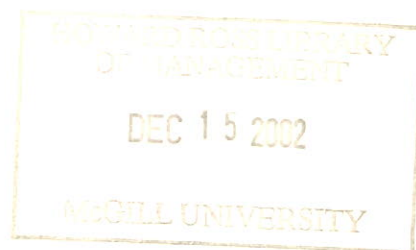




ENERFLEX

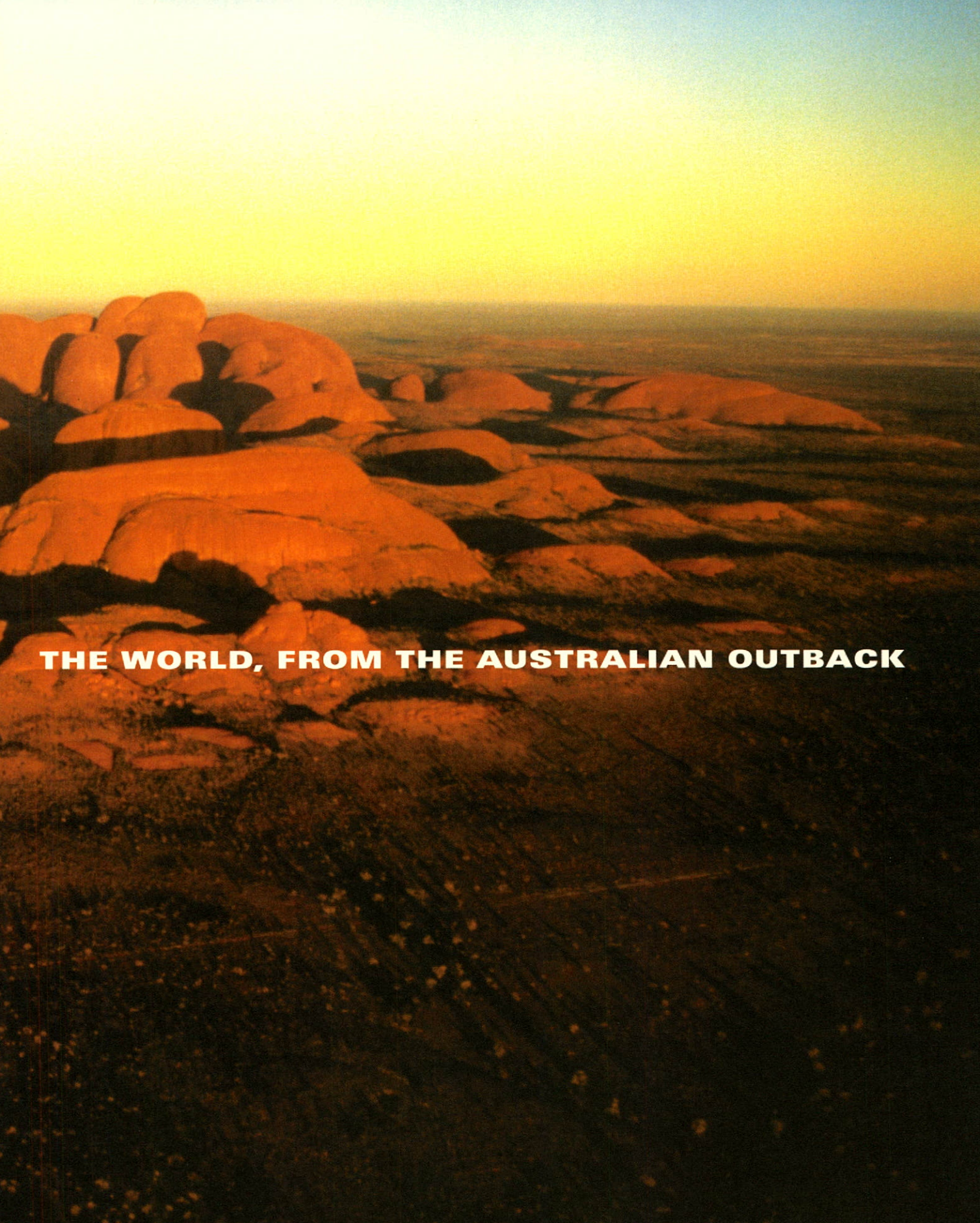


SERVICE WITHOUT BORDERS. GROWTH WITHOUT BOUNDARIES.





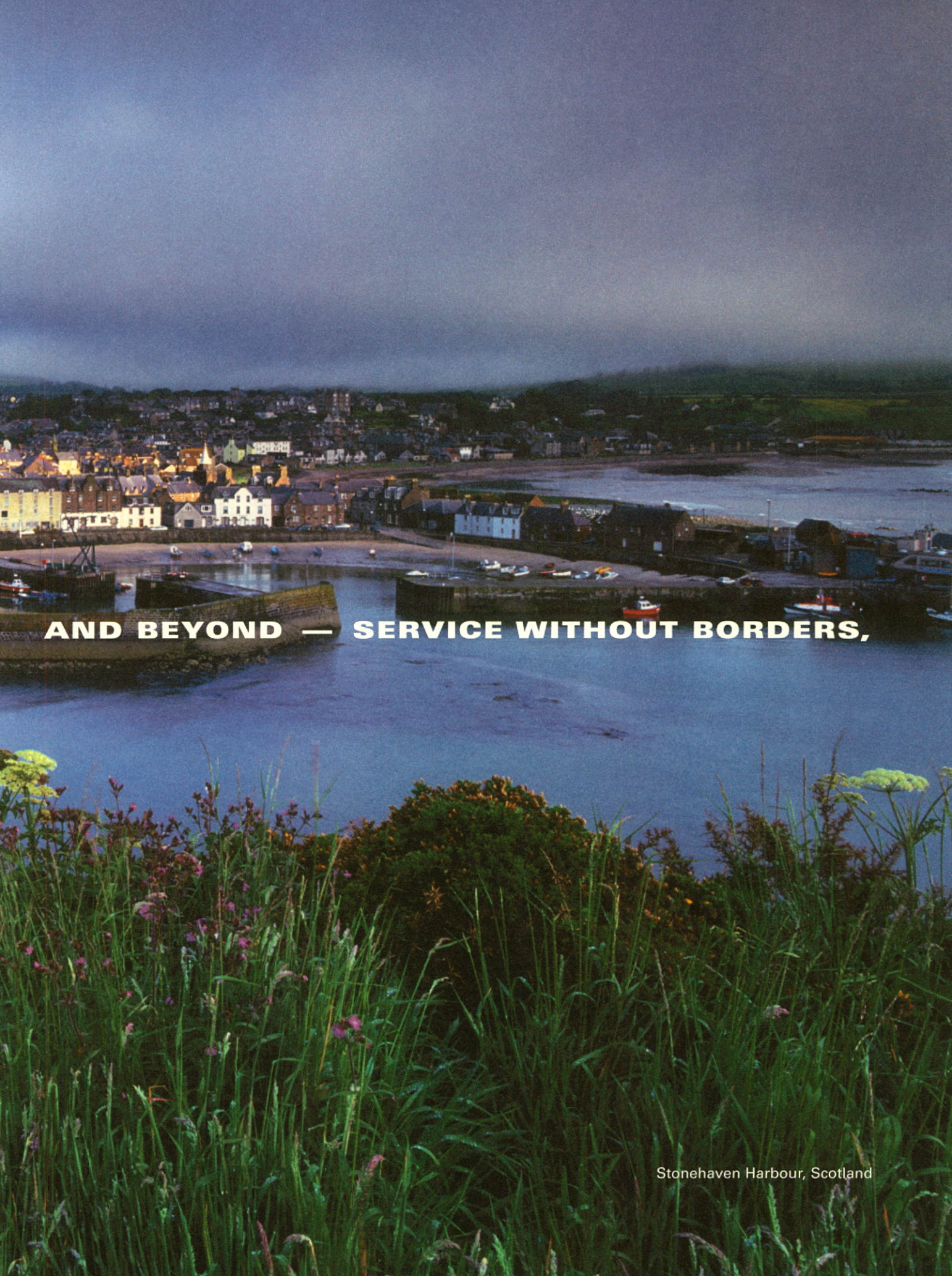
EXPORTING ENERFLEX CALIBRE SERVICE AROUND



THE WORLD, FROM THE AUSTRALIAN OUTBACK



TO THE NORTH SEA, EUROPE, SOUTHEAST ASIA



AND BEYOND — SERVICE WITHOUT BORDERS,

Stonehaven Harbour, Scotland



GROWTH WITHOUT BOUNDARIES.

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13 Review of Operations 19 Management's Discussion and Analysis 27 Financial Statements

A canal in Amsterdam

Enerflex Systems Ltd. is a global provider of natural gas compression and power generation equipment and services. The Company is headquartered in Calgary, Canada, and has operations in Canada, the United States, the United Kingdom, Germany, the Netherlands, Australia and Indonesia.

The Company's three business units allow Enerflex to meet customers' needs in three distinct ways.

Service

Enerflex is an international supplier of parts, service and re-engineering and re-manufacturing of existing compressor and power generation packages. The parts and service component is carried out through a responsive network reaching across Canada, as well as the North Sea, Germany, the Netherlands, Australia and Indonesia. Equipment refurbishment, which optimizes the performance of existing compressor packages, takes place at the Company's Calgary re-manufacturing facility.

Compression and Power

Enerflex designs, manufactures and installs a wide variety of new gas compression packages for customers around the world. Engineered and assembled by Enerflex at its Calgary manufacturing facility, these packages are standard-built or custom-designed with components supplied by leaders and innovators within the global industry. The Company also provides gas-fuelled power generation systems as stand-alone equipment packages or on a turnkey, installed basis.

Leasing

Enerflex offers customers many flexible and innovative financing packages, through which natural gas producers and electricity generators can purchase 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.

The Company's shares trade on The Toronto Stock Exchange under the trading symbol "EFX."

