ENERFLEX

2017 ANNUAL REPORT

2017 REVIEW

REVENUE $1,553.4M

Revenue for 2017 was **$1,553.4 million**, a 37.4% increase compared to 2016 largely due to increased Engineered Systems revenue, driven by higher opening backlog and stronger bookings in the year.

BOOKINGS $1,141.0M

Building on the strong bookings trend seen in the second half of 2016, Enerflex recorded 2017 bookings of **$1,141.0 million**, a 33.7% increase compared to 2016.

BACKLOG $670.8M

As of December 31, 2017, backlog was **$670.8 million**, an 8.0% increase compared to 2016 due to higher bookings in all three segments.

DEBT ISSUANCE $269.6M

The private placement of **USD$175.0 million** and **CAD$45.0 million** senior unsecured notes was used to refinance existing corporate indebtedness and provide liquidity for Enerflex to deploy capital on opportunities as they arise.

DIVIDEND $0.380/SHARE

A positive outlook and commitment to growing the dividend led to an overall increase of 11.8% in the third quarter of 2017, to **$0.380 per share on an annualized basis**, and a 58.0% increase since 2011.

ADJUSTED EBIT% 8.1%

Focused SG&A reductions and higher gross margins resulted in an increase to adjusted EBIT and an adjusted EBIT% of **8.1%**.

RECURRING REVENUE GROWTH 600,000HP

The acquisition of Mesa Compression, LLC, along with $50.9 million in capital expenditures on rental equipment, resulted in a rental fleet of over **600,000 horsepower** at year-end, an increase of approximately 100,000 horsepower.

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POSITIONED FOR THE FUTURE

Enerflex's strategic diversification, prudent financial management, responsible leadership, and focused business model set the stage for success in 2017. The Company continued its balanced approach to growth by delivering reliable projects, building on recurring revenue streams, and providing solutions attuned to the nature of oil and natural gas plays in each of its seven operating regions. Enerflex's efforts to drive success across the natural gas value chain proved astute, with the Company experiencing strengthened performance and increased financial stability throughout the year.

Enerflex's unwavering commitment to creating and preserving shareholder value is reflected in the Company's strong balance sheet, quarterly dividends, diligent management, and its diversified business. With a focus on delivering the highest rate of return over all projects across its global platform, Enerflex's on-the-ground presence and capabilities in active oil and gas areas ensures the Company is well-positioned to provide the right solutions to growth markets globally.

CAPABILITIES AND SOLUTIONS

ENERFLEX SERVES CUSTOMERS AT EVERY STAGE OF THE NATURAL GAS VALUE CHAIN.

Natural gas is used for a myriad of purposes, from heating and large-scale power generation to plastics, chemicals, and synthetics manufacturing. With its global platform and range of natural gas infrastructure solutions, Enerflex is positioned to benefit from the expected surges in natural gas demand across the world. The Company's array of products and services support producers, midstream operators, and other asset owners at every stage of a project, ensuring the greatest value is extracted from their operations as they withdraw, process, store, transport, and use natural gas to fuel their business.

Enerflex's ability to provide worldwide integrated turnkey solutions rests on the Company's comprehensive capabilities, including in-house engineering, design, procurement, fabrication, construction, installation, and after-market support services such as operations and maintenance contracts, equipment rentals, and contract compression solutions. With products and services that are adapted to the nature of the oil and natural gas industry, as well as customer requirements, Enerflex is driven by a well-managed business model that simplifies customer supply chains, provides cost certainty, and keeps systems operating at peak performance throughout their life-cycle.

DRIVING VALUE FROM WELLHEAD TO PIPELINE

NATURAL GAS DEMAND IS ON THE RISE, AND IS EXPECTED TO CONTINUE WELL PAST 2050.

AS A GLOBAL COMPANY WITH AN EXPANSIVE FOOTPRINT AND STRONG LOCAL PRESENCE, ENERFLEX DRIVES VALUE ACROSS THE NATURAL GAS CHAIN, OFFERING SIGNIFICANT EXPERTISE FROM THE WELLHEAD TO THE PIPELINE, AND BEYOND.

WELLHEAD

Enerflex provides the critical equipment customers need to take "raw" natural gas from the wellhead and handle it safely before moving it to processing facilities. This includes, wellhead and gas lift compression, dehydration, separation, heating, electric power, and complete early-production facilities – all ensuring efficient production and maximum value extraction.

GATHERING SYSTEMS

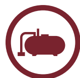
Enerflex's field compression for gathering systems and initial processing facilities helps link gas from the wellhead through to small-diameter pipelines called gathering systems. This includes skid-mounted modular compression packages designed for service under all operating conditions.

FIELD PROCESSING AND TREATMENT

The Company provides large, centralized natural gas processing plants that receive "raw" natural gas and process it to "pipeline specification" by removing water and impurities. Depending on the composition of the gas, natural gas liquids ("NGL") are extracted and processed – a critical value-creating stage. Enerflex engineers, designs, manufactures, installs, and operates gas plants in numerous configurations across a wide capacity range.

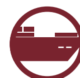
OTHER MIDSTREAM ACTIVITIES

Enerflex serves all stages of natural gas processing, including construction, commissioning, and after-market service of complete facilities or individual systems to extract further value upstream. This includes methods such as molecular sieve dehydration and amine treating of gas via removal of impurities like water, sulfur compounds, and carbon dioxide. Also, Enerflex manufactures refrigeration and cryogenic processing plants that allow our customers to capture valuable hydrocarbon products such as ethane, propane, butane, and condensate.



STORAGE

Natural gas demand is driven by a variety of macroeconomic forces. Enerflex's compression and specialized treating systems prepare gas for storage and injection into underground systems to meet fluctuating demand and reduce price volatility. The Company has a strong track-record of providing complete scope of work for field construction and installation.



MANUFACTURING AND EXPORT

Enerflex designs, builds, constructs, commissions, and services compression, process, and electric power solutions for export facilities, such as NGL facilities and liquefied natural gas ("LNG") terminals which supply the world's needs for natural gas. With almost four decades serving international markets, the Company is ideally situated to complete projects across the world.

ELECTRIC POWER

Gas-fired generating plants are a growing source of electric power globally, including in remote areas where grid power is unavailable or unreliable. Enerflex designs, packages, installs, maintains, and operates integrated turnkey electric power solutions. From 20 kW to 50 MW, Enerflex serves a myriad of installations representing a variety of fuel sources and uses.

LNG

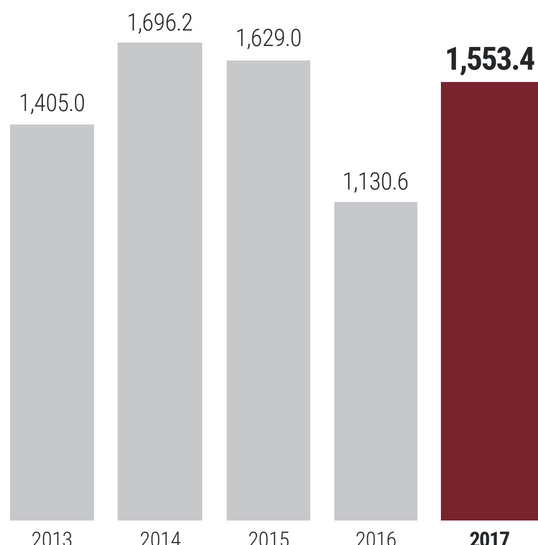
The Company supports the development of LNG infrastructure by providing and servicing equipment and facilities needed for treating, processing, and compressing natural gas from the wellhead to an export pipeline or LNG facility, where it is liquefied for easy storage, loading, and transport to customers everywhere.

2017
RESULTS AND HIGHLIGHTS

For the years ended December 31, *(Thousands of dollars, except percent and per share) (Unaudited)*	2017	2016	2015	2014	2013[1]
Revenue	$ 1,553,355	$ 1,130,604	$ 1,629,032	$ 1,696,200	$ 1,405,022
Gross margin	286,523	243,784	326,189	330,414	245,905
Operating income	122,274	65,413	121,759	129,488	82,030
Earnings (loss) before finance costs and taxes	145,795	(81,472)	94,877	138,922	87,341
Net (loss) earnings					
– continuing operations	97,753	(104,528)	48,890	81,097	57,718
Net earnings (loss)					
– discontinued operations	-	388	(845)	(9,879)	(1,852)
	97,753	(104,140)	48,045	71,218	55,866
Earnings (loss) per share (basic)					
– continuing operations	1.10	(1.28)	0.62	1.03	0.74
Earnings (loss) per share (basic)					
- discontinued operations	-	0.01	(0.01)	(0.12)	(0.02)
	1.10	(1.27)	0.61	0.91	0.72
Dividends per share	0.360	0.340	0.340	0.310	0.285
Key Financial Performance Indicators[2]					
Bookings	1,141,032	853,337	635,059	1,416,880	1,140,801
Backlog	670,799	621,397	427,204	916,484	793,977
Recurring revenue as a percentage of revenue	29.7%	41.7%	33.0%	28.7%	26.7%
Selling and administrative expenses as a percentage of revenue	10.6%	15.8%	12.5%	11.8%	11.7%
Earnings before finance costs and taxes as a percentage of revenue	9.4%	(7.2)%	5.8%	8.2%	6.2%
Earnings before finance costs, taxes, depreciation and amortization	226,373	11,627	176,771	193,740	126,936
Return on capital employed	10.9%	(5.7)%	6.2%	12.4%	9.7%

[1] In June 2015, the Company closed its Production and Processing ("P&P") manufacturing facility in Nisku, Alberta. The 2013 results have not reclassified P&P's results to discontinued operations.

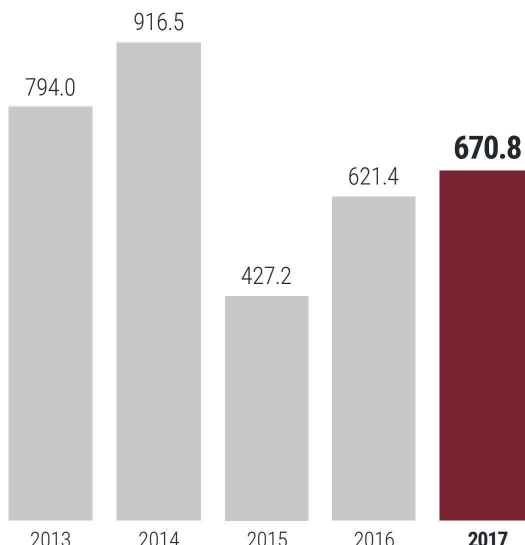
[2] Key financial performance indicators used by Enerflex to measure its performance include revenue and EBIT. Certain of these key performance indicators are non-GAAP measures and certain are additional GAAP measures. Further detail is provided in the Definitions and Non-GAAP Measures sections of the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



REVENUE

($MILLIONS)

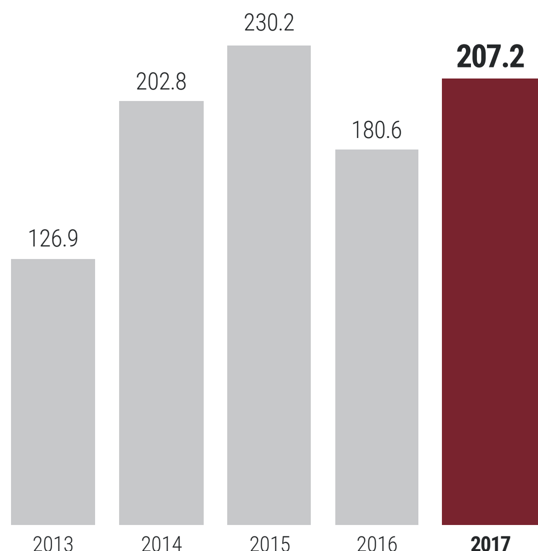
Higher revenue in 2017 was driven by higher Engineered Systems revenue, the result of increased activity and higher realized bookings beginning in the second half of 2016 and continuing throughout 2017.



ENDING BACKLOG

($MILLIONS AT DECEMBER 31)

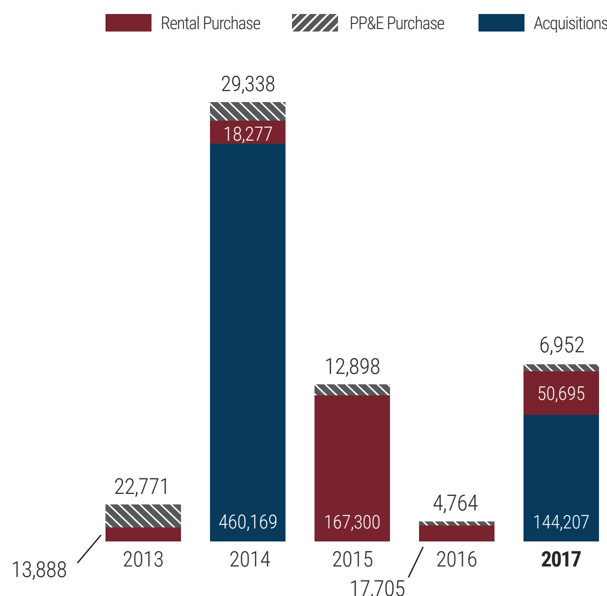
The increase in backlog year-over-year was the result of higher bookings in all three segments, which was partially offset by higher Engineered Systems revenue recognized in 2017.



ADJUSTED EBITDA[1]

($MILLIONS)

Higher gross margin and continued SG&A reductions resulted in a year-over-year increase in operating income and adjusted EBITDA.



CAPITAL INVESTMENT[2]

($THOUSANDS)

Strong returns on approximately $950.0 million of capital expenditures and acquisitions in the past five years has allowed Enerflex to improve net debt to EBITDA to 1.03 in 2017.

[1] EBITDA has been adjusted for impacts not expected to recur in the normal course of business. The Company's Management Discussion and Analysis ("MD&A") highlights the adjusting items for the years ended December 2017 and 2016.
[2] The amounts presented are gross and proceeds of disposal are not included.

LETTER TO SHAREHOLDERS

J. Blair Goertzen
President, Chief Executive Officer, and Director

A STRATEGIC AND DIVERSIFIED BUSINESS MODEL, PRUDENT FINANCIAL MANAGEMENT, AND RESPONSIBLE LEADERSHIP ARE KEY TO ENERFLEX'S SUCCESS.

Building on Enerflex's global platform utilizing a balanced approach to growing responsibly, Enerflex emerged from a challenging 2016 with a strengthened global market position and improved performance in 2017.

There were several factors that contributed to Enerflex's success, including:

- A well-managed business model enabling the Company to be active across all stages of the natural gas value chain;
- A targeted and purposeful globally and financially diversified business strategy;
- The Company's financial discipline, astute management, and strong balance sheet; and
- A leadership team that is driven towards excellence.

Founded on our vision, **"Transforming Natural Gas To Meet The World's Energy Needs,"** Enerflex remains steadfast in our focus to strategically align our business across the natural gas value chain, establish recurring revenue streams, and increase the synergistic relationships between our capabilities and products across our seven regions. A forward-thinking approach has been vital to our success, and we are focused on realizing opportunities that ignite our growth and expand market share, both organically and through acquisition opportunities.

Enerflex's accomplishments are also driven by our talented people. After recent challenges, including matching our global operations to meet market realities, the steady increase in activity and opportunities enabled us to grow our employee base. Now more than 2,100 strong, our dedicated team demonstrates hard work, continuous improvement, and safety leadership, and I thank them for their commitment and remarkable efforts.

Furthermore, the entrepreneurial mindset and collaborative nature exhibited by my six colleagues on the Executive Management Team is also a key factor in the Company's performance. Their industry experience and deep knowledge of their respective regional or corporate roles, as well as the Company's products and services, is a key differentiator.

DIVERSIFIED OPERATIONS AND REVENUE

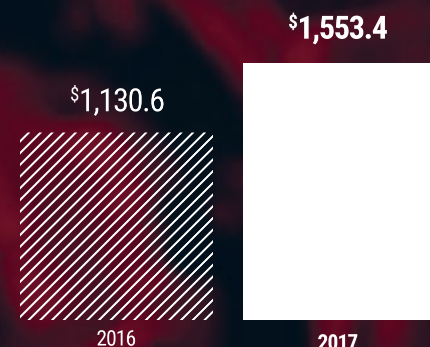
Diversifying our global business has been a key part of Enerflex's long-term plan for over a decade, and as we grow, we continue to leverage our market positioning and focus on opportunities in active natural gas plays.

This strategic direction has since developed into the foundation of the Company's business model, and has strengthened Enerflex into the financially strong and operationally focused organization it is today. As a result, Enerflex now has:

- A global platform in 16 countries with diverse revenue streams, strong market share, and differentiated capabilities;
- An integrated turnkey offering spanning all phases of a project's life-cycle ensuring our capabilities deliver customer value; and
- A diverse and wide-ranging customer base from local operators to national producers and global majors.

Enerflex maintained its balanced approach to growing within its means through prudent financial management, careful liquidity management, and controlled capital allocation. Our flexible balance sheet is the result of disciplined planning, including years of:

- Deploying free cash flow towards repaying debt and prudent investments, with a current debt to EBITDA ratio of approximately 1:1 even with significant investments being made;
- Strategically sound capital spending, prioritizing the growth of recurring revenue through investment in the rental fleet having invested approximately $850.0 million in this area from 2013 to 2017 through acquisitions and capital expenditures;
- Aggressively managing working capital, including rigorous management of receivables and a renewed focus on consolidating inventory;
- Maintaining a scalable business that allows for proactively adopting cost-saving measures to protect shareholders' capital; and
- Growing the dividend at an affordable and sustainable rate. The current dividend represents an increase of 58.0 percent since 2011.



REVENUE OF $1,553.4 MILLION, COMPARED TO $1,130.6 MILLION IN 2016

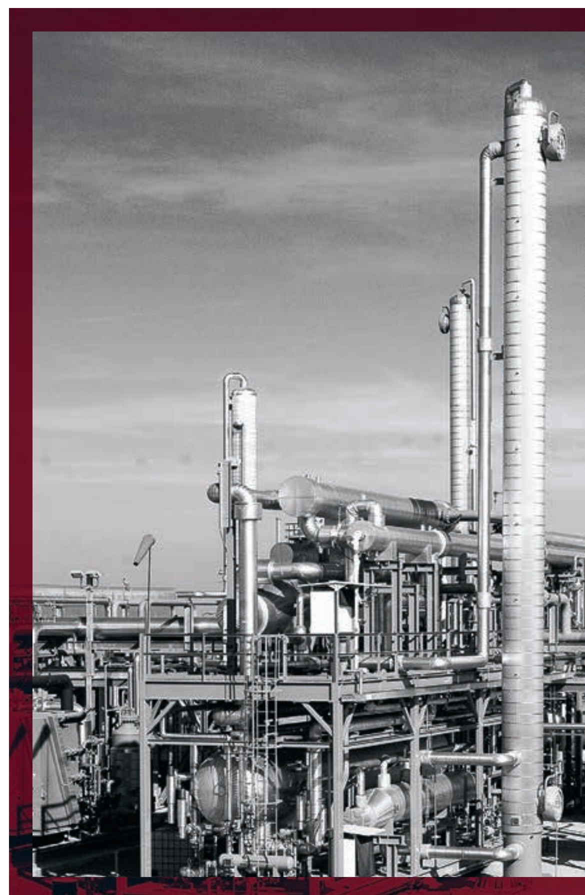
USA

In the second half of 2016, the energy industry and business environment in the U.S. saw a rise in activity and capital investment as commodity prices improved. This surge, and the associated demand for compression and process equipment, led to strong financial results for Enerflex's USA operations, including realized bookings of $638.2 million for the year. Revenue was $779.0 million, a 67.1 percent increase from 2016, with backlog remaining strong at $394.9 million.

Enerflex continued to position itself for success by having a strong presence in key energy-producing areas, particularly liquids-rich gas plays such as the Permian, SCOOP/STACK, and Powder River. Our qualified operations team secured and delivered multiple solutions in these areas, including the completion of numerous Engineered Systems projects such as integrated turnkey gas processing facilities, as well as the construction of much-needed midstream infrastructure. In 2018, the Company also sold its first integrated turnkey cryogenic gas plant. Moreover, Enerflex's investment in strategically situated service facilities supported by expert technicians positions the region for improvement in its service market share.

An important transaction in 2017 was the strategic acquisition of the Contract Compression business of Mesa Compression, LLC ("Mesa"). This acquisition added additional horsepower to the Company's established operations and provides a platform for future growth in the U.S. rental segment. The integration of the Contract Compression employees was exceptional. The ability and dedication of the team to adopt Enerflex's culture and values while contributing their knowhow made this a successful transaction. Enerflex was able to grow this business by 17.5 percent on a horsepower basis in the five months of ownership.

The USA is one of the largest gas producing markets in the world and the expanding business from our established platform, as well as future growth from the acquisition, presents a significant opportunity for long-term advancement. Enerflex remains focused on increasing its market share in Engineered Systems products, rentals, after-market services, and integrated turnkey solutions, and with growing natural gas demand, we are confident there are more opportunities for Enerflex to drive further value.



LATIN AMERICA

Favourable market and foreign investment conditions across Latin America, along with an increase in demand for natural gas infrastructure, enabled Enerflex to capture several major opportunities in 2017 that will be reflected in our results going forward. Although there was a slight decrease in activity caused by low commodity prices which negatively impacted revenue and bookings across the region, Enerflex used the opportunity to focus on renewing existing rental contracts, improving operations, as well as diligent financial management.

Argentina and Colombia proved to be the strongest areas of activity in the Latin America region. The Company continued to demonstrate its capabilities in Argentina's Vaca Muerta shale play, which is considered the world's second-largest non-conventional natural gas resource. Building on our proven track-record, multiple contracts for compression rental assets were awarded, further positioning Enerflex to take advantage of future opportunities in this key play. Enerflex also completed a significant long-term Build-Own-Operate-Maintain project in Colombia. Moving forward, Brazil will be a focus due to a stabilizing market that is catalyzing investment in the area and opening new exploration opportunities for producers. It is also expected that there will be increased interest in natural gas-fueled projects and infrastructure, which will create new compression, process, and electric power opportunities.

Enerflex predicts that activity across Latin America will increase, specifically in Argentina, Brazil, and Colombia, where our in-country expertise and established rental fleet will contribute to long-term success.

INTERNATIONAL

Enerflex's diversified capabilities, experienced teams, and strong presence across the Middle East/Africa ("MEA"), as well as Europe, Australia, and southeast Asia, allowed Enerflex to remain agile across international markets and adapt to dynamic economic and political climates to ensure successful operations.

The MEA region saw stable performance in 2017, driven by the recurring revenue of rental and service contracts, new project work on integrated turnkey natural gas compression and processing facilities, operations and maintenance work, and strong project execution. Capital spent on assets in the MEA region in 2014/2015 helped carry the Company through a soft period in 2016, and we are now benefitting from that investment and taking advantage of further project opportunities.

A key highlight for 2017 was being awarded a significant integrated turnkey gas plant project for a new customer in Oman – expanding our positioning for additional opportunities in the region. Building on 2016 initiatives, Enerflex also grew its presence in Kuwait with the execution of two natural gas facility contracts, a first for our Company in this market, and a major win which led to securing additional operations and maintenance work. These projects were a collaborative effort between Enerflex's USA and MEA regions and highlight the Company's global synergies. With a fleet of over 100,000 horsepower of operated rental equipment in the region, we also continued to pursue other large rental projects that will contribute to the overarching strategy of increasing recurring revenue.

With on-going project work remaining sporadic due to economic conditions, Enerflex's Europe/CIS region performed as expected. The Company finalized several compression and process projects in Croatia and Ukraine, as well as completed the commissioning of a natural gas compressor booster package in the Netherlands.

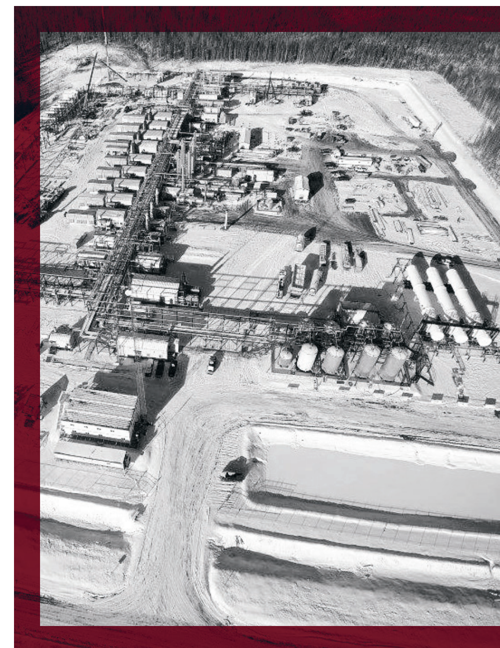
Australia and Asia similarly performed as expected, with Enerflex having to make strategic adjustments and implement cost-cutting measures to better reflect the market and position the Company for new opportunities. In Australia, the previous realignment of our business model to focus on service capabilities led to the award of multiple long-term maintenance and overhaul contracts contributing to strengthened competitiveness. While both revenue and bookings fell slightly below expectations due to a decrease in spending in the region, Enerflex continued to build its after-market service capabilities and deliver cost-effective solutions, positioning the Company for future growth in the region.

CANADA

Despite continuing economic headwinds, Enerflex's Canadian operations experienced a recovery, resulting in stronger financial performance in 2017. With commodity prices stabilizing, Canada generated revenue of $418.6 million, a 79.8 percent increase compared to the $232.8 million in 2016, which was largely driven by increased Engineered Systems revenue. However, as further challenges arose during the year – including market access restrictions and the associated discounts to natural gas benchmark pricing – customers became more restrained with their capital spending, leading to lower bookings during the second half of the year.

