

24 November 2009

Enerflex - Toromont

Hostile Bid

- Offer likely to complete in ~late January 2010
- Potential for increased offer or counterbid

Summary

On November 16, 2009, **Toromont Industries Ltd** ("Toromont") launched a hostile bid for **Enerflex Systems Income Fund** ("Enerflex").

- Terms of the offer: 1 EFX-U CN ~ C\$6.78 + 0.2549 TIH CN
 - Pro-rata terms
- Enerflex has appointed a special committee to evaluate the offer and has asked unitholders not to take any action at this time

Conclusion

We estimate a risk adjusted price for Enerflex of C\$13.57 per share assuming a 60% probability that the current offer completes, a 30% probability of a higher offer or counterbid, and 10% probability that the offer lapses.

In the absence of a counterbid, we believe that Enerflex shareholders are likely to tender to the offer.

- We estimate that the current offer price is fair on the basis of standalone value plus our estimate of potential synergies.
 - We estimate a standalone value of C\$10.1 per share and potential synergies of C\$3.06 assuming 75% of potential synergies are paid to Enerflex shareholders
- However, as the offer is not a "permitted bid" under Enerflex's Rights Plan, we believe that the offer is likely to be extended to late January 2010
 - A permitted bid must be open for 60 days plus 10 days after expiry
- There is also a risk of an extended competition review, although we believe that competition issues are unlikely to block the deal

The likelihood of Toromont increasing its offer will depend on Enerflex's success in drumming up interest from potential counterbidders

- Enerflex management approval is not necessary to complete the acquisition
 - However, in our view, Enerflex shareholders are unlikely to tender until they are confident that no alternative offer will emerge
- We would not rule out a counterbid for Enerflex or a level of interest from potential counterbidders which could encourage a higher offer from Toromont
- Enerflex is a rare target in that it offers significant international scale in gas compression in a largely fragmented industry
 - We would not rule out a bid from Exterran, the largest contract gas compression company in the US
 - Exterran was formed by the merger of 2 highly acquisitive companies; Hanover Compressor and Universal Compressor
 - According to a recent investor presentation, Exterran continues to focus on international expansion and has sufficient credit facilities to launch an offer
 - We estimate that Toromont could increase its offer price to ~C\$17 per share and the acquisition will still be earnings accretive for Toromont shareholders (assuming C\$33m in annual synergies, 50% realised by FY2010)

Offer Terms	
1 EFX-U CN ~ C\$6.78 + 0.2549 TIH CN	
Target: Enerflex	
Country	Canada
Bloomberg	EFX-U CN
Sector	Equipment & Services
Share price (C\$)	13.90
Market cap (C\$m)	614
Free float (%)	~91
Acquirer: Toromont	
Country	Canada
Bloomberg	TIH CN
Sector	Equipment & Services
Share price (C\$)	25.70
Market cap (C\$m)	1,663
Free float (%)	~100
Enerflex price chart	
<p>ENERFLEX SYSTEMS INC.FD. 24/11/09</p> <p>ENERFLEX SYSTEMS INC.FD. ^ TURNOVER BY VOLUME (R.H.SCALE)</p> <p>ENERFLEX SYSTEMS INC.FD.</p> <p>Source: Thomson Reuters Datastream</p>	
Deal Status	
Take-over bid circular posted – 16 November 2009	
Next critical date	
Director's circular posted - ~1 December 2009	
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Transaction Details

■ Announcement date	October 16, 2009
■ Offer structure	Tender offer (hostile)
■ Terms	Cash terms: 1 EFX-U CN = C\$13.50; Share terms: 1 EFX-U CN = 0.5098 TIH CN + C\$0.05 Pro-Rata: 1 EFX-U CN ~ C\$6.775 + 0.2549 TIH CN
■ Initial premium (T+1)	34.1% to Enerflex's closing price on October 16, 2009.
■ Deal value (market value)	C\$597m
■ Target board recommendation	No
■ Bid Circular	Filed November 16, 2009.