ENERFLEX AT A GLANCE

<i>(Millions, except per share data)</i>	2001	2000	1999
RESULTS			
Revenue	375.0	286.3	256.7
EBITDA ⁽¹⁾	47.8	28.9	29.1
Income before income taxes	36.5	17.7	20.4
Net income	22.5	11.3	12.1
Per common share — basic	1.51	0.76	0.81
Cash from operations before changes in non-cash working capital	30.0	18.5	18.7
Capital expenditures, net			
Rental equipment	10.0	7.9	5.6
Property, plant and equipment	2.5	4.3	14.8
Dividends per common share (¢)	40	40	40
FINANCIAL POSITION			
Working capital	62.1	57.9	60.0
Total assets	222.1	192.7	186.1
Long-term debt	30.0	30.0	30.0
Shareholders' equity	118.5	104.1	103.0
KEY RATIOS			
Gross margin as a percentage of revenue	19.5	18.8	19.8
Pre-tax income as a percentage of revenue	9.7	6.2	8.0
Return on opening equity	21.6	11.0	12.1

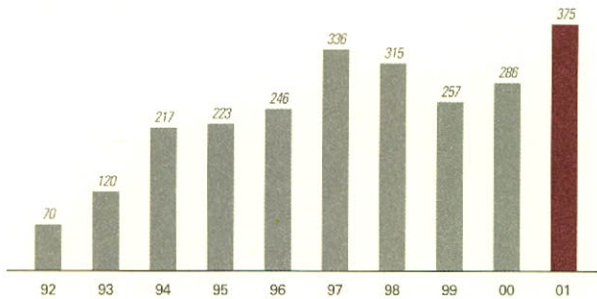
(1) Earnings before interest, taxes, depreciation and amortization

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.

In 2001, Enerflex delivered financial results which were considerably stronger than in 2000.

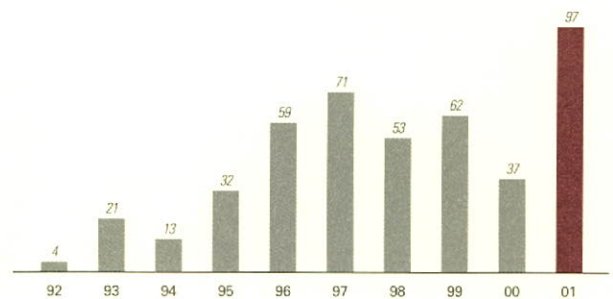
FINANCIAL HIGHLIGHTS

REVENUE
(\$ millions)



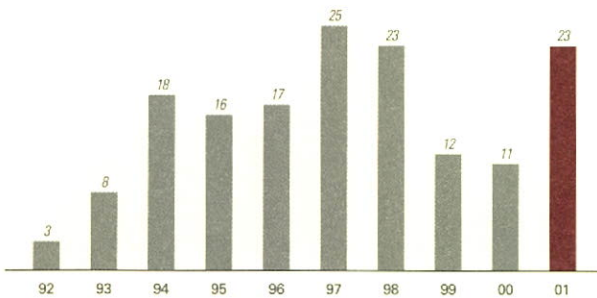
Overall, Enerflex's results were considerably stronger than in 2000. Revenue was up over 30% for the year. These results, favourable considering the slower market conditions in the final six months of 2001, were achieved through cost control, employee creativity and exceptional performance in all three of our businesses.

INTERNATIONAL REVENUE
(\$ millions)



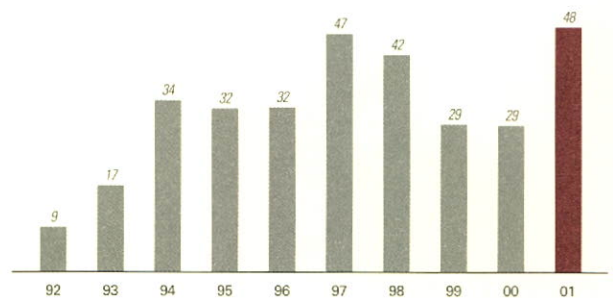
International revenue now accounts for over 25% of our sales. International sales expansion is a fundamental component of Enerflex's growth strategy and we will continue to seek out and evaluate growth opportunities in other international markets as well as Canada.

NET INCOME
(\$ millions)



Net income was up 98.5% in 2001. On basic earnings per share, net income was \$1.51, twice 2000's earnings per share of \$0.76.

EBITDA
(\$ millions)



Enerflex posted the highest earnings before interest, taxes, depreciation and amortization in the Company's history.

(l to r) Derek MacKenzie, Syd Howlett, Malcolm Cox, Dale Hohm, Louise Torrance, Michael Hambly.



LETTER TO SHAREHOLDERS

We anticipate steady growth and solid margins as we export Enerflex quality service around the world.

For Enerflex, one of the biggest successes of 2001 was the strength of our international Service business. Combined with solid performances in Compression and Power and Leasing, this has allowed your Company to post strong results in an otherwise challenging year. Going forward, we anticipate steady growth and solid margins as we export Enerflex quality service to customers around the world.

In 2001, Enerflex experienced a year of two distinct halves. During the first six months of the year, markets were active and demand for our products and services was strong. First-half sales were robust, as customers enjoyed the benefits of strong oil and gas prices that enabled them to invest in their businesses. As a result, we achieved strong growth in revenue and earnings across all the business units: Service, Compression and Power and Leasing.

The second half of the year was very different. Reduced demand for natural gas — caused by mild weather and the economic slowdown — drove natural gas prices sharply lower. Demand for your Company's product and services, notably new compressor packages, dropped significantly in the second half of the year. However, our Service and Leasing businesses remained strong.

Financial Performance In 2001, in spite of a very difficult second half, Enerflex delivered financial results with which our shareholders can be pleased and our employees proud.

Overall, our results were considerably stronger than in 2000. Revenue was up over 30% for the year, to \$375 million. Basic earnings per share doubled from 2000, to \$1.51 per share. These results, favourable considering business conditions in the second half of 2001, were achieved through cost control, employee creativity and exceptional performance in all three of our businesses.

On Target, On Plan One year ago in this report, we described the main components of Enerflex's strategic plan for the years 2001 – 2005. This strategy was created to transform Enerflex from a dominant player in the Canadian market to a world leader with financial performance to match.

We want to revisit these strategic goals here, and update you on the progress made in 2001, the first year of our five-year plan.

1. Continue to expand internationally by establishing service and sales operations in key markets. With the 2001 acquisition of Netherlands-based Landré Ruhaak bv, Enerflex now has service operations in the Netherlands and Germany, which complement existing North Sea operations handled out of Scotland. In addition, we were granted the exclusive distribution rights for Waukesha engine sales, parts and service for Indonesia. These two initiatives will have a positive impact on Enerflex's sales and earnings starting in 2002. Enerflex is also pursuing a number of service opportunities in the United States and other key international markets. Enerflex's future is about *Service without borders, Growth without boundaries.*

Gas compression and power generation are a global business. Increasingly, so is Enerflex.

2. Aggressively expand our rental business. In 2001, revenue from our leasing business increased by 34%, the result of heavy investment in our rental fleet. Earnings before interest and taxes were up by 38%. We now have rental equipment in Canada, the United States and Australia. We will continue to invest prudently in compression and power generation equipment for our growing rental fleet, and will identify new opportunities for its profitable deployment.

3. Maintain an efficient and responsive organizational structure. We have seen immediate savings from the 2000 consolidation of seven business units into three. Further work is underway in several areas in order to continue to streamline the organization and leverage business opportunities.

4. Foster a culture and corporate philosophy of operational excellence. We live this on a daily basis, and continue to seek ways to provide customers a "best total value proposition" across all business units. We have consolidated common support functions — such as information technology, health and safety and quality assurance — to deliver the best possible operational support at the lowest possible cost.

5. Further explore worldwide opportunities to expand our power generation business. The acquisition of Landré Ruhaak, a significant player in the European power generation market, is a vital expansionary development. The combination of Landré Ruhaak's market presence and Enerflex's capabilities will provide increased opportunities to further develop this business.

Our Business is Changing The closer Enerflex is to the needs of our customers, the more successful our Company will be. Those needs are changing in several ways, and we are anticipating this by proactively adjusting how we do business.

One unmistakable trend is the increasing globalization of the gas compression and power generation industries. In this changing world, Enerflex can no longer be content with a dominant position in our domestic market. Therefore, we are taking steps to internationalize Enerflex in our three business units.

A second trend affecting customer needs is the rapid pace of consolidation among natural gas producers. In 2001, several Enerflex customers were purchased by U.S. companies seeking greater economies of scale and benefiting from a low Canadian dollar. Such consolidation affects our sales strategies. For example, in the past, Enerflex might have pursued five projects with each of five different companies. In the future, it could be 25 projects in the hands of a single organization.

Clearly, while this has always been a cyclical business, cycles are becoming shorter and more pronounced. Industry consolidation reinforces our longer-term strategy of increasing the proportion of Enerflex revenue earned outside Canada, and growing the portion of the business related to Service and Leasing.

Gas compression and power generation are a global business. Increasingly, so is Enerflex.

Growth and Opportunity in Global Service Looking ahead, our primary driver of growth is expected to be our Service business, particularly from new international locations. More than ever, Enerflex is winning customers and earning profits outside Canada. In 2001, 26% of revenue came from international sources, compared to 13% in 2000. Within a few years, Canadian and international revenue will be about equal. Longer term, we expect that Canadian revenues will be less than half of Enerflex's business.

While we intend to remain strong in all three facets of the business — Service, Compression and Power, and Leasing — the most favourable risk-reward opportunity lies with the international side of the Service business.

We see tremendous opportunity to acquire service providers in key markets, and grow our international Service offering substantially.

Why? The biggest reason is the sheer size of the global service industry for gas compression. A useful rule of thumb is that every horsepower of compression capacity requires US\$40 worth of service per year. Worldwide, the opportunities are vast and Enerflex has what it takes to be successful.

Significantly, service is less cyclical than our manufacturing business. Key among the reasons for this stability are:

- regardless of prevailing gas prices, a malfunctioning compressor costs the producer money by halting production, so reducing service is not a viable option;
- our exclusive distributorship agreements provide us a competitive advantage in the markets we serve as Enerflex is the authorized service provider;
- we can readily export the knowledge, business systems and people we have developed in becoming the number one service provider in Canada; and
- the service industry is less developed internationally than in Canada. We see tremendous opportunities to acquire service providers in key markets, and grow our international Service offering substantially.