During 2017, the Canadian region focused on disciplined financial management practices to position the Company for profitable growth, including consolidating our Canadian manufacturing operations into one facility. Enquiries for Engineered Systems products were healthy, with year-over-year increases, and bookings and backlog activity surpassing 2016 results due to significant project wins. Activity in the Montney and Duvernay formations in western Canada, both high growth areas for Enerflex, proved successful, and will continue to be target areas . In addition, the region saw an increase in awarded electric power projects, a testament to the development of Enerflex's power generation capabilities.

Enerflex will exercise a cautious approach in the Canadian market moving into 2018. It is expected that the region will remain under pressure until producers are able to realize higher prices for their production and have consistent access to the global market. The Company will monitor this business environment closely, with continued consideration for macroeconomic factors which may affect future opportunities in the region. The Company's strategy of geographic diversification has significantly lessened the impact of the challenges of the Canadian market and Enerflex is not solely dependent on Canadian activity to drive growth in financial results.



ENERFLEX'S 2017 FINANCIAL RESULTS

Revenue of $1,553.4 million, compared to $1,130.6 million in 2016;

Recurring revenue of $461.7 million or 29.7 percent of consolidated revenue, compared with $471.5 million or 41.7 percent in 2016;

Adjusted EBIT was $126.6 million in 2017, compared with $87.5 million in 2016, excluding severance and restructuring acquisition costs, impairment of assets and goodwill, and the gain on disposal of PP&E;

Gross margin percentage for 2017 was 18.4 percent, compared with 21.6 percent in 2016;

Closed a private placement offering of senior unsecured notes, totaling USD$175.0 million and CAD$45.0 million;

Bookings of $1,141.0 million, an increase of 33.7 percent from $853.3 million in 2016;

Year-end 2017 backlog increased to $670.8 million, versus $621.4 million at year-end 2016;

Quarterly dividend increased to $0.095 per share, an annualized dividend of $0.38 per share that represents an 11.8 percent increase over 2016; and

Net debt was stable, resulting in a net debt-to-EBITDA ratio, as calculated for covenant compliance purposes, of below 1.1:1 as of December 31, 2017.

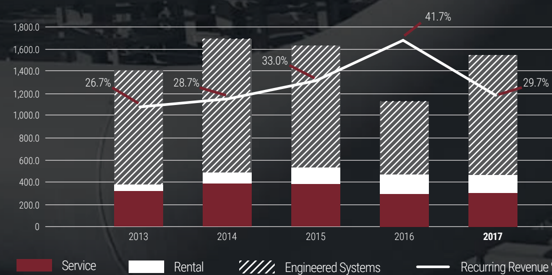
Enerflex's balance sheet reflects the Company's strong business model and attentiveness to enhancing shareholder value through prudent financial management.

OPERATIONAL UPDATE

Enerflex focused on streamlining cost competitiveness and operational efficiencies to drive success across its seven operating regions. As part of our larger growth strategy, the Company concentrated on talent acquisition and onboarding, responsibly adding to our already experienced employee base.

We also made further risk-assessment and risk-mitigation improvements through the risk committee. Enerflex places major emphasis on reviewing top-identified critical and high-risk projects, as well as geopolitical risk, customer concentration, and cyber security concerns.

While Enerflex did not meet its visionary goal of zero lost time injuries, the Company's TRIR remains lower than 1.00 and continues to be an area of focus. Through a behavior-based approach, including on-going training and audits across all regions, Enerflex is committed to driving improvements in global HSE performance.



2018 OUTLOOK

Demand for natural gas is growing globally, and with a return to some much-needed stability in commodity pricing, Enerflex is optimistic that customers will increase capital spending and production, translating into increased demand for the Company's products and services.

Despite improving market conditions, Enerflex will continue to operate prudently. We remain focused on aggressively managing SG&A expenses, preserving awarded gross margins, and safeguarding the Company's balance sheet through disciplined planning and financial management.

With expected long-term increases in both natural gas demand and production, Enerflex is well-positioned to capitalize on new opportunities in this high-growth market. The Company will leverage its international presence, which offers exposure to projects in growing natural gas markets across the globe. Our strategic diversification by geography and product and service offering, along with financial management and diligent leadership, provides shareholders with a unique value proposition.

Enerflex will continue to grow our backlog and preserve awarded and realized gross margins. Increasing recurring revenue will also be a focus, allowing the Company to ensure stability in earnings regardless of commodity pricing and achieve our target of 35-40 percent recurring revenue.

The Company will stay active in promising natural gas plays and ensure we have a strong foundation that provides growth in evolving markets worldwide.

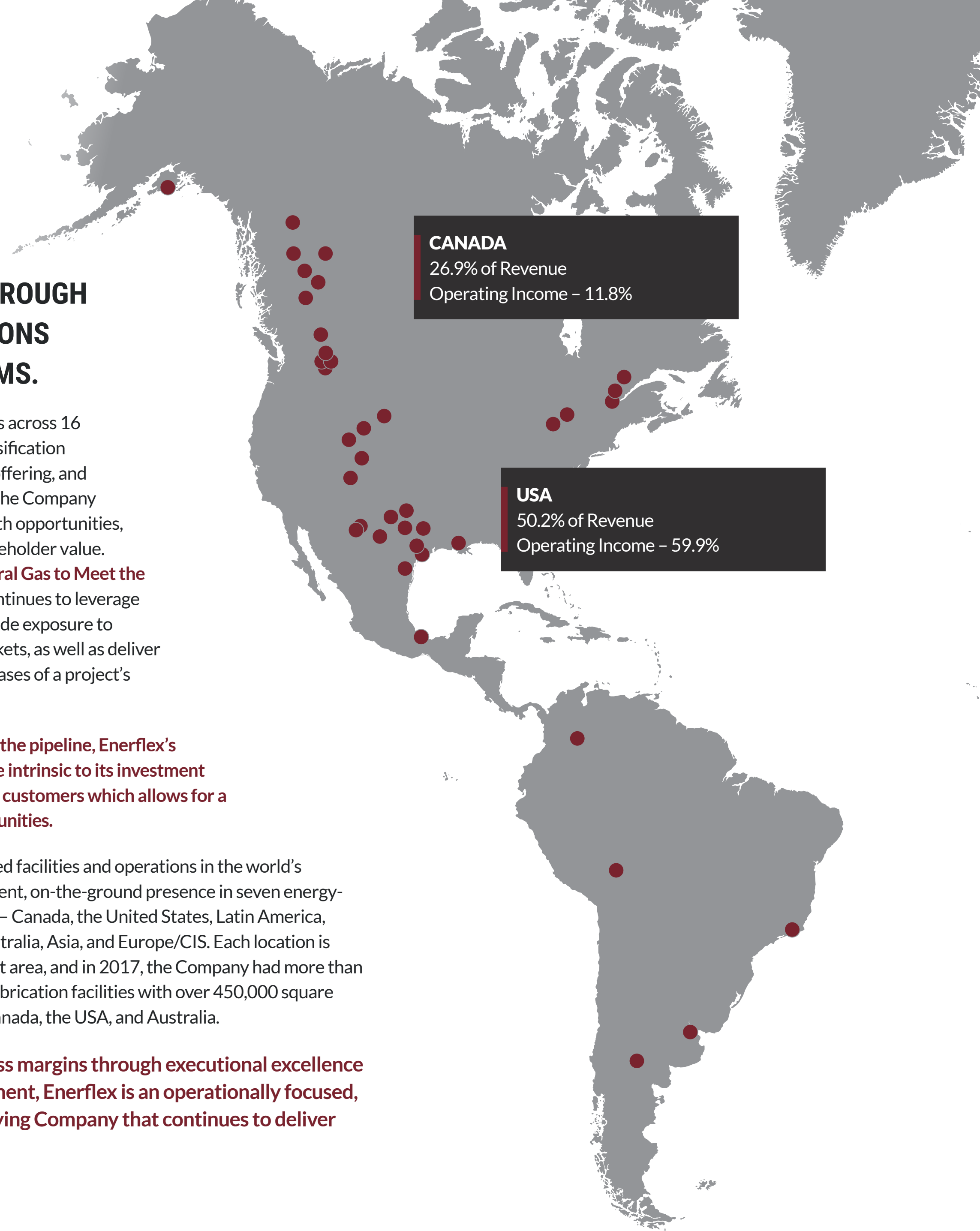
On behalf of the Board of Directors,

[signed] "J. Blair Goertzen"

J. Blair Goertzen
President, Chief Executive Officer, and Director

February 22, 2018

A GLOBAL PLATFORM



IGNITING GROWTH THROUGH DIVERSIFIED OPERATIONS AND REVENUE STREAMS.

With operations in over 50 locations across 16 countries, Enerflex's strategic diversification by geography, product and service offering, and comprehensive capabilities enable the Company to capture multiple long-term growth opportunities, which enhances and preserves shareholder value. With a vision of **Transforming Natural Gas to Meet the World's Energy Needs,** Enerflex continues to leverage its international positioning to provide exposure to projects in growing natural gas markets, as well as deliver integrated solutions spanning all phases of a project's life-cycle.

Adding value from the wellhead to the pipeline, Enerflex's global capabilities and footprint are intrinsic to its investment proposition and delivering value to customers which allows for a greater focus on key market opportunities.

The Company has deliberately placed facilities and operations in the world's most active markets, with a permanent, on-the-ground presence in seven energy-producing regions across the world – Canada, the United States, Latin America, the Middle East/Africa ("MEA"), Australia, Asia, and Europe/CIS. Each location is structured to the needs of its market area, and in 2017, the Company had more than 2,100 employees, as well as three fabrication facilities with over 450,000 square feet in manufacturing capacity in Canada, the USA, and Australia.

With a focus on preserving gross margins through executional excellence and prudent financial management, Enerflex is an operationally focused, financially strong, dividend-paying Company that continues to deliver profitable growth.

CANADA

Contributed to the Canadian energy industry through project work to deliver propane to global energy markets. Also delivered multiple integrated turnkey projects, including an electric co-generation gas plant in eastern Canada.

USA

Executed the largest integrated turnkey project in the region's history in the Permian basin. Completed the acquisition of the Contract Compression business of Mesa Compression, LLC, adding 112,000 of rental horsepower.

LATIN AMERICA

Secured Enerflex's first 10-year Build-Own-Operate-Maintain project in Colombia and executed numerous projects in Argentina. The Company has approximately 280,000 installed compression horsepower across the region.

2,100 EMPLOYEES | **54** LOCATIONS | **3** MANUFACTURING FACILITIES | **16** COUNTRIES

EUROPE/CIS

Large and diverse multi-national market with growth opportunities in compression, process, and after-market service. Completed projects in the Netherlands, Ukraine, and Croatia.

MEA

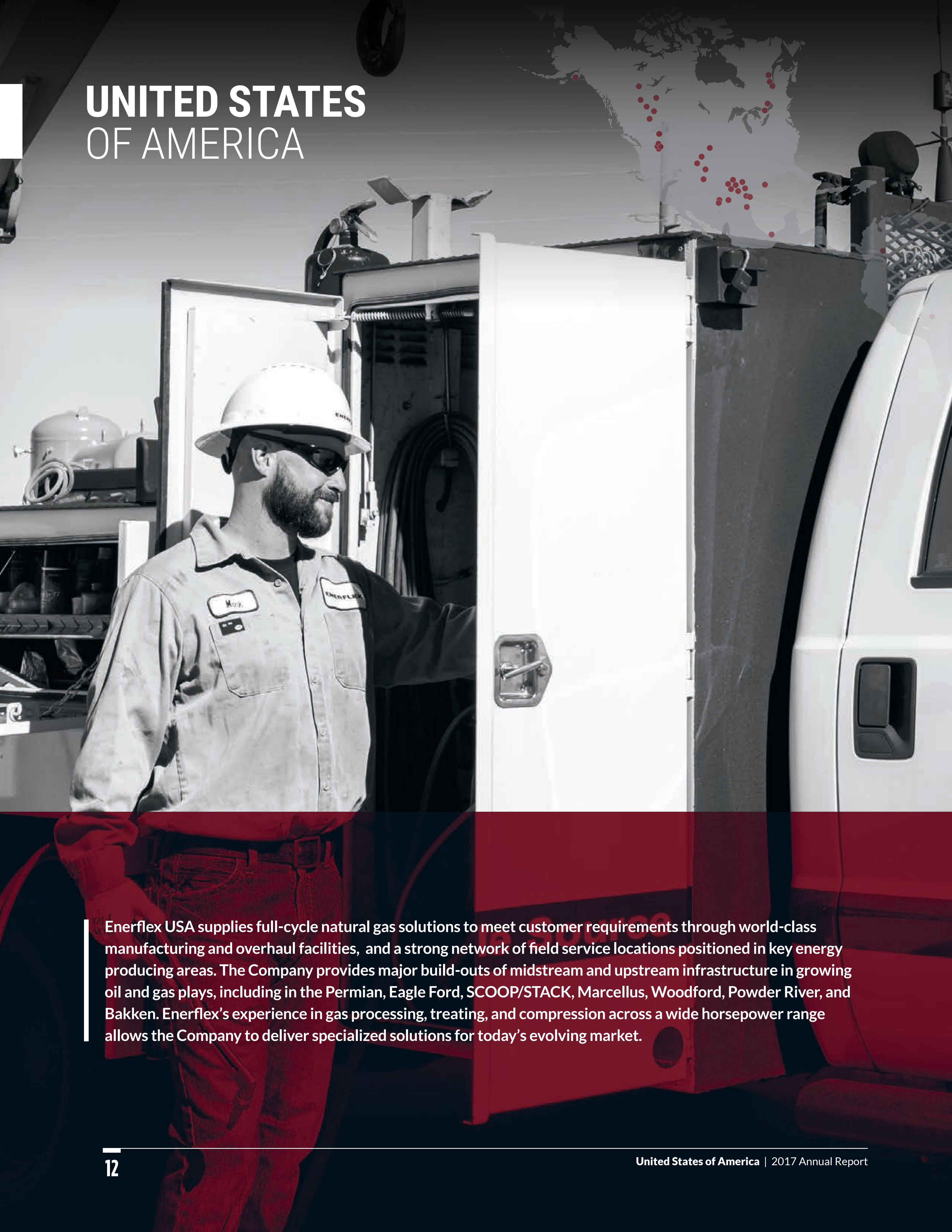
Executed two large integrated turnkey gas plants in Kuwait, a developing market for the Company. Additional contract wins strengthened the region's presence and increased MEA's rental fleet to over 100,000 horsepower.

AUSTRALIA

Awarded a significant contract for multiple Hydraulic Power Units across the region, as well as signed a multi-year contract for wellhead services with a major client – all contributing to the Company's recurring revenue.

ASIA

Maintained a competitive focus by adjusting operational costs and organizational structure to match the market reality. Continued to focus on after-market service work.



UNITED STATES OF AMERICA

Enerflex USA supplies full-cycle natural gas solutions to meet customer requirements through world-class manufacturing and overhaul facilities, and a strong network of field service locations positioned in key energy producing areas. The Company provides major build-outs of midstream and upstream infrastructure in growing oil and gas plays, including in the Permian, Eagle Ford, SCOOP/STACK, Marcellus, Woodford, Powder River, and Bakken. Enerflex's experience in gas processing, treating, and compression across a wide horsepower range allows the Company to deliver specialized solutions for today's evolving market.

WITH RISING ACTIVITY IN A REBOUNDING INDUSTRY, ENERFLEX'S USA OPERATIONS EXCELLED IN 2017.

2017 proved to be a positive year for Enerflex's USA operations. With improvements in commodity prices beginning in the second half of 2016, the industry experienced a surge in activity and capital investment, which resulted in higher enquiry levels and bookings, as well as strengthened financial performance for the Company.

Enerflex's regional success was sustained by increased activity in gas, condensate, and oil plays. Achievements included the completion of numerous Engineered Systems projects and integrated turnkey gas processing facilities across the U.S., with new work being executed in the Permian basin, as well as the construction of much-needed midstream infrastructure. The success of completing these significant projects was largely attributed to the dedication of the USA operations team and their capabilities across the natural gas value chain.

Additional successes were realized in the Powder River basin, where Enerflex leveraged its ability to offer solutions that minimize risk while balancing overall costs. The Company sold its first integrated turnkey cryogenic gas plant to a midstream company in early 2018 – a project that is expected to drive new capabilities and contribute to Enerflex's revenue stream.

With the increase in activity over the year, the Company expanded the region's employee base and expertise to deliver on these opportunities.

While Service revenues increased due to several secured contracts and projects, they were also tempered by Hurricane Harvey, which impacted vendors and caused a delay in the delivery of parts.

In July 2017, Enerflex closed an agreement to acquire the Contract Compression business of Mesa Compression, LLC ("Mesa"), which aligns with the Company's strategic goal to expand its recurring revenue streams. This acquisition and subsequent build-out of the rental fleet increased Enerflex's presence in the Permian basin and SCOOP/STACK, providing the Company with a platform for future growth in the rental market.

Enerflex's Houston headquarters, which are optimally situated for efficient transport to international markets, played a significant role in contributing to the Company's overall performance. The facility enables Enerflex to manufacture compression and process equipment needed for integrated turnkey and Build-Own-Operate-Maintain projects in-house – an attractive model for producers with an emphasis on cost control and project management. As Enerflex's global manufacturing centre of excellence, the Houston headquarters has the expertise to construct complex turnkey facilities demanded by both domestic and international markets that the Company serves.

Closed the acquisition of the Contract Compression business of Mesa Compression, LLC, increasing recurring revenue and the Company's footprint in key gas plays.

Completed the single largest integrated turnkey project in Enerflex's USA history in the Permian basin.

Increased headcount by 50% to meet operational growth and a rise in regional activity.

2018 OUTLOOK

Enerflex will continue to concentrate its efforts on growing market share in gas compression, processing, after-market service, rentals, and integrated turnkey solutions. The Company is optimistic that further stability in commodity prices, as seen towards the end of 2017, as well as the associated increase in activity by producers, will continue to drive enquiries and bookings in the region. In 2018, Enerflex will build on its gas processing success and focus on developing LNG infrastructure to meet anticipated demand.

The Company remains optimistic that there will be further growth for contract compression services, and has added approximately 20,000 horsepower of gas lift compression to the fleet since the close of the acquisition. In addition to expanding Enerflex's rental presence across the U.S., the addition of this offering will increase recurring revenue and provide a platform for growth in this large market.

LATIN AMERICA

In Latin America, Enerflex delivers integrated turnkey natural gas compression, processing, and electrical power solutions on a purchase or rental basis, as well as complete after-market services to countries spanning from Mexico to Argentina. With abilities that cover the wellhead to the pipeline, Enerflex's experience ranges from providing large gas treating facilities for national oil and gas companies to niche compression solutions for localized production in remote and rugged areas.

Enerflex's Latin America operations saw a decrease in activity in 2017 due to low commodity prices, resulting in reduced revenues and lower overall bookings. Throughout the year, Enerflex remained focused on delivering on existing rental fleet contracts, operations and execution excellence, and diligent financial management. While the Company saw success with the delivery of key projects, including a long-term Build-Own-Operate-Maintain ("BOOM") project in Colombia and additional work in Argentina and Bolivia, the region experienced a slow year in terms of new business opportunities due to reduced capital spending and postponed projects. Political uncertainty in Mexico and Brazil also contributed to the softening performance in the region, however these countries are expected to begin to stabilize.

WITH AN INCREASE IN DEMAND FOR NATURAL GAS INFRASTRUCTURE AND MORE FAVOURABLE FOREIGN INVESTMENT POLICIES, THE LATIN AMERICAN MARKET IS PRIMED FOR EXPANSION. CONTINUED SUCCESS WITH INTEGRATED TURNKEY AND BOOM PROJECTS, AS WELL AS RECURRING REVENUE OPPORTUNITIES ARE EXPECTED TO LEAD ENERFLEX'S GROWTH.

ARGENTINA With a strong in-country presence and favourable market conditions for infrastructure development, Enerflex captured numerous opportunities in Argentina – Latin America's most active market. Having previously completed several integrated turnkey projects in the Vaca Muerta, which is considered to be the world's second-largest non-conventional natural gas resource, Enerflex was awarded multiple contracts for compression rental assets, contributing to the Company's recurring revenue. Enerflex remains positively positioned for growth opportunities arising in this play, and with recovering commodity prices in the region, the Company anticipates this will be one of Latin America's overall bright spots for 2018. Enerflex's service facility in Neuquén City also saw success as it continued to provide customers with parts, service, overhaul, and retrofit solutions.

BRAZIL Having experienced economic and political uncertainty in 2015 and 2016, the market in Brazil began to stabilize in 2017, catalyzing investment in the area and opening new exploration opportunities for producers. Enerflex focused on new compression, processing, and electric power opportunities arising out of the country's increased interest in natural gas-fueled projects, while also ensuring the Company's existing rental fleet was fully utilized and operating effectively. With increased investment, Enerflex is confident there will be more interest in natural gas-fueled projects and infrastructure in the short-term.

MEXICO 2017 was a time of transition and uncertainty in Mexico, both economically and politically. The country experienced lower production resulting from reduced capital expenditures, along with lower natural gas re-injections in locations where the Company's rental assets are deployed. As a result, Enerflex experienced a reduction in demand for rental compression units, leading to lower recurring revenue and horsepower utilization for the year. Enerflex does not anticipate the market to improve until there is further stability in the country's political landscape and the Energy Reform launched in 2015 begins delivering increased oil and gas production.

BOLIVIA Enerflex is well-positioned for growth in Bolivia, having established a strong presence in-country through its service facility in Santa Cruz and project execution success over the past two years. Bolivia has a large gas market and is a major supplier to both Brazil and Argentina under long-term supply agreements. Enerflex anticipates that as Bolivian fields mature, they will require compression solutions to satisfy the volumes committed to other countries in the region. Consequently, the country presents many opportunities for the sale or rental of natural gas infrastructure solutions.

COLOMBIA Enerflex gained a major foothold in Colombia in 2017 with the signing of a long-term BOOM project, which will drive recurring revenue and showcase the Company's capabilities. Colombia's underdeveloped infrastructure presents unique challenges in terms of geography and transportation, offering encouraging circumstances for Enerflex to deliver and deploy solutions over the long-term. While competition continues to intensify, Enerflex remains focused on supporting the build-out of key natural gas infrastructure in the region and continuing to grow recurring revenue.

Awarded significant compression and process work in Argentina's Vaca Muerta shale play.

Enerflex completed and began operating its first 10-year BOOM project in Colombia.

2017 strategic focus resulted in improved safety metrics, cost competitiveness, and operational efficiencies.

280,000HP

Approximately 280,000 installed compression horsepower across the region.

2018 OUTLOOK

Favourable foreign investment and market conditions in Latin America will set the stage for growth in 2018.

The Vaca Muerta shale play is expected to dominate investment in Argentina, with rebounding commodity prices strengthening the market and opportunities within the region. Brazil is a large market with high potential, and is expected to see increasing activity, especially as demand for natural gas-fueled projects and an increasingly development-friendly market attracts foreign investments. Bolivia presents many opportunities moving into 2018, with multiple prospects for service of natural gas infrastructure. Overall, market drivers are expected to continue to be natural gas infrastructure and construction development in Brazil and Colombia, investment in mature fields in Mexico, and expanding shale opportunities in Argentina. Enerflex is active in all these areas with its established compression and process rental fleet, setting the Company up for long-term achievement.

With a forecasted increase in activity across Latin America, the Company will continue to focus on securing additional integrated turnkey and Build-Own-Operate-Maintain projects, as well as growing its after-market services. Enerflex's track-record and strong presence in meaningful natural gas producing markets in Latin America will continue to drive growth for the Company.

MIDDLE EAST / AFRICA

The Middle East has one of the world's largest proven reserves of natural gas and is expected to lead production over the next 20 years, with growth driven by liquefied natural gas, power generation, desalination plants, and cooling needs. Serving this large region from the Company's headquarters in Abu Dhabi and facilities in Bahrain, Oman, Kuwait, and the UAE, Enerflex's solutions respond to a need for modular, easy-to-assemble, long-life systems backed by seamless access to parts, as well as delivering options to outsource asset ownership and long-term operations and maintenance contracts.

WITH A LOCAL PRESENCE AND DIVERSIFIED CAPABILITIES, ENERFLEX'S MIDDLE EAST/AFRICA ("MEA") TEAM REMAINED NIMBLE IN A DYNAMIC MARKET, WHICH CONTRIBUTED TO THE REGION'S PERFORMANCE.

Enerflex's expansive reach across the region, paired with an extensive product and service offering, enabled the Company to adjust to the current needs of customers and benefit from sizable opportunities in this market. Well established in this growing region, Enerflex has adapted, when necessary, to the economic and political climate, and exhibited continued success in delivering and servicing major projects.

Enerflex's MEA region saw stable performance in 2017, driven primarily by recurring revenue on rental contracts, strong project execution on integrated turnkey natural gas compression and processing facilities, as well as parts, operations, and maintenance support.

Despite Engineered Systems revenue being lower than the previous year due to the completion of some larger projects in 2016, as well as exchange rate impacts, Enerflex saw an improvement in recurring revenue. With a fleet of over 100,000 horsepower of operated rental equipment across the region, the Company focused on pursuing other large rental projects that will contribute to the overarching strategy of increasing recurring revenue to 35 – 40%.

Due to the Company's focus on business development and execution excellence, Enerflex was awarded a significant project with a new client for an integrated turnkey 97 mmscf/d gas plant in Oman, which was a highlight for the year. Enerflex's project execution capabilities were also evidenced by the Company's expanding presence in Kuwait, which has proven to be a strong market with numerous opportunities. The Company's regional operations successfully executed two 120 mmscf/d natural gas facility contracts in Kuwait, the first major project for the Company in this market. Based on this success and the work completed, Enerflex was awarded additional work for on-going operations and maintenance services. This supports Enerflex's strategic decision to formally enter Kuwait with a long-term presence to provide project execution and after-market services to key clients in this buoyant geographic market.