Timing of the transaction

- In our view, the timeline for the deal is likely to be driven by Canada Competition Approval and Enerflex's Rights Plan

Dividends

- Enerflex pays quarterly dividends of C\$0.30 per unit. Next dividend xd ~December 29, 2009
- A Permitted Distribution under the offer shall not exceed C\$0.30 for Q4 2009
- Toromont pays quarterly dividends of C\$0.10 per share. Next dividend xd November 27, 2009

Financing

The Offer is not subject to any financing condition. Toromont currently intends to fund all or a portion of the cash payable under the Offer, and the related fees and expenses, through a new committed financing. Toromont has obtained a commitment letter from Canadian Imperial Bank of Commerce and The Toronto-Dominion Bank for up to C\$450m

Offer Conditions

- Minimum acceptance condition 66-2/3% of Enerflex units outstanding (on a fully diluted basis)
- Majority of minority approval At least a majority of the units the votes attached to which would be included in the minority approval of a second step business combination
- Antitrust Approvals Canada Competition and other jurisdictions
- Rights Plan Enerflex's Rights Plan shall be waived or shall have become unenforceable
- No government action Which prohibits the acquisition or materially impairs the value of the acquisition
- No legal impediment Yes
- No financial or natural disaster or law which adversely effects the financial markets or Toromont or Enerflex
- No prescribed actions
- No material adverse effect
- TSX Listing
- No material adverse omission
- No material increase in compensation
- No rights, licences or permits which could reduce the value of the offer
- Toromont shall not have entered into an Arrangement Agreement

MAE/MAC carve-outs

"**Material Adverse Effect**" means, in respect of Enerflex or Toromont, an effect that is or could reasonably be expected to be material and adverse to the business, properties, assets (tangible or intangible), liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise), capitalization, cash flows, prospects, tax status, organizational documents, operations or results of operations of Enerflex or Toromont, as applicable, and its affiliates, taken as a whole;

Hypothetical transaction timeline

■ Merger announcement	16 October 2009
■ Enerflex engages Independent advisors	29 October 2009
■ Toromont announces hostile bid	12 November 2009
■ Filing under Canada Competition Act	~mid November 2009
■ Take-over bid circular posted	16 November 2009
■ Director's Circular posted	~1 December 2009
■ Canada Competition Approval	~mid December 2009
■ Offer closes (if not extended)	7 January 2010
■ Offer closes (if permitted bid)	15 January 2010
■ Additional acceptance period ends	25 January 2010
■ Settlement (10 days after offer close)	25 January 2010

Background

Toromont Offer Announcement

Toromont announced an unsolicited proposal for Enerflex on October 16, 2009

- *"We have been encouraged by our shareholders and Enerflex's unitholders to pursue this combination. As discussions with Enerflex over the past two and a half years have not resulted in an agreement, the time has come to make a definitive proposal to the Enerflex Board."*
- *Toromont said in its letter to Enerflex that "you and your Board's desire to maintain control has thwarted the successful advancement of a transaction that our respective security holders would enthusiastically embrace"*

On November 12, 2009, Toromont announced its intent to proceed with a formal take-over bid to acquire Enerflex.

Enerflex's Response to Hostile Bid

On November 12, 2009, Enerflex responded to the press release by Toromont Industries which stated that Toromont intends to make an unsolicited offer for the Fund that is expected to expire in early January, 2010.

Enerflex established a Special Committee of independent directors following Toromont's earlier announcement regarding a proposed business combination with Enerflex.

- The Special Committee is advancing, and is on track with, its process of considering Toromont's proposed transaction as well as alternatives.
- The Special Committee will carefully review any Toromont bid circular, if and when it is mailed. The Special Committee will make a recommendation to the Board at the appropriate time after considering all factors, including alternative transactions.
- The Board will, in turn and based on similar considerations, make a recommendation to Unitholders at the appropriate time.

Enerflex Rights Plan

The Offer is not a "Permitted Bid" for purposes of the Rights Plan.