Outlook for 2002 In terms of market demand, we anticipate that 2002 will be the opposite of 2001. That is, instead of a strong first half followed by a slow second half as we saw in 2001, we anticipate that 2002 will begin the year with slow conditions followed by a recovery later in the year.

No one knows with any certainty when this recovery will occur. In mid-January 2002, the Petroleum Services Association of Canada again lowered estimates for oil and gas wells to be drilled in Canada this year. This suggests recovery could be later rather than sooner, and likely in the second half of the year.

We know how to manage in a down market. We will take appropriate action to manage our business prudently. Once recovery takes hold, our sales and earnings will both accelerate.

Enerflex continues to attract and retain people with a passion for meeting our customers' needs. In any year, their resourcefulness and commitment are irreplaceable.

We want to thank each of our employees worldwide for their contributions in 2001, as well as our Board of Directors. A special welcome, as well, to our new colleagues at Landré Ruhaak.

We have a global business to build, and 2002 will be a vital year in the journey to 2005.

Yours sincerely,



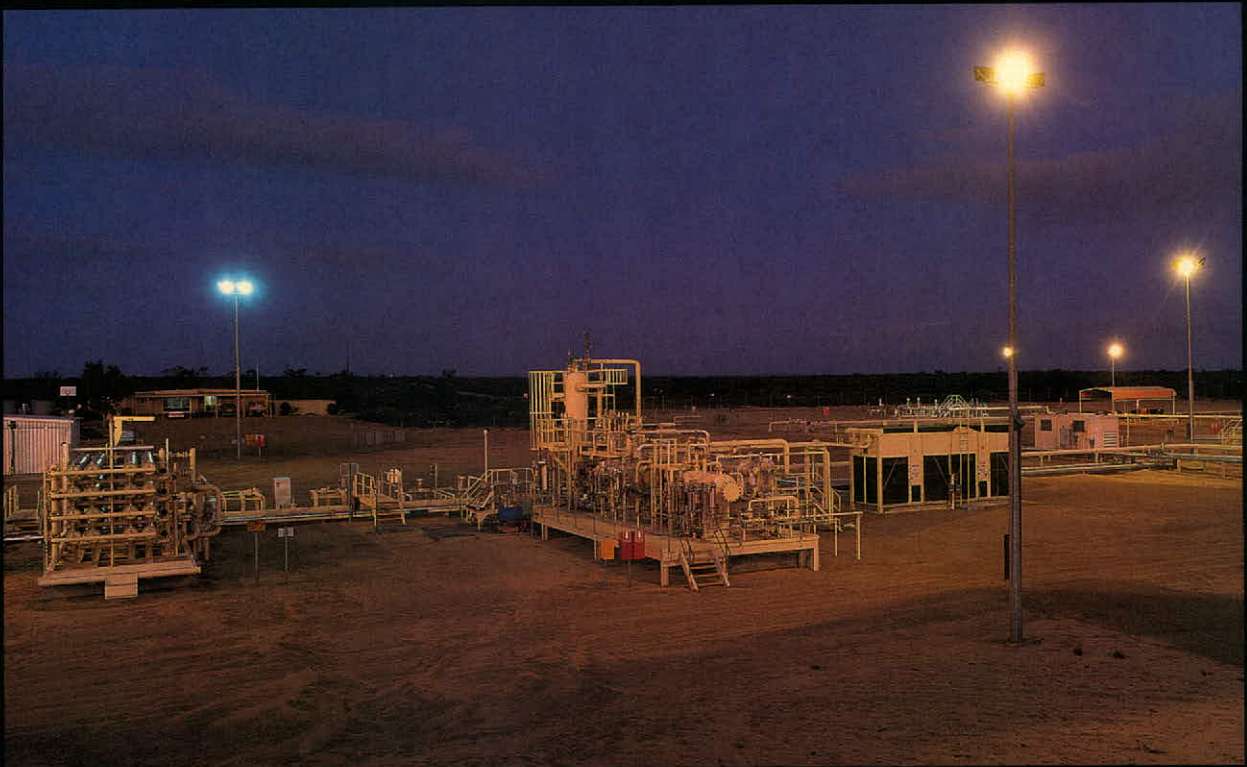
P. John Aldred
Executive Chairman
Enerflex Systems Ltd.



Malcolm Cox
President and Chief Executive Officer
Enerflex Systems Ltd.

February 8, 2002

Enerflex supplied the Origin Energy-operated Beharra Springs Joint Venture with gas compression and power generation equipment for the Beharra Springs Gas Compression Facility, located 390 kilometres north of Perth, Australia. Gas Drive Systems, Enerflex's Australian Service group, provides the total maintenance program for this equipment.



REVIEW OF OPERATIONS

Our three business units provide our customers with flexible solutions to meet their distinct needs.

Enerflex Systems Ltd. is a global provider of natural gas compression and power generation equipment and services. The Company is headquartered in Calgary, Canada, and has operations in Canada, the United States, the United Kingdom, Germany, the Netherlands, Australia and Indonesia. The Company's three business units allow Enerflex to meet customers' needs in three distinct ways.

Service. Enerflex is an international supplier of parts, service and re-engineering and re-manufacturing of existing compressor and power generation packages. The parts and service component is carried out through a responsive network reaching across Canada, as well as the North Sea, Germany, the Netherlands, Australia and Indonesia. Equipment refurbishment, which optimizes the performance of existing compressor packages, takes place at the Company's Calgary re-manufacturing facility.

Compression and Power. Enerflex designs, manufactures and installs a wide variety of new natural gas compression packages for customers around the world. Engineered and assembled by Enerflex at its Calgary manufacturing facility, these packages are standard-built or custom-designed with components supplied by leaders and innovators within the global industry. The Company also provides gas-fuelled power generation systems as stand-alone equipment packages or on a turnkey, installed basis.

Leasing. Enerflex offers customers many flexible and innovative financing packages, through which natural gas producers and electricity generators can purchase 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.

ACQUISITION CREATES STRONGER EUROPEAN POSITION

In 2001, some 74% of Enerflex's sales were in Canada, with the balance divided among many other countries. In November 2001, Enerflex completed the acquisition of 100% of the shares of Landré Ruhaak bv, for a sum of 4.0 million Euros (Cdn\$5.9 million) plus working capital of approximately 2.3 million Euros (Cdn\$3.3 million). Landré Ruhaak is the exclusive Waukesha natural gas engine and parts distributor for the Netherlands, Germany, Portugal and Spain.

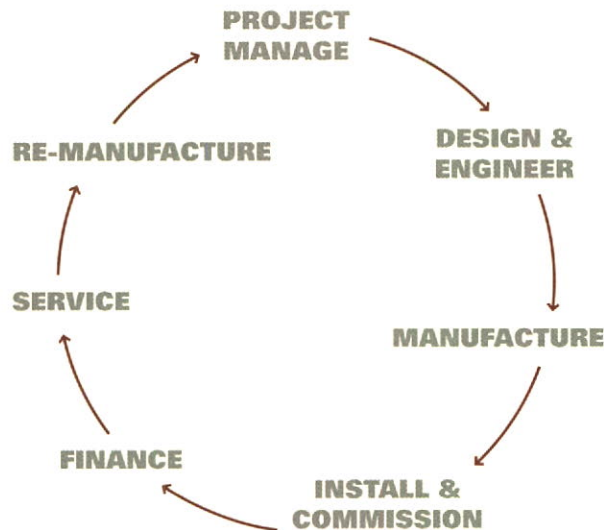
This acquisition, which was immediately accretive to earnings, is a key development in the execution of Enerflex's plan to grow internationally. It strengthens existing North Sea operations, and provides a strong engine sales and parts and service organization from which to expand into other parts of continental Europe.

In November 2001, Gas Drive Systems, Enerflex's Australian-based service organization, was granted the Waukesha distributorship for engine sales and parts for the Republic of Indonesia.

Understanding Gas Compression Natural gas occurs in underground reservoirs, which normally have lower pressures than gas pipeline systems. For this reason, virtually all natural gas must be compressed. Compression systems increase the pressure within gas gathering systems so that the gas can be delivered to a pipeline and on to market.

Demand for compression typically increases when new gas fields commence production or when pressure declines in existing gas fields.

Worldwide, demand for natural gas is expected to increase over the next decade. This demand for more natural gas, coupled with increasing decline rates in many current gas producing areas, will result in a steadily growing demand for Enerflex's wide range of products and services.



Operating Structure Enerflex operates three business units: Service, Compression and Power and Leasing. The following section will review 2001 operations, and provide an outlook for 2002, for each.

SERVICE

The Business Historically, when demand for new compression equipment is constrained, the Service business unit continues to perform well and generate steady revenue. Through the organic growth of its operations and the addition of Landré Ruhaak, Service will increasingly contribute to the sales and earnings of the Company. The goal of the Service unit is to provide a highly responsive parts and service operation anywhere in the world where oil and gas are produced. Building from a strong base of 300 service people in 14 locations across Canada, Enerflex has extended its service offerings to the United States, the United Kingdom, Germany, the Netherlands, Australia and Indonesia.

The Service unit's business also involves the re-engineering and refurbishment of existing compression equipment. Enerflex has the industry's only standalone operation of this type.

Service is a business where technical proficiency is paramount. For this reason, Enerflex operates a training centre in Calgary that supports factory training with manufacturing leaders such as Waukesha, Caterpillar and Ariel.

Even though the second half of 2001 saw sluggish demand for new equipment, service continued to be necessary regardless of the direction of gas prices. The durable nature of the business, combined with international expansion and operational efficiency, produced a strong 2001 performance for Service.

Operational Highlights for 2001

- Completed 13,080 service assignments, compared to 11,502 in 2000.
- Began integration of service operations of Landré Ruhaak.
- Extended service capabilities into Indonesia.

Results for 2001 In 2001, Service recorded \$129.5 million in revenue, compared to \$122.6 million in 2000, an increase of 5.6% (including two months revenue for Landré Ruhaak). Earnings before interest and taxes for the year were \$14.5 million compared to \$10.5 million in 2000, an increase of 38%.

Outlook for 2002 The Service business unit expects revenue growth to be even stronger than in 2001, due to demand growth and through the addition of Landré Ruhaak. The Service unit is examining the possibility of further international acquisitions that will expand Enerflex's worldwide service network.