Enerflex's MEA operations similarly saw an improvement in safety, jointly leading the Company. Despite working in extreme environments that are often based in remote locations, the MEA team demonstrated discipline and commitment to safe working processes through their focus and initiatives, resulting in this excellent outcome.

Completed two 120 mmscf/d gas plant contracts in Kuwait, the first major project for the Company in this new growth market.

Formally entered Kuwait with a long-term presence to provide project execution and after-market services to key clients in this buoyant geographic market.

Awarded a contract for an integrated turnkey 97 mmscf/d gas plant in Oman. The project highlights Enerflex's ability to collaborate across regions to deliver the best solutions to customers.

The MEA region jointly led Enerflex in terms of safety, exceeding Company targets and experiencing one of the best years for safety in the region's history.

2018 OUTLOOK

Looking forward, project opportunities in the region remain promising as Enerflex focuses on increasing Engineered Systems revenue while preserving gross margins through strong project management and cost controls.

The Company will drive strong financial performance through continuing to build recurring revenue streams derived from new and existing long-term rental and service contracts through 2018 and beyond. Improved commodity prices will allow for increased investment by producers, translating into higher demand for Enerflex's products and services. Market stability in 2018 will also aid in ensuring stable growth for the region moving forward.

With an emphasis on securing additional Build-Own-Operate-Maintain and integrated turnkey projects, as well as growing after-market services, Enerflex is well-positioned to capitalize on the need to expand natural gas infrastructure in the MEA region to meet growing domestic and export demands. Recent success in Kuwait has served to demonstrate the Company's capabilities, and with significant project plans over the next five years, Enerflex is optimally situated to compete for new opportunities. Success in Kuwait has also led to interest by key customers on further projects, adding to Enerflex's future prospects.

As the region continues to grow, there will be opportunity for development in new markets. With appropriate risk assessment and mitigations, Enerflex will cautiously explore these opportunities.

EUROPE/CIS, AUSTRALIA, AND ASIA

WITH A STRONG PRESENCE ACROSS THESE ACTIVE REGIONS, ENERFLEX SHIFTED ITS STRATEGY FOR LONG-TERM GROWTH.

EUROPE/CIS

Enerflex's European operations serve a geographically large and culturally diverse region spanning from Turkey to Kazakhstan and from the United Kingdom to Russia. The Company specializes in transforming raw resources into valuable, marketable commodities with a wide range of uses and offers application-specific solutions in natural gas compression and process solutions.

AUSTRALIA

Enerflex has facilities near every major producing basin across Australia. Backed by Enerflex's global resources, the Australian operations provide multi-disciplined fabrication, maintenance, equipment optimization, asset management, and overhaul capabilities, enabling the region to be well-prepared to support the continued expansion of Australia's natural gas industry.

ASIA

Enerflex's locally-based team provides regional expertise in engineering, design, procurement, project management, after-market services, and quality assurance. With offices and operations in Thailand, Malaysia, and Indonesia, Enerflex is ideally situated to deliver reliable offshore and onshore processing, refrigeration, and compression packages.

EUROPE/CIS Enerflex's European operations performed as expected for 2017. The Company focused on maintaining its presence across this wide-ranging and diverse market, although on-going project work was intermittent throughout eastern and western Europe due to market conditions. Along with supporting activity in Russia through continuous agent/reseller agreements, the Company also executed several compression and process projects in the Netherlands, Croatia, and Ukraine.

AUSTRALIA Enerflex's Australian operations experienced both new contract awards and headwinds during the year. Revenue fell due to client-driven delays in contract execution, as well as reduced investment for new projects. The rebound from low commodity prices was not as strong as initially predicted, and with decreased customer spending, bookings fell when compared to the prior year.

Throughout 2017, Enerflex continued to implement its realigned regional business model to better reflect the Australian market, directing resources away from construction and focusing more on equipment supply, maintenance services, and specialized brownfield projects. This shift in strategy allowed the Company to place emphasis on after-market services, and resulted in the award of several new long-term maintenance contracts, including one for Hydraulic Power Units for a large producer in the region. The Company also signed a multi-year contract for wellhead services with a major client. These projects, paired with Enerflex's focus on delivering cost-effective solutions, strengthen the Company's competitiveness in the Australian market.

ASIA Client activity levels in Asia required Enerflex to make strategic adjustments and right-sizing decisions to better position the Company for growth and long-term profitability. Whilst still maintaining an after-market service presence in Malaysia, Enerflex's Malaysian project operations were consolidated into Indonesia and the team relocated into a larger facility in south Jakarta. This strategic move allowed the Company to better capitalize on project opportunities in Indonesia and after-market service opportunities more broadly across Asia.

2018 OUTLOOK

Having seen success from the Company's strategic decision to focus on after-market service in 2016, Enerflex is situated to take advantage of additional opportunities across these regions. With a reputable track-record and a strong profile, Enerflex's capabilities and presence remain strong moving into 2018.

It is expected that markets across Europe, Australia, and Asia will face continued uncertainty. Remaining sharp and innovative across all product and service offerings, as well as maintaining a focus on project execution will be an on-going priority for Enerflex to achieve long-term growth in these markets.

Compression and process projects completed in the Netherlands, Croatia, and Ukraine.

Awarded multiple long-term maintenance and overhaul services contracts with leading natural gas producers in Australia.

A rental compression contract was completed in the Gulf of Thailand through an after-market service office maintained in Bangkok.

Jointly led Enerflex in terms of safety, exceeding Company targets with zero lost time and zero recordable injuries – a truly excellent result.

CANADA

As a leading supplier of natural gas compression, processing, and electric power products and services, Enerflex delivers a powerful array of infrastructure solutions to the energy sector across Canada. With decades of cold-weather experience, a state-of-the-art manufacturing facility in Calgary, Alberta, and a network of field service locations situated in energy-producing areas, and eastern Canada, Enerflex provides full life-cycle solutions suited to the specific needs of Canadian customers.

DESPITE CONTINUING ECONOMIC HEADWINDS IN THE CANADIAN ENERGY INDUSTRY, THE COMPANY'S REGIONAL OPERATIONS EXPERIENCED A RECOVERY IN 2017, DRIVEN LARGELY BY MAJOR PROJECTS.

Emerging from a challenging 2016, the Canadian oil and natural gas industry exhibited increased capital spending in 2017, particularly in the first half of the year, driven by stability in commodity prices. Enerflex was able to translate this customer capital spending into increased revenues and stronger performance that exceeded budget targets, predominantly due to the Engineered Systems product line. However, as further challenges arose during the year – including on-going pipeline capacity constraints and associated discounts to natural gas benchmark pricing – customer spending became more restrained, which resulted in lower bookings over the second half of the year.

Enerflex's continued focus on its operational strategy of delivering integrated turnkey infrastructure projects saw success in 2017, directly contributing to the regions stronger performance. The Company supported customers with increased cost-control, through streamlining processes and delivering better value across all stages of a project's life-cycle. In response to increased project work and production, and to support the internal growth of expertise, the Company also expanded its headcount across its regional operations, specifically in the areas of trades, engineering, and design.

Downstream, the Company concentrated on delivering effective electric power solutions across a multitude of channels. With increased demand for natural gas-fired power generation due to sustained low natural gas prices and the movement away from coal-fired generation, Enerflex's on-the-ground expertise positions the Company favourably to grow this offering.

Enerflex's gas processing business also experienced significant growth in the year as the Canadian energy industry continued to see strong activity from operations in liquids-rich plays, including the Montney and Duvernay formations in western Canada, where the Company is well-situated. With increased investment in natural gas infrastructure to support higher production in these areas, Enerflex expects to see high demand for process solutions in 2018.

2018 OUTLOOK

While Enerflex is optimally positioned to take advantage of growing natural gas and distributed power opportunities in Canada, the Company anticipates continuing uncertainty in the Canadian energy industry. Although market conditions will remain a challenge moving into 2018, demand for large integrated turnkey solutions, products to support natural gas liquids production, and electric power equipment are expected to be areas of growth.

While Engineered Systems bookings was strong in the first half of 2017, and the Company experienced good financial performance in the second half of the year, bookings slowed in the back half of 2017. Transitioning into 2018, activity levels and the economy in general are expected to remain uncertain, with the outlook for Canada being subdued until producers are able to realize higher prices for their production and have consistent access to the global market. Enerflex will continue to progress and diversify by identifying opportunities to leverage areas of growing demand, including delivering integrated turnkey and electric power solutions.

Supported a large Alberta producer through the engineering, design, fabrication, and installation of a propane export facility that is bringing product to the global market.

Successfully completed a unique integrated turnkey landfill gas to energy plant in eastern Canada contributing to the growth seen with Enerflex's electric power offering.

Enerflex's after-market services business experienced success in the growth of its long-term maintenance agreement arrangements with customers.

CORPORATE RESPONSIBILITY AND **ENGAGEMENT**

SINCE ENERFLEX WAS FOUNDED, ALMOST FOUR DECADES AGO, THE COMPANY'S FOCUS ON SAFETY PERFORMANCE, RESPONSIBLE OPERATIONS, AND CONTINUOUS IMPROVEMENT HAS NOT WAVERED.

Enerflex applies high safety standards and sophisticated management systems within every facility in which it operates, globally.

The Company performs internal safety system audits annually, as well as comprehensive third-party external audits, ensuring that each location meets or exceeds industry standards and the Company's HSE requirements. This requires sincere commitment and continued engagement, guided by a vision and set of values that is understood and embraced by all. Values like:

- Commitment and delivering on a promise to be a health and safety leader;
- Having integrity, being ethical, and being environmentally and socially responsible; and
- Achieving sector-leading results and success through growth and business performance.

Continually progressing and aiming for a higher standard of safety, Enerflex's industry-leading safety performance is driven by values-based decision making – something which is engrained in the Company's culture, management team, every employee, and every business decision.

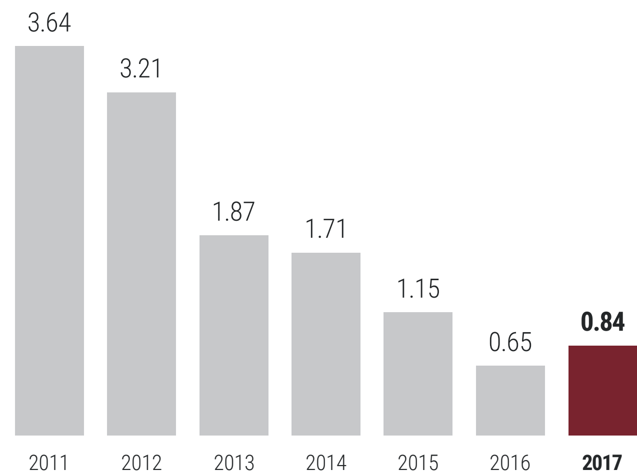
With Enerflex's values as a key driver for achieving its best safety performance in 2016, the Company set even more ambitious targets for 2017. While it did not meet its 2017 safety targets, Enerflex remains focused on continued improvement of its global HSE performance and strengthening its safety culture across all regions in 2018.

SAFETY ACROSS THE REGIONS

Enerflex continued to instill strong safety systems across all regions in 2017, with a focus on discipline and an established safety culture which permeates from leadership to on-the-ground employees.

The Middle East/Africa, Europe/CIS, Australia, and Asia regions jointly led the Company in safety in 2017, each achieving zero lost time injuries – an exceptional result given the often demanding operating conditions across these regions. Latin America also made great strides in taking a proactive approach to safety, exceeding the Company's targets.

While both the Canadian and the USA operations did not meet Enerflex's targets for 2017, both regions remain committed to improving their safety record by placing emphasis on diligent safety practices, behaviour-based performance, and continuous improvement.



TOTAL RECORDABLE INJURY RATE COMPARISON 2011 TO 2017

PROTECTING THE ENVIRONMENT

Protecting the communities in which Enerflex lives and works, and being environmentally and socially responsible, is a core value which guides the Company's actions across Enerflex's diversified operations and global employee base.

As part of its focus on environmental stewardship, Enerflex is committed to responsible operations and protecting the environment across all aspects of its business, including adhering to industry guidelines and government requirements in all operating areas. Through continuous improvement of its processes to reduce pollution and waste, conserve energy and natural resources, and reduce the environmental impact of the Company's growth projects, Enerflex is dedicated to helping the energy industry move towards a successful and more sustainable future.

ENERFLEX IN THE COMMUNITY

The regions where Enerflex operates provide more than just a location for business – they become a home and community. This is why Enerflex works to enhance the lives of not just its employees, but all people and neighbouring businesses, by partnering with organizations that build and strengthen communities now, and in the future. By directly supporting programs and initiatives including Kids Cancer Care in Alberta, Habitat for Humanity, YMCA programs, STARS Air Ambulance in Canada, Blood Service agencies around the world, and a multitude of other organizations, Enerflex places an emphasis on fostering thriving communities.

SHAREHOLDER ENGAGEMENT

Enerflex engages with shareholders on an on-going basis and believes that direct, constructive interaction contributes to better alignment of interests between the Board, management, and shareholders, as well as organizations that represent or advise shareholders on matters of governance such as the Canadian Coalition for Good Governance. The Company communicates regularly with shareholders through annual and quarterly reports, news releases, the Company's website, and other disclosure and regulatory documents filed under Enerflex's profile on SEDAR. On a quarterly basis, shareholders are also invited to participate in a teleconference and audio webcast to discuss Enerflex's financial results and operating highlights for the quarter, replays of which are available on Enerflex's website. Further, investors may contact Enerflex's Investor Relations department at any time.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2017 and 2016, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

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

The MD&A has been prepared taking into consideration information that is available up to February 22, 2017 and focuses on information and key statistics from the audited annual consolidated financial statements, and considers known risks and uncertainties relating to the oil and gas services sector. This discussion should not be considered all-inclusive, as it excludes possible future changes that may occur in general economic, political, and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex in the future. Additional information relating to the Company, including the Annual Information Form and Management Information Circular is available on SEDAR at www.sedar.com.

THE COMPANY

Enerflex is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems, and electric power generation equipment with in-house engineering and mechanical services expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission, and service hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO_2 processing plants, refrigeration systems, and electric power equipment serving the natural gas production industry.

Headquartered in Calgary, Canada, Enerflex has approximately 2,100 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint ventures, operate in Canada, the United States of America, Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom, Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, Indonesia, Malaysia, and Thailand.

Enerflex has fabrication facilities in Calgary, Canada; Houston, United States of America ("USA"); and Brisbane, Australia that supply custom fabricated equipment to our customers worldwide. Enerflex is a leading supplier in Canada, the USA, Mexico, Latin America, and the Middle East rental markets for natural gas compression with a global rental fleet of over 600,000 horsepower. The Company is a highly-qualified service provider with industry-certified mechanics and technicians strategically situated across a network of 44 service locations in Canada, the USA, Latin America, the Middle East, Asia, and Australia.

Enerflex operates three business segments: Canada, USA, and Rest of World. Each regional business segment has three main product lines: Engineered Systems, Service, and Rentals. A summary of the business segments and product lines is provided below.

Canada

- The Engineered Systems product line is comprised of compression, process, and electric power solutions. Enerflex provides custom and standard compression packages for reciprocating and screw compressor applications. It also engineers, designs, manufactures, constructs, and installs modular processing equipment and waste gas systems for natural gas facilities. Engineered Systems encompasses Enerflex's expertise with integrated turnkey gas processing solutions and power generation facilities, as well as retrofit solutions, which provides re-engineering, reconfiguration, and repackaging of compressors for various field applications. The region has a manufacturing facility in Calgary, Alberta with retrofit facilities in Calgary, Grande Prairie, and Red Deer, Alberta.
- The Service product line operates under the Gas Drive brand in Canada and provides mechanical services and parts distribution. In 2015, Enerflex's distributorship agreement for GE's Waukesha natural gas engines and parts changed from being the authorized distributor in Canada and Australia to being a Global Platinum partner under GE's Waukesha Power Packager program. As a Platinum Power Packager, the Company provides worldwide factory-direct access to Waukesha engines and parts. In addition, Gas Drive is the authorized distributor and service provider of MAN and GE's Jenbacher engines and parts. Service branches are located in British Columbia, Alberta, Ontario, and Quebec.
- The Rentals division provides reciprocating and rotary screw natural gas compression packages ranging from 50 to 2,500 horsepower and electric power equipment for rent to customers located in western Canada from its locations in Calgary and Grande Prairie, Alberta.

USA

- The Engineered Systems product line provides custom and standard compression packages for reciprocating and screw compressor applications. The Company engineers, designs, manufactures, constructs, and installs modular natural gas processing equipment and refrigeration systems. Retrofit provides re-engineering, reconfiguration, and repackaging of compressors for various field applications. The manufacturing and retrofit facility is located in Houston, Texas.
- The Service product line provides mechanical services and parts, as well as operations and maintenance solutions to the oil and natural gas industry in the USA. As a Platinum Power Packager of GE's Waukesha engines, the Company provides worldwide factory-direct access to Waukesha engines and parts. In addition, Enerflex packages CAT engines and parts. The Service branches are located in Alaska, Colorado, Louisiana, North Dakota, Oklahoma, Pennsylvania, Texas, and Wyoming.
- Rentals provides natural gas compression equipment rentals to oil and gas customers primarily operating in the Permian and SCOOP/STACK formations utilizing a fleet of low and medium-horsepower packages. Low to medium-horsepower compressor packages are typically utilized in wellhead, gas-lift, and natural gas gathering systems and other applications primarily in connection with natural gas and oil production. The Rental product line in the USA operates out of Enerflex's Oklahoma City, Oklahoma facility.

Rest of World

- Latin America, with locations in Argentina, Bolivia, Brazil, Colombia, and Mexico, provides Engineered Systems products, including integrated turnkey natural gas compression and processing solutions, with local construction and installation capabilities. The Service product line focuses on after-market services, parts and components, as well as operations, maintenance, and overhaul services. As a Platinum Power Packager of GE's Waukesha engines, the Company provides worldwide factory-direct access to Waukesha engines and parts. The Rentals product line provides natural gas compression and processing equipment for rent to oil and gas customers in the region.
- The Australia region is headquartered in Brisbane, Queensland with additional locations in New South Wales, Southern Australia, and Western Australia. In January 2016, the Australia region streamlined its operations and re-focused on after-market services, equipment supply, parts supply, and general asset management. Although the Australian region has reduced its packaging and EPC capabilities over the last two years, the region continues to deploy product fabricated by Enerflex's Engineered Systems in Houston, Texas. The Australia region has distributed GE's Waukesha natural gas engines as a Global Platinum partner pursuant to GE's Waukesha Power Packager program. As a GE Global Platinum partner, the Company has worldwide factory-direct access to Waukesha engines and parts.
- The Asia region, with locations and operations in Indonesia, Thailand, and Malaysia, provides Engineered Systems and Rentals to customers. Service capabilities are also offered in this region through the Company's local operations. This division also provides mechanical service and parts as a global Platinum Power Packager of GE Waukesha gas engines for the oil and gas industry in this region.
- The Middle East/Africa ("MEA") region, through its operations in the UAE, Oman, Kuwait, and Bahrain, provides engineering, design, procurement, and construction services for compression and process equipment, as well as rentals, after-market service, and operations and maintenance services for gas compression and processing facilities in the region. This region also provides mechanical services and parts as a global Platinum Power Packager of GE Waukesha gas engines for the oil and gas industry.
- The Europe/Commonwealth of Independent States ("CIS") region provides customized compression, processing, and high-end refrigeration solutions including CO_2 compression and liquefaction through its location in the United Kingdom. This region also provides mechanical service and parts as a global Platinum Power Packager of GE's Waukesha gas engines for the oil and gas industry.

Engineered Systems

The Engineered Systems product line is comprised of three product offerings: Compression, Process, and Electric Power. Compression packages are offered from 20 to 10,000 plus horsepower and ranging from low specification field compressors to high specification process compressors for onshore and offshore applications. The Company also provides retrofit solutions which includes re-engineering, reconfiguration, and repackaging of compressors for various field applications. Processing equipment includes plant compression, general processing, dew point control, dehydration and liquids separation, and amine sweetening to remove H_2S or CO_2. For Electric Power, a typical power generation unit is comprised of a natural gas reciprocating engine driver, a generator, and control devices. Facilities dedicated to the Engineered Systems product line occupy approximately 250,000 square feet of manufacturing space in Canada, approximately 180,000 square feet of shop space in the USA, and approximately 40,000 square feet of manufacturing space in Australia.

Service

Enerflex's Service division provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization programs, manufacturer warranties, exchange components, and technical services to our global customers. The division operates through an extensive network of branch offices and generally provides its services at the customer's wellsite location using trained technicians and mechanics. Enerflex is a Global Platinum partner under GE's Waukesha Power Packager program, which allows the Company to package and service Waukesha engines for its customers worldwide. Gas Drive is the authorized distributor for MAN and GE's Jenbacher engines and parts in Canada. In addition, Enerflex is the authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems, in all of its operating regions. Outside of Gas Drive's designated distribution/service areas, after-market service is provided under the Enerflex name. Enerflex's after-market service and support business includes 44 outlets situated in active natural gas producing areas, over 450 service vehicles, hundreds of skilled mechanics, and a sizable inventory of original equipment manufacturer parts from key manufacturers.

Rentals

The Rentals product line includes a variety of rental and leasing alternatives for natural gas compression, power generation, and processing equipment. The rental fleet is currently deployed across Western Canada, the USA, Argentina, Brazil, Colombia, Mexico, Bahrain, Oman, and the UAE, and provides comprehensive contract operations services to customers in each of those regions. These services include the provision of personnel, equipment, tools, materials, and supplies to meet our customers' natural gas compression and processing needs, as well as designing, sourcing, owning, installing, operating, servicing, repairing, and maintaining equipment owned by the Company necessary to provide these services. The Rentals product line encompasses a fleet of natural gas compressors totaling approximately 600,000 horsepower on rent or available for rent globally.

FINANCIAL OVERVIEW

	Three months ended December 31,		Twelve months ended December 31,	
($ Canadian thousands)	**2017**	2016	**2017**	2016
Total revenue	**$ 450,065**	$ 343,385	**$ 1,553,355**	$ 1,130,604
Gross margin	**84,100**	69,152	**286,523**	243,784
Selling and administrative expenses	**37,693**	48,170	**164,249**	178,371
Operating income	**46,407**	20,982	**122,274**	65,413
Earnings (loss) before finance costs and taxes ("EBIT")	**47,215**	(36,284)	**145,795**	(81,472)
Net earnings (loss)	**$ 26,702**	$ (45,488)	**$ 97,753**	$ (104,140)
Key Financial Performance Indicators[1]				
Bookings	**$ 223,590**	$ 262,192	**$ 1,141,032**	$ 853,337
Backlog	**$ 670,799**	$ 621,397	**$ 670,799**	$ 621,397
Recurring revenue as a percentage of revenue[2]	**29.7%**	41.7%	**29.7%**	41.7%
Gross margin as a percentage of revenue	**18.7%**	20.1%	**18.4%**	21.6%
EBIT as a percentage of revenue[2, 3]	**9.4%**	(7.2)%	**9.4%**	(7.2)%
Earnings (loss) before interest, tax, depreciation and amortization ("EBITDA")[3]	**$ 67,435**	$ (12,442)	**$ 226,373**	$ 11,627
Return on capital employed ("ROCE")[3]	**10.9%**	(5.7)%	**10.9%**	(5.7)%
Cash from operations	**$ 12,485**	$ 4,351	**$ 179,251**	$ 91,792

[1] *Key financial performance indicators used by Enerflex to measure its performance include revenue and EBIT. Certain of these key performance indicators are non-GAAP measures and certain are additional GAAP measures. Further detail is provided in the Definitions and Non-GAAP Measures sections.*
[2] *Determined by taking the trailing 12-month period.*
[3] *Includes the impact of impairments.*

FOURTH QUARTER AND TWELVE MONTHS OF 2017 OVERVIEW

For the three months ended December 31, 2017:

- Revenue improved quarter-over-quarter, even when compared to the strong fourth quarter of 2016. Enerflex generated revenue of $450.1 million, a 31.1 percent increase compared to $343.4 million in the fourth quarter of 2016. The quarterly revenue increase of $106.7 million was driven primarily by the strength in Engineered Systems revenues in Canada and the USA.
- Gross margin was $84.1 million in the fourth quarter of 2017 compared to $69.2 million in the same period of 2016. While revenues are strong, gross margins percentage is down when compared to the prior year. In the fourth quarter of 2017, gross margin as a percentage of revenue was 18.7 percent compared to 20.1 percent in the comparable period for 2016, largely due to higher contribution from the lower margin Engineered Systems product line. Margin pressure on the Engineered Systems product line, as well as some margin erosion on certain large Engineered Systems projects also contributed to the lower margins. The margin erosion included reductions of previously recognized margins as a result of an increase in estimated costs to complete these projects.
- Incurred SG&A costs of $37.7 million in the fourth quarter of 2017, down from $48.2 million in the same period last year. A portion of the reduction is due to the restructuring costs incurred in 2016 and the resultant reduction in core SG&A costs in 2017. In addition, there was lower occupancy costs, an FX expense recovery, and a reduction to stock based compensation due to the decreased share price in the quarter.
- Reported EBIT of $47.2 million during the fourth quarter of 2017 compared to EBIT loss $36.3 million in the fourth quarter of 2016. The 2016 results include a $68.8 million goodwill impairment and an $11.5 million gain on sale of building and property, plant and equipment ("PP&E").
- Recorded bookings of $223.6 million for three months ended December 31, 2017, a 14.7 percent decrease compared to the $262.2 million recorded during the same period last year.
- Closed a private placement offering of senior unsecured notes for gross proceeds of $175.0 million U.S. dollars and $45.0 million Canadian dollars.
- Subsequent to December 31, 2017, the Company declared a quarterly dividend of $0.095 per share, payable on April 5, 2018, to shareholders of record on March 8, 2018.