- Accordingly, in order for the Offer to proceed, the Rights Plan must be terminated, or action must be taken by the directors of Enerflex GP or by a securities commission or court of competent jurisdiction to remove the effect of the Rights Plan and permit the Offer to proceed

The Rights Plan utilizes the mechanism of a Permitted Bid (as hereinafter described) to ensure that a person seeking control of the Fund gives Trust Unitholders and the Administrator sufficient time to evaluate the bid, negotiate with the initial bidder and encourage competing bids to emerge.

- Generally, to qualify as a Permitted Bid, a bid must be made to all Trust Unitholders and must be open for 60 days after the bid is made.
- If more than 50% of the Trust Units held by independent unitholders are deposited or tendered to the bid and not withdrawn, the bidder may take up and pay for such Trust Units.
- The take-over bid must then be extended for a further period of ten days on the same terms to allow those Trust Unitholders who did not initially tender their Trust Units to tender to the take-over bid if they so choose.
- Thus, there is no coercion to tender during the initial 60-day period because the bid must be open for acceptance for at least ten days after the expiry of the initial tender period.
- The Rights Plan is designed to make it impracticable for any person to acquire more than 20% of the outstanding Trust Units without the approval of the Administrator except pursuant to the Permitted Bid procedures.

Lock-Ups

Toromont has entered into lock-up agreements with Bluewater Investment Management Inc. and Howson Tattersall Investment Counsel Ltd. pursuant to which such Unitholders have agreed to tender units representing approximately 17% of the outstanding Trust Units.

- Toromont currently owns 3,902,100 Trust Units representing approximately 8.8% of the outstanding Trust Units as at September 30, 2009.

- The Trust Units covered by these lock-up agreements and the Trust Units owned by Toromont represent, in the aggregate, approximately 25.8% of the outstanding Trust Units as at September 30, 2009.

The Seller shall not be permitted to withdraw the Deposited Units from the Offer unless:

- 1) the Offeror breaches in any material respect its obligations hereunder or the Offeror has not taken up and paid for the Deposited Units by midnight (Toronto time) on February 26, 2010 (the "Outside Take Up Date") or
- 2) the Seller is obligated to wind up the assets in a segregated fund for a particular client, or loses a client, in which case the Units held in such fund for such client may be withdrawn.

However, if a Superior Offer is announced and Toromont does not match the offer in 3 business days, the lock-up agreement will terminate

Comment on Conditions to the Offer

The conditions to the offer are such that Toromont can walk for almost any reason

- Several conditions are qualified by Toromont's "sole discretion"
- The Material Adverse Effect clause is not defined by any quantitative measures and does not include any carve-outs for economic conditions or industry changes
 - **"Material Adverse Effect"** means, in respect of Enerflex or Toromont, an effect that is or could reasonably be expected to be material and adverse to the business, properties, assets (tangible or intangible), liabilities (absolute, accrued, contingent or otherwise), condition (financial or otherwise), capitalization, cash flows, prospects, tax status, organizational documents, operations or results of operations of Enerflex or Toromont, as applicable, and its affiliates, taken as a whole
- Toromont includes a very general condition which allows it to walk if anything happens that diminishes the value of Enerflex
 - *there shall not have occurred, developed or come into effect or existence: (i) any event, action, state, condition or financial occurrence of national or international consequence, or any escalation or worsening thereof; (ii) any natural disaster or any act of terrorism, sabotage, military action, police action or war (whether or not declared), or any escalation or worsening thereof; (iii) any other calamity or crisis, or any escalation or worsening thereof; or (iv) any Law, action, inquiry or **other occurrence of any nature whatsoever, which Toromont has determined, in its sole discretion, adversely affects, or could reasonably be expected to adversely affect, the financial or banking markets in Canada, the United States or internationally generally, or the financial condition, business, operations, assets, affairs or prospects of Toromont or Enerflex or any of their respective affiliates, in each case unless the same is acceptable to Toromont in its sole discretion;***

Regulatory Approvals

The offer will require approval from the Canada Competition Commission.

- Toromont and Enerflex are the No. 1 and No. 2 largest compression manufacturers in Canada.
- On this basis, we wouldn't rule out a second request
- However, we believe that there are mitigating factors
 - The industry is relatively fragmented with many small compression manufacturers
 - In addition, several E&P companies own their own compression equipment as an alternative to renting or leasing equipment

We believe that the merger of Hanover and Universal Compressor provides a good precedent in terms of competition issues.