The international component is anticipated to grow as a proportion of the business unit's overall activities. The granting of the Waukesha distributorship for engine sales and parts for Indonesia will also contribute to growing revenues.

COMPRESSION AND POWER

The Business Enerflex's Compression and Power business unit designs and manufactures gas compression and power generation systems for customers around the world. Manufacturing operations are based at Enerflex's 328,000 sq. ft. Calgary facility. This business unit's mandate is to be the pre-eminent compression and power company in the markets served by Enerflex.

As the Service business unit grows internationally, Compression and Power generally moves into new markets as well. This is because many customers are more likely to purchase new compression packages once a local service operation is in place.

For Compression and Power, 2001 began exceptionally well, but capital spending by customers dropped off in the second half of the year. By September, lower gas prices started cutting into customers' drilling programs. Despite slower markets in the second half of the year, compression and power delivered solid financial results. These results reflect division-wide commitment to cost control and customer service.

Operational Highlights for 2001

- Record revenue highlighted by record U.S. sales.
- Continued to drive down cost while improving quality and performance.
- Manufactured 178 gas compression packages, compared to 147 in 2000.
- Manufactured 43 power systems, compared to 41 in 2000.

Results for 2001 In 2001, Compression and Power recorded \$233.2 million in revenue, compared to \$154.4 million in 2000, an increase of 51%. Earnings before interest and taxes for the year were \$18.7 million compared to \$6.5 million in 2000, an increase of 188%.

Outlook for 2002 Industry conditions suggest a challenging first half of 2002 will be balanced by a stronger second half. Overall, Compression and Power is forecasting reduced demand for new gas compression and power generation packages, and therefore lower revenue for 2002. In the face of a slower and highly competitive Canadian market, Compression and Power anticipates a growing proportion of international sales.

LEASING

The Business Enerflex's Leasing unit provides customers an alternate means of acquiring an extensive offering of natural gas compression and power generation equipment. Available leasing options include short-term rentals, long-term capital and operating leases, and full-service contract operations. These options provide our customers a means to control capital spending while producing natural gas reliably and cost-effectively.

Operational Highlights for 2001

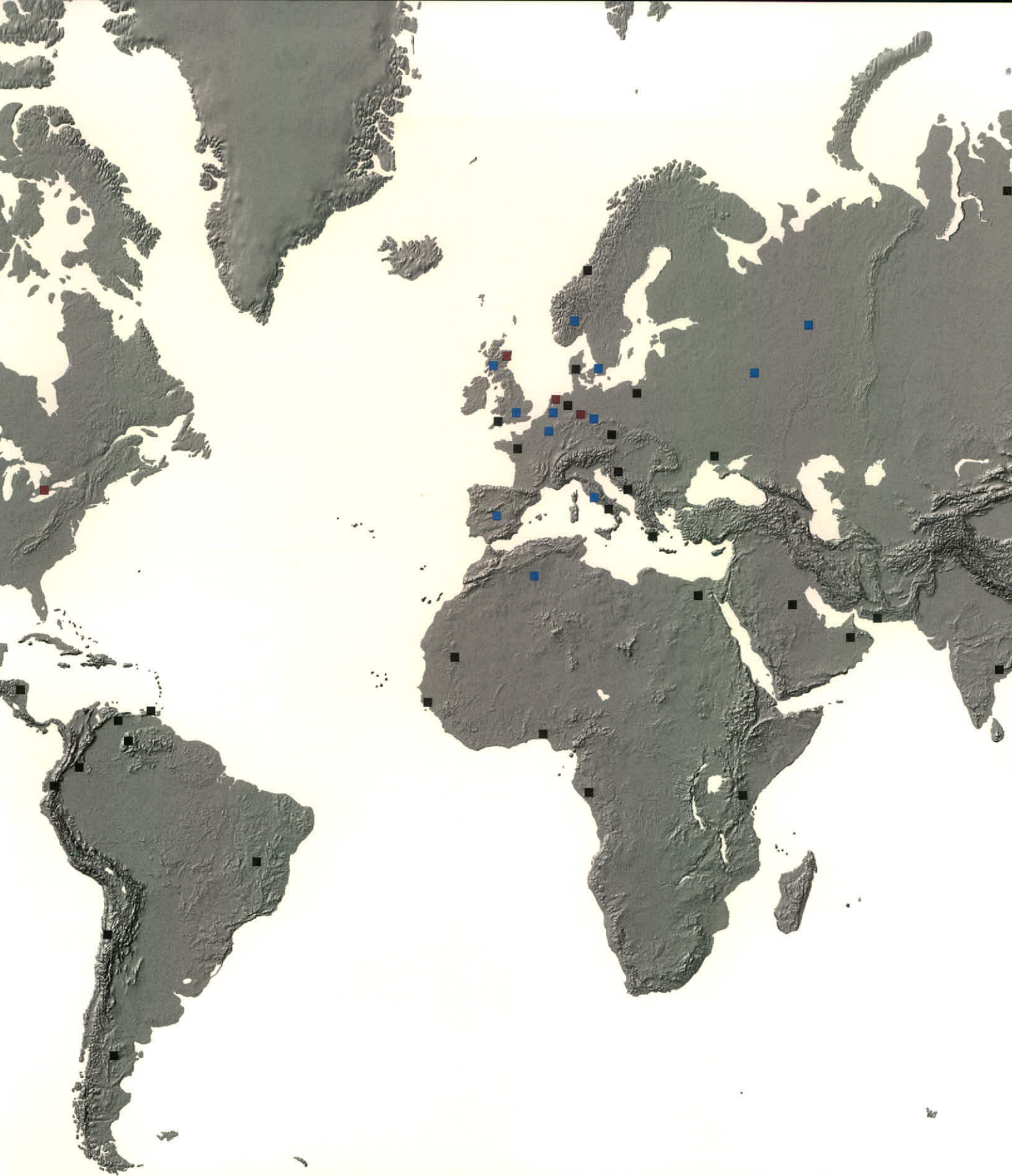
- Signed 62 new lease agreements.
- Added 22 new customers.
- Increased size of rental fleet by 25%.
- Installed rental compression on an offshore platform in Alaska.
- Continued growth in the below 200 HP reciprocating and screw market.

Results for 2001 In 2001, Leasing recorded \$12.4 million in revenue, compared to \$9.3 million in 2000, an increase of 34.1%. Earnings before interest and taxes for the year were \$5.9 million compared to \$4.3 million in 2000, an increase of 37.9%.

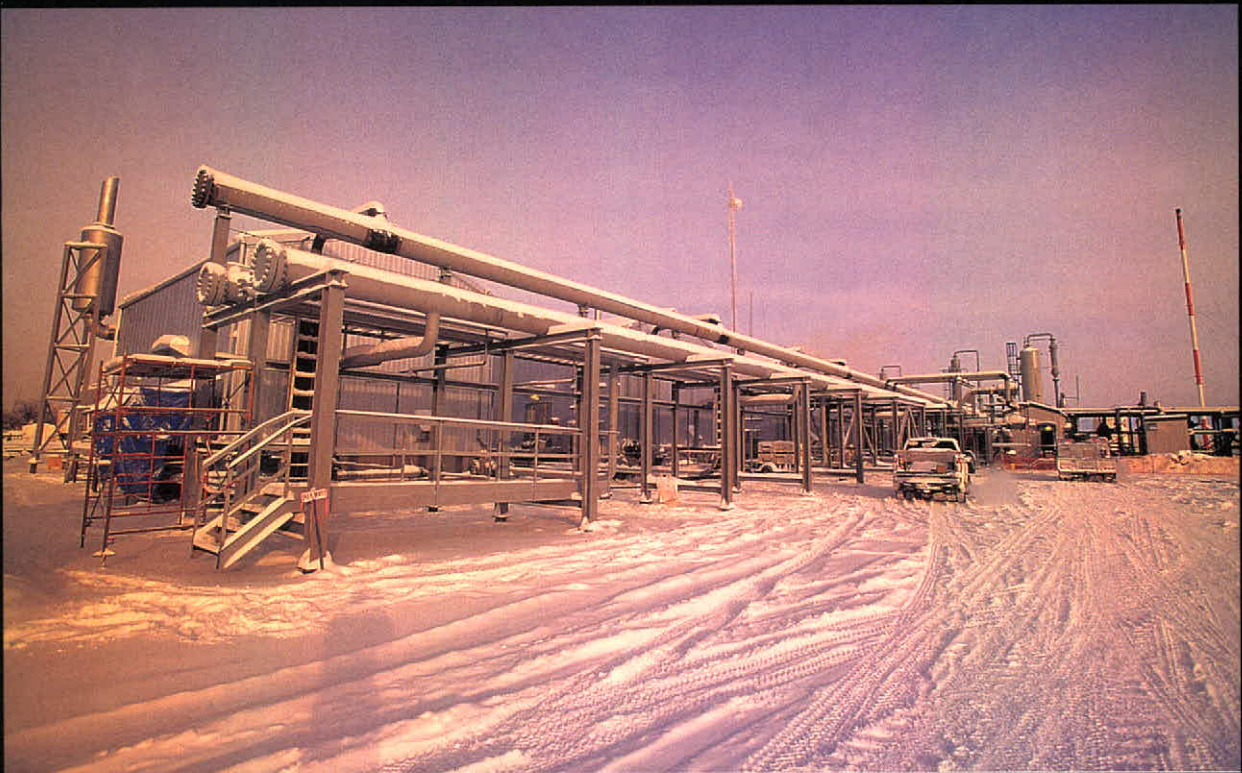
Outlook for 2002 Enerflex's Leasing unit expects to grow both revenue and earnings before interest and taxes in 2002, in part through increased opportunities in Canada and expansion to other countries throughout the world. The introduction of new equipment styles, such as an 800 HP trailer-mounted package capable of producing while existing permanent compression is modified or repaired, will allow Leasing expanded market opportunities. Leasing plans to expand the number of units in its rental fleet by 10%. Profitability will be aided by equipment optimization and operational efficiency within this business unit.



■ Enerflex Facilities ■ Service Project Locations □ Equipment Locations



Enerflex's Compression and Power group provided a significant portion of the gas compression equipment operating in the Ladyfern area along the Alberta/British Columbia border, in Canada. Pamco, Enerflex's Canadian Service group, provided commissioning and delivers ongoing service and support for the compression equipment in the area.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Net income increased 99% to \$22.5 million in 2001.

