ENERFLEX

A POWERFUL STRATEGY

IGNITING THE FUTURE OF ENERGY

2018 **ANNUAL REPORT**

01 IGNITING GROWTH – POSITIONED FOR SUCCESS

02 DRIVING VALUE FROM WELLHEAD TO PIPELINE

04 2018 RESULTS AND HIGHLIGHTS

06 LETTER TO SHAREHOLDERS

10 REGIONAL OVERVIEW

12 EXECUTING ON A POWERFUL STRATEGY

14 CORPORATE RESPONSIBILITY AND ENGAGEMENT

18 MANAGEMENT'S DISCUSSION AND ANALYSIS

56 CONSOLIDATED FINANCIAL STATEMENTS

61 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

108 SHAREHOLDERS' INFORMATION

Front Cover Photo: 30 mmscf/d amine treatment facility, Bolivia.

IGNITING GROWTH
POSITIONED FOR SUCCESS

Over a decade ago, Enerflex recognized the expansive global opportunities in natural gas and set out to develop and implement strategies to capitalize on them. Based on the growing demand for natural gas, a cleaner energy source, Enerflex built a strong and diversified plan that focused on this resource as a global commodity – one that would not only impact the future of the organization, but also play a key role in the future of energy.

Diversification, prudent financial management, responsible leadership, and a focused business model have been the foundational pillars driving financial and operational results over the past 10 years. Enerflex's unwavering commitment to this strategy has paid off, evidenced in 2018 by its range of diversified projects, strengthened project execution, and a record year of bookings and backlog. By consistently executing on its long-term vision, Enerflex continues to preserve market share, improve dividends, and create value for both shareholders and the Company alike.

Enerflex will continue to focus on growing recurring revenue, maintaining a strong balance sheet, and expanding capabilities geographically and across the natural gas value chain. This will ensure the Company is well-positioned to take advantage of further opportunities in the world's largest and fastest growing natural gas markets through 2019 and well beyond.

2018 REVIEW

$1,980.4M

BOOKINGS

Driven by numerous major project wins, Enerflex recorded 2018 bookings of **$1,980.4 million**, the highest in the Company's history and a 73.6% increase compared to 2017.

$1,420.6M

BACKLOG

Backlog at December 31, 2018 was **$1,420.6 million**, a 111.8% increase compared to 2017 and the highest in the Company's history, due to significant bookings in the USA and Canada segments.

$1,703.3M

REVENUE

Revenue for 2018 was **$1,703.3 million**, a 9.7% increase compared to 2017 due to higher revenue across all product lines – Engineered Systems, Service, and Rentals.

7.9%

ADJUSTED EBIT%

Continued improvements in gross margin and lower SG&A resulted in an adjusted **EBIT% of 7.9%**.

$204.7M

OPERATING CASH FLOW

Cash provided by operating activities, net of changes in working capital, increased by **$35.1 million**, or 20.7% in 2018.

$521.1M

RECURRING REVENUE

Recurring revenue grew by **$59.4 million**, or 12.9%, in 2018 due to higher activity and increased demand for both Service and Rental product offerings.

$0.420/SHARE

DIVIDEND

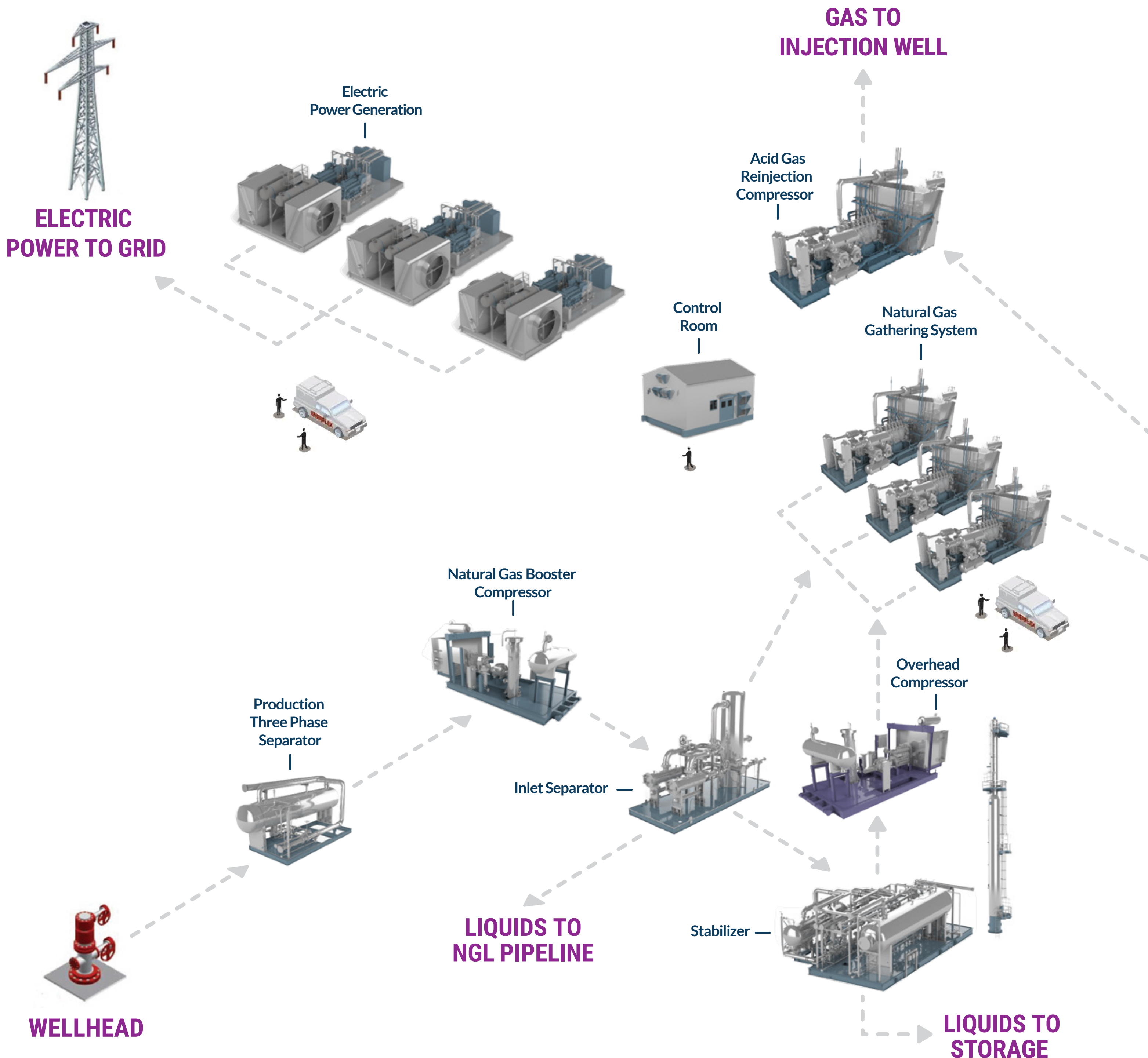
A positive outlook and commitment to growing the dividend led to an overall increase of 10.5% in the third quarter of 2018, growing to **$0.420 per share** on an annualized basis, and a 75.0% increase since 2011.