- Hanover and Universal are US companies and the merger required approval from the US Department of Justice
- Despite the different geographic market, we believe that this merger is a good precedent
 - Canadian competition review is now modelled after US competition review with an initial 30 day waiting period and a second request process
 - We believe that Universal and Hanover could represent a worst case scenario in terms of market share and overlap of operations
 - We understand that Universal and Hanover were the 2 largest companies in the "contract compression" market with over 70% market share
- The merger of Universal Compressor and Hanover Compressor was cleared in ~5 months by the DOJ after an extensive investigation.

- However, the parties were able to present information that addressed the DOJ's concerns without having to comply with a second request
- On this basis, we wouldn't rule out a second request under Canada Competition, but we believe that the same mitigating factors allowing the clearance of the merger of Hanover and Universal are likely to apply

Timing

We believe that the drivers for the timing of the offer are likely to be Canada Competition approval and the Enerflex Rights Plan.

- We would not rule out a second request from Canada Competition
 - The initial waiting period is 30 days after filing
 - A second request will extend the waiting period until the parties substantially comply with the request for additional information
 - There is no definite time period for a second request, but we would estimate an additional 3-4 months after the initial waiting period based on precedent transactions
- Enerflex's shareholder rights plan requires that a bid be open for 60 days, plus an additional acceptance period of 10 days following the close of the offer
 - On this basis, a permitted bid would close January 15, 2010 with an additional acceptance period to January 25, 2010
 - This is our estimate of earliest close, assuming that the OSC does not allow a cease trade of Enerflex's Rights Plan
 - We believe that the OSC is unlikely to waive Enerflex's Rights Plan prior to the 60 day permitted bid period
- If Toromont receives a second request from Canada Competition, we estimate close of the offer in ~March/April 2010 with settlement in ~April 2010
 - Although considerable slippage can occur in the event of a second request as there is no defined time limit
- A bid can be extended indefinitely under Ontario Securities law

Potential tender offer timetable – Assuming no Second Request

Event	Date
<i>Merger announcement</i>	16 October 2009
<i>Enerflex engages Independent advisors</i>	29 October 2009
<i>Toromont announces hostile bid</i>	12 November 2009
<i>Filing under Canada Competition Act</i>	~mid November 2009
<i>Take-over bid circular posted</i>	16 November 2009
Director's Circular posted	~1 December 2009
Canada Competition Approval (if no second request)	~mid December 2009
Offer extended	7 January 2010
Offer closes (if permitted bid)	15 January 2010
Additional acceptance period ends	25 January 2010
Settlement (10 days after offer close)	25 January 2010

Source: Internal estimates

Potential tender offer timetable – Assuming Second Request

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<i>Filing under Canada Competition Act</i>	~mid November 2009
<i>Take-over bid circular posted</i>	16 November 2009
Director's Circular posted	~1 December 2009
Canada Competition Second Request	~mid December 2009
Canada Competition Approval	~March/April 2010
Offer closes	~March/April 2010
Additional acceptance period ends	~March/April 2010
Settlement (10 days after offer close)	~April 2010

Source: Internal estimates

Estimated Dividend Differential

We estimate a dividend differential of C\$0.27 for a strategy long Enerflex/short 0.2549 Toromont.

- Enerflex pays quarterly dividends of C\$0.30 per unit.
 - Next dividend xd ~December 29, 2009
 - A Permitted Distribution under the offer shall not exceed C\$0.30 for Q4 2009
- Toromont pays quarterly dividends of C\$0.10 per share.
 - Next dividend xd November 27, 2009

Toromont and Enerflex pay dividends quarterly, therefore, if the offer is extended beyond ~February 2010, additional dividends may be paid.