The following discussion and analysis highlights key business results and statistics for 2001 and 2000 and should be read in conjunction with the consolidated financial statements and accompanying notes on pages 29 to 38 of this Annual Report.

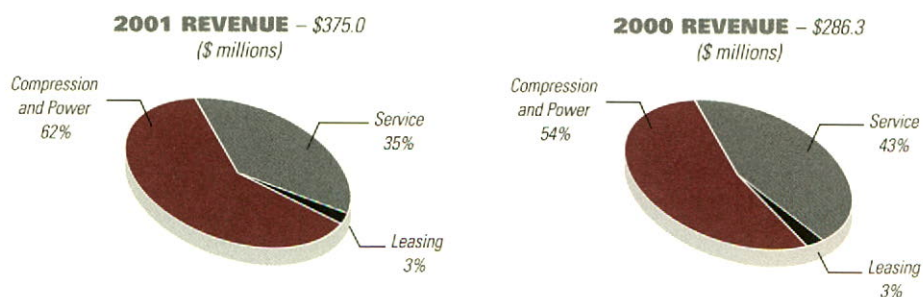
RESULTS OF CONSOLIDATED OPERATIONS – HIGHLIGHTS

Enerflex recorded the following consolidated results for 2001:

- total revenues in 2001 were \$375.0 million, up 31.0% from \$286.3 million in 2000.
- international revenue increased to \$97.3 million (25.9% of revenue) in 2001, compared to \$36.7 million (12.8% of revenue) in 2000.
- net income in 2001 was \$22.5 million, up 98.5% from \$11.3 million in 2000.
- on basic earnings per share, net income was \$1.51, twice 2000's earnings per share of \$0.76.
- the Company's return on opening equity⁽¹⁾ was 21.6% compared to 11.0% in 2000 and a previous five-year average of 23.6%.
- return on capital employed⁽²⁾ increased to 23.6% in 2001 from 13.8% in 2000.

OPERATIONS

Enerflex operates three business units: Service, Compression and Power, and Leasing. The charts and tables following illustrate 2001 revenues and income for each, compared to 2000 levels.



Footnotes:

- (1) Return on opening equity is calculated as net income divided by shareholders' equity at the beginning of the year.
- (2) 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.

Service

	2001	2000
Segment revenue	\$ 135,659	\$ 125,151
Intersegment revenue	(6,191)	(2,579)
External revenue	\$ 129,468	\$ 122,572
Income before interest and taxes	\$ 14,500	\$ 10,544

The Service business unit supplies parts and service for compression and power generation packages through a network of 14 Canadian locations, as well as in Scotland, Germany, the Netherlands, Australia and Indonesia. In addition, Service refurbishes compression and power generation packages at its Calgary facility.

This business unit has experienced steady growth in periods of both low and high natural gas prices as revenue is derived primarily from sales of parts and service to installed compression equipment. This equipment is maintained and continues to run regardless of the commodity price cycle.

Operational efficiencies have resulted in an improved gross margin and a 37.5% improvement in income before interest and taxes. In the fourth quarter of 2001, our Service business unit completed the acquisition of Landré Ruhaak bv in the Netherlands, and was granted the Waukesha distributorship in Indonesia. These additions to our service business will generate top- and bottom-line growth as well as increased international diversification of revenue in 2002.

Compression and Power

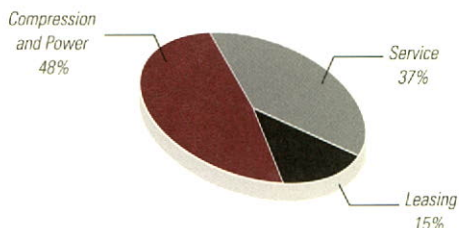
	2001	2000
Segment revenue	\$ 248,208	\$ 165,994
Intersegment revenue	(15,056)	(11,546)
External revenue	\$ 233,152	\$ 154,448
Income before interest and taxes	\$ 18,748	\$ 6,454

The Compression and Power business unit engineers and assembles standard or custom-designed compression packages and natural gas fuelled power generation systems. Sales in this business unit are cyclical, as they are dependent upon capital spending by natural gas producers. Strong natural gas prices in the first half of 2001 led to growing revenue and a heavy order backlog at the end of the second quarter. In the second half of the year, natural gas prices dropped sharply, resulting in capital spending cuts by producers and a decline in orders for new compression equipment.

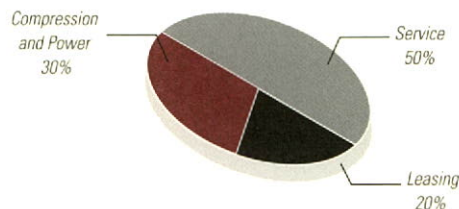
Revenue for the last half of 2001 was largely derived from orders booked earlier in the year. For the year as a

whole, segment revenues were the strongest in the Company's history, increasing by 51.0% over 2000. Income before interest and taxes was nearly three times the amount recorded in the prior year as a result of plant efficiencies, cost control measures and higher plant utilization. Poor margins on custom orders in the fourth quarter resulted in low average margins late in the year. In early 2002, order activity remains slower than in the first half of 2001. Therefore, this business unit has substantially reduced its workforce to reflect the cyclical downturn in activity. At the same time, the Company has taken steps to improve its sales capabilities in Canada, the United States and internationally to enable Enerflex to secure orders.

2001 SEGMENT INCOME – \$39.2
(Before interest and taxes, \$ millions)



2000 SEGMENT INCOME – \$21.3
(Before interest and taxes, \$ millions)



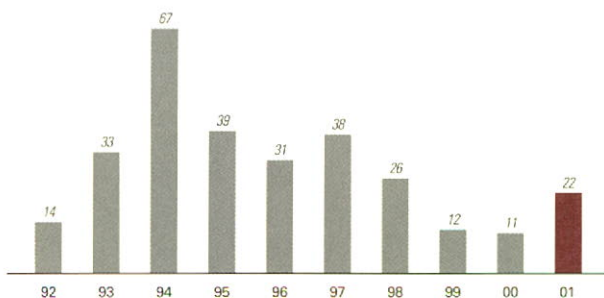
Leasing

	2001	2000
Segment revenue	\$ 12,420	\$ 9,263
Intersegment	—	—
External revenue	\$ 12,420	\$ 9,263
Income before interest and taxes	\$ 5,913	\$ 4,288
Capital expenditures (net of disposals)	\$ 9,999	\$ 7,905

The Leasing business unit provides a variety of leasing and rental options for gas compression and power generation equipment. Enerflex now has 139 units in its fleet, with a total of over 47,000 horsepower, an increase of 25 units and 11,000 horsepower over the year. Notwithstanding the growth in capacity, utilization rates have continued to exceed 80%. Both revenue and income before interest and taxes achieved new records in 2001, with increases from the prior year of 34.1% and 37.9%, respectively. Equipment rentals provide an important alternative to customers, particularly when natural gas prices are weak. As a result, this business unit can continue to grow in a difficult economic environment.

Selling, General and Administrative Selling, general and administrative (SG&A) expenses were \$35.2 million in 2001, compared to \$33.2 million in 2000. For 2001, selling, general and administrative were 9.4% of revenue, compared to 11.6% in 2000. Expenses in the current year include an increase in profit sharing of \$2.4 million over 2000 due to strong financial performance. All employees participate in the Company's profit sharing plan, which enables staff to share in the success that they are building at Enerflex. Exclusive of profit sharing, SG&A costs are 1.6% lower than the prior year, notwithstanding a 31.0% increase in revenue, as a result of efficiencies gained by combining seven divisions into three business units over the past year.

RETURN ON EQUITY
(%)



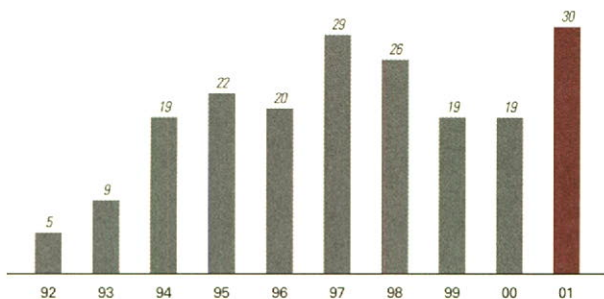
Interest Net interest expense in 2001 was \$2.7 million, compared to \$3.6 million in 2000. Enerflex is benefiting from declining interest rates as all of the Company's debt is subject to floating rates. Debt levels were similar in 2001 and 2000. Over the course of the year, Enerflex funded dividends, the Normal Course Issuer Bid, and business and property acquisitions from cash flow. Short-term interest rates are expected to remain low in 2002.

Income Taxes The effective rate of income tax for 2001 was 38.5%, compared to 36.1% in 2000. In 2000, Enerflex adopted the liability method of accounting for income taxes and recognized the benefit of lower future tax rates. Based on enacted future tax rates in Canada, the Company expects its income tax rate to be reduced by approximately 1% per year in each of the next three years.

FINANCIAL CONDITION AND LIQUIDITY

Cash Flow from Operations Enerflex generated \$30.0 million cash from operations, before changes in non-cash working capital, in 2001, compared to \$18.5 million in 2000. Cash was used to fund the acquisition of Landré Ruhaak bv (\$9.2 million) and net additions of \$12.5 million (2000 — \$12.2 million) to rental equipment and property, plant and equipment. In addition, the Company returned \$8.0 million to shareholders through dividends and share repurchases.

CASH FLOW FROM OPERATIONS
(\$ millions)



The annual dividend for 2001 was maintained at 40 cents per share. This is a payout ratio of 26.6% of 2001 net earnings compared to 52.9% in 2000. Through its Normal Course Issuer Bid, which was renewed in 2001, Enerflex returned a further \$2.0 million (2000 — \$3.4 million) to its shareholders. Over the past year, 85,900 common shares were repurchased at an average price of \$23.42. This compares to 103,300 common shares repurchased at an average price of \$32.62 in 2000.