For the twelve months ended December 31, 2017:

- Generated revenue of $1,553.4 million, a 37.4 percent increase compared to $1,130.6 million in the twelve months of 2016, largely driven by increased Engineered Systems revenues in the Canada and USA segments.
- Gross margin was $286.5 million in the twelve months of 2017 compared to $243.8 million in the same period of 2016. Gross margin as a percentage of revenue decreased to 18.4 percent from 21.6 percent primarily as a result of margin pressure on the Engineered Systems product line, a change in product mix with higher revenues from the lower margin Engineered Systems product line, margin erosion on large projects within the USA and Canada segments, and the completion of high margin projects in 2016.
- Incurred SG&A costs of $164.2 million in the twelve months of 2017, down from $178.4 million in the same period last year. The SG&A costs have decreased due to the effects of restructuring activities undertaken in prior periods, reduced occupancy costs with certain facility closures, and lower bad debt expense, partially offset by higher legal expenditures and increased compensation accruals based on stronger earnings.
- Recognized a $22.5 million gain on disposal of PP&E in 2017, primarily on the sale of buildings in Canada. The prior year results include $11.5 million of gains on disposal of PP&E.
- Reported EBIT of $145.8 million during the twelve months of 2017 compared to an EBIT loss of $81.5 million in the same period of 2016, driven by the improved period-over-period operational results and the goodwill impairment of $160.9 million recognized in 2016.
- On July 31, 2017, Enerflex closed an agreement to acquire the contract compression business of Mesa Compression, LLC ("Mesa"). The purchase price after adjustments was $115.5 million U.S. dollars. For the twelve months of 2017, Enerflex Contract Compression, which is predominantly made up of the assets acquired from Mesa, as well as rental units entered into service subsequent to the acquisition, contributed $16.7 million of revenue, $3.9 million of EBIT, and $9.1 million of EBITDA. Please refer to Note 7 of the consolidated financial statements.
- Recorded bookings of $1,141.0 million, a 33.7 percent increase compared to the $853.3 million recorded during the same period last year.
- Engineered Systems backlog at December 31, 2017 was $670.8 million, an 8.0 percent increase compared to the December 31, 2016 backlog of $621.4 million.

Adjusted EBIT and Adjusted EBITDA

The Company has recorded a number of items in its results that are not expected to recur in the normal course of business. The exclusion of these items presents a view of the results that should be more representative of the Company's normal operations. The presentation of adjusted EBIT and adjusted EBITDA should not be considered in isolation from EBIT or EBITDA as determined under IFRS. The adjusted EBIT and adjusted EBITDA may not be comparable to similar measures presented by other companies and should not be considered in isolation or as a replacement for measures prepared as determined under IFRS.

The items that had been adjusted for presentation purposes relate generally to three categories: 1) impairment or gains on assets; 2) restructuring activities; and 3) acquisition costs. Exclusion of these items should allow for the proper evaluation of ongoing, normal operations of the Company. Enerflex has also presented the impact of share-based compensation as it is an item that can fluctuate significantly with share price changes that are not directly linked to the current period performance of the Company.

($ Canadian thousands) Three months ended December 31, 2017		**Total**		**Canada**		**USA**		**ROW**
Reported EBIT	**$**	**47,215**	**$**	**12,018**	**$**	**22,282**	**$**	**12,915**
Restructuring costs in COGS and SG&A		**-**		**-**		**-**		**-**
Write-down of equipment in COGS		**1,213**		**-**		**1,213**		**-**
(Gain) loss on disposal of PP&E		**(44)**		**8**		**9**		**(61)**
Acquisition costs		**-**		**-**		**-**		**-**
Goodwill impairment		**-**		**-**		**-**		**-**
Adjusted EBIT	**$**	**48,384**	**$**	**12,026**	**$**	**23,504**	**$**	**12,854**
Depreciation and amortization		**20,220**		**3,184**		**4,823**		**12,213**
Adjusted EBITDA	**$**	**68,604**	**$**	**15,210**	**$**	**28,327**	**$**	**25,067**
Share-based compensation ("SBC")		**(423)**						
Adjusted EBITDA excluding SBC	**$**	**68,181**						

($ Canadian thousands) Three months ended December 31, 2016		**Total**		**Canada**		**USA**		**ROW**
Reported EBIT (loss)	$	(36,284)	$	(67,774)	$	20,412	$	11,078
Restructuring costs in COGS and SG&A		7,051		2,267		209		4,575
Write-down of equipment in COGS		5,853		3,997		-		1,856
(Gain) loss on disposal of PP&E		(11,386)		(11,387)		(29)		30
Acquisition costs		-		-		-		-
Goodwill impairment		68,802		68,802		-		-
Adjusted EBIT	$	34,036	$	(4,095)	$	20,592	$	17,539
Depreciation and amortization		23,842		4,864		2,975		16,003
Adjusted EBITDA		57,878	$	769	$	23,567	$	33,542
Share-based compensation		4,365						
Adjusted EBITDA excluding SBC	$	62,243						

($ Canadian thousands) Twelve months ended December 31, 2017		Total		Canada		USA		ROW
Reported EBIT	$	145,795	$	37,969	$	73,195	$	34,631
Restructuring costs in COGS and SG&A		940		452		0		488
Write-down of equipment in COGS		1,213		-		1,213		-
(Gain) loss on disposal of PP&E		(22,465)		(22,474)		26		(17)
Acquisition costs		1,110		-		1,110		-
Goodwill impairment		-		-		-		-
Adjusted EBIT	$	126,593	$	15,947	$	75,544	$	35,102
Depreciation and amortization		80,578		13,311		14,536		52,731
Adjusted EBITDA	$	207,171	$	29,258	$	90,080	$	87,833
Share-based compensation		6,915						
Adjusted EBITDA excluding SBC	$	214,086						

($ Canadian thousands) Twelve months ended December 31, 2016		Total		Canada		USA		ROW
Reported EBIT	$	(81,472)	$	(168,884)	$	39,788	$	47,624
Restructuring costs in COGS and SG&A		13,746		7,669		1,020		5,057
Write-down of equipment in COGS		5,853		3,997		-		1,856
(Gain) loss on disposal of PP&E		(11,523)		(11,402)		21		(142)
Acquisition costs		-		-		-		-
Goodwill impairment		160,894		160,894		-		-
Adjusted EBIT	$	87,498	$	(7,726)	$	40,829	$	54,395
Depreciation and amortization		93,099		17,336		13,840		61,923
Adjusted EBITDA	$	180,597	$	9,610	$	54,669	$	116,318
Share-based compensation		9,731						
Adjusted EBITDA excluding SBC	$	190,328						

The adjusted EBIT and adjusted EBITDA increased for both the three months and twelve months ended December 31, 2017 as compared to the comparable periods in 2016. Please refer to the section "Segmented Results" for additional information about results by geographic location.

While it has not been included in the adjusted EBIT or adjusted EBITDA calculation, SG&A costs in the fourth quarter and twelve months of 2017 includes approximately $1.1 million and $8.7 million respectively, of costs related to ongoing arbitration proceedings with Oman Oil Exploration and Production LLC ("OOCEP"). The fourth quarter and twelve months of 2016 included approximately $1.7 million and $7.6 million of arbitration related costs respectively.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

The following table sets forth the bookings and backlog by reporting segment for the following periods:

($ Canadian thousands)	Three months ended December 31, 2017	Three months ended December 31, 2016	Twelve months ended December 31, 2017	Twelve months ended December 31, 2016
Bookings				
Canada	**$ 30,902**	$ 113,649	**$ 347,944**	$ 174,942
USA	**160,560**	143,043	**638,165**	585,203
Rest of World	**32,128**	5,500	**154,923**	93,192
Total bookings	**$ 223,590**	$ 262,192	**$ 1,141,032**	$ 853,337

($ Canadian thousands)	**December 31, 2017**	December 31, 2016
Backlog		
Canada	**$ 172,918**	$ 167,260
USA	**394,861**	390,399
Rest of World	**103,020**	63,738
Total backlog	**$ 670,799**	$ 621,397

Bookings were lower in the fourth quarter of 2017 compared to the same period of 2016 due to a decrease in bookings for the Canada segment. This decline was offset by stronger bookings in the USA and ROW segments. The lower fourth quarter bookings in Canada are the result of customers being cautious due to commodity prices. The fourth quarter bookings for Canada also includes a customer cancellation of a previously recorded booking due to the ongoing low natural gas prices in Canada. Bookings for the twelve months ended December 31, 2017 were higher than 2016 with stronger bookings across all segments.

The movement in exchange rates resulted in an increase of $2.2 million during the fourth quarter of 2017 and a decrease of $31.5 million on foreign currency denominated bookings during twelve months of 2017, compared to an increase of $10.8 million during the fourth quarter of 2016 and $1.2 million for twelve months of 2016.

SEGMENTED RESULTS

Canada Segment Results

($ Canadian thousands)	Three months ended December 31, 2017	2016	Twelve months ended December 31, 2017	2016
Bookings	$ 30,902	$ 113,649	$ 347,944	$ 174,942
Backlog	172,918	167,260	172,918	167,260
Segment revenue	$ 159,996	$ 56,643	$ 421,077	$ 239,471
Intersegment revenue	(447)	(3,375)	(2,487)	(6,646)
Revenue	$ 159,549	$ 53,268	$ 418,590	$ 232,825
Revenue – Engineered Systems	$ 141,575	$ 32,293	$ 342,286	$ 158,610
Revenue – Service	$ 15,163	$ 15,637	$ 64,451	$ 59,311
Revenue – Rental	$ 2,811	$ 5,338	$ 11,853	$ 14,904
Operating income (loss)	$ 11,262	$ (10,510)	$ 14,439	$ (21,878)
EBIT[1]	$ 12,018	$ (67,774)	$ 37,969	$ (168,884)
EBITDA[1]	$ 15,202	$ (62,910)	$ 51,280	$ (151,548)
Segment revenue as a % of total revenue	35.5%	15.5%	26.9%	20.6%
Recurring revenue as a % of segment revenue	11.3%	39.4%	18.2%	31.9%
Operating income (loss) as a % of segment revenue	7.1%	(19.7)%	3.4%	(9.4)%
EBIT as a % of segment revenue	7.5%	(127.2)%	9.1%	(72.5)%
EBITDA as a % of segment revenue	9.5%	(118.1)%	12.3%	(65.1)%

[1] *Inclusive of a $22.5 million gain on the sale of idle facilities and other PP&E in the twelve months of 2017 and goodwill impairment of $68.8 million and $160.9 million recorded during the fourth quarter and twelve months of 2016, respectively.*

The stability in commodity prices has generated improved revenues as producers increased capital expenditures earlier in the year. However, with regional transportation issues and the resultant impact on commodity pricing, customers have become more restrained with their spending levels, which has impacted bookings over the second half of 2017. There was also a customer cancellation of a previous booking during the fourth quarter, driven by low natural gas prices, that negatively impacted the bookings number.

The increase in revenue of $106.3 million and $185.8 million for the fourth quarter and the twelve months of 2017 respectively, compared to the same period of 2016, was primarily attributable to higher revenues from the Engineered Systems product line, largely driven by increased customer demand over the first half of 2017 as customers increased capital spending based on stability of commodity pricing. Additionally, the fourth quarter revenues were higher due to certain projects for which revenue recognition was expected in the third quarter but was delayed into the fourth quarter. Service revenues for the quarter are in line with the comparative period from the prior year. Contracted rental revenues are consistent with the comparative period but revenues from the Rental product line are down due to lower equipment sales.

Operating income for the fourth quarter and twelve months of 2017 improved by $21.8 million and $36.3 million respectively, primarily due to increased revenues and lower SG&A costs as a result of previously undertaken restructuring activities, partially offset by project margin erosion. The SG&A costs in the fourth quarter and twelve months of 2016 were also higher due to restructuring costs incurred.

EBIT for the fourth quarter of 2017 was $79.8 million higher than the comparable period in 2016 due to the improved operational results and a goodwill impairment recognized during 2016. EBIT for the year is $206.9 million higher than the prior year. The prior year results were significantly impacted by goodwill impairments and restructuring costs. Current year results are also higher due to the improved operational results and gains recognized on the sale of assets, particularly an idle manufacturing facility in the third quarter.

USA Segment Results

($ Canadian thousands)	Three months ended December 31, 2017	2016	Twelve months ended December 31, 2017	2016
Bookings	**$ 160,560**	$ 143,043	**$ 638,165**	$ 585,203
Backlog	**394,861**	390,399	**394,861**	390,399
Segment revenue	**$ 208,336**	$ 160,966	**$ 796,807**	$ 482,560
Intersegment revenue	**(3,476)**	(2,855)	**(17,772)**	(16,459)
Revenue	**$ 204,860**	$ 158,111	**$ 779,035**	$ 466,101
Revenue – Engineered Systems	**$ 155,892**	$ 129,123	**$ 633,703**	$ 347,735
Revenue – Service	**$ 36,426**	$ 26,548	**$ 119,398**	$ 106,107
Revenue – Rental	**$ 12,542**	$ 2,440	**$ 25,934**	$ 12,259
Operating income	**$ 22,291**	$ 20,385	**$ 73,221**	$ 39,809
EBIT	**$ 22,282**	$ 20,412	**$ 73,195**	$ 39,788
EBITDA	**$ 27,105**	$ 23,387	**$ 87,731**	$ 53,628
Segment revenue as a % of total revenue	**45.5%**	46.0%	**50.2%**	41.2%
Recurring revenue as a % of segment revenue	**23.9%**	18.3%	**18.7%**	25.4%
Operating income as a % of segment revenue	**10.9%**	12.9%	**9.4%**	8.5%
EBIT as a % of segment revenue	**10.9%**	12.9%	**9.4%**	8.5%
EBITDA as a % of segment revenue	**13.2%**	14.8%	**11.3%**	11.5%

In the fourth quarter of 2017, bookings increased by $17.5 million or 12.2 percent compared to the same period in the prior year. There has been an increase in diversity of bookings by customer and customer type relative to the prior year, with a significant portion of bookings being related to assets that will be deployed into the Permian basin. The backlog in the USA segment remains healthy at $394.9 million.

The increase in revenue of $46.7 million and $312.9 million in the fourth quarter and twelve months of 2017 respectively, compared to the same periods of 2016, is due to strength in revenues across all product lines, particularly Engineered Systems. Engineered Systems revenue increased due to the realization of the strong bookings that began in the second half of 2016 and continued throughout 2017. Service revenues increased over the same periods from the prior year due to higher activity. Rental revenues increased as a result of the acquisition of the contract compression business from Mesa and the build-out of the contract compression fleet over the last half of 2017.

Operating income increased by $1.9 million in the fourth quarter of 2017 due to higher revenues offset by increased SG&A costs driven by higher compensation costs and lower bad debt recovery. Operating income increased by $33.4 million during the twelve months of 2017 due to higher revenue levels, particularly in Engineered Systems, offset by margin erosion on certain projects.

Rest of World Segment Results

($ Canadian thousands)	Three months ended December 31, 2017	2016	Twelve months ended December 31, 2017	2016
Bookings	**$ 32,128**	$ 5,500	**$ 154,923**	$ 93,192
Backlog	**103,020**	63,738	**103,020**	63,738
Segment revenue	**$ 86,238**	$ 132,010	**$ 356,932**	$ 439,676
Intersegment revenue	**(582)**	(4)	**(1,202)**	(7,998)
Revenue	**$ 85,656**	$ 132,006	**$ 355,730**	$ 431,678
Revenue – Engineered Systems	**$ 23,189**	$ 53,830	**$ 115,641**	$ 152,799
Revenue – Service	**$ 32,147**	$ 41,556	**$ 124,336**	$ 133,273
Revenue – Rental	**$ 30,320**	$ 36,620	**$ 115,753**	$ 145,606
Operating income	**$ 12,854**	$ 11,107	**$ 34,614**	$ 47,482
EBIT	**$ 12,915**	$ 11,078	**$ 34,631**	$ 47,624
EBITDA	**$ 25,128**	$ 27,081	**$ 87,362**	$ 109,547
Segment revenue as a % of total revenue	**19.0%**	38.4%	**22.9%**	38.2%
Recurring revenue as a % of segment revenue	**72.9%**	59.2%	**67.5%**	64.6%
Operating income as a % of segment revenue	**15.0%**	8.4%	**9.7%**	11.0%
EBIT as a % of segment revenue	**15.1%**	8.4%	**9.7%**	11.0%
EBITDA as a % of segment revenue	**29.3%**	20.5%	**24.6%**	25.4%

Bookings in the Rest of World segment are typically larger in nature and scope and as a result are less frequent. Bookings for the current quarter primarily relates to a project booked in Argentina. Backlog for the segment remains strong at $103.0 million.

Rest of World revenue decreased by $46.4 million in the fourth quarter of 2017 and by $75.9 million in the twelve months of 2017 compared to the same periods in the prior year, with decreases across all product lines. Engineered Systems revenue in the quarter was lower due to the completion of projects within Latin America in the fourth quarter of 2016. Year-to-date Engineered Systems revenue was down due to the completion of some larger projects in 2016, largely in the Middle East and Argentina. The decline in Rental revenues is due to lower utilization and rental rates in Mexico as there continues to be lower natural gas reinjections in locations where the Company's rental assets are deployed. The period-over-period results are also impacted by the rental contract for a large gas processing facility not being renewed in 2017. Service revenue decreased in the quarter with lower service levels in Latin America and reduced parts sales in Australia and Asia.

Operating income increased by $1.7 million in the fourth quarter and decreased by $12.9 million in twelve months of 2017 respectively, compared to the same period of 2016. While revenues were down in the quarter compared to the same period from 2016, operating income for the quarter improved over the prior year largely due to reductions in SG&A driven by lower onerous lease provisions and higher foreign exchange gains. The decrease in the year to date operating income is driven by decreased gross margins as the result of lower revenues, a change in product mix with a lower proportion of sales coming from high-margin revenue streams, and the completion of a higher margin projects in 2016.

INCOME TAXES

Income tax expense totaled $16.8 million or 38.6 percent and $35.3 million or 26.5 percent of earnings before tax for the fourth quarter and year ended December 31, 2017 compared to income tax expense of $6.5 million or 21.8 percent and $9.0 million or 13.8 percent of earnings before tax excluding the goodwill impairment in the same periods of 2016. Income tax expense for the year was higher primarily due to an increase in earnings before tax and the impact of earnings taxed in foreign jurisdictions, partially offset by the effect of unrealized exchange rate fluctuations on tax bases in foreign jurisdictions. The change in the effective tax rate is primarily due to the mix of earnings taxed in foreign jurisdictions partially offset by the effect of the exchange rate fluctuations on tax bases in foreign jurisdictions.

The Company has also assessed the U.S. tax reform in the Tax Cuts and Jobs Act ("the Act") on USA operations. The main impacts to the Company will arise from the reduction of the federal corporate income tax rate to 21.0 percent and the ability to immediately expense certain qualified property for tax purposes. The Act has had an immaterial impact on the calculation of the 2017 tax expense and deferred tax liability calculations because of the relatively small balance of accumulated timing differences between tax and accounting income as at December 31, 2017. Moving forward, the impact of U.S. tax reform will be to reduce tax expense and have a positive impact on cash flows by delaying the date that the Company becomes cash taxable in the USA.

OUTLOOK

There was a return to some much-needed stability in commodity pricing in 2017. Additionally, producers have rebalanced their cost structures to be able to compete at current commodity prices. Recent strengthening in prices is encouraging but also leads to concerns about potential oversupply if producers, particularly in the USA, ramp up production in response to the increased prices.

Enerflex's financial performance also continues to benefit from strategic decisions to focus on the recurring revenue streams derived from new and existing long-term rental and service contract progress, and to develop a geographically diversified business. However, in Canada and Mexico these product lines will remain under pressure until we see a return to commodity pricing that will allow customers to increase capital investments.

The Company will continue to aggressively manage SG&A expenses. Steps taken during 2015, 2016, and the first part of 2017 have allowed a greater focus on key market opportunities and resulted in a lower headcount, which led to ongoing material savings. The Company has begun to increase headcount again in response to increased operational levels but remains disciplined in keeping the appropriate levels staffing.

Outlook by Segment

Canada

Prices and growth plans in Canada remain stagnant as Canadian producers continue to be constrained by a lack of export options. Western Canadian production continues to be priced at a significant discount to other North American benchmark pricing. Natural gas prices in Western Canada have declined over the last half of 2017 and into 2018, impacting many of the Company's customers. There continues to be demand for NGLs and options for NGL exports, which should allow for some stability in capital investment and drilling activity, particularly in liquids-rich areas. The Company experienced a cancelation by a customer in the fourth quarter of 2017 driven by low natural gas prices and customers remain cautious about 2018 capital expenditures. Enerflex expects that activity in Canada will be subdued compared to 2017, and will remain so until there is a recovery in natural gas prices and proper export solutions for Western Canadian production.

USA

The USA outlook continues to be largely dependent on production from shale oil and gas. With the recent increase in commodity prices, along with lower corporate tax rates and increased production, the Company expects 2018 to be a year of continued steady demand for compression and processing equipment, as evidenced by the strong fourth quarter bookings for this region. The contract compression rental fleet in the USA has grown to approximately 160,000 horsepower at December 31, 2017, which represents a 22.5 percent increase since the acquisition of contract compression assets from Mesa in July 2017. This line of business provides a valuable recurring revenue source and the Company will continue to grow and invest in these assets in 2018. As Permian production continues to expand, the Company sees additional growth opportunities.

Rest of World

In the Rest of World segment, Enerflex has seen project successes in both MEA and Latin America. MEA continues to provide stable rental earnings with a rental fleet of approximately 100,000 horsepower. The Company continues to explore new markets and opportunities within this vast region in order to enhance recurring revenues, focusing on integrated turnkey and build-own-operate-maintain ("BOOM") projects. Customers in Latin America are still recovering from the crash in commodity prices, however it is evident that new production is required in many of the Latin American countries. Enerflex believes that there are near term prospects within Argentina and Colombia and mid- to longer- term prospects in Mexico and Brazil. The Company completed a project in Argentina's Vaca Meurta shale play during 2017 and further development opportunities exist as producers expand production in this formation. Enerflex was also awarded a BOOM project in Colombia in 2017 that will be fully operational in the first quarter of 2018. Increasing investment in Colombia will create more opportunities for the Company. In Mexico, the upcoming presidential elections will provide more clarity on the direction of Energy Reform but it is clear that further investment is required. If the Energy Reform is to proceed, Enerflex expects that there will be more mid-term opportunity as additional independent producers enter the market. Opportunities in Australia relate primarily to the need for increased production due to the supply imbalance driven by higher liquefied natural gas ("LNG") exports and increased domestic natural gas demand. The Company believes that maintenance and service opportunities will increase as producers return to the minimum maintenance requirements for their assets.

ENERFLEX STRATEGY

Enerflex's global vision is "Transforming natural gas to meet the world's energy needs". The Company's strategy to support this vision centres on being an operationally focused, diversified, financially strong, dividend-paying company that delivers profitable growth by serving an expanding industry in seven gas producing regions worldwide. Enerflex believes that worldwide diversification and growth enhances shareholder value.

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

Enerflex has aimed its efforts in Canada on leveraging its capabilities and expertise to continue to preserve market share in the traditional natural gas business, particularly in liquids-rich reservoirs, and to support the development of LNG infrastructure. In addition, the Company has looked to build on its successes in the electric power market given the sustained low natural gas prices and the resulting increase in demand for natural gas-fired power generation. Lastly, there has been a focus on securing certainty of recurring revenues through the signing of long-term service contracts with customers.

In the USA segment, Enerflex has concentrated its efforts on consolidating its business in the region, driven by the U.S.'s increasingly complex natural gas sector. The Company has looked to build on successes for gas processing solutions for liquids-rich plays in the region, and expand the development of LNG infrastructure. In addition, the focus has been on rationalizing the Service business across the region while still maintaining the capability to service customers in all locations. The Mesa acquisition allows Enerflex to expand recurring revenues from the Rental product line, as well as providing a platform for future growth in the segment.

Enerflex has focused its efforts in the ROW segment on growing primarily in the MEA and Latin America regions, through the sales, rental, and service of its products. In the MEA region, the target has been on large rental and service opportunities, where customers have also required construction and installation support at site. In Latin America, the Company has focused on integrated turnkey projects and BOOM solutions, with early successes experienced, primarily in Argentina, while looking at opportunities throughout the region. In Mexico, the Company holds a large rental fleet with associated rental and service contracts. In Brazil, Enerflex has repositioned itself to capitalize on future opportunities, particularly for natural gas-fueled projects.

Enerflex seeks to continue to diversify its revenue streams from multiple markets, to grow its backlog, and to ensure profitable margins globally by aggressively managing costs, with a medium-term goal of achieving a 10 percent EBIT margin. In addition, the Company is focused on expanding the diversification of its product lines, with a goal to achieve 35-40 percent recurring revenue.

DEFINITIONS

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

Operating Income

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

Bookings and Backlog

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

Recurring Revenue

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

EBIT

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

EBITDA

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

ROCE

ROCE is a measure to analyze operating performance and efficiency of the Company's capital allocation process. The ratio is calculated by taking EBIT for the 12-month trailing period divided by capital employed. Capital employed is debt and equity less cash for the trailing five quarters.