- Toromont will pay its next dividend in ~February 2010
- Enerflex will pay its next dividend in ~March 2010
- However, in the Take-over Bid Circular, the only permitted dividend mentioned was Enerflex's Q4 2009 dividend

Dividend Differential

Dividend Differential	ex-date	Dividend	Differential
Toromont	27/11/2009	C\$ 0.10	-C\$ 0.03
Enerflex	29/12/2009	C\$ 0.30	C\$ 0.30
			C\$ 0.27

Source: Bloomberg, Internal estimates

Enerflex

Enerflex is an unincorporated open-ended trust formed under the laws of the Province of Alberta.

- Enerflex LP is a limited partnership formed under the laws of the Province of Alberta
- Enerflex indirectly owns all of the issued and outstanding Class A LP Units and the general partnership interest in Enerflex LP. Enerflex LP owns all of the common shares of Enerflex Systems Ltd.

Enerflex is a supplier of products and services to the global oil and natural gas production industry.

Enerflex has 3 business segments:

- **Engineered Systems: 63% of FY2008 revenue, 56% of FY2008 EBITDA**
 - The Engineered Systems segment engineers, fabricates and assembles standard and custom-designed compression packages, production and processing equipment and facilities, CHP systems and power generation systems
 - Revenues are derived primarily from the investments made in natural gas infrastructure by producers.
- **Service: 34% of FY2008 revenue, 22% of FY2008 EBITDA**
 - Provides mechanical and EI&C services to the oil and gas industry through an extensive branch network in Canada, the Netherlands, the United States, Germany, Australia and Indonesia
 - Enerflex is an authorized distributor for Waukesha engines and parts in Canada, Alaska, Australia, Indonesia, Papua New Guinea, the Netherlands, Germany and Spain.
 - Enerflex is also an exclusive authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems, in Canada, Australia, Papua New Guinea and New Zealand.
 - Mechanical Service revenues tend to be fairly stable as ongoing equipment maintenance is generally required to maintain the customer's natural gas production.
 - EI&C services are provided in Canada where revenues are more cyclical as they are generated from both maintenance spending and from infrastructure investment
- **Production Systems: 3% of FY2008 revenue, 22% of FY2008 EBITDA**
 - This segment provides compression, power generation and natural gas processing equipment rentals, primarily in Canada.
 - It also supplies Enerflex's Integrated Services and flue gas compression service offerings

Enerflex Segment Results

Segment Results	Services	Engineered Systems	Production
Revenue	356	663	28
% of total revenue	34.0%	63.4%	2.7%
Gross margin	90	127	14
EBITDA	22	56	23
% of total EBITDA	21.9%	55.6%	22.5%
EBITDA margin	6.3%	8.5%	81.9%

Source: Enerflex FY2008 AR

Enerflex derived more than half of its FY2008 revenue from outside Canada.

- Canada: 43%
- Americas: 7%
- Europe/CIS: 10%
- Australasia: 31%
- MENA: 9%

Toromont

Toromont operates one of the larger Caterpillar dealerships by revenues and geographic territory and industry-leading equipment rental operations

- Toromont also designs, engineers, fabricates, installs and services natural gas compression units and hydrocarbon and petrochemical process systems and industrial and recreational refrigeration systems.

Equipment Group: 52% of Revenue, 52% of Operating Income

- Toromont sells, rents and services a broad range of mobile equipment and industrial engines through its Caterpillar dealership

Compression Group: 48% of Revenue, 48% of Operating Income

- Toromont designs, engineers fabricates, installs and services natural gas compression units and hydrocarbon and petrochemical process systems through Toromont Energy Systems and industrial and recreational refrigeration systems through CIMCO Refrigeration.

Toromont Segment Results

Segment Results	Equipment Group	Compression Group
Revenue	1099	1022
% of total revenue	51.8%	48.2%
Operating Income	109	99
% of total EBITDA	52.3%	47.7%
EBITDA margin	9.9%	9.7%

Source: Toromont FY2008 AR.

Rationale for the Bid

Strategic

The acquisition of Enerflex will provide Toromont with significantly more exposure to international projects.