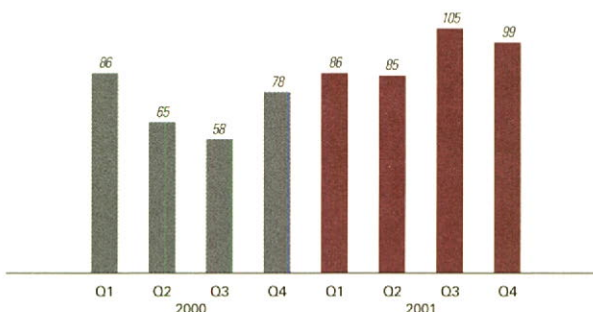
Financing and Liquidity As at December 31, 2001, Enerflex had total debt of \$53.9 million compared to total debt of \$54.8 million a year earlier. Debt in 2001 is comprised of an operating loan of \$23.9 million to fund a portion of working capital requirements and long-term debt of \$30.0 million. Working capital at December 31, 2001 was \$62.1 million, compared to \$57.9 million a year earlier. Shareholders' equity at December 31, 2001 was \$118.5 million, compared to \$104.1 million a year earlier.

The Company's bank lines of credit are comprised of a \$46 million operating line and a \$30 million term loan. Under the current bank agreement, the term loan is repayable in annual principal installments of \$10 million commencing January 1, 2003. Enerflex plans to assess its future credit requirements and replace credit facilities as appropriate. At December 31, 2001, approximately \$17 million of the operating line of credit was available.

Outlook for Markets and Competition As a Canadian-based provider of services and equipment to the global oil and gas business, Enerflex's business prospects for 2002 will be influenced by several market factors. These include the international business outlook for oil and gas producers, prospects for natural gas drilling and development, as well as the competitive environment within the natural gas compression service and packaging industries.

The compression service business is largely insulated from the ups and downs of the commodity price cycle. Rather, compression parts and service sales are driven by the installed capacity of compression equipment, which tends to remain stable in a lower price environment and grow when gas prices rise. The service business provides important stability to Enerflex earnings and cash flow.

QUARTERLY REVENUE
(\$ millions)



**INDUSTRY OUTLOOK —
OIL AND GAS PRODUCERS**

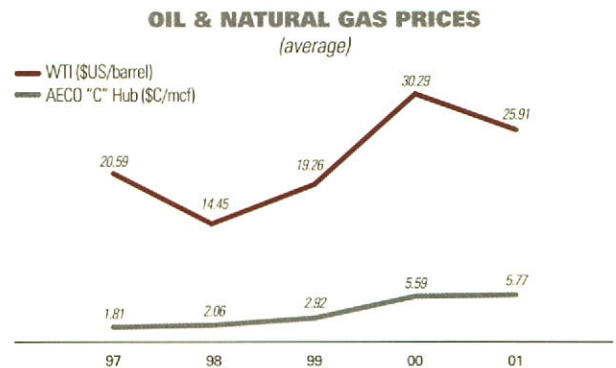
Throughout 2000 and the first half of 2001, crude oil and natural gas producers enjoyed record profitability. In the third quarter of 2001, however, lower commodity prices led to reductions in upstream earnings and cash flow. Lower cash flows resulted in capital spending reductions in Western Canadian exploration and development activities in the third quarter, and there are no signs of near-term improvement.

In October 2001, the Petroleum Services Association of Canada (PSAC) estimated that the number of wells drilled in western Canada would decline from 18,200 in 2001 to 14,400 in 2002. In mid-January 2002, this estimate was lowered further to 13,000. PSAC said the drop would be most pronounced in the number of shallow natural gas wells drilled.

**We expect E&D companies to
have more exploration plays
ready to drill if market
conditions warrant.**

Merger and acquisition activity in the Western Canadian oil and gas business will also have an impact on capital spending in 2002. The intermediate companies, which had historically invested more than cash flow each year, were the first to be absorbed, followed by many of Canada's senior producers. The high-grading of capital projects that generally takes place subsequent to major mergers and acquisitions will lead to capital spending reductions by producers.

Exploration and development capital spending reductions became apparent in the third quarter. Increasing evidence of global recession, compounded by the September 11th tragedy, led to lower commodity prices and slower cash generation by our customers. Producers deferred capital spending into 2002. Spending constraints are now expected to continue through the winter,



followed by the normal seasonal drop in the second quarter. Thereafter, increases in spending will be dependent upon economic recovery and improvements in commodity prices.

Natural gas production decline rates in North America approximate 30%. We expect that E&P companies have more exploration plays ready to drill if market conditions warrant. Success in exploration drives more of the capital spending that benefits Enerflex, with the requirement for new higher-horsepower compression.

In summary, low commodity prices cause producers to cut capital spending. Lower spending is having a negative impact on the compressor packaging business, and this can be expected to persist until commodity prices improve. However, the service business is not expected to suffer in this environment as producers continue to operate and maintain their equipment.

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 to the United States market, it is clear that the border is coming down and the industry is becoming a single North American industry 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 The service business has not changed significantly over the last year. Enerflex remains the market leader in Canada.

With at least six major players in the business, the Canadian compressor packaging market continues to have more competitors and more capacity than the market will support. In spite of this highly competitive market, Enerflex maintained market share in 2001, though prices remained depressed.

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

While more compression capacity 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, which supplies 25% of the Canadian market (calculated by horsepower), is a leader in the rental industry.

United States In the United States there is no dominant service provider such as Enerflex. We continue to look for the right vehicle(s) to gain access to the U.S. service market.

The consolidation of the U.S. compression industry is now virtually complete. Currently, there are only three major players: Hanover, Universal and CSI Inc. We continue to believe that the United States market provides Enerflex with a strong opportunity to expand our business and we are looking at several options to increase our presence and further penetrate the market.

The United States market continues to be more heavily weighted towards rental contracts than the Canadian market. At present, approximately 30% of the United States market is served by rental compression equipment, while 70% is owned by producers and pipeline companies.

International Internationally, the competitive field reflects the North American picture. Most North American packagers are pursuing international business. The only pure international players are Nuovo Pignone (Italy) and GSI (Singapore).

Outside of Canada, the compression service business is highly fragmented. Through the acquisition of Landré Ruhaak and expansion into Indonesia, Enerflex has become a significant and growing player in the international service market.

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 the following business risk issues and the Company's response to them.

Markets and Operations Energy prices in general affect Enerflex, as most customers generate cash flow from both oil and gas. Natural gas prices are determined by supply, demand and government regulations relating to natural gas production and processing. The market for capital goods used by natural gas producers 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 U.S. dollars. The Company manages most of this inherent risk through a variety of contractual means, but currency risk cannot be eliminated entirely. Enerflex has also invested in international subsidiaries, which exposes the Company to foreign exchange risk, mainly in the Euro, British pound, and Australian dollar.

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 a flexible workforce. Over the past 10 years, Enerflex has generated positive cash flow even in challenging times.

**Enerflex is structured
to be profitable in
both high and low periods
of the energy cycle.**

Foreign Operations In 2001, Enerflex sold goods and services in countries outside Canada. 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). 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 or damage to its property and equipment. Liability insurance is also maintained at prudent levels to limit exposure in the event of unforeseen incidents. An annual review of insurance coverage is completed to ensure that the risk of loss is maintained within acceptable limits. The events of September 11th have placed strains on the insurance market which are expected to result in increased insurance costs.

Climatic Factors In North America, cold winters typically increase demand (and therefore price) of natural gas. That is positive for Enerflex. Warm winters in western Canada, however, can both reduce demand for gas and make it difficult for producers to reach well locations and in turn hamper drilling and compression operations. This is negative for Enerflex.

Seasonal Demand Demand for compression products and services, and hence Enerflex business prospects, are clearly influenced by seasonal demand. Each year's first quarter is generally accompanied by increased winter deliveries of equipment. Service activities are generally higher in the summer.

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

Enerflex's Service group provides dedicated support to Shell's gas compression equipment on the Brent Charlie and Alpha platforms located in the North Sea.



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.

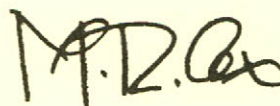
To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

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.

The consolidated financial statements have been audited independently by Arthur Andersen 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*
February 1, 2002



Malcolm R. Cox, *President and Chief Executive Officer*

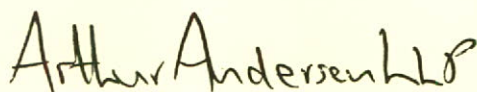
AUDITORS' REPORT

**To the
Shareholders
of Enerflex
Systems Ltd.**

We have audited the consolidated balance sheets of Enerflex Systems Ltd. as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years 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 audits.

We conducted our audits 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, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Arthur Andersen LLP, *Chartered Accountants*
Calgary, Alberta
February 1, 2002

CONSOLIDATED BALANCE SHEETS

<i>(Thousands)</i>	December 31	
	2001	2000
Assets		
Current assets		
Accounts receivable	\$ 67,987	\$ 58,842
Inventory (Note 3)	59,343	51,136
Future income taxes (Note 9)	2,521	1,812
Total current assets	129,851	111,790
Rental equipment (Note 4)	39,042	31,740
Property, plant and equipment (Note 5)	45,149	47,273
Future income taxes (Note 9)	1,138	639
Intangible assets	2,815	—
Goodwill, net of accumulated amortization	4,151	1,299
	\$ 222,146	\$ 192,741
Liabilities and Shareholders' Equity		
Current liabilities		
Bank loans (Note 6)	\$ 23,886	\$ 24,638
Accounts payable and accrued liabilities	43,880	29,075
Current portion of long-term debt (Note 6)	—	200
Total current liabilities	67,766	53,913
Long-term debt (Note 6)	30,000	30,000
Future income taxes (Note 9)	5,879	4,717
	103,645	88,630
Commitments and contingencies (Note 8)		
Shareholders' equity		
Share capital (Note 7)	35,412	35,617
Retained earnings	83,089	68,494
	118,501	104,111
	\$ 222,146	\$ 192,741

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

<i>(Thousands, except share amounts)</i>	Years Ended December 31	
	2001	2000
Revenue	\$ 375,040	\$ 286,283
Cost of goods sold	301,816	232,369
Gross margin	73,224	53,914
Selling, general and administrative expenses	35,151	33,227
Gain on sale of assets	(1,088)	(599)
Income before interest and taxes	39,161	21,286
Interest, net	2,680	3,583
Income before income taxes	36,481	17,703
Income taxes (Note 9)	14,027	6,391
Net income	\$ 22,454	\$ 11,312
Net income per common share — basic	\$ 1.51	\$ 0.76
— diluted	\$ 1.49	\$ 0.75
Weighted average number of common shares	14,916,964	14,968,887