Net Debt to EBITDA

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

NON-GAAP MEASURES

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

	Three months ended December 31,		Twelve months ended December 31,	
($ Canadian thousands)	**2017**	2016	**2017**	2016
EBITDA				
Earnings (loss) before finance costs and taxes	**$ 47,215**	$ (36,284)	**$ 145,795**	$ (81,472)
Depreciation and amortization	**20,220**	23,842	**80,578**	93,099
EBITDA	**$ 67,435**	$ (12,442)	**$ 226,373**	$ 11,627
Recurring Revenue				
Service	**$ 83,736**	$ 83,741	**$ 308,185**	$ 298,691
Rental	**45,673**	44,398	**153,540**	172,769
Total recurring revenue	**$ 129,409**	$ 128,139	**$ 461,725**	$ 471,460
ROCE				
Trailing 12-month EBIT[1]	**$ 145,795**	$ (81,472)	**$ 145,795**	$ (81,472)
Capital employed - beginning of period				
Net debt	**$ 202,758**	$ 249,564	**$ 202,402**	$ 420,559
Shareholders' equity	**1,115,155**	1,158,957	**1,117,627**	1,158,040
	$ 1,317,913	$ 1,408,521	**$ 1,344,029**	$ 1,578,599
Capital employed - end of period				
Net debt	**$ 232,726**	$ 226,402	**$ 232,726**	$ 226,402
Shareholders' equity	**1,134,472**	1,117,627	**1,134,472**	1,117,627
	$ 1,367,198	$ 1,344,029	**$ 1,367,198**	$ 1,344,029
Average capital employed[2]	**$ 1,342,871**	$ 1,430,147	**$ 1,342,871**	$ 1,430,147
Return on capital employed	**10.9%**	(5.7)%	**10.9%**	(5.7)%

[1]*Includes the impact of impairments.*
[2]*Based on a trailing five-quarter average.*

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue[1]	Net earnings[1]	Earnings per share – basic[1]	Earnings per share – diluted[1]
December 31, 2017	$ 450,065	$ 26,702	$ 0.30	$ 0.30
September 30, 2017	315,019	25,188	0.28	0.28
June 30, 2017	433,484	21,346	0.24	0.23
March 31, 2017	354,787	24,517	0.28	0.28
December 31, 2016	343,385	(45,488)	(0.54)	(0.54)
September 30, 2016	262,449	17,596	0.23	0.23
June 30, 2016	253,068	16,841	0.21	0.21
March 31, 2016	271,702	(93,477)	(1.18)	(1.18)

[1] *Amounts presented are from continuing operations.*

($ Canadian thousands, except per share amounts)	Total Assets	Total Non-Current Financial Liabilities	Cash Dividends Declared Per Share
December 31, 2017	$ 2,130,602	$ 460,010	$ 0.35
December 31, 2016	1,881,943	393,963	0.34
December 31, 2015	2,209,264	528,140	0.34
December 31, 2014	2,144,988	505,076	0.31
December 31, 2013	1,416,079	92,935	0.28

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at December 31, 2017 compared to December 31, 2016:

($ Canadian millions)	Increase (Decrease)	Explanation
Working capital	$40.9	The increase in working capital reflects the higher cash balances on hand at December 31, 2017. Non-cash working capital has decreased from year-end, primarily driven by increases in accounts payable and deferred revenue, partially offset by an increase in accounts receivable. Increases in working capital balances reflect the higher levels of activity in 2017 as compared to 2016.
Rental equipment	$74.1	The increase in rental assets is due to the growth in the USA rental fleet through the acquisition of contract compression assets and capital spending on rental equipment, offset by depreciation and a weakening U.S. dollar relative to the Canadian dollar when comparing the December 31, 2017 exchange rate to December 31, 2016.
Total assets	$248.7	The increase in total assets is primarily related to the increase in cash, accounts receivable, inventory, and rental equipment, partially offset by fixed asset depreciation, and the weakening U.S. dollar relative to the Canadian dollar on a year-to-date basis, which unfavorably impacts U.S. dollar denominated assets.
Long-term debt	$66.0	The increase in long-term debt is due to the drawings on the Bank Facility to fund the Mesa acquisition, offset by a stronger Canadian dollar, which impacted the revaluation of U.S. dollar denominated debt.
Decommissioning liability	$(9.0)	The decrease in decommissioning liability is due to the decommissioning activities performed in 2017 relating to requirements under a former rental contract, which brought the decommissioning provision to nil at December 31, 2017.
Shareholders' equity before non-controlling interest	$18.2	Shareholders' equity before non-controlling interest increased due to net earnings of $97.6 million, and $5.0 million of stock option costs, offset by a $52.9 million unrealized loss on translation of foreign operations and dividends of $31.0 million.

There were no significant developments in the quarter related to the arbitration proceedings against OOCEP. Previously disclosed variation claims are subject to the outcome of the arbitration proceedings. Approximately $29.2 million in milestone payments due from OOCEP are overdue and remain unpaid. Enerflex is unable to predict when the arbitration will be resolved.

PRIVATE PLACEMENT

On December 15, 2017, the Company closed a private placement offering of senior unsecured notes. Pursuant to the private placement, the Company issued $105.0 million U.S. dollar and $15.0 million Canadian dollar 7-year notes maturing December 15, 2024 bearing an interest rate of 4.67 percent and 4.50 percent respectively, and $70.0 million U.S. dollar and $30.0 million Canadian dollar 10-year notes maturing December 15, 2027 bearing an interest rate of 4.87 percent and 4.79 percent respectively.

LIQUIDITY

The Company expects that continued cash flows from operations in 2017, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets. As at December 31, 2017, the Company held cash and cash equivalents of $227.3 million and had cash drawings of $160.6 million against the Bank Facility, leaving it with access to $560.6 million for future drawings. The Company continues to meet its Bank Facility covenant requirements with a net debt to EBITDA ratio of approximately 1:1 compared to the maximum ratio of 3:1.

Summarized Statements of Cash Flow

($ Canadian thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	**2017**	2016
Cash, beginning of period	**$ 260,371**	$ 162,360	**$ 167,561**	$ 158,081
Cash provided by (used in):				
Operating activities	**12,485**	4,351	**179,251**	91,792
Investing activities	**(34,392)**	23,430	**(154,838)**	18,887
Financing activities	**(11,075)**	(23,302)	**37,455**	(99,529)
Exchange rate changes on foreign currency cash	**(105)**	722	**(2,145)**	(1,670)
Cash, end of period	**$ 227,284**	$ 167,561	**$ 227,284**	$ 167,561

Operating Activities

For the three months ended December 31, 2017, as compared with the same period in 2016, cash provided by operating activities increased primarily due to improved operational results. For the twelve months ended December 31, 2017, as compared to the same period in 2016, cash provided by operating activities was positively impacted by improved operational results and an increase in non-cash working capital.

Investing Activities

For the three and twelve months ended December 31, 2017 cash used in investing activities increased due to the acquisition of contract compression assets and capital spending on rental equipment, partially offset by increased proceeds on the disposal of buildings.

Financing Activities

For the three and twelve months ended December 31, 2017, cash provided by financing activities increased primarily due to higher draws on the credit facility to fund the Mesa acquisition.

RISK MANAGEMENT

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

Energy Prices, Industry Conditions, and the Cyclical Nature of the Energy Industry

The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. The capital expenditures of these companies, along with those midstream companies who service these oil and gas producers and explorers, drive the demand for Enerflex's equipment. Capital expenditure decisions are based on various factors, including but not limited to demand for hydrocarbons and prices of related products, exploration and development prospects in various jurisdictions, production levels of their reserves and access to capital — none of which can be accurately predicted. Periods of prolonged or substantial reductions in commodity prices, which are currently being experienced, may lead to reduced levels of exploration and production activities, and therefore capital expenditures, which may negatively impact the demand for the products and services that Enerflex offers. Even the perception of lower oil or gas prices over the long term can result in a decision to cancel or postpone exploration and production capital expenditures, which may lead to a reduced demand for products and services offered by Enerflex.

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

Competition

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

The Company may not be able to take advantage of certain opportunities or make certain investments because of debt levels and other obligations. Any of these competitive pressures could have a material adverse effect on the Company's business, financial condition, and results of operations.

Project Execution Risk

Enerflex engineers, designs, manufactures, constructs, commissions, and services hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO_2 processing plants, refrigeration systems, and electric power equipment serving the natural gas production industry. Some of the projects that the Company participates in have a relatively larger size and scope than the majority of its projects, which may translate into more technically challenging conditions or performance specifications for its products and services. These projects typically specify delivery dates, performance criteria, and penalties for the failure to perform. The Company's ability to profitably execute on these solutions for customers is dependent on numerous factors which include, but are not limited to, changes in project scope, the availability and timeliness of external approvals and other required permits, skilled labour availability and productivity, availability and cost of materials and services, design, engineering, and construction errors, and the availability of contractors to deliver on commitments. Any failure to execute on such larger projects in a timely and cost-effective manner could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The Company has made significant progress on a multi-year initiative to integrate its systems and processes, while bringing its facilities to world-class standards. In addition, continuous improvement initiatives are in place to achieve accurate, complete, and timely provision of deliverables. Nonetheless, project risks can translate into performance issues and project delays, as well as project costs being in excess of cost estimates, as evidenced by recent experience in the Canada and USA segment. While the Company will assess the recoverability of these cost overruns, there can be no assurance that these costs will be reimbursed, which may result in a material adverse effect on our business, financial condition, results of operations, and cash flows.

Cyber-Attacks or Terrorism

Enerflex may be threatened by problems such as cyber-attacks, computer viruses, or terrorism that may disrupt operations and harm operating results. The industry requires the continued operation of sophisticated information technology systems and network infrastructure. Enerflex believes that companies have been increasingly subject to a wide variety of security incidents, cyber-attacks, hacking and phishing attacks, and other attempts to gain unauthorized access. These threats may arise from a variety of sources, all ranging in sophistication from an individual hacker to alleged state-sponsored attack. A cyber threat may be generic, or it may be custom-crafted against the specific information technology used by Enerflex. Over the past year, cyber-attacks have become more prevalent and much harder to detect and defend against. In particular the Company has and will continue to be targeted by parties using fraudulent spoof and phishing emails to misappropriate Enerflex information, the information of our customers and suppliers, or to introduce viruses or other malware through "trojan horse" programs into computer networks of the Company, our customers, and/or our suppliers. These phishing emails may appear upon a cursory review to be legitimate emails sent by a member of Enerflex, our customers, or our suppliers. If a member of Enerflex or a member of one of our customers or suppliers fails to recognize that a phishing email has been sent or received and responds or forwards a phishing email this activity may corrupt the computer networks of Enerflex, our customers, and our suppliers and/or confidential information, including passwords through email or downloaded malware. Despite the efforts of Enerflex and our customers and suppliers mitigate spoof and phishing emails through education and technology spoof and phishing emails and the related fallout from failing to detect these activities remains a serious risk for Enerflex, its customers, and its suppliers. In addition to spoof and phishing emails, our network and storage applications may be subject to unauthorized access by hackers or breached due to operator error, malfeasance, or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents.

While the Company expects that the probability of a targeted attack is low, security measures have been implemented to protect the Company's information technology systems and network infrastructure. Despite the implementation of security measures, technology systems may be vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism, and other causes. These security measures put in place by the Company cannot provide absolute security, and the information technology infrastructure may be vulnerable to criminal cyber-attacks or data security incidents due to employee or customer error, malfeasance, or other vulnerabilities. Additionally, Enerflex is reliant on third-party service providers for certain information technology applications. While the Company believes that these third-party service providers have adequate security measures, there can be no assurance that these security measures will prevent any cyber events or computer viruses from impacting the applications that Enerflex relies on. If Enerflex's information technology systems were to fail and it the Company was unable to recover in a timely way, the Company might be unable to fulfill critical business functions, which could damage the Company's reputation and have a material adverse effect on the business, financial condition, and results of operations.

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

Personnel and Contractors

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

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

There are certain jurisdictions where Enerflex relies on third-party contractors to carry out the operation and maintenance of its equipment. The ability of our third-party contractors to find and retain individuals with the proper technical background and training is critical to the continued success of the contracted operations in these jurisdictions. If Enerflex's third-party contractors are unable to

find and retain qualified operators, or the cost of these qualified operators increases substantially, the contract operations business could be materially impacted.

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

Contracted Revenue

Many of our customers finance their exploration and development activities through cash flow from operations, incurrence of debt or issuance of equity. During times when oil or natural gas prices weaken, our customers are more likely to experience decreased cash flow from operations and limitations on their ability to incur debt or raise equity, which could result in customers seeking to preserve capital by seeking price concessions on contracted recurring revenue contracts, cancelling contracts or determining not to renew contracted recurring revenue contracts with us. In addition, we may be unable to renew recurring revenue contracts with customers on favorable commercial terms, if at all. Terms of new contracts or renegotiated contracts may also transfer additional risk of liquidated damages, consequential loss, liability caps, and indemnities to the Company. These factors may lead to a reduction in our revenue and net income, which could have a material adverse effect on our business, financial condition, results from operations and cash flows. To the extent that we are unable to renew our existing contracts or enter into new contracts that are on favorable terms to us, our overall revenue mix may change over time which could have a material adverse effect on our business, results from operations and cash flows.

Availability of Raw Materials, Component Parts, or Finished Products

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

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

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

Information Technology

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

Foreign Exchange Risk

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

Transaction Exposure

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

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

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

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

Translation Exposure

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

Assets and liabilities of foreign subsidiaries are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income ("AOCI"). The cumulative currency translation adjustments are recognized in earnings when there has been a reduction in the net investment in the foreign operations.

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net earnings. Such exchange rate fluctuations could be material year-over-year relative to the overall earnings or financial position of the Company.

For the twelve months ended December 31, 2017, a 5 percent depreciation in the Canadian dollar against the U.S. dollar, Australian dollar, British pound and Brazilian real would increase AOCI by $28.6 million. A 5 percent depreciation of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real would increase net earnings before tax by $4.5 million.

Enerflex has entered into a hedge of its exposure to investments in certain foreign subsidiaries, using foreign currency denominated debt. Exchange gains and losses on net investments in foreign subsidiaries are included in AOCI along with the translation gains and losses on the debt being used to hedge the net investments. The AOCI at December 31, 2016 was $125.2 million, which decreased to $72.4 million at December 31, 2017 as a result of changes in the value of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real.

Credit Risk

A substantial portion of Enerflex's accounts receivable balances are with customers involved in the oil and natural gas industry. Many customers finance their exploration and development activities through cash flow from operations, the incurrence of debt or the issuance of equity. During times when the oil or natural gas markets weaken, customers may experience decreased cash flow from operations, or a reduction in their ability to incur debt or access equity financing. A reduction in borrowing bases under reserved-based credit facilities, the lack of availability of debt or equity financing or other factors that negatively impact our customers' financial condition may impair their ability to pay for products or services rendered. Enerflex may extend credit to certain customers for products and services that it provides during its normal course of business. Enerflex monitors its credit exposure to its customers, but there can be no certainty that a credit-related loss will not materialize or have a material adverse impact on the organization. The consolidation of energy producers and the developing trend for smaller start-up exploration corporations may alter Enerflex's exposure to credit risk. The financial failure of a customer may impair the Company's ability to collect on all or a portion of the accounts receivable balance.

The Company has remained diligent during 2017 in assessing credit levels granted to customers, monitoring the aging of receivables, and proactively collecting outstanding balances. The challenging economic conditions have resulted in financial failures in the industry but Enerflex has been able to maintain very low levels of doubtful debts. At December 31, 2017, the Company had one customer in the Canada and USA segments for which the accounts receivable balance was $77.4 million, which represents 17.4 percent of total accounts receivable.

Access to Capital

Enerflex relies on its cash, as well as the credit and capital markets to provide some of the capital required to continue operations. Enerflex relies on its syndicated revolving credit facilities (the "Bank Facility") and senior unsecured notes (the "Senior Notes") to meet its funding and liquidity requirements. The Senior Notes, with various maturity dates, are senior unsecured indebtedness of the organization. The Company's Bank Facility, which is also senior unsecured indebtedness and is subject to floating rates of interest, is due on June 30, 2021 and may be renewed annually with the consent of the lenders. As of December 31, 2017, the Company had $304.5 million outstanding in Senior Notes and $160.6 million outstanding on its Bank Facility.

Significant instability or disruptions to the capital markets, including the credit markets, may impact the Company's ability to successfully re-negotiate all or part of its Bank Facility prior to its due date which could have important adverse consequences including:

- Making it more difficult to satisfy contractual obligations;
- Increasing vulnerability to general adverse economic conditions and industry conditions;
- Limiting the ability to fund future working capital, capital expenditures, or acquisitions;
- Limiting the ability to refinance debt in the future or borrow additional funds to fund ongoing operations; and
- Paying future dividends to shareholders.

As at December 31, 2017, the Company had $560.6 million available in borrowing base on its Bank Facility.

The Company's Bank Facility and the note purchase agreements among the Company and a series of private placement lenders (the "Note Purchase Agreement") also contain a number of covenants and restrictions which Enerflex and its subsidiaries must comply with, including but not limited to use of proceeds, limitations on our ability to incur additional indebtedness, transactions with affiliates, mergers and acquisitions, and our ability to sell assets. The Company's ability to comply with these covenants and restrictions may be affected by events beyond its control, including prevailing economic, financial, and industry conditions. If market or other economic conditions deteriorate, the Company's ability to comply with these covenants may be impaired. Failure to meet any of these covenants, financial ratios, or financial tests could result in events of default under each agreement which require the Company to repay our indebtedness under those agreements and could impair the Company's ability to access the capital markets for financing. While Enerflex is currently in compliance with all covenants, financial ratios, and financial tests, there can be no assurance that it will be able to comply with these covenants, financial ratios, and financial tests in future periods. These events could restrict the Company's and other guarantors' ability to fund its operations, meet its obligations associated with financial liabilities, or declare and pay dividends.

International Operations

Enerflex operates in many countries outside of Canada and the United States, and these operations account for a significant amount of the Company's revenue. Enerflex is exposed to risks inherent in doing business in each of the countries in which it operates, including but not limited to:

- Recessions and other economic crises that may impact the Company's cost of doing business in those countries;
- Difficulties in staffing and managing foreign operations including logistical, security, and communication challenges;
- Changes in foreign government policies, laws, regulations, and regulatory requirements, or the interpretation, application, and/or enforcement thereof;
- Difficulty or expense of enforcing contractual rights due to the lack of a developed legal system or otherwise;
- Renegotiation or nullification of existing contracts;
- The adoption of new, or the expansion of existing, trade, or other restrictions;
- Difficulties, delays, and expenses that may be experienced or incurred in connection with the movement and clearance of personnel and goods through the customs and immigration authorities of multiple jurisdictions;
- Embargoes;
- Acts of war, civil unrest, force majeure, and terrorism;
- Social, political, and economic instability;
- Confiscation, expropriation, or nationalization of property without fair compensation;
- Tax increases or changes in tax laws, legislation, or regulation or in the interpretation, application and/or enforcement thereof; and
- Limitations on the Company's ability to repatriate cash, funds, or capital invested or held in jurisdictions outside Canada.

In addition, Enerflex may expand our business to markets where we have not previously conducted business. The risks inherent in establishing new business ventures, especially in international markets where local customs, laws, and business procedures present special challenges, may affect our ability to be successful in these ventures.

To the extent Enerflex's international operations are affected by unexpected or adverse economic, political and other conditions, the Company's business, financial condition, and results of operations may be adversely affected.

Government Regulation, Foreign Corrupt Practices Act, and Anti-Bribery Laws

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

The Company is required to comply with Canadian and international laws and regulations, including those involving bribery and anti-corruption. Enerflex operates in many parts of the world that experience high levels of corruption, and our business brings us in frequent contact with foreign officials. The Company has controls, policies, procedures, and training that mandate the compliance with these laws and regulations, however there can be no assurance that employees or agents will not violate these controls, policies, and procedures. Any alleged violation of these laws and regulations could disrupt our business and cause Enerflex to incur significant costs to investigate any alleged breach. If Enerflex was found to be in contravention with these laws and regulations, severe civil and criminal penalties and other sanctions could materially harm our reputation, business, result of operations, financial conditions, and liquidity.

Distribution Agreements

One of Enerflex's strategic assets is its purchase and distribution agreements with leading manufacturers, notably for GE Waukesha gas engines and parts business globally and for Jenbacher and MAN engines and parts in Canada. Enerflex is the exclusive distributor for Altronic, a leading manufacturer of electric ignition and control systems, in all of its operating regions. Enerflex also has relationships and agreements with other key equipment manufacturers including Finning CAT (Finning International Inc.), Mustang CAT, and Ariel Corporation.

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

Interest Rate Risk

The Company's liabilities include long-term debt that may be subject to fluctuations in interest rates. The Company's Senior Notes outstanding at December 31, 2017 are at fixed interest rates and therefore will not be impacted by fluctuations in market interest rates. The Company's Bank Facility, however, is subject to changes in market interest rates. As at December 31, 2017 the Company had $160.6 million of indebtedness that is effectively subject to floating interest rates. Changes in economic conditions outside of Enerflex's control could result in higher interest rates, thereby increasing Enerflex's interest expense which may have a material adverse impact on Enerflex's financial results, financial condition or ability to declare and pay dividends.

For each 1 percent change in the rate of interest on the Bank Facility, the change in interest expense for the twelve months ended December 31, 2017 would be $1.6 million. All interest charges are recorded in finance costs on the consolidated statements of earnings in finance costs. Any increase in market interest rates could have a material adverse impact on the Company's financial results, financial condition, or ability to declare and pay dividends.

Climatic Factors and Seasonal Demand

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

Liability Claims

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

Climate Change Risks

The subject of energy and the environment has created intense public debate in Canada, the U.S., and around the world in recent years and into the foreseeable future, and could potentially have a significant impact on all aspects of the economy.

Regulatory Risks

The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including laws or regulations pertaining to the emission of CO_2 and other greenhouse gases ("GHGs") into the atmosphere. Any regulatory changes that impose additional environmental restrictions or requirements on the Company or its customers could increase the Company's operating costs and potentially lead to lower demand for its products and services.

There is growing concern about the connection between the burning of fossil fuels and climate change. Although the Company is not a large producer of GHGs, the products and services of the Company are primarily related to the production of hydrocarbons including crude oil and natural gas, the ultimate consumption of which is generally considered a major source of GHG emissions. Taxes on GHG emissions and mandatory emissions reduction requirements may result in increased cost and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Company's products and services. The Alberta carbon levy, mandatory emissions reduction programs, and the new industry emissions cap in Alberta may also impair the Company's ability to provide its services economically and thus reduce the demand for the Company's services. In the U.S., the Environmental Protection Agency ("EPA") has begun to regulate certain sources of GHGs, including air emissions associated with oil and natural gas production particularly as they

relate to the hydraulic fracturing of natural gas wells. In addition, the EPA has issued regulations requiring the reporting of GHG emissions from certain sources, including petroleum refineries and certain oil and natural gas production facilities, on an annual basis. Legislative bodies in other countries where the Company operates have also adopted GHG emission reduction programs.

The Company is unable to predict the impact of current and pending climate change and emissions reduction legislation and regulatory initiatives on the Company and its equipment or operations, or its customers' operations, and it is possible that such laws or regulations would have a material adverse effect on the Company's business, financial conditions, results of operation and cash flows.

Physical Risks

Some scientists have concluded that increasing GHG concentrations in the atmosphere may produce physical effects, such as increased severity and frequency of storms, droughts, floods, wildfires, and other climate events. Such climate events have the potential to adversely affect the Company's operations or those of its clients, which could in turn have a negative effect on the Company.

Technological Risks

Technological advances and cost declines in renewable power and electric grids, electric vehicles, and batteries may pose a threat to the demand for fossil fuels, which could lead to a lower demand for the Company's products and services.

Social Risks

Non-governmental organizations, shareholders, activists, and consumers may increasingly pressure companies to make their supply chains more sustainable by using less energy and water and producing less waste. Such changing consumer preferences and pressure groups may decrease demand for fossil fuels, which again could have a negative effect on the Company.

Inflationary Pressures

Strong economic conditions and competition for available personnel, materials, and major components may result in significant increases in the cost of obtaining such resources. To the greatest extent possible, Enerflex passes such cost increases on to its customers and it attempts to reduce these pressures through proactive procurement and human resource practices. Should these efforts not be successful, the gross margin and profitability of Enerflex could be adversely affected.

Contract Compression Operations

The length of our contract operations service contracts with customers vary based on operating conditions and customer needs. The initial contract terms typically are not long enough to enable the Company to recoup the cost of the equipment deployed in the contract operations business segment. Many of our North America contract operations services contracts have short initial terms and after the initial term are cancelable on short notice. Enerflex cannot be sure that a substantial number of these contracts will be extended or renewed beyond the initial term or that any of our customers will continue to contract with us. The inability to negotiate extensions or renew a substantial portion of our contract operations services contract, the renewal of such contracts at reduced rates, the inability to contract for additional services with our customers, or the loss of all or a significant portion of the service contracts with any significant customer could lead to a reduction in revenues and net income and could result in asset impairments. This could have a material adverse effect upon our business, financial condition, results of operations, and cash flows.

Insurance

Enerflex's operations are subject to risks inherent in the oil and natural gas services industry, such as equipment defects, malfunctions and failures, and natural disasters with resultant uncontrollable flows of oil and natural gas, fires, spills, and explosions. These risks could expose Enerflex to substantial liability for personal injury, loss of life, business interruption, property damage, pollution, and other liabilities. Enerflex carries insurance to protect the Company against these unforeseen events, subject to appropriate deductibles and the availability of coverage. In addition, the Company has procured cyber security insurance designed to mitigate the cost of a cyber security breach. Executive liability insurance coverage is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. Extreme weather conditions, natural occurrences, and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage.

It is anticipated that insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available in the future on commercially reasonable terms or be available on terms as favourable as Enerflex's current arrangements.

The occurrence of a significant event outside of the scope of coverage of the Enerflex insurance policies could have a material adverse effect on the results of the organization.