- Currently, Toromont derives almost all of its revenue from Canada and the USA
- Enerflex has significantly more exposure to international areas which have been more resilient in the current economy
 - Enerflex derives more than half of its revenue from international locations including Australia, Pakistan, the Netherlands, Indonesia and Germany
 - According to Enerflex's annual report, revenues from Engineered systems have largely shifted to international sources as Canadian capital spending had been focused on oil sands development prior to the commodity price reductions in the fourth quarter of 2008 and away from natural gas infrastructure

- Enerflex should also benefit from Toromont's exposure to the US, as natural gas production in the US has increased with the increased success of E&P companies in extracting natural gas from unconventional sources such as shale and "tight" sandstone
 - This technology improvement has reduced demand for exports from Canada to the USA, weakening the home market of Enerflex and Toromont
- Enerflex Unitholders receiving Toromont Shares will also benefit from the operations of one of the larger and more successful Caterpillar dealers in the world.

Synergies

By combining Enerflex's operations with those of Toromont's Compression Group, Toromont expects to realize attractive synergies and cost savings.

- Elimination of excess fabrication capacity
- Overlapping service facilities
- Certain public company costs of Enerflex
- Duplicative head office and general and administration expenses

Coming Changes in Tax Laws

The Minister of Finance announced on October 31, 2006 that the Canadian government intends to change the tax treatment of income trusts and their investors by 2011.

- These pending changes will reduce or eliminate the tax benefits of Enerflex's organizational structure and thereby impact distributions, have already created significant uncertainty in the Canadian income trust market and have considerably reduced the attractiveness of income trusts for investors.
- The Offer provides Unitholders with an attractive solution to this rapidly approaching deadline.

Valuation of Enerflex

We estimate a standalone value for Enerflex of C\$10.1 per share.

- There are few comparable companies to Enerflex.
 - Most comparable companies are either privately held or owned by a much larger integrated oil field services group
- However, we believe that Toromont, Finning and Exterran are good comparables
 - Finning International is the world's largest Caterpillar dealer with a presence in Canada, South America and the UK
 - Exterran is the largest operator of contract compression equipment in the USA
 - Toromont has a similar product mix to Enerflex with ~half its EBITDA from equipment rental and the other half through engineered solutions

Comparable Companies

Name	Share Price	Mkt Cap (US\$m)	EV/EBITDA		EV/SALES		Sales Growth	EBITDA Margin
			Dec-09	Dec-10	Dec-09	Dec-10		
TOROMONT INDUSTRIES	25.7	1,576	7.3x	6.8x	1.0x	0.9x	8%	13%
FINNING INTL.	15.9	2,571	7.9x	7.2x	0.8x	0.8x	0%	11%
EXTERRAN HOLDINGS	21.2	1,325	6.5x	7.5x	1.4x	1.5x	-6%	22%
Average			7.9x	7.2x	1.1x	1.1x		
ENERFLEX SYSTEMS INC.FD.	13.85	613	12.0x	9.3x	0.9x	0.8x	5%	7%
Premium/(Discount)			52%	28%	-22%	-26%		

Source: ThomsonReuters.

Valuing Synergies

Toromont did not provide an estimate of potential synergies.

- However, we estimated potential synergies based on the precedent of Hanover and Universal (see below)
- Hanover and Universal estimated cost synergies equal to 2% of combined operating costs (including cost of goods sold)

We estimated cost synergies equivalent to 1% of combined costs for Enerflex and Toromont or C\$33m per annum

- We understand that the operations of Hanover and Universal had significant overlap as both were large players in the USA
- In contrast, less than half of Enerflex's business is from Canada with the rest in international locations where Toromont does not have a large presence
 - 68% of Toromont's revenue is from Canada with the rest primarily from the USA
- On this basis, we believe that Enerflex and Toromont will be able to realise about half the estimated synergies (as a percentage of operating costs) estimated by Hanover and Universal
- We estimate an NPV of synergies of C\$180m or C\$4.08 per share

Valuation of Enerflex as an Acquisition Target

We would value Enerflex as an acquisition target at ~C\$13.14 per share

- Standalone value of C\$10.1 on the basis of comparable companies
- Potential synergies of \$3.06 per share assuming Toromont pays 75% of synergies to Enerflex
- On this basis, we regard the offer price as fair
 - However, this will vary depending on Toromont's assessment of synergies

Precedent Transactions

The most significant transaction in the gas compressor segment was the merger of Hanover Compressor and Universal Compressor Holdings Inc announced in February 2007.