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>(Thousands)</i>	Years Ended December 31	
	2001	2000
Retained earnings, beginning of year	\$ 68,494	\$ 67,763
Net income	22,454	11,312
Common shares purchased for cancellation (Note 7)	(1,807)	(3,125)
Stock options purchased (Note 7)	(87)	(1,467)
Dividends	(5,965)	(5,989)
Retained earnings, end of year	\$ 83,089	\$ 68,494

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Thousands)</i>	Years Ended December 31	
	2001	2000
Operating Activities		
Net income	\$ 22,454	\$ 11,312
Depreciation and amortization	8,636	7,570
Future income taxes	(46)	200
Gain on sale of assets	(1,088)	(599)
	29,956	18,483
Changes in non-cash working capital	(889)	(2,324)
	29,067	16,159
Investing Activities		
Acquisition of Landré Ruhaak bv (Note 2)	(9,154)	—
Purchase of:		
Rental equipment	(16,293)	(12,443)
Property, plant and equipment	(3,150)	(4,503)
Proceeds on disposal of:		
Rental equipment	6,310	4,558
Property, plant and equipment	678	185
	(21,609)	(12,203)
Changes in non-cash working capital	126	(922)
	(21,483)	(13,125)
Financing Activities		
(Decrease) increase in bank loan	(752)	9,398
Repayment of long-term debt	(200)	(2,000)
Common shares purchased for cancellation	(2,012)	(3,369)
Stock options purchased	(141)	(2,482)
Stock options exercised	—	657
Dividends	(5,965)	(5,989)
	(9,070)	(3,785)
Changes in non-cash working capital	1,486	751
	(7,584)	(3,034)
Increase in cash	—	—
Cash, beginning of year	—	—
Cash, end of year	\$ —	\$ —
Supplemental disclosure of cash flow information		
Interest paid	\$ 3,918	\$ 3,584
Interest received	\$ 807	\$ —
Income taxes paid	\$ 6,620	\$ 6,134
Income taxes received	\$ 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 amounts)

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.

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 equipment are recorded upon substantial technical completion. Any foreseeable losses on contracts are charged to operations at the time they become evident. Revenues from parts and service sales are recorded when goods are shipped and services rendered. Revenue from equipment leases is recorded over the lease term.

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 progress billings 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 (three years to 20 years) of the various classes of assets. Repairs and maintenance costs are charged to operations as incurred. 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.

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 is being amortized over 40 years. Goodwill arising after July 1, 2001 has not been amortized. Goodwill is assessed for impairment at least annually.

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

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 Exchange 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.

Stock-based Compensation Plan The Company's stock-based compensation plan is described in Note 7. 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. Option holders have the right to request, but not require, the Company to purchase for cash all or part of the options. When stock options are purchased from employees, the excess of the consideration paid over the carrying amount of the stock option cancelled is charged to retained earnings, net of related income tax benefits.

NOTE 1. CHANGE IN ACCOUNTING POLICY – DILUTED EARNINGS PER SHARE

Effective January 1, 2001, the Company adopted the treasury stock method of calculating diluted earnings per share and applied it on a retroactive basis. Under this method, the exercise of options is assumed to have occurred at the beginning of the period and the related common shares are assumed issued at that time. The proceeds from the exercise are assumed to have purchased common shares of the Company for cancellation at the average market price during the period. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings per share calculation. The diluted earnings per share for the year ended December 31, 2000 did not change as a result of this new policy.

NOTE 2. 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. The results of the operations of Landré Ruhaak bv have been included in the consolidated statement of income from the acquisition date. The acquisition was accounted for under the purchase method and is summarized as follows:

Non-cash working capital	\$ 3,216
Fixed assets	230
Intangible assets	2,815
Goodwill	2,893
Total assets acquired	9,154
Bank overdraft assumed	588
Net assets acquired	\$ 8,566

NOTE 3. INVENTORY

	2001	2000
Manufacturing materials	\$ 26,745	\$ 20,737
Repair parts held for resale	27,114	23,313
Work in progress:		
Costs in excess of related billings	38,195	14,350
Billings in excess of related costs	(32,711)	(7,264)
	\$ 59,343	\$ 51,136

NOTE 4. RENTAL EQUIPMENT

	2001	2000
Cost	\$ 47,613	\$ 38,344
Less accumulated depreciation	(8,571)	(6,604)
Net book value	\$ 39,042	\$ 31,740

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

	2001		2000	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 7,197	\$ —	\$ 7,327	\$ —
Buildings	34,839	(6,043)	35,553	(4,482)
Equipment	30,655	(21,499)	28,019	(19,144)
Total	\$ 72,691	\$ (27,542)	\$ 70,899	\$ (23,626)
Net book value		\$ 45,149		\$ 47,273

NOTE 6. DEBT

	2001	2000
Bank term loan	\$ 30,000	\$ 30,000
Note payable	—	200
	30,000	30,200
Less amounts due within one year	—	(200)
	\$ 30,000	\$ 30,000

The bank term loan is provided under a \$30,000,000 facility, is unsecured, funded through direct borrowing or bankers acceptances which bear interest at floating rates and is repayable in three equal annual payments of \$10,000,000 commencing in 2003.

Interest on long-term debt was \$1,703,000 (2000 — \$2,266,000).

The Company's operating bank line of credit is \$46,000,000, is unsecured and bears interest at the bank prime rate. At December 31, 2001, \$23,886,000 (2000 — \$24,638,000) was drawn.

NOTE 7. SHARE CAPITAL

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

At February 1, 2002, the Company had 14,844,500 common shares outstanding.

Issued

	2001		2000	
	Common Shares	Amount	Common Shares	Amount
Balance, beginning of year	14,947,000	\$ 35,617	15,003,000	\$ 35,204
Stock options exercised	—	—	47,300	657
Common shares purchased	(85,900)	(205)	(103,300)	(244)
Balance, end of year	14,861,100	\$ 35,412	14,947,000	\$ 35,617

Common Shares Purchased Under the provisions of its normal course issuer bid, the Company purchased and cancelled 85,900 common shares at an average price of \$23.42, for a total cost of \$2,011,000 including commissions (2000 — 103,300 shares at an average price of \$32.62, for a total cost of \$3,369,000).

Stock Options Purchased During 2001, stock options to purchase 10,000 common shares were purchased for \$87,000, net of income tax benefits of \$54,000 (2000 — 129,400 common shares for \$1,467,000, net of income tax benefits of \$1,015,000).

Stock Options Outstanding The Company has reserved 1,500,000 common shares under the terms of its stock option plan, of which 553,620 are available for issuance at December 31, 2001. 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.

A summary of the status of the plan as at December 31, 2001 and 2000 and changes during the years then ended is presented below:

	2001		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	635,630	\$ 22.86	764,350	\$ 19.87
Granted	138,650	29.36	140,430	33.53
Exercised	—	—	(47,300)	13.86
Purchased	(10,000)	16.38	(129,400)	17.26
Cancelled	(37,000)	30.29	(92,450)	26.84
Outstanding, end of year	727,280	\$ 23.81	635,630	\$ 22.86
Options exercisable, end of year	390,466		307,430	

The following table summarizes information about the stock options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$7.81 – \$9.33	186,400	3.3	\$ 8.82	186,400	\$ 8.82
\$20.03 – \$29.50	343,250	7.3	26.18	128,140	22.81
\$32.63 – \$38.18	197,630	7.2	33.83	75,926	33.99
\$7.81 – \$38.18	727,280	6.2	\$ 23.81	390,466	\$ 18.30

NOTE 8. COMMITMENTS AND CONTINGENCIES

At December 31, 2001, the Company had outstanding letters of credit issued in lieu of holdbacks and performance bonds aggregating \$5,504,000 (2000 — \$5,574,000).

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 9. INCOME TAXES

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

	2001	2000
Income before income taxes	\$ 36,481	\$ 17,703
Canadian statutory tax rate	41.62%	44.62%
Income taxes calculated at statutory rates	15,183	7,899
Manufacturing and processing profits reduction	(1,039)	(632)
Other	(117)	(876)
Income tax provision	\$ 14,027	\$ 6,391

The composition of the income tax provision is as follows:

	2001	2000
Current income taxes	\$ 14,073	\$ 6,191
Future income taxes	(46)	200
Income tax provision	\$ 14,027	\$ 6,391

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2001 are as follows:

	Future Income Tax	
	Assets	Liabilities
Provisions	\$ 2,521	\$ —
Capital assets	1,138	5,818
Other	—	61
	<u>\$ 3,659</u>	<u>\$ 5,879</u>

Current future income tax assets result from deductible temporary differences between the tax basis of the Company's current assets and liabilities (primarily provisions for doubtful accounts receivable, obsolete inventory and warranty expense) 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.

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

NOTE 10. FINANCIAL INSTRUMENTS

Foreign Exchange In the normal course of operations, the Company is exposed to movements in the U.S. dollar, Australian dollar, 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, 2001, the Company had contracted to sell \$3,500,000 (Australian) at an average rate of Cdn\$/AUD\$0.7810 in the period of March to April 2002 and buy US\$900,000 at a rate of Cdn\$/US\$1.5686 in January 2002, to manage its foreign currency exposure in the ordinary course of business.

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.

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 11. SEGMENTED INFORMATION

The Company operates in three reportable segments, each offering different products and services. These segments are: Compression and Power, which includes design, fabrication and installation of modular compression and power systems; Service, which includes the supply of parts, maintenance and the re-engineering of used compression and power systems; and Leasing.

