary time.

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