- Hanover and Universal were the top two companies providing compression services to the oil and gas industry
- The merger created a \$3.8b business which was renamed Exterran after the merger
- Universal, the target, was not a listed company, although acquisition multiples were estimated at 5.6x EBITDA

Potential Scenarios

We believe that there are 3 possible scenarios.

- The current bid by Toromont is successful
 - We attach a 60% probability to the offer from Toromont completing at the current price
- Bump or Counterbid at 10%
 - We attach a 30% probability to an increased offer from Toromont
 - We believe that an increased offer is unlikely unless a counterbid seems imminent
 - In our view, if Enerflex is able to generate interest from potential counterbidders, this could encourage Toromont to pre-empt a potential counterbid with improved terms
- Toromont offer lapses
 - We attach a 10% probability to this scenario
 - We believe that Toromont is unlikely to walk
 - In Canada, a hostile offer can be completed without the support of the target management
 - We believe that Toromont is unlikely to let the offer lapse after trying to negotiate a transaction for over 2 years
 - In our view, Toromont has room to increase its offer and is much more likely to increase its offer to gain acceptance than to let the offer lapse
 - However under the current offer document Toromont has made it easy to walk if there is any adverse change in the economy, the banking industry or the industry in which it operates
 - In this scenario, we assume Enerflex's price falls to our estimate of standalone value
 - This estimate is based on the current EV/EBITDA of comparable companies
 - Enerflex's share price could fall lower if there is an adverse change in the economy, the oil and gas industry, or the price of natural gas (in our view, factors that would lead to Toromont walking)

Risk Adjusted Price	Probability	Enerflex price	Risk Adjusted
Offer lapses	10%	10.10	1.01
Offer completes at current price	60%	13.50	8.10
Bump or counterbid at 10%	30%	14.85	4.46
	100%		13.57

Current Bid is Successful

In the absence of a counterbid, we believe that the current offer is likely to be successful.

- However, in our view, the bid will likely need to be extended beyond the 60 days required for a “permitted bid” under Enerflex’s Rights Plan
 - The purpose of a Rights Plan is to give the target management the opportunity to investigate all strategic options
 - Toromont can ask the Ontario Securities Commission (OSC) to cease trade the shareholder rights plan
 - However, in precedents the Canadian securities commissions have upheld the rights plan for the 60 day duration
 - A recent precedent is TransAlta’s acquisition of Canadian Hydro
 - The Alberta Securities Commission dismissed TransAlta’s request to cease trade the Rights Plan after 30 days, but granted the request after 60 days
 - In Canada, management consent is not necessary to complete an acquisition
 - If the OSC grants Toromont a cease trade on Enerflex’s Rights Plan, Toromont will be able to complete the acquisition
 - Enerflex acceptances of 66-2/3% of Enerflex shares will allow Toromont to complete a second step acquisition
 - This involves a Plan of Arrangement under which Toromont is able to vote its newly acquired shares
 - A Plan of Arrangement in Ontario requires 2 approvals
 - 66-2/3% of outstanding shares
 - A majority of the minority shareholder approval
- An extension to the bid could give Enerflex the opportunity to find a white knight
 - In the Canadian Hydro-TransAlta precedent, during the 60 day bid period Canadian Hydro was able to find alternative bidders leading to a 12% bump in the offer from TransAlta

Toromont Increases Offer

We believe that the likelihood of Toromont increasing its offer for Enerflex will depend on Enerflex’s success in soliciting alternative bids

- We believe that the offer price is fair/attractive and that, in the absence of a counterbid Enerflex shareholders are likely to accept Toromont’s current offer
- 17% of shares are already subject to a lock-up agreement at the current price
- This offer price is at a 34% premium to Enerflex’s pre-bid share price and a 25% premium in terms of EV/EBITDA of comparables
- However, the existence of Enerflex’s Rights plan is likely to give Enerflex ~60 days to solicit alternative bids
- We believe that Enerflex shareholders are likely to hold off on tendering until they are sure that Toromont’s offer is the best offer
- On this basis, we believe that Toromont’s offer is likely to be extended both to avoid triggering the Rights Plan and secondly to secure the minimum acceptance