Years ended December 31	Compression and Power		Service		Leasing		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
Segment revenue	\$ 248,208	\$ 165,994	\$ 135,659	\$ 125,151	\$ 12,420	\$ 9,263	\$ 396,287	\$ 300,408
Intersegment revenue	(15,056)	(11,546)	(6,191)	(2,579)	—	—	(21,247)	(14,125)
External revenue	233,152	154,448	129,468	122,572	12,420	9,263	375,040	286,283
Depreciation and amortization	3,070	2,993	2,039	1,829	3,527	2,748	8,636	7,570
Income before interest and taxes	18,748	6,454	14,500	10,544	5,913	4,288	39,161	21,286
Segment assets	106,744	96,313	73,268	61,564	40,101	33,273	220,113	191,150
Corporate							2,033	1,591
							222,146	192,741
Capital expenditures	1,059	1,381	2,064	3,089	16,309	12,463	19,432	16,933
Corporate							11	13
							\$ 19,443	\$ 16,946

The Company derived revenue of \$97,275,000 (2000 — \$36,743,000) from foreign countries, including gross exports from domestic operations of \$75,317,000 (2000 — \$25,598,000). Included in revenues from other countries are revenues from the United States of \$51,703,000 (2000 — \$11,548,000) and from Australia of \$20,642,000 (2000 — \$15,387,000).

Total assets in foreign countries are \$15,172,000. Total assets are not material in any one country.

TEN-YEAR HISTORICAL REVIEW

(Millions, except per share data; unaudited)

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Results										
Revenue	375.0	286.3	256.7	314.5	336.2	245.9	222.7	217.3	120.0	69.5
EBITDA ⁽¹⁾	47.8	28.9	29.1	42.4	46.7	32.4	32.2	33.8	17.0	8.8
Income before income taxes	36.5	17.7	20.4	38.1	42.7	27.8	26.9	30.2	13.6	5.6
Net income	22.5	11.3	12.1	22.6	25.2	16.5	16.1	17.8	7.7	3.0
Per common share — basic	1.51	0.76	0.81	1.50	1.67	1.10	1.07	1.17	0.51	0.18
Interest expense (income)	2.7	3.6	1.9	(0.3)	(0.1)	0.7	1.3	1.3	1.1	0.8
Depreciation and amortization	8.6	7.6	6.8	4.6	4.1	3.9	4.0	2.3	2.3	2.3
Cash from operations before changes in non-cash working capital	30.0	18.5	18.7	26.0	28.8	19.7	21.9	18.9	8.9	5.3
Capital expenditures, net										
Rental equipment	10.0	7.9	5.6	10.2	0.6	(2.2)	0.2	8.6	2.7	0.1
Property, plant and equipment	2.5	4.3	14.8	23.5	3.3	2.7	3.7	7.2	1.6	0.9
Dividends on common shares	6.0	6.0	6.0	6.0	4.5	3.8	3.8	2.6	2.6	0.1
Financial Position										
Working capital	62.1	57.9	60.0	56.0	58.0	37.7	26.9	13.0	12.5	12.6
Rental equipment	39.0	31.7	26.0	22.2	13.4	13.8	16.9	18.1	9.5	7.1
Property, plant and equipment	45.1	47.3	47.7	36.7	16.2	15.5	15.2	13.8	8.0	8.0
Total assets	222.1	192.7	186.1	159.5	142.7	106.4	91.8	102.5	62.0	41.4
Long-term debt	30.0	30.0	30.0	15.2	—	—	4.6	4.7	4.8	4.9
Shareholders' equity	118.5	104.1	103.0	100.1	87.0	66.4	53.6	41.6	26.5	23.4
Key Ratios										
Gross margin as a percentage of revenue	19.5	18.8	19.8	22.4	21.7	21.4	22.3	23.6	23.2	23.5
Pre-tax income as a percentage of revenue	9.7	6.2	8.0	12.1	12.7	11.3	12.1	13.9	11.3	8.1
Return on opening equity	21.6	11.0	12.1	26.0	38.0	30.9	38.8	67.2	32.9	13.6

(1) Earnings before interest, taxes, depreciation and amortization

QUARTERLY DATA

<i>(Millions, except per share data; unaudited)</i>	2001				2000			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	98.9	104.9	85.2	86.0	77.8	57.7	64.9	85.9
EBITDA	10.9	13.9	11.7	11.3	8.2	5.3	6.7	8.7
Income before income taxes	8.5	11.2	8.7	8.1	5.2	2.4	3.9	6.2
Net income	5.4	6.7	5.4	5.0	3.8	1.5	2.3	3.7
Per common share — basic	0.37	0.45	0.36	0.33	0.25	0.10	0.16	0.25
Depreciation and amortization	2.1	2.2	2.2	2.1	2.0	1.9	1.9	1.8
Cash from operations before changes in non-cash working capital	7.3	9.6	6.5	6.6	5.2	3.4	3.9	6.0
Capital expenditures, net								
Rental equipment	0.4	3.5	1.5	4.6	4.2	1.4	(0.6)	2.9
Property, plant and equipment	0.1	1.1	0.5	0.8	2.2	0.4	0.9	0.8
Dividends on common shares	1.5	1.5	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	8.6	10.7	10.3	9.4	6.7	4.2	6.0	7.2

COMMON SHARE DATA

	2001	2000	1999	1998	1997	1996	1995	1994	1993
Trading price range of common stock (\$) — high	32.40	40.80	40.00	45.60	44.00	18.25	9.00	9.75	8.75
— low	18.60	25.00	29.50	23.85	16.75	8.19	6.12	7.00	6.00
— close	19.75	31.00	37.50	29.50	32.50	16.50	8.38	8.69	7.50
Trading volume (millions)	5.2	6.8	5.0	7.5	7.7	3.0	4.5	5.5	2.6
Common shares (millions)									
Outstanding December 31	14.9	15.0	15.0	15.0	15.1	15.1	15.1	15.1	15.1
Weighted average — basic	14.9	15.0	15.0	15.1	15.1	15.1	15.1	15.1	15.1

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
President
PanCanadian Energy Corporation
Calgary, Alberta

GEOFFREY F. HYLAND⁽²⁾

Director
President and Chief Executive Officer
ShawCor Ltd.
Toronto, Ontario

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

MICHAEL D. HAMBLY

Officer of the Corporation
Vice-President and General Manager
Compression and Power
Enerflex Systems Ltd.
Bragg Creek, Alberta

DALE J. HOHM

Officer of the Corporation
Vice-President and Chief Financial Officer
Enerflex Systems Ltd.
Calgary, Alberta

DEREK MacKENZIE

Officer of the Corporation
Vice-President and General Manager, Service
Enerflex Systems Ltd.
Calgary, Alberta

Notes:

(1) Member of Audit Committee.

(2) Member of Corporate Governance and Compensation Committee.

CANADIAN LOCATIONS

CORPORATE HEAD OFFICE

4700 47 Street SE
Calgary AB T2B 3R1
Tel: 1.403.236.6800
Fax: 1.403.236.6816

SERVICE

4700 47 Street SE
Calgary AB T2B 3R1
Tel: 1.403.236.6800
Fax: 1.403.279.7649

COMPRESSION AND POWER

4700 47 Street SE
Calgary AB T2B 3R1
Tel: 1.403.236.6800
Fax: 1.403.279.0367

LEASING

4700 47 Street SE
Calgary AB T2B 3R1
Tel: 1.403.236.6800
Fax: 1.403.720.1735

SERVICE — RE-ENGINEERED SOLUTIONS

5049 74 Avenue SE
Calgary AB T2C 3H2
Tel: 1.403.720.3822
Fax: 1.403.720.3766

TRAINING CENTRE

Bay 2, 6328 30 Street SE
Calgary AB T2C 1V6
Tel: 1.403.720.6677
Fax: 1.403.720.4811

Service Branch Locations

CALGARY
Toll Free 1.800.242.3184
Tel: 1.403.236.1900
Fax: 1.403.236.2672

EDMONTON
Toll Free 1.800.272.5669
Tel: 1.780.465.5371
Fax: 1.780.466.8433

FORT MCMURRAY
Tel: 1.780.790.9612
Fax: 1.780.743.9191

GRANDE PRAIRIE
Tel +1.780.539.5974
Fax +1.780.539.0370

MEDICINE HAT
Tel: 1.403.526.1866
Fax: 1.403.529.6537

RED DEER
Tel: 1.403.341.3900
Fax: 1.403.341.3908

LLOYDMINSTER
Toll Free 1.800.221.8884
Tel: 1.306.825.9800
Fax: 1.306.825.7974

FORT ST. JOHN
Tel: 1.250.785.1171
Fax: 1.250.785.5936

LONDON
Tel: 1.519.455.5600
Fax: 1.519.455.2701

Service Satellite Locations

DRUMHELLER
Tel: 1.403.823.9834
Fax: 1.403.823.9859

SLAVE LAKE
Tel: 1.780.849.6555
Fax: 1.780.849.1937

KINDERSLEY
Tel: 1.306.463.4838
Fax: 1.306.463.1487

FORT NELSON
Tel: 1.250.774.2895
Fax: 1.250.774.4619

Service — Re-Engineered Solutions Field Office

GRANDE PRAIRIE
Tel: 1.780.513.8805
Fax: 1.780.513.8806

INTERNATIONAL LOCATIONS

Sales

AUSTRALIA
Tel: 61.2.9.624.7000
Fax: 61.2.9.624.6000

UNITED STATES
Tel: 1.713.355.6645
Fax: 1.713.355.1067

SCOTLAND
Tel: 44.1224.773223
Fax: 44.1224.773224

Service

SCOTLAND
Tel: 44.1224.773223
Fax: 44.1224.773224

AUSTRALIA (PERTH)
Tel: 61.8.9.456.0457
Fax: 61.8.9.456.0458

AUSTRALIA (SYDNEY)
Tel: 61.2.9.624.7000
Fax: 61.2.9.624.6000

NETHERLANDS
Tel: 31.0.347.329.372
Fax: 31.0.347.329.290

GERMANY
Tel: 49.0.597.792.450
Fax: 49.0.597.792.4520

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 TSE 300 Index.

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
600, 530 8 Avenue SW
Calgary Alberta T2P 3S8
Tel: 1.800.558.0046
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

Arthur Andersen LLP
Calgary, Alberta

BANKERS

Canadian Imperial Bank of Commerce
Calgary, Alberta

SOLICITORS

Bennett Jones
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 10, 2002, at the Hyatt Regency Hotel, 700 Centre Street South, Calgary, Alberta, at 2:00 p.m. Calgary time.



ENERFLEX SYSTEMS LTD.

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