Tax Indemnity Agreement

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

CAPITAL RESOURCES

On January 31, 2018, Enerflex had 88,540,398 shares outstanding. Enerflex has not established a formal dividend policy and the Board of Directors anticipates setting the quarterly dividends based on the availability of cash flow and anticipated market conditions, taking into consideration business opportunities and the need for growth capital. Earlier in the fourth quarter of 2017, the Company declared a quarterly dividend of $0.095 per share.

At December 31, 2017, the Company had drawn $160.6 million against the Bank Facility (December 31, 2016 - $357.8 million). The weighted average interest rate on the Bank Facility at December 31, 2017 was 2.6 percent (December 31, 2016 – 2.4 percent).

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

($ Canadian thousands)		**December 31, 2017**		December 31, 2016
Drawings on Bank Facility	**$**	**160,576**	$	357,829
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**146,723**		-
Notes due December 15, 2027		**117,815**		-
Deferred transaction costs		**(5,104)**		(3,866)
	$	**460,010**	$	393,963

At December 31, 2017, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $200.6 million, and $264.5 million thereafter.

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

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

($ Canadian thousands)		**Leases**		**Purchase Obligations**		**Total**
2018	$	14,555	$	324,033	$	338,588
2019		11,127		1,593		12,720
2020		7,502		1,611		9,113
2021		6,324		-		6,324
2022		3,419		-		3,419
Thereafter		3,968		-		3,968
Total contractual obligations	**$**	**46,895**	**$**	**327,237**	**$**	**374,132**

The Company's lease commitments are operating leases for premises, equipment, and service vehicles.

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

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

RELATED PARTIES

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

On December 19, 2017, Enerflex entered into an agreement to terminate a joint operation and to purchase the assets of that joint operation for $2.8 million Brazilian real. This purchase was recorded as a transaction between shareholders. The joint operation had previously been fully consolidated and a non-controlling interest had been recorded in equity and net earnings. Upon termination of the joint operation, the non-controlling interest relating to this joint operation was reduced to nil, and a retained earnings adjustment of $0.6 million was recorded to reflect the difference between the purchase price and the amount by which the non-controlling interest was adjusted.

On October 5, 2016, the Company entered into an agreement to sell the Company's 51 percent interest in the Enerflex-ES joint venture. All transactions with the joint venture up to October 5, 2016 have been included as related party transactions. All transactions occurring with related parties were in the normal course of business operations under the same terms and conditions as transactions with unrelated companies. A summary of the financial statement impacts of all transactions with all related parties is as follows:

December 31,		**2017**		2016
Associate – Roska DBO Revenue	**$**	**881**	$	696
Purchases		**-**		-
Accounts receivable		**10**		10
Joint Operation – Geogas				
Revenue	**$**	**20**	$	666
Purchases		**91**		145
Accounts receivable		**85**		134
Accounts payable		**-**		68
Joint Venture – Enerflex - ES				
Revenue	**$**	**-**	$	53
Purchases		**-**		-
Accounts receivable		**-**		-

All related party transactions are settled in cash.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 5 of the audited consolidated financial statements for the year ended December 31, 2017. The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the, consolidated financial statements:

Revenue Recognition – Construction and Long-Term Service Contracts

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

Provisions for Warranty

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

Business Acquisitions

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

Property, Plant and Equipment

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

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

Allowance for Doubtful Accounts

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

Impairment of Inventories

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

Impairment of Non-Financial Assets

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

Impairment of Goodwill

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

Income Taxes

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

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

Share-Based Compensation

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

Discontinued Operations

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

NEW ACCOUNTING POLICIES

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

IAS 7 Statement of Cash Flows ("IAS 7")

An amendment to IAS 7 requires additional disclosures regarding movements in liabilities arising from financing activities to enable users of the financial statements to evaluate changes in these liabilities. The amendments have been adopted effective January 1, 2017. Required additional disclosures have been included in Supplemental Cash Flow Information in Note 29.

IAS 12 Income Taxes ("IAS 12")

The amendments to IAS 12 clarify treatment for the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value. The amendments have been adopted effective January 1, 2017. There were no changes to the Consolidated Financial Statements as a result of the adoption.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 9 Financial Instruments ("IFRS 9")

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

During the year ended December 31, 2017, an assessment was completed on IFRS 9. The Company determined that IFRS 9 will impact the Company's current policies and procedures regarding impairments on trade receivables.

Currently, trade receivables are carried at the original invoice amount less any amounts estimated to be uncollectable, as detailed in Note 3(j). IFRS 9 requires the use of an expected credit loss model for its trade receivables. The Company performed an assessment to quantify the impact on the financial statements at January 1, 2018 as a result of the change in methodology required under the new standard. The calculated impact is not significant to the financial statements.

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

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

The new standard will be adopted on the effective date using the modified retrospective approach. The Company has reviewed its contracts as part of the transition to the new standard, and has identified all performance obligations relating to promises to customers in these contracts.

The performance obligations identified are disaggregated to align with the major categories of revenue. Performance obligations relating to Engineered Systems include the supply of compression, processing, and electric power equipment, as well as retrofit work and construction on integrated turnkey projects. Performance obligations relating to Service include the sales of parts and equipment, and the servicing of equipment, as well as long-term service agreements for scheduled milestone maintenance, corrective or crash maintenance, the supply of parts, and the operation of equipment. Performance obligations relating to Rental include the leasing of rental assets and the sale of rental equipment.

The performance obligations identified in current contracts are expected to be consistent with those in future contracts, and the Company has used the identified performance obligations as a basis for assessing internal requirements to ensure the required information is available to reliably track and disclose contract revenues and balances. The Company has identified changes to the timing of revenue recognition on Engineered Systems contracts, as described in Note 3(s), and to presentation and disclosure requirements.

Management determined that under IFRS 15, percentage-of-completion revenue recognition will start earlier in a project's life-cycle. The new standard requires that revenue be recognized to the extent costs are incurred until the entity is able to reasonably estimate its progress, assuming the costs are recoverable. The existing standard, IAS 11, allows for zero-margin revenue recognition when a final outcome cannot be estimated but does not require this approach. Under the Company's existing policies, revenue recognition begins only when the outcome can be estimated reliably.

The resulting impact of adoption of the new standard, to be recorded as an adjustment to opening retained earnings on January 1, 2018 is comprised of the following:

Revenue	$	**48,371**
Cost of goods sold		**44,741**
Income taxes		**892**
Retained earnings adjustment	$	**2,738**

The revenue and associated costs included in the retained earnings adjustment, above, would have been included in results for 2018 under the existing standard.

IFRS 15 contains presentation and disclosure requirements which are more expansive than the current standards. This includes expanded detail on current disclosures and other new disclosures, such as contract assets and contract liabilities and discussion on future performance obligations, as well as a reconciliation of transitional adjustments to enable users to compare results presented under the new standard to results from prior periods.

The use of the modified retrospective approach requires an opening retained earnings adjustment on January 1, 2018 to reflect the Company's financial position at that date had the new standard been applied in prior periods, as detailed above. The Company has implemented IT solutions to ensure the information required for these new disclosures and the opening retained earnings adjustment is available upon transition. In addition, the Company has assessed policies and procedures, and internal controls, noting minimal changes arising as a result of the new standard outside of earlier recognition of revenue on percentage-of-completion projects.

Standard setters and accounting groups have released a series of papers providing industry-specific guidance on revenue recognition implementation issues. The Company has reviewed the guidance in these papers and does not anticipate significant changes to policy and disclosure decisions made previously by the Company.

IFRS 16 Leases ("IFRS 16")

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The standard supersedes IAS 17 *Leases* and lease-related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Application of the standard is mandatory and early adoption is permitted only if applied with IFRS 15. A lessee can apply the standard using either a full retrospective or a modified retrospective approach. In 2018, the Company will complete an assessment detailing the potential impacts of IFRS 16 on its consolidated financial statements and will adopt the new standard effective January 1, 2019.

IFRS 2 Share-Based Payment ("IFRS 2")

Narrow scope amendments made to IFRS 2 provide clarification on accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features, and accounting for modifications of share-based payment transaction from cash-settled to equity settled. These amendments will be effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Company will apply the amendments beginning January 1, 2018, and does not anticipate significant changes to the Company's Consolidated Financial Statements.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2017, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on that evaluation, management has concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as at December 31, 2017, to provide reasonable assurance that: a) material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities; and b) information required to be disclosed is recorded, processed, summarized, and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting was adequate and effective as at December 31, 2017, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP.

There have been no significant changes in the design of the Company's ICFR during the twelve months ended December 31, 2017 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

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

Management has limited the scope of the design of DC&P and ICFR to exclude the controls, policies, and procedures of Enerflex Contract Compression, which is predominantly made up of the assets acquired from Mesa as well as rental units entered into service subsequent to the acquisition, the income statement and balance sheet of which is included in the December 31, 2017 audited consolidated financial statements of Enerflex. The scope limitation is in accordance with Section 3.3 of National Instrument 52-109, which allows an issuer to limit its design of ICFR and DC&P to exclude the controls, policies, and procedures of a company acquired not more than 365 days before the end of the financial period to which the certificate relates. Enerflex intends to complete the design of DC&P and ICFR of the operations of Enerflex Contract Compression by July 31, 2018.

($ Canadian millions) For the five months ended December 31, 2017		
Revenue	$	16.7
EBIT		3.9

($ Canadian millions) *As at December 31, 2017*		Mesa
Current Assets	$	8.8
Non-current assets		131.0
Current liabilities		5.0
Non-current liabilities		-

SUBSEQUENT EVENTS

Subsequent to December 31, 2017, the Company announced a quarterly dividend of $0.095 per share, payable on April 5, 2018, to shareholders of record on March 8, 2018.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. These statements relate to management's expectations about future events, results of operations and the Company's future performance (both operational and financial) and business prospects. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "objective" and "capable" and similar expressions are intended to identify forward-looking information. In particular, this MD&A includes (without limitation) forward-looking information pertaining to: anticipated financial performance; future capital expenditures, including the amount and nature thereof; bookings and backlog; oil and gas prices and the impact of such prices on demand for Enerflex products and services; development trends in the oil and gas industry; seasonal variations in the activity levels of certain oil and gas markets; business prospects and strategy; expansion and growth of the business and operations, including market share and position in the energy service markets; the ability to raise capital; the ability of existing and expected cash flows and other cash resources to fund investments in working capital and capital assets; the impact of economic conditions on accounts receivable; expectations regarding future dividends; expectations and implications of changes in government regulation, laws and income taxes; and other such matters.

All forward-looking information in this MD&A, primarily in the Enerflex Strategy and Outlook for Markets sections, is subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations, including, without limitation: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids, interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; political unrest; and other factors, many of which are beyond the Company's control. Readers are cautioned that the foregoing list of assumptions and risk factors should not be construed as exhaustive. As a result of such known and unknown risks, uncertainties and other factors, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur. The forward-looking information included in this MD&A should not be unduly relied upon.

The forward-looking information contained herein is expressly qualified in its entirety by the above cautionary statement. The forward-looking information included in this MD&A is made as of the date of this MD&A and, other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL POSITION

TO THE SHAREHOLDERS OF ENERFLEX LTD.

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

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

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

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

[signed] "J. Blair Goertzen"

J. Blair Goertzen
President, Chief Executive Officer, and Director

[signed] "D. James Harbilas"

D. James Harbilas
Executive Vice President and Chief Financial Officer

February 22, 2018

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ENERFLEX LTD.

We have audited the accompanying consolidated financial statements of Enerflex Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of earnings (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

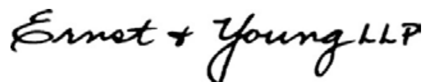
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enerflex Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants



Calgary, Canada
February 22, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS

($ Canadian thousands)		December 31, 2017		December 31, 2016
Assets				
Current assets				
Cash and cash equivalents	$	**227,284**	$	167,561
Accounts receivable (Note 9)		**445,714**		310,625
Inventories (Note 10)		**171,455**		163,943
Income taxes receivable		**14,621**		4,861
Derivative financial instruments (Note 27)		**470**		137
Other current assets		**9,937**		6,693
Total current assets		**869,481**		653,820
Property, plant and equipment (Note 11)		**97,232**		121,692
Rental equipment (Note 11)		**462,164**		388,092
Deferred tax assets (Note 19)		**47,862**		55,934
Other assets (Note 12)		**50,423**		54,042
Intangible assets (Note 13)		**35,452**		36,537
Goodwill (Note 14)		**567,988**		571,826
Total assets	$	**2,130,602**	$	1,881,943
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities (Note 15)	$	**322,951**	$	205,872
Provisions (Note 16)		**15,653**		21,171
Income taxes payable		**5,585**		4,228
Deferred revenues		**143,303**		82,086
Derivative financial instruments (Note 27)		**813**		194
Total current liabilities		**488,305**		313,551
Long-term debt (Note 17)		**460,010**		393,963
Decommissioning liability		**-**		8,994
Deferred revenues		**172**		294
Deferred tax liabilities (Note 19)		**32,957**		34,335
Other liabilities		**14,686**		13,179
Total liabilities	$	**996,130**	$	764,316
Shareholders' equity				
Share capital (Note 20)	$	**357,696**	$	353,263
Contributed surplus (Note 21)		**654,076**		653,503
Retained earnings (deficit)		**49,011**		(17,000)
Accumulated other comprehensive income		**72,364**		125,224
Total shareholders' equity before non-controlling interest		**1,133,147**		1,114,990
Non-controlling interest (Note 30)		**1,325**		2,637
Total shareholders' equity and non-controlling interest		**1,134,472**		1,117,627
Total liabilities and shareholders' equity	$	**2,130,602**	$	1,881,943

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

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

($ Canadian thousands, except per share amounts)	Year ended December 31, 2017	2016
Revenue (Note 22)	**$ 1,553,355**	$ 1,130,604
Cost of goods sold	**1,266,832**	886,820
Gross margin	**286,523**	243,784
Selling and administrative expenses	**164,249**	178,371
Operating income	**122,274**	65,413
Gain on disposal of property, plant and equipment	**22,465**	11,523
Equity earnings from associate and joint venture	**1,056**	2,486
Impairment of goodwill (Note 14)	**-**	(160,894)
Earnings (loss) before finance costs and income taxes	**145,795**	(81,472)
Net finance costs (Note 25)	**12,727**	14,056
Earnings (loss) before income taxes	**133,068**	(95,528)
Income taxes (Note 19)	**35,315**	9,000
Net earnings (loss) from continuing operations	**$ 97,753**	$ (104,528)
Earnings from discontinued operations (Note 8)	**-**	388
Net earnings (loss)	**$ 97,753**	$ (104,140)
Net earnings (loss) attributable to:		
Controlling interest	**$ 97,623**	$ (104,705)
Non-controlling interest	**130**	565
	$ 97,753	$ (104,140)
Earnings (loss) per share – basic (Note 26)		
Continuing operations	**$ 1.10**	$ (1.28)
Discontinued operations	**$ -**	$ 0.01
Earnings (loss) per share – diluted (Note 26)		
Continuing operations	**$ 1.10**	$ (1.28)
Discontinued operations	**$ -**	$ 0.01
Weighted average number of shares – basic	**88,491,714**	82,018,985
Weighted average number of shares – diluted	**89,104,588**	82,062,123

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

($ Canadian thousands)	Year ended December 31, **2017**	2016
Net earnings (loss)	**$ 97,753**	$ (104,140)
Other comprehensive income (loss):		
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:		
Change in fair value of derivatives designated as cash flow hedges, net of income tax recovery	**(287)**	(54)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**360**	1,175
Unrealized gain (loss) on translation of foreign denominated debt	**23,813**	9,792
Unrealized gain (loss) on translation of financial statements of foreign operations	**(78,188)**	(34,560)
Other comprehensive income (loss)	**$ (54,302)**	$ (23,647)
Total comprehensive income (loss)	**$ 43,451**	$ (127,787)
Other comprehensive income (loss) attributable to:		
Controlling interest	**$ (52,860)**	$ (21,745)
Non-controlling interest	**(1,442)**	(1,902)
	$ (54,302)	$ (23,647)

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

($ Canadian thousands)	Year ended December 31, 2017	2016
Operating Activities		
Net earnings (loss)	$ 97,753	$ (104,140)
Items not requiring cash and cash equivalents:		
Depreciation and amortization	80,578	93,099
Equity earnings from associate and joint venture	(1,056)	(2,486)
Deferred income taxes (Note 19)	7,790	(11,598)
Share-based compensation expense (Note 23)	6,915	9,731
Gain on sale of property, plant and equipment	(22,465)	(12,323)
Impairment of goodwill (Note 14)	-	160,894
Cash provided by operating activities before changes in non-cash working capital	169,515	133,177
Net change in non-cash working capital and other (Note 29)	9,736	(41,385)
Cash provided by operating activities	$ 179,251	$ 91,792
Investing Activities		
Acquisition (Note 7)	$ (144,207)	$ -
Additions to:		
Property, plant and equipment (Note 11)	(6,952)	(4,764)
Rental equipment (Note 11)	(50,695)	(17,705)
Proceeds on disposal of:		
Property, plant and equipment (Note 11)	36,746	18,420
Rental equipment (Note 11)	7,742	8,293
Change in other assets	2,528	14,643
Cash (used in) provided by investing activities	$ (154,838)	$ 18,887
Financing Activities		
Proceeds from equity financing (Note 20)	$ -	$ 115,043
Share issuance costs related to equity financing (Note 20)	-	(5,135)
Repayment of borrowings under credit facility (Note 17)	(205,165)	(186,186)
Issuance of long-term debt (Note 17)	269,595	-
Dividends	(30,066)	(26,921)
Stock option exercises	3,091	3,670
Cash provided by (used in) financing activities	$ 37,455	$ (99,529)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	$ (2,145)	$ (1,670)
Increase in cash and cash equivalents	59,723	9,480
Cash and cash equivalents, beginning of period	167,561	158,081
Cash and cash equivalents, end of period	$ 227,284	$ 167,561

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

($ Canadian thousands)	Share capital	Contributed surplus	Retained Earnings (deficit)	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	**Total**
At January 1, 2016	$ 238,580	$ 653,120	$ 115,397	$ 149,124	$ (2,155)	$ 146,969	$ 1,154,066	$ 3,974	$ 1,158,040
Net earnings (loss)	-	-	(104,705)	-	-	-	(104,705)	565	(104,140)
Other comprehensive income (loss)	-	-	-	(22,866)	1,121	(21,745)	(21,745)	(1,902)	(23,647)
Bought deal equity financing	111,294	-	-	-	-	-	111,294	-	111,294
Effect of stock option plans	3,389	383	-	-	-	-	3,772	-	3,772
Dividends	-	-	(27,692)	-	-	-	(27,692)	-	(27,692)
At December 31, 2016	$ 353,263	$ 653,503	$ (17,000)	$ 126,258	$ (1,034)	$ 125,224	$ 1,114,990	$ 2,637	$ 1,117,627
Net earnings (loss)	-	-	97,623	-	-	-	97,623	130	97,753
Other comprehensive income (loss)	-	-	-	(52,933)	73	(52,860)	(52,860)	(1,442)	(54,302)
Joint operation adjustment (Note 30)	-	-	(632)	-	-	-	(632)	-	(632)
Effect of stock option plans	4,433	573	-	-	-	-	5,006	-	5,006
Dividends	-	-	(30,980)	-	-	-	(30,980)	-	(30,980)
At December 31, 2017	**$ 357,696**	**$ 654,076**	**$ 49,011**	**$ 73,325**	**$ (961)**	**$ 72,364**	**$ 1,133,147**	**$ 1,325**	**$ 1,134,472**

See Accompanying Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1. NATURE AND DESCRIPTION OF THE COMPANY

Enerflex Ltd. ("Enerflex" or "the Company") is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems, and electric power equipment – plus in-house engineering and mechanical services expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission, and service hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO_2 processing facilities, refrigeration systems, and electric power equipment serving the natural gas production industry.

Headquartered in Calgary, the registered office is located at 904, 1331 Macleod Trail SE, Calgary, Canada. Enerflex has approximately 2,100 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint ventures, operate in Canada, the United States of America, Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom ("UK"), Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, Indonesia, Malaysia, and Thailand. Enerflex operates three business segments: Canada, USA, and Rest of World.

The following table represents material subsidiaries of the Company:

Name	Jurisdiction of Incorporation	Ownership	Operating Segment
Enerflex Ltd.	Canada	Public Shareholders	Canada
Enerflex Inc.	Delaware, U.S.	100.0 percent	USA
Enerflex Middle East SPC	Bahrain	100.0 percent	Rest of World
Enerflex Middle East LLC	Oman	70.0 percent	Rest of World
Enerflex Compression Services Mexico S de RL de CV	Mexico	100.0 percent	Rest of World

NOTE 2. BASIS OF PRESENTATION

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and were approved and authorized for issue by the Board of Directors on February 22, 2018. Certain prior year amounts have been reclassified to conform with the current period's presentation.

(b) Basis of Measurement

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

(c) Functional Currency and Presentation Currency

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

(d) Use of Estimates and Judgment

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

(e) Basis of Consolidation

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

The Company holds a 50 percent ownership interest in a joint operation in Brazil. Under *IFRS 10 Consolidated Financial Statements*, the Company has determined that it has control of the arrangement as it controls the operating committee based on voting rights. As a result, the Company fully consolidates the arrangement and has recorded a non-controlling interest in equity and net earnings.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Investments in Associates and Joint Ventures

The Company uses the equity method to account for its 45 percent investment in Roska DBO. Under the equity method, the investments are carried on the consolidated statements of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate or joint venture.

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

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

(b) Foreign Currency Translation

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

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

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

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

(c) Business Combinations

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

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

(d) Property, Plant and Equipment

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

Asset Class	Estimated Useful Life Range
Buildings	5 to 20 years
Equipment	3 to 20 years

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

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

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

(e) Rental Equipment

Rental equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are generally between 5 and 20 years.

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

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

(f) Goodwill

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

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

(g) Intangible Assets

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

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

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

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

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

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

(i) Inventories

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

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

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

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

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

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

(j) Trade Receivables

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

(k) Cash

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

(l) Provisions

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

(m) Decommissioning Liabilities

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

(n) Onerous Contracts

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

(o) Employee Future Benefits

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

(p) Share-Based Payments

Equity-Settled Share-Based Payments

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

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

Cash-Settled Share-Based Payments

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

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

(q) Leases

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

Company as a Lessor

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

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

Company as a Lessee

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

(r) Revenue Recognition

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

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

(s) Construction Contracts

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

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

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

(t) Financial Instruments

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

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

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

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

The Company has made the following classifications:

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

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

(u) Derivative Financial Instruments and Hedge Accounting

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

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

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

the consolidated statements of earnings (loss). Amounts charged to accumulated other comprehensive income are reclassified to the consolidated statements of earnings (loss) when the hedged transaction affects the consolidated statements of earnings (loss).

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

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

(v) Income Taxes

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

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

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

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

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

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

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

In accordance with IAS 12, where an entity's tax return is prepared in a currency other than its functional currency, changes in the exchange rate between the two currencies create temporary differences with respect to the valuation of non-monetary assets and liabilities. As a result, deferred tax is recognized in the statements of earnings (loss) and the statement of financial position.

(w) Assets Held for Sale and Discontinued Operations

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

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

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

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

(x) Earnings Per Share

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

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

(y) Finance Costs and Income

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

Finance costs comprise interest expense on borrowings.

NOTE 4. CHANGES IN ACCOUNTING POLICIES

(a) IAS 7 Statement of Cash Flows ("IAS 7")

An amendment to IAS 7 requires additional disclosures regarding movements in liabilities arising from financing activities to enable users of the financial statements to evaluate changes in these liabilities. The amendments have been adopted effective January 1, 2017. Required additional disclosures have been included in Supplemental Cash Flow Information in Note 29.

(b) IAS 12 Income Taxes ("IAS 12")

The amendments to IAS 12 clarify treatment for the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value. The amendments have been adopted effective January 1, 2017. There were no changes to the Consolidated Financial Statements as a result of the adoption.

NOTE 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENT

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

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

Revenue Recognition – Construction and Long-Term Service Contracts

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

Provisions for Warranty

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

Business Acquisitions

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

Property, Plant and Equipment

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

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

Allowance for Doubtful Accounts

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

Impairment of Inventories

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

Impairment of Non-Financial Assets

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

Impairment of Goodwill

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

Income Taxes

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

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

Share-Based Compensation

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

Discontinued Operations

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

NOTE 6. NEW POLICIES, STANDARDS, INTERPRETATIONS AND AMENDMENTS

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

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

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

During the year ended December 31, 2017, an assessment was completed on IFRS 9. The Company determined that IFRS 9 will impact the Company's current policies and procedures regarding impairments on trade receivables.

Currently, trade receivables are carried at the original invoice amount less any amounts estimated to be uncollectable, as detailed in Note 3(j). IFRS 9 requires the use of an expected credit loss model for its trade receivables. The Company performed an assessment to quantify the impact on the financial statements at January 1, 2018 as a result of the change in methodology required under the new standard. The calculated impact is not significant to the financial statements.

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

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

The new standard will be adopted on the effective date using the modified retrospective approach. The Company has reviewed its contracts as part of the transition to the new standard, and has identified all performance obligations relating to promises to customers in these contracts.

The performance obligations identified are disaggregated to align with the major categories of revenue. Performance obligations relating to Engineered Systems include the supply of compression, processing, and electric power equipment, as well as retrofit work and construction on integrated turnkey projects. Performance obligations relating to Service include the sales of parts and equipment, and the servicing of equipment, as well as long-term service agreements for scheduled milestone maintenance, corrective or crash maintenance, the supply of parts, and the operation of equipment. Performance obligations relating to Rental include the leasing of rental assets and the sale of rental equipment.