We estimate that Toromont could increase its offer to ~C\$17 per share and still realise 2% eps accretion in FY2010

- Toromont has pitched its bid at a low point in the cycle
 - Enerflex’s shares traded at over C\$15 per share in August 2008 when the price of natural gas was much higher
 - We estimate that the offer is currently highly eps accretive to Toromont shareholders
 - We estimate that the offer is 2.0% eps accretive to Toromont shareholders before considering cost synergies
 - Assuming cost synergies of \$33m per annum, 50% realised by FY2010, we estimate that the offer is 9.6% eps accretive for Toromont shareholders
 - We assumed
 - 33% tax rate in line with Toromont’s FY2008 effective tax rate (Enerflex will no longer have income trust tax status)
- 5.4% interest rate, in line with Toromont’s effective interest rate for 96% of its long-term debt

Toromont is unlikely to let the offer lapse.

- Enerflex has built a global position in gas compression which will provide an opportunity for growth at Toromont
- There are few targets which offer the scale and geographic reach of Enerflex

EPS Accretion: At current offer EPS Accretion: At ~C\$17 per share

Earnings Accretion		
US\$m	2010	2011
Enerflex Earnings	36	40
Toromont Earnings	121	122
Enerflex-Toromont Earnings	157	163
Synergies	8.25	16.5
% of synergies realised	25%	50%
Synergies After Tax	5.50	11.01
Cash Component	300	300
Interest charges after tax	16	16
Pro-Forma Earnings	146	157
Merger Ratio	0.2549	0.2549
New Toromont Shares Issued	11	11
Total Toromont Shares	76	76
Pro-Forma eps	1.923	2.071
Toromont's EPS	1.87	1.89
Toromont Premium/(discount)	2.9%	9.6%
Enerflex's equiv. EPS	3.178	3.570
Enerflex Premium/(discount)	-39%	-42%

Earnings Accretion		
US\$m	2010	2011
Enerflex Earnings	36	40
Toromont Earnings	121	122
Enerflex-Toromont Earnings	157	163
Synergies	8.25	16.5
% of synergies realised	25%	50%
Synergies After Tax	5.5	11.0
Cash Component	379	379
Interest charges after tax	20	20
Pro-Forma Earnings	142	153
Merger Ratio	0.333	0.333
New Toromont Shares Issued	15	15
Total Toromont Shares	79	79
Pro-Forma eps	1.786	1.927
Toromont's EPS	1.87	1.89
Toromont Premium/(discount)	-4.5%	2.0%
Enerflex's equiv. EPS	2.432	2.733
Enerflex Premium/(discount)	-27%	-29%

Source: ThomsonReuters, Internal estimates. Source: ThomsonReuters, Internal estimates.

Potential Counterbid

We would not rule out a counterbid for Enerflex.

- Enerflex is a rare target in that it offers significant international scale in gas compression in a largely fragmented industry
- We regard Exterran as the most likely counterbidder
 - Exterran is the largest contract gas compression company in the US
 - Exterran was formed by the merger of 2 highly acquisitive companies; Hanover Compressor and Universal Compressor
 - Acquired the compression businesses of Halliburton, Schlumberger, Weatherford, Dresser Rand, G.E. Capital and Tidewater
 - Exterran has been focused on increasing international exposure due to weak North American market conditions and increased opportunity for growth
 - Exterran has relatively high net debt at almost 4x EBITDA
 - However, according to an Exterran investor presentation on September 30, 2009, Exterran has ~\$1.1b in debt facilities and its covenants require a debt/EBITDA of under 5.0x
 - On this basis, we

Other potential bidders include Cameron International.

- Cameron has recently completed the \$980m acquisition of NATCO
 - Consideration was in Cameron shares
- At the announcement of the merger in June 2009, a representative for Cameron said the company may continue making deals, provided continued M&A fits its strategy.
- The NATCO deal represented one of the larger transactions in Cameron's history

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