The performance obligations identified in current contracts are expected to be consistent with those in future contracts, and the Company has used the identified performance obligations as a basis for assessing internal requirements to ensure the required information is available to reliably track and disclose contract revenues and balances. The Company has identified changes to the timing of revenue recognition on Engineered Systems contracts, as described in Note 3(s), and to presentation and disclosure requirements.

Management determined that under IFRS 15, percentage-of-completion revenue recognition will start earlier in a project's life-cycle. The new standard requires that revenue be recognized to the extent costs are incurred until the entity is able to reasonably estimate its progress, assuming the costs are recoverable. The existing standard, IAS 11, allows for zero-margin revenue recognition when a final outcome cannot be estimated but does not require this approach. Under the Company's existing policies, revenue recognition begins only when the outcome can be estimated reliably.

The resulting impact of adoption of the new standard, to be recorded as an adjustment to opening retained earnings on January 1, 2018 is comprised of the following:

Revenue	$	**48,371**
Cost of goods sold		**44,741**
Income taxes		**892**
Retained earnings adjustment	$	**2,738**

The revenue and associated costs included in the retained earnings adjustment, above, would have been included in results for 2018 under the existing standard.

IFRS 15 contains presentation and disclosure requirements which are more expansive than the current standards. This includes expanded detail on current disclosures and other new disclosures, such as contract assets and contract liabilities and discussion on future performance obligations, as well as a reconciliation of transitional adjustments to enable users to compare results presented under the new standard to results from prior periods.

The use of the modified retrospective approach requires an opening retained earnings adjustment on January 1, 2018 to reflect the Company's financial position at that date had the new standard been applied in prior periods, as detailed above. The Company has implemented IT solutions to ensure the information required for these new disclosures and the opening retained earnings adjustment is available upon transition. In addition, the Company has assessed policies and procedures, and internal controls, noting minimal changes arising as a result of the new standard outside of earlier recognition of revenue on percentage-of-completion projects.

Standard setters and accounting groups have released a series of papers providing industry-specific guidance on revenue recognition implementation issues. The Company has reviewed the guidance in these papers and does not anticipate significant changes to policy and disclosure decisions made previously by the Company.

(c) IFRS 16 Leases ("IFRS 16")

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The standard supersedes IAS 17 *Leases* and lease-related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Application of the standard is mandatory and early adoption is permitted only if applied with IFRS 15. A lessee can apply the standard using either a full retrospective or a modified retrospective approach. In 2018, the Company will complete an assessment detailing the potential impacts of IFRS 16 on its consolidated financial statements and will adopt the new standard effective January 1, 2019.

(d) IFRS 2 Share-Based Payment ("IFRS 2")

Narrow scope amendments made to IFRS 2 provide clarification on accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features, and accounting for modifications of share-based payment transaction from cash-settled to equity settled. These amendments will be effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Company will apply the amendments beginning January 1, 2018, and does not anticipate significant changes to the Company's Consolidated Financial Statements.

NOTE 7. ACQUISITION

On July 31, 2017, Enerflex completed the acquisition of the U.S. based contract compression business of Mesa Compression, LLC ("Mesa") for $115.5 million U.S. dollars, including closing purchase price adjustments. Mesa is a supplier of contract compression services with operations in Oklahoma, Texas, and New Mexico. Key energy infrastructure assets acquired by Enerflex pursuant to the Acquisition includes 689 compression packages totaling approximately 112,000 horsepower. Over 50 employees and all members of Mesa's senior operations team have joined Enerflex. The purchase of Mesa was funded by drawing on the Company's credit facilities.

The fair value of the identifiable assets acquired and liabilities assumed as at July 31, 2017, in Canadian dollars, were as follows:

Net working capital	$	**2,686**
Net fixed assets		**115,743**
Identified intangible assets		**8,365**
Goodwill		**18,267**
Property taxes payable		**(854)**
Total net assets acquired	**$**	**144,207**

Goodwill of $18.3 million was recognized as the excess of the acquisition cost over the fair value of the identifiable net assets at the date of the acquisition. The goodwill recognized is attributable mainly to the expected future growth potential of the contract compression business and the customer base of the acquired operations.

Acquisition costs relating to external legal, consulting, due diligence, financial advisory, and other closing costs for the year were $1.1 million, and have been included in selling, general and administrative expenses in the Company's consolidated statements of earnings (loss).

For the year ended December 31, 2017, Enerflex Contract Compression, which is predominantly made up of the assets acquired from Mesa as well as rental units entered into service subsequent to the acquisition, contributed $16.7 million of revenue and $3.9 million of earnings before tax, which has been included in the consolidated statements of earnings (loss). Revenue would have been approximately $38.8 million higher and earnings before tax would have been approximately $8.4 million higher if Mesa was acquired on January 1, 2017.

NOTE 8. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On February 3, 2015, the Company announced its intention to close the Production and Processing ("P&P") manufacturing facility in Nisku, Alberta and exit the oil sands modular fabrication business. The business unit completed the fabrication of projects at the end of June 2015, and was subsequently shut down. The assets and liabilities of the P&P business unit were disposed, with the exception of a single facility and the related equipment of that facility.

At December 31, 2016 the Company had determined that it was no longer highly probable that the remaining facility would be sold within the required timeframe, and therefore the facility and related assets no longer met the definition of assets held for sale. The assets and liabilities were reclassified to continuing operations, accordingly.

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

Years ended December 31,		**2017**		2016
Revenues	**$**	**-**	$	-
Expenses		**-**		(532)
Earnings before income taxes		**-**		532
Income tax recoveries		**-**		144
Earnings from discontinued operations	**$**	**-**	$	388

The following table summarizes cash from discontinued operations:

Years ended December 31,		**2017**		2016
Cash used in operating activities	**$**	**-**	$	(377)
Cash provided by investing activities		**-**		377
Net cash flow for the period	**$**	**-**	$	-

NOTE 9. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

December 31,		**2017**		2016
Trade receivables	**$**	**297,636**	$	192,783
Less: allowance for doubtful accounts		**(968)**		(1,808)
Trade receivables, net		**296,668**		190,975
Other receivables[1]		**149,046**		119,650
Total accounts receivable	**$**	**445,714**	$	310,625

[1] *Included in other receivables at December 31, 2017 is $131.2 million relating to amounts due from customers under construction contracts (December 31, 2016 – $86.1 million).*

Aging of trade receivables:

December 31,		**2017**		2016
Current to 90 days	**$**	**262,523**	$	171,283
Over 90 days		**35,113**		21,500
	$	**297,636**	$	192,783

Movement in allowance for doubtful accounts:

December 31,		2017		2016
Balance, beginning of year	$	**1,808**	$	2,968
Impairment provision additions on receivables		**737**		1,208
Amounts written off during the year as uncollectible		**(1,505)**		(2,339)
Currency translation effects		**(72)**		(29)
Balance, end of year	$	**968**	$	1,808

NOTE 10. INVENTORIES

Inventories consisted of the following:

December 31,		2017		2016
Equipment	$	**9,510**	$	12,755
Repair and distribution parts		**43,745**		46,762
Direct materials		**50,193**		57,318
Work-in-process		**68,007**		47,108
Total inventories	$	**171,455**	$	163,943

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold during 2017 was $1,266.8 million (December 31, 2016 – $886.8 million). Cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs included in cost of goods sold December 31, 2017 was $4.4 million (December 31, 2016 – $9.1 million).

NOTE 11. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment
Cost						
January 1, 2017	$ 34,040	$ 129,518	$ 66,343	$ 3,600	$ 233,501	$ 570,150
Acquisition	6	33	2,647	-	2,686	113,057
Additions	-	55	2,993	3,904	6,952	50,695
Reclassification	-	548	1,767	(5,010)	(2,695)	398
Disposals	(8,096)	(16,454)	(10,899)	-	(35,449)	(50,108)
Currency translation effects	(1,080)	(5,273)	(1,724)	(194)	(8,271)	(34,974)
December 31, 2017	**$ 24,870**	**$ 108,427**	**$ 61,127**	**$ 2,300**	**$ 196,724**	**$ 649,218**
Accumulated depreciation						
January 1, 2017	$ -	$ (58,113)	$ (53,696)	$ -	$ (111,809)	$ (182,058)
Depreciation charge	-	(6,062)	(6,338)	-	(12,400)	(56,712)
Impairment	-	-	-	-	-	(1,213)
Disposals	-	11,376	9,792	-	21,168	42,366
Currency translation effects	-	2,131	1,418	-	3,549	10,563
December 31, 2017	**$ -**	**$ (50,668)**	**$ (48,824)**	**$ -**	**$ (99,492)**	**$ (187,054)**
Net book value – December 31, 2017	**$ 24,870**	**$ 57,759**	**$ 12,303**	**$ 2,300**	**$ 97,232**	**$ 462,164**

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment
Cost						
January 1, 2016	$ 32,726	$ 123,044	$ 70,520	$ 20,430	$ 246,720	$ 570,016
Additions	207	216	1,300	3,041	4,764	17,705
Reclassification	-	489	738	(16,442)	(15,215)	10,714
Disposals	(3,266)	(5,733)	(6,849)	-	(15,848)	(15,613)
Assets held for sale	4,878	12,771	831	-	18,480	-
Currency translation effects	(505)	(1,269)	(197)	(3,429)	(5,400)	(12,672)
December 31, 2016	**$ 34,040**	**$ 129,518**	**$ 66,343**	**$ 3,600**	**$ 233,501**	**$ 570,150**
Accumulated depreciation						
January 1, 2016	$ -	$ (49,649)	$ (52,092)	$ -	$ (101,741)	$ (120,767)
Depreciation charge	-	(7,282)	(7,223)	-	(14,505)	(65,103)
Impairment	-	(597)	(13)	-	(610)	(5,040)
Disposals	-	3,554	6,197	-	9,751	7,320
Assets held for sale	-	(3,931)	(393)	-	(4,324)	-
Currency translation effects	-	(208)	(172)	-	(380)	1,532
December 31, 2016	**$ -**	**$ (58,113)**	**$ (53,696)**	**$ -**	**$ (111,809)**	**$ (182,058)**
Net book value – December 31, 2016	**$ 34,040**	**$ 71,405**	**$ 12,647**	**$ 3,600**	**$ 121,692**	**$ 388,092**

Depreciation of property, plant and equipment and rental equipment included in earnings for the year ended December 31, 2017 was $69.1 million (December 31, 2016 – $79.6 million), of which $64.3 million was included in cost of goods sold and $4.8 million was included in selling and administrative expenses (December 31, 2016 – $72.7 million and $6.9 million, respectively).

Impairment of property, plant and equipment and rental equipment included in earnings for the year ended December 31, 2017 was $1.2 million (December 31, 2016 – $5.7 million). The impairment relates to write down of rental assets in the USA segment. Management determined the recoverable amounts of these rental assets based on the fair value of the assets or the components of the assets in an active market, less costs of disposal.

NOTE 12. OTHER ASSETS

December 31,		**2017**		2016
Investment in associates and joint ventures	**$**	**19,451**	$	18,396
Prepaid deposits		**342**		2,376
Long-term receivable[1]		**29,195**		31,248
Net investment in finance leases		**1,435**		2,022
	$	**50,423**	$	54,042

[1] Other assets include receivables that were reclassified from current to long-term during the fourth quarter of 2015. These assets represent milestone payments with respect to a gas processing plant constructed and delivered to Oman Oil Exploration and Production LLC ("OOCEP") during 2015, which are overdue and remain unpaid. These amounts are now included in arbitration proceedings, which were initiated in the second quarter of 2015. Enerflex expects a decision to be issued on these arbitration proceedings in 2018.

Net Investment in Finance Leases

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

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

	Minimum lease payments				Present value of minimum lease payments			
December 31,		**2017**		2016		**2017**		2016
Less than one year	**$**	**519**	$	582	**$**	**499**	$	561
Between one and five years		**1,435**		1,925		**1,157**		1,528
Greater than five years		**-**		97		**-**		63
	$	**1,954**	$	2,604	**$**	**1,656**	$	2,152
Less: unearned finance income		**(298)**		(452)		**-**		-
	$	**1,656**	$	2,152	**$**	**1,656**	$	2,152

The average interest rates inherent in the leases are fixed at the contract date for the entire lease term and are approximately 7.3 percent per annum (December 31, 2016 – 7.2 percent). The finance lease receivables at the end of reporting period are neither past due nor impaired.

NOTE 13. INTANGIBLE ASSETS

		Customer relationships and other		Software		Total intangible assets
Acquired value						
January 1, 2017	$	66,856	$	45,932	$	112,788
Acquisition		8,365		-		8,365
Additions		-		78		78
Reclassification		-		2,296		2,296
Disposal		(776)		(83)		(859)
Currency translation effects		(2,249)		(578)		(2,827)
December 31, 2017	**$**	**72,196**	**$**	**47,645**	**$**	**119,841**
Accumulated amortization						
January 1, 2017	$	(42,730)	$	(33,521)	$	(76,251)
Amortization charge		(4,599)		(5,257)		(9,856)
Disposal		287		83		370
Currency translation effects		849		499		1,348
December 31, 2017	**$**	**(46,193)**	**$**	**(38,196)**	**$**	**(84,389)**
Net book value – December 31, 2017	**$**	**26,003**	**$**	**9,449**	**$**	**35,452**

		Customer relationships and other		Software		Total intangible assets
Acquired value						
January 1, 2016	$	67,604	$	43,789	$	111,393
Acquisition		-		-		-
Additions		-		11		11
Reclassification		-		4,500		4,500
Disposal		-		(1,913)		(1,913)
Currency translation effects		(748)		(455)		(1,203)
December 31, 2016	**$**	**66,856**	**$**	**45,932**	**$**	**112,788**
Accumulated amortization						
January 1, 2016	$	(38,441)	$	(28,651)	$	(67,092)
Amortization charge		(4,275)		(7,021)		(11,296)
Disposal		-		1,861		1,861
Currency translation effects		(14)		290		276
December 31, 2016	**$**	**(42,730)**	**$**	**(33,521)**	**$**	**(76,251)**
Net book value – December 31, 2016	**$**	**24,126**	**$**	**12,411**	**$**	**36,537**

NOTE 14. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

December 31,		**2017**		2016
Balance, January 1	**$**	**571,826**	$	748,604
Acquisition		**18,267**		-
Impairment		**-**		(160,894)
Currency translation effects		**(22,105)**		(15,884)
	$	**567,988**	$	571,826

Goodwill acquired through business combinations is allocated to the Canada, USA, and Rest of World business segments, and represents the lowest level at which goodwill is monitored for internal management purposes. For the year ended December 31, 2017, the Company did not identify any indicators of impairment. During the year ended December 31, 2016, Enerflex recognized $160.9 million of goodwill impairment in the Canada segment.

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

The recoverable amounts for the segments have been determined based on value-in-use calculations, using discounted cash flow projections as at December 31, 2017. Management has adopted a five-year projection period to assess each segment's value-in-use. The cash flow projections are based on financial budgets approved by the Board of Directors, including an inflation factor of 2.00 percent (December 31, 2016 – 2.00 percent) for years beyond the budget period, consistent with the approach taken by management in the prior year.

Key Assumptions Used in Value-In-Use Calculations:

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

- Earnings Before Finance Costs and Taxes: Management has made estimates relating to the amount and timing of revenue recognition for projects included in backlog, and the assessment of the likelihood of maintaining and growing market share. For each 1 percent change in earnings before finance costs and taxes, the average impact on the value-in-use of the Company's three segments would be $8.4 million; and
- Discount Rate: Management has used an average post-tax discount rate of 9.73 percent per annum which is derived from the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the Company's estimated equity market risk premium, the Company's cost of debt, and the tax rate in the local jurisdiction. For each 1 percent change in the discount rate, the average impact on the value-in-use of the Company's three segments would be $159.4 million.

The Company completed its annual assessment for goodwill impairment and determined that the recoverable amount for the Canada, USA, and Rest of World segments exceeded the carrying amount using a 9.50 percent (December 31, 2016 – 11.50 percent), 8.07 percent (December 31, 2016 – 9.37 percent) and 11.62 percent (December 31, 2016 – 12.88 percent) post-tax discount rate, respectively.

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

NOTE 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31,		**2017**		2016
Accounts payable and accrued liabilities	**$**	**310,343**	$	195,304
Accrued dividend payable		**8,411**		7,497
Cash-settled share-based payments		**4,197**		3,071
	$	**322,951**	$	205,872

NOTE 16. PROVISIONS

December 31,		**2017**		2016
Warranty provision	**$**	**10,927**	$	13,471
Restructuring provision		**285**		1,418
Legal provision		**94**		47
Onerous lease provision		**4,347**		6,235
	$	**15,653**	$	21,171

2017		Warranty provision		Restructuring provision		Legal Provision		Lease Provision		Total
Balance, January 1	$	13,471	$	1,418	$	47	$	6,235	$	21,171
Additions during the year		8,984		332		92		603		10,011
Amounts settled and released in the year		(10,877)		(1,473)		(46)		(2,578)		(14,974)
Currency translation effects		(651)		8		1		87		(555)
Balance, December 31	**$**	**10,927**	**$**	**285**	**$**	**94**	**$**	**4,347**	**$**	**15,653**

2016		Warranty provision		Restructuring provision		Legal Provision		Lease Provision		Total
Balance, January 1	$	20,208	$	2,623	$	50	$	2,347	$	25,228
Additions during the year		1,428		4,723		11		6,201		12,363
Amounts settled and released in the year		(6,978)		(5,984)		(16)		(2,217)		(15,195)
Currency translation effects		(1,187)		56		2		(96)		(1,225)
Balance, December 31	**$**	**13,471**	**$**	**1,418**	**$**	**47**	**$**	**6,235**	**$**	**21,171**

The Company previously entered into non-cancellable leases for several office spaces and facilities in Canada and Australia. Due to previous business restructuring, the Company ceased using these premises. Onerous lease provisions were recognized in prior years, representing future payments, net of anticipated sub-lease recoveries. The balance of the provision as of December 31, 2017 is $0.5 million for Canada and $3.9 million for Australia (December 31, 2016 – $0.9 million and $5.3 million, respectively).

NOTE 17. LONG-TERM DEBT

On December 15, 2017, the Company closed a private placement offering of senior unsecured notes. Pursuant to the private placement, the Company issued $105.0 million U.S. dollar and $15.0 million Canadian dollar 7-year notes maturing December 15, 2024 bearing an interest rate of 4.67 percent and 4.50 percent respectively, and $70.0 million U.S. dollar and $30.0 million Canadian dollar 10-year notes maturing December 15, 2027 bearing an interest rate of 4.87 percent and 4.79 percent respectively. In addition, the Company has $40.0 million Canadian dollars of unsecured notes with an interest rate of 6.01 percent maturing on June 22, 2021. Collectively, the Company has $304.5 million of unsecured notes ("Notes") issued and outstanding.

The Company has a syndicated revolving credit facility ("Bank Facility") with an amount available of $775.0 million. The Bank Facility has a maturity date of June 30, 2021 ("Maturity Date"), but may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facility may be increased by $100.0 million at the request of the Company, subject to the lenders' consent. There are no required or scheduled repayment of principal until the maturity date of the Bank Facility.

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

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

The Bank Facility is unsecured and ranks pari passu with the Notes. The Company is required to maintain certain covenants on the Bank Facility and the Notes. As at December 31, 2017, the Company was in compliance with these covenants.

The weighted average interest rate on the Bank Facility for the year ended December 31, 2017 was 2.6 percent (December 31, 2016 – 2.4 percent).

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

December 31,		**2017**		2016
Drawings on Bank Facility	$	**160,576**	$	357,829
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**146,723**		-
Notes due December 15, 2027		**117,815**		-
Deferred transaction costs		**(5,104)**		(3,866)
	$	**460,010**	$	393,963

At December 31, 2017, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $200.6 million, and $264.5 million thereafter.

NOTE 18. GUARANTEES, COMMITMENTS AND CONTINGENCIES

At December 31, 2017, the Company had outstanding letters of credit of $53.9 million (December 31, 2016 – $67.5 million).

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

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

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

2018	$	14,555
2019		11,127
2020		7,502
2021		6,324
2022		3,419
Thereafter		3,968
Total	$	46,895

In addition, the Company has purchase obligations over the next three years as follows:

2018	$	324,033
2019		1,593
2020		1,611

NOTE 19. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense (recovery) were as follows:

Years ended December 31,		**2017**		2016
Current income taxes	**$**	**27,525**	$	20,742
Deferred income taxes		**7,790**		(11,742)
	$	**35,315**	$	9,000

(b) Reconciliation of Tax Expense

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

Years ended December 31,		**2017**		2016
Earnings (loss) before income taxes	**$**	**133,068**	$	(95,528)
Canadian statutory rate		**27.0%**		27.0%
Expected income tax provision	**$**	**35,928**	$	(25,793)
Add (deduct):				
Impairment of goodwill not deductible for tax purposes		**-**		43,441
Exchange rate effects on tax basis		**3,636**		6,591
Earnings taxed in foreign jurisdictions		**(2,856)**		(13,691)
Revaluation of USA deferred taxes at new statutory rate		**(149)**		-
(Income) expenses not (taxable) deductible for tax purposes		**(844)**		(627)
Impact of accounting for associates and joint ventures		**(320)**		(824)
Other		**(80)**		(97)
Income taxes	**$**	**35,315**	$	9,000

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

The applicable tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2016 – 15.0 percent) and the provincial income tax rate of 12.0 percent (2016 – 12.0 percent).

(c) Income Tax Recognized in Other Comprehensive Income

Years ended December 31,		**2017**		2016
Deferred Tax				
Arising on income and expenses recognized in other comprehensive income:				
Fair value remeasurement of hedging instruments entered into for cash flow hedges	**$**	**(95)**	$	29
Arising on income and expenses reclassified from other comprehensive income to net earnings:				
Relating to cash flow hedges		**120**		355
Total income tax recognized in other comprehensive income	**$**	**25**	$	384

(d) Net Deferred Tax Assets (Liabilities)

Deferred tax assets and liabilities arise from the following:

		Accounting provisions and accruals		Tax losses		Long-term assets		Other		Exchange rate effects on tax bases		Cash flow hedges		Total[1]
January 1, 2017	$	31,650	$	18,299	$	(16,453)	$	1,973	$	(14,221)	$	351	$	21,599
Charged to net earnings		(9,759)		5,278		568		(241)		(3,636)		-		(7,790)
Charged to OCI		-		-		-		-		-		(25)		(25)
Charged to share capital		-		-		-		-		-		-		-
Exchange differences		(7)		(392)		308		-		1,217		(5)		1,121
December 31, 2017	**$**	**21,884**	**$**	**23,185**	**$**	**(15,577)**	**$**	**1,732**	**$**	**(16,640)**	**$**	**321**	**$**	**14,905**

[1]*Net deferred tax assets at December 31, 2016 of $14.9 million consist of assets of $47.9 million net of liabilities of $33.0 million.*

		Accounting provisions and accruals		Tax losses		Long-term assets		Other		Exchange rate effects on tax bases		Cash flow hedges		Total
January 1, 2016	$	31,135	$	11,275	$	(31,257)	$	1,051	$	(7,996)	$	673	$	4,881
Charged to net earnings		1,563		7,639		9,451		(464)		(6,591)		-		11,598
Charged to OCI		-		-		-		-		-		(384)		(384)
Charged to share capital		-		-		-		1,386		-		-		1,386
Exchange differences		(1,048)		(615)		5,353		-		366		62		4,118
December 31, 2016	**$**	**31,650**	**$**	**18,299**	**$**	**(16,453)**	**$**	**1,973**	**$**	**(14,221)**	**$**	**351**	**$**	**21,599**

Management has determined that it is appropriate to continue to recognize the full amount of the deferred tax asset, which largely consists of accounting provision and tax losses, as all the deductible temporary difference at December 31, 2017 are expected to be utilized against future taxable profit.

The Company has also assessed the U.S. tax reform in the Tax Cuts and Jobs Act ("the Act") on our USA operations. The main impacts to the Company will arise from the reduction of the corporate income tax rate to 21 percent and the ability to immediately expense certain qualified property. The Act has had an immaterial impact on the calculation of the 2017 tax expense and deferred tax liability calculations because of the relatively small balance of timing differences between tax and accounting income as at December 31, 2017. Moving forward, the rate reduction and accelerated capital deductions will reduce the tax expense and will have a positive impact on cash flows by delaying the date that the Company becomes cash taxable.

(e) Unrecognized Deferred Tax Assets

The Company has unused tax losses of $61.4 million for the year ended December 31, 2017 (December 31, 2016 – $61.5 million). Certain of these unrecognized tax losses are subject to expiration in the years 2018 through 2029. Deferred tax assets totaling $15.2 million on these tax losses have not been recognized in the consolidated statements of financial position at December 31, 2017 (December 31, 2016 – $15.3 million).

NOTE 20. SHARE CAPITAL AUTHORIZED

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

Issued and Outstanding

			2017			2016
	Number of common shares		**Common share capital**	Number of common shares		Common share capital
Balance, January 1	**88,296,818**	**$**	**353,263**	79,156,492	$	238,580
Exercise of stock options	**243,580**		**4,433**	187,576		3,389
Equity financing	**-**		**-**	8,952,750		111,294
Balance, December 31	**88,540,398**	**$**	**357,696**	88,296,818	$	353,263

On September 7, 2016, the Company closed a bought deal equity financing (the "Offering") for gross proceeds of $115.0 million. An aggregate of 8,952,750 common shares were issued at a price of $12.85 per share, which includes 1,167,750 common shares issued pursuant to the exercise in full of the over-allotment option. In connection with the Offering, the Company incurred $5.1 million ($3.7 million net of tax) in transaction costs which included $4.6 million in agent fees. Total transaction costs, net of tax, were applied against the gross proceeds in share capital.

Total dividends declared in the year were $31.0 million, or $0.085 per share during the first three quarters and $0.095 per share during the last quarter of 2017 (December 31, 2016 – $27.7 million, or $0.085 per share per quarter).

NOTE 21. CONTRIBUTED SURPLUS

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

		2017		2016
Balance, January 1	$	**653,503**	$	653,120
Share-based compensation		**1,915**		1,489
Exercise of stock options		**(1,342)**		(1,106)
Balance, December 31	$	**654,076**	$	653,503

NOTE 22. REVENUE

Years ended December 31,		2017		2016
Engineered Systems	$	**1,091,630**	$	659,144
Service		**308,185**		298,691
Rentals		**153,540**		172,769
Total revenue	$	**1,553,355**		1,130,604

Proceeds from the sale of rental equipment included in revenue for the year ended December 31, 2017 were $7.7 million (December 31, 2016 – $8.3 million).

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

Years ended December 31,		2017		2016
United States	$	**745,469**	$	346,299
Canada		**393,070**		213,617
Kuwait		**107,205**		66,551
Oman		**58,256**		82,912
Mexico		**53,897**		88,894
Bahrain		**45,358**		45,812
Argentina		**41,007**		96,286
Australia		**38,922**		70,774
United Arab Emirates		**16,580**		19,307
Trinidad and Tobago		**13,149**		646
Brazil		**10,953**		12,129
Other		**29,489**		87,377
Total revenue	$	**1,553,355**	$	1,130,604

NOTE 23. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

Years ended December 31,		2017		2016
Equity settled share-based payments	$	**1,915**	$	1,489
Deferred share units		**55**		3,235
Phantom share entitlement plan		**357**		467
Performance share units		**1,670**		2,189
Restricted share units		**1,988**		1,780
Cash performance target		**930**		571
Total share-based compensation expense	$	**6,915**	$	9,731

(b) Equity-Settled Share-Based Payments

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

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

		2017				2016
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Options outstanding, beginning of period	**2,999,757**	**$**	**13.47**	2,776,268	$	13.47
Granted	**800,498**		**15.75**	599,428		13.27
Exercised [1]	**(243,580)**		**12.70**	(187,576)		12.17
Forfeited	**-**		**-**	(53,477)		12.96
Expired	**(100)**		**12.96**	(134,886)		14.61
Options outstanding, end of period	**3,556,575**	**$**	**14.03**	2,999,757	$	13.47
Options exercisable, end of period	**1,604,238**	**$**	**13.47**	1,363,363	$	13.22

[1]The weighted average share price of options at the date of exercise for the year ended December 31, 2017 was $18.30 (December 31, 2016 – $15.49).

The Company granted 800,498 stock options during 2017 (2016 – 599,428). Using the Black Scholes option pricing model, the weighted average fair value of stock options granted for the period ended December 31, 2017 was $3.77 per option (December 31, 2016 – $2.83).

The weighted average assumptions used in the determinations of fair values are noted below.

	December 31, 2017	December 31, 2016
Expected life (years)	**5.31**	5.23
Expected volatility[1]	**31.1%**	31.5%
Dividend yield	**2.2%**	2.6%
Risk-free rate	**1.9%**	1.0%
Estimated forfeiture rate	**1.4%**	1.5%

[1] Expected volatility is based on the historical volatility of Enerflex over a five-year period, consistent with the expected life of the option.

The following table summarizes options outstanding and exercisable at December 31, 2017:

	Options Outstanding				Options Exercisable			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price
$11.04 - $11.76	1,141,875	3.42	$	11.67	679,314	2.61	$	11.66
$11.77 - $15.04	1,263,684	3.77		13.22	714,621	2.67		13.06
$15.05 - $20.75	1,151,016	5.69		17.27	210,303	3.61		20.75
Total	3,556,575	4.28	$	14.03	1,604,238	2.77	$	13.47

(c) Deferred Share Units

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

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

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

DSUs represent an indexed liability of the Company relative to the Company's share price. For the year ended December 31, 2017, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled $1.3 million (December 31, 2016 – $1.5 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2017	508,295	$	13.29
Granted	75,530		17.65
In lieu of dividends	9,946		18.29
DSUs outstanding, December 31, 2017	**593,771**	**$**	**13.93**

The carrying amount of the liability relating to DSUs as at December 31, 2017 included in current liabilities was nil (December 31, 2016 – nil) and in other long-term liabilities was $9.1 million (December 31, 2016 – $8.7 million).

(d) Phantom Share Entitlement Plan

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

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

In 2017, the Board of Directors granted 119,565 PSEs (December 31, 2016 – 156,708). The intrinsic value of the vested awards at December 31, 2017 was $1.1 million (December 31, 2016 – $0.4 million).

	Number of PSEs		Weighted average grant date fair value per unit
PSEs outstanding, January 1, 2017	322,781	$	13.33
Granted	119,565		15.75
Exercised	(31,800)		12.14
PSEs outstanding, December 31, 2017	**410,546**	**$**	**14.13**

The carrying amount of the liability relating to the PSEs as at December 31, 2017 included in current liabilities was $0.5 million (December 31, 2016 – $0.4 million) and in other long-term liabilities was $0.3 million (December 31, 2016 – $0.3 million).

(e) Performance Share Units

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

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

During 2017, the Company paid $1.1 million for the period ended December 31, 2017 representing units vested in the year (December 31, 2016 – $1.0 million).

	Number of PSUs		Weighted average grant date fair value per unit
PSUs outstanding, January 1, 2017	390,381	$	14.41
Granted	187,127		15.75
In lieu of dividends	7,760		18.28
Vested	(67,421)		16.37
Forfeited	(23,976)		20.75
PSUs outstanding, December 31, 2017	**493,871**	**$**	**14.40**

The carrying amount of the liability relating to PSUs as at December 31, 2017 included in current liabilities was $2.3 million (December 31, 2016 – $1.3 million) and in other long-term liabilities was $1.3 million (December 31, 2016 – $1.8 million).

(f) Restricted Share Units

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

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

During 2017, the Board of Directors granted 122,054 RSUs to officers or key employees of the Company (2016 – 132,943). The Company paid $2.1 million for the period ended December 31, 2017 representing units vested in the year (December 31, 2016 – $1.7 million).

	Number of RSUs		Weighted average grant date fair value per unit
RSUs outstanding, January 1, 2017	267,474	$	12.59
Granted	122,054		15.81
In lieu of dividends	4,891		18.27
Vested	(128,535)		16.37
Forfeited	(10,286)		14.24
RSUs outstanding, December 31, 2017	**255,598**	**$**	**12.27**

The carrying amount of the liability included in current liabilities relating to RSUs at December 31, 2017 was $0.9 million (December 31, 2016 – $1.0 million).

(g) Cash Performance Target Plan

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

During 2017, the Board of Directors distributed $1.3 million of CPT cash grants (2016 – $1.2 million). The Company paid $0.8 million for the period ended December 31, 2017 representing units vested in the year (December 31, 2016 – $0.3 million). The weighted average grant date fair value per unit was $15.75 (December 31, 2016 – $13.27), using the average share price over the five days preceding the grant date.

The carrying amount of the liability included in current liabilities relating to CPT plan at December 31, 2017 was $0.5 million (December 31, 2016 – $0.4 million).

(h) Employee Share Ownership Plan

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

NOTE 24. RETIREMENT BENEFIT PLANS

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

Years ended December 31,	**2017**	2016
Defined contribution plans	**$ 4,869**	$ 5,430
401(k) matched savings plan	**1,781**	1,502
Net pension expense	**$ 6,650**	$ 6,932

NOTE 25. FINANCE COSTS AND INCOME

Years ended December 31,		**2017**		2016
Finance Costs				
Short and long-term borrowings	**$**	**13,786**	$	14,845
Finance Income				
Bank interest income	**$**	**911**	$	612
Income from finance leases		**148**		177
Total finance income	**$**	**1,059**	$	789
Net finance costs	**$**	**12,727**	$	14,056

NOTE 26. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

		2017					2016		
Years ended December 31,		**Net earnings**	**Weighted average shares outstanding**		**Per share**		Net earnings	Weighted average shares outstanding		Per share
Basic	**$**	**97,753**	**88,491,714**	**$**	**1.10**	$	(104,140)	82,018,985	$	(1.27)
Dilutive effect of stock option conversion		**-**	**612,874**		**-**		-	43,138		-
Diluted	**$**	**97,753**	**89,104,588**	**$**	**1.10**	$	(104,140)	82,062,123	$	(1.27)

NOTE 27. FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows:

December 31, 2017		Carrying value		Estimated fair value
Financial Assets				
Cash and cash equivalents	$	**227,284**	$	**227,284**
Derivative instruments in designated hedge accounting relationships		**470**		**470**
Loans and receivables:				
Accounts receivable		**445,714**		**445,714**
Financial Liabilities				
Derivative instruments in designated hedge accounting relationships		**813**		**813**
Other financial liabilities:				
Accounts payable and accrued liabilities		**322,951**		**322,951**
Long-term debt – bank facility		**160,576**		**160,576**
Long-term debt – notes		**304,538**		**310,924**
Other long-term liabilities		**14,686**		**14,686**

December 31, 2016		Carrying value		Estimated fair value
Financial Assets				
Cash and cash equivalents	$	167,561	$	167,561
Derivative instruments in designated hedge accounting relationships		137		137
Loans and receivables:				
Accounts receivable		310,625		310,625
Financial Liabilities				
Derivative instruments in designated hedge accounting relationships		194		194
Other financial liabilities:				
Accounts payable and accrued liabilities		205,872		205,872
Long-term debt – bank facility		357,829		357,829
Long-term debt – notes		40,000		42,095
Other long-term liabilities		13,179		13,179

Fair Values of Financial Assets and Liabilities

The following table presents information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis as at December 31, 2017 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

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

	Carrying value		Fair Value	
		Level 1	Level 2	Level 3
Financial Assets				
Derivative financial instruments	$ 470	$ -	$ 470	$ -
Financial Liabilities				
Derivative financial instruments	$ 813	$ -	$ 813	$ -
Long-term debt – notes	$ 304,538	$ -	$ 310,924	$ -

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

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

Long-term debt associated with the Company's Notes is recorded at amortized cost using the effective interest rate method. The amortized cost of the Notes is equal to the face value as there were no premiums or discounts on the issuance of the debt. Transaction costs associated with the debt were deducted from the debt and are being recognized using the effective interest rate method over the life of the related debt. The fair value of these Notes was determined on a discounted cash flow basis, using a weighted average discount rate of 4.63 percent, was $310.9 million at December 31, 2017.

Derivative Financial Instruments and Hedge Accounting

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

The following table summarizes the Company's commitments to buy and sell foreign currencies as at December 31, 2017:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**26,650**	January 2018 – November 2018
Sales contracts	USD	**(10,012)**	January 2018 – May 2018
Purchase contracts	EUR	**78**	January 2018

Management estimates that a loss of $0.3 million would be realized if the contracts were terminated on December 31, 2017. Certain of these forward contracts are designated as cash flow hedges and accordingly, a loss of $0.3 million has been included in other comprehensive income for the 2017 year (December 31, 2016 – $0.1 million). These gains or losses are not expected to affect net earnings as the gains will be reclassified to net earnings and will offset losses recorded on the underlying hedged items, namely foreign

currency denominated accounts payable and accounts receivable. The amount removed from other comprehensive income during the year and included in the carrying amount of the hedged items for the year 2017 was a gain of $0.4 million (December 31, 2016 – $1.2 million gain).

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

Risks Arising from Financial Instruments and Risk Management

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

Foreign Currency Translation Exposure

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

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

Transaction Exposure

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

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

Translation Exposure

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

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

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net earnings. The following table shows the effect on net earnings before tax for the year 2017 of a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real, everything else being equal. A 5 percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis is provided as an indicative range in a volatile currency environment.

Canadian dollar weakens by 5 percent	**USD**	**AUD**	**GBP**	**BRL**
Net earnings (loss) before tax	**$ 4,718**	**$ (293)**	**$ (49)**	**$ 126**

Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and other comprehensive income. Financial instruments affected by currency risk include cash and cash equivalents, accounts receivable, accounts payable, and derivative financial instruments. The following table shows the Company's sensitivity to a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real. A 5 percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis relates to the position as at December 31, 2017 and for the year then ended.

Canadian dollar weakens by 5 percent	USD	AUD	GBP	BRL
Financial instruments held in foreign operations				
Other comprehensive income	$ 27,442	$ 707	$ 220	$ 280
Financial instruments held in Canadian operations				
Net earnings before tax	$ (11,026)	$ -	$ -	$ -

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

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at December 31, 2017 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facility however, is subject to changes in market interest rates.

For each 1 percent change in the rate of interest on the Bank Facility, the change in interest expense for the year ended December 31, 2017 would be $1.6 million. All interest charges are recorded on the annual consolidated statements of earnings (loss) as finance costs.

Credit Risk

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

The Company has accounts receivable from clients engaged in various industries. These specific industries may be affected by economic factors that may impact accounts receivable. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Credit is extended based on an evaluation of the customer's financial condition and, generally, advance payment is not required. For the year ended December 31, 2017, the Company recognized $331.7 million of revenue from one customer in the USA and Canada segments, which represents 21.4 percent of total revenue for the period. For the year ended December 31, 2016, the Company had no individual customers which accounted for more than 10 percent of its revenues. Outstanding customer receivables are regularly monitored and an allowance for doubtful accounts is established based upon specific situations.

The Company evaluates the concentration of risk at December 31, 2017 with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets. At December 31, 2017, the Company had one customer in the Canada and USA segments for which the accounts receivable balance was $77.4 million, which represents 17.4 percent of total accounts receivable. At December 31, 2016, the Company had no individual customers which accounted for more than 10 percent of accounts receivable. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in this note. The Company does not hold collateral as security.

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

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

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its U.S. Facility and Bank Facility for future drawings to meet the Company's future growth targets. As at December 31, 2017, the Company held cash and cash equivalents of $227.3 million and had drawn $160.6 million against the Bank Facility, leaving it with access to $560.6 million for future drawings.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at December 31, 2017:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 764	$ 49	$ -	$ 813
Accounts payable and accrued liabilities	322,951	-	-	322,951
Long-term debt - Bank Facility	-	-	160,576	160,576
Long-term debt - Notes	-		304,538	304,538
Other long-term liabilities	-	-	14,686	14,686

The Company expects that cash flows from operations in 2018, together with cash and cash equivalents on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

NOTE 28. CAPITAL DISCLOSURES

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

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

Net Debt to EBITDA Ratio

Net debt to EBITDA is defined as short and long-term debt less cash and cash equivalents at the end of the period, divided by annualized EBITDA. At December 31, 2017, the net debt to EBITDA ratio was:

December 31,		**2017**		2016
Short and long-term debt	**$**	**460,010**	$	393,963
Cash and cash equivalents		**(227,284)**		(167,561)
Net debt	**$**	**232,726**	$	226,402
Earnings (loss) before finance costs and income taxes	**$**	**145,795**	$	(81,472)
Depreciation and amortization		**80,578**		93,099
EBITDA	**$**	**226,373**	$	11,627
Net debt to EBITDA ratio		**1.03:1**		19.47:1

The net debt to EBITDA ratio, as defined above is not equivalent to the net debt to EBITDA as defined by the Company's lenders. As at December 31, 2017, the Company is in compliance with its covenants. The net debt to EBITDA using adjusted EBITDA (as defined by "Adjusted EBIT and Adjusted EBITDA" section of the annual Management Discussion and Analysis) would be 1.12 at December 31, 2017 (1.25 at December 31, 2016).

NOTE 29. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,		2017		2016
Cash provided by (used in) change in non-cash working capital				
Accounts receivable	**$**	**(135,089)**	$	19,645
Inventories		**(7,512)**		36,156
Deferred revenue		**61,095**		(61,572)
Accounts payable and accrued liabilities, provisions, and income taxes payable		**112,918**		(42,980)
Foreign currency and other		**(21,676)**		7,366
	$	**9,736**	$	(41,385)

Cash paid and received during the period:

Years ended December 31,		2017		2016
Interest paid	**$**	**13,019**	$	14,493
Interest received		**1,062**		1,377
Taxes paid		**31,913**		15,959
Taxes received		**333**		870

Changes in liabilities arising from financing activities during the period:

		2017		2016
Long-term debt, January 1	**$**	**393,963**	$	528,140
Changes from financing cash flows		**87,146**		(120,057)
The effect of changes in foreign exchange rates		**(19,861)**		(15,067)
Other changes		**(1,238)**		947
Long-term debt, December 31	**$**	**460,010**	$	393,963

NOTE 30. RELATED PARTIES

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

On December 19, 2017, Enerflex entered into an agreement to terminate a joint operation and to purchase the assets of that joint operation for $2.8 million Brazilian real. This purchase was recorded as a transaction between shareholders. The joint operation had previously been fully consolidated and a non-controlling interest had been recorded in equity and net earnings. Upon termination of the joint operation, the non-controlling interest relating to this joint operation was reduced to nil, and a retained earnings adjustment of $0.6 million was recorded to reflect the difference between the purchase price and the amount by which the non-controlling interest was adjusted.

On October 5, 2016, the Company entered into an agreement to sell the Company's 51 percent interest in the Enerflex-ES joint venture. All transactions with the joint venture up to October 5, 2016 have been included as related party transactions.

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

December 31,		2017		2016
Associate – Roska DBO	$	881	$	696
Revenue				
Purchases		-		-
Accounts receivable		10		10
Joint Operation – Geogas				
Revenue	$	20	$	666
Purchases		91		145
Accounts receivable		85		134
Accounts payable		-		68
Joint Venture – Enerflex - ES				
Revenue	$	-	$	53
Purchases		-		-
Accounts receivable		-		-

All related party transactions are settled in cash.

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

Years ended December 31,		2017		2016
Short-term compensation	$	5,289	$	4,229
Post-employment compensation		445		425
Share-based payments		5,621		3,559

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

NOTE 31. SEASONALITY

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

NOTE 32. SEGMENTED INFORMATION

Enerflex has three reportable operating segments as outlined below, each supported by the Corporate office. Corporate overheads are allocated to the operating segments based on revenue. For each of the operating segments, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For the year ended December 31, 2017, the Company recognized $331.7 million of revenue from one customer in the USA and Canada segments, which represents 21.4 percent of total revenue for the period. At December 31, 2017, the accounts receivable balance for the customer was $77.4 million, which represents 17.4 percent of total accounts receivable.

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

	Canada		USA		Rest of World		Total	
Years ended December 31,	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Segment revenue	**$ 421,077**	$ 239,471	**$ 796,807**	$ 482,560	**$ 356,932**	$ 439,676	**$ 1,574,816**	$ 1,161,707
Intersegment revenue	**(2,487)**	(6,646)	**(17,772)**	(16,459)	**(1,202)**	(7,998)	**(21,461)**	(31,103)
External revenue	**$ 418,590**	$ 232,825	**$ 779,035**	$ 466,101	**$ 355,730**	$ 431,678	**$ 1,553,355**	$ 1,130,604
Operating income (loss)	**$ 14,439**	$ (21,878)	**$ 73,221**	$ 39,809	**$ 34,614**	$ 47,482	**$ 122,274**	$ 65,413

	Canada		USA		Rest of World		Total	
Years ended December 31,	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Segment assets	**$ 485,232**	$ 376,518	**$ 698,581**	$ 406,680	**$ 648,648**	$ 723,931	**$ 1,832,461**	$ 1,507,129
Goodwill	**88,367**	88,367	**150,495**	141,430	**329,126**	342,029	**567,988**	571,826
Corporate	**-**	-	**-**	-	**-**	-	**(269,847)**	(197,012)
Total segment assets	**$ 573,599**	$ 464,885	**$ 849,076**	$ 548,110	**$ 977,774**	$ 1,065,960	**$ 2,130,602**	$ 1,881,943

NOTE 33. SUBSEQUENT EVENTS

Subsequent to December 31, 2017, Enerflex declared a quarterly dividend of $0.095 per share, payable on April 5, 2018, to shareholders of record on March 8, 2018.

QUARTERLY AND SHARE DATA

Quarterly Data

(unaudited)	2017				2016			
($ millions, except per share data and percentages)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**450.1**	**315.0**	**433.5**	**354.8**	343.4	262.4	253.1	271.7
Operating Income	**46.4**	**12.8**	**32.8**	**30.3**	21.0	23.9	21.8	(1.3)
Earnings before finance costs and income tax	**47.2**	**32.8**	**32.7**	**33.1**	(36.3)	24.1	21.9	(91.1)
Net earnings - continuing operations	**26.7**	**25.2**	**21.3**	**24.5**	(45.4)	17.6	16.8	(93.5)
Net earnings - discontinued operations	-	-	-	-	0.0	0.6	(0.1)	(0.1)
Earnings per share - continuing operations	**0.30**	**0.28**	**0.24**	**0.28**	(0.54)	0.23	0.21	(1.18)
Earnings per share - discontinued operations	-	-	-	-	0.00	0.01	0.00	0.00
Depreciation and amortization	**20.2**	**20.2**	**20.4**	**19.8**	23.8	23.7	23.0	22.6
Cash from operations	**12.5**	**98.2**	**67.3**	**1.3**	4.3	19.1	18.0	50.4
Capital expenditures, net								
Property, plant and equipment	**1.7**	**(31.5)**	**1.3**	**(2.6)**	1.5	1.1	0.9	1.3
Rental equipment	**33.2**	**9.7**	**1.8**	**(1.0)**	1.5	0.3	6.3	9.6
Dividends (declared)	**8.4**	**7.5**	**7.5**	**7.5**	7.5	6.8	6.7	6.7
Dividends per share	**0.095**	**0.085**	**0.085**	**0.085**	0.085	0.085	0.085	0.085
Pre-tax earnings (continuing as % of revenue)	**9.7%**	**9.4%**	**6.9%**	**8.6%**	(11.4)%	7.9%	7.2%	(35.1)%

Share Data

(unaudited)	2017				2016			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Trading price range of shares ($)								
High	**18.59**	**19.12**	**20.57**	**19.17**	18.06	14.60	12.40	13.57
Low	**14.38**	**15.10**	**16.52**	**16.52**	13.65	10.40	8.59	9.56
Close	**15.34**	**18.40**	**18.82**	**18.98**	17.05	14.07	10.68	10.21
Trading volume (millions)	**16.13**	**10.48**	**11.98**	**12.47**	13.44	12.48	10.71	11.18
Shares (millions)								
Outstanding at the end of the period	**88.540**	**88.540**	**88.540**	**88.478**	88.297	88.160	79.197	79.178
Weighted Averages - basic	**88.540**	**88.540**	**88.529**	**88.353**	88.204	81.435	79.197	79.197

DIRECTORS AND EXECUTIVES

BOARD OF DIRECTORS

ROBERT S. BOSWELL [1,4]
Director
Denver, CO

MAUREEN CORMIER JACKSON [6]
Director
Calgary, AB

W. BYRON DUNN [2,4]
Director
Dallas, TX

J. BLAIR GOERTZEN
Director
President and
Chief Executive Officer
Calgary, AB

H. STANLEY MARSHALL [2,3]
Director
Paradise, NL

KEVIN REINHART [5]
Director
Calgary, AB

STEPHEN J. SAVIDANT [7]
Chairman
Calgary, AB

MICHAEL A. WEILL [6]
Director
Houston, TX

HELEN J. WESLEY [2,6]
Director
Calgary, AB

1 Chair of the Nominating and Corporate Governance Committee
2 Member of the Nominating and Corporate Governance Committee
3 Chair of the Human Resources and Compensation Committee
4 Member of the Human Resources and Compensation Committee
5 Chair of the Audit Committee
6 Member of the Audit Committee
7 Chairman of the Board

EXECUTIVES

D. JAMES HARBILAS
Executive Vice President and
Chief Financial Officer
Calgary, AB

BRADLEY BEEBE
President, Canada
Calgary, AB

PATRICIA MARTINEZ
President, Latin America
Houston, TX

PHIL PYLE
President, International
Abu Dhabi, UAE

MARC ROSSITER
President, United States of America
Houston, TX

GREG STEWART
Executive Vice President,
Corporate Services and
Chief Information Officer
Calgary, AB

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRANSFER AGENT, REGISTRAR, AND DIVIDEND DISBURSING AGENT

AST Trust Company (Canada)
Calgary, AB, Canada and Toronto, ON, Canada

For shareholder enquiries:
AST Trust Company (Canada)
2001 Boul. Robert-Bourassa, Suite 1600
Montreal, QC, H3A 2A6, Canada

Mail:
PO Box 700
Station B
Montreal, QC, H3B 3K3, Canada

Tel: +1.800.387.0825 | +1.416.682.3860 | **Fax:** +1.888.249.6189
Email: inquiries@astfinancial.com | **Web:** astfinancial.com/ca-en

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

AUDITORS

Ernst & Young | Calgary, AB, Canada

BANKERS

The Toronto Dominion Bank | Calgary, AB, Canada
The Bank of Nova Scotia | Toronto, ON, Canada

INVESTOR RELATIONS

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

Tel: +1.403.387.6377 | **Email:** ir@enerflex.com

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

ANNUAL GENERAL MEETING INFORMATION

Shareholders of Enerflex are invited to attend the Annual General Meeting, which will be held on May 4, 2018, at 10:30 a.m. MDT. The meeting will be held at the Westin Calgary (Bow Valley Room), 320 4th Avenue SW, Calgary, Alberta. Those unable to attend are encouraged to sign and return the proxy form mailed to them.

2017 ANNUAL REPORT

HEAD OFFICE

Suite 904
1331 Macleod Trail SE
Calgary, Alberta, Canada
T2G 0K3

+ 1 403 387 6377

enerflex.com
ir@enerflex.com