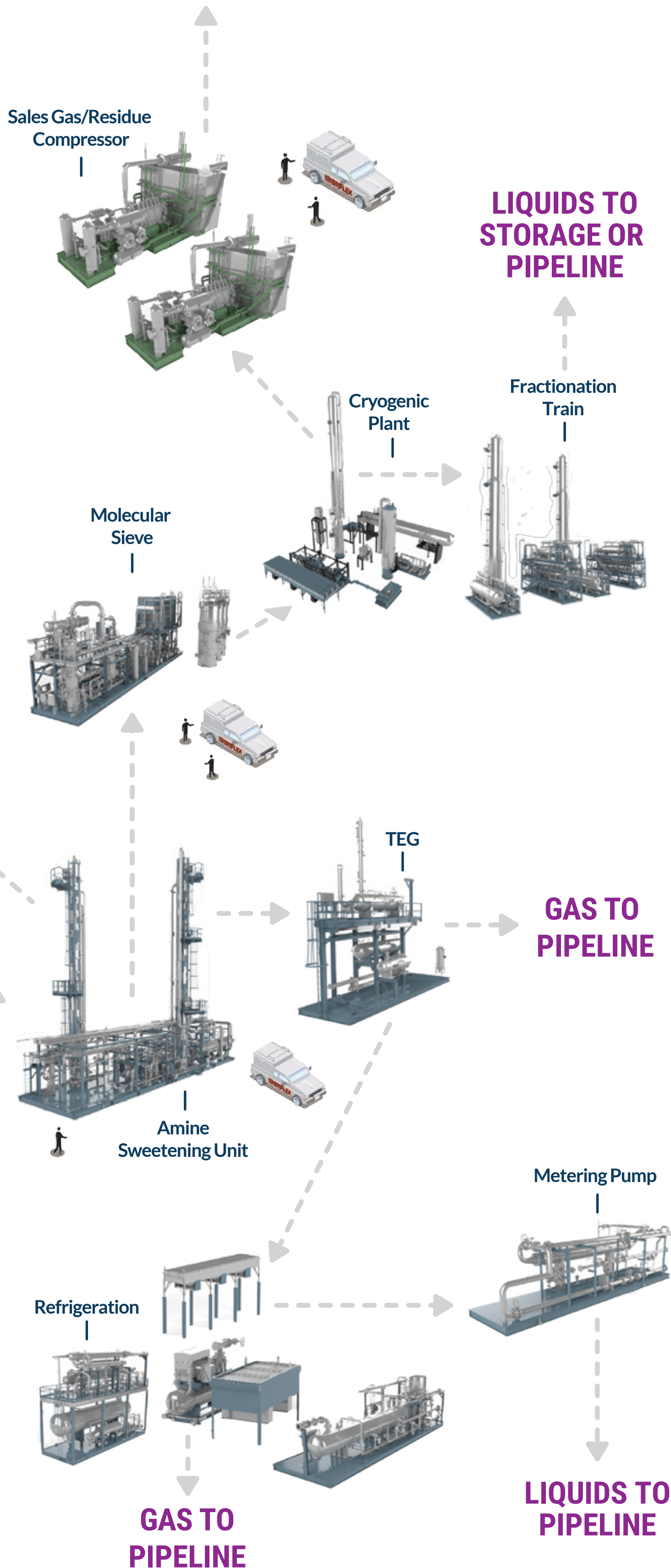
1 *Bookings, backlog, adjusted EBIT%, and recurring revenue are non-GAAP measures. Further detail is provided in the Definitions and Non-GAAP Measures sections of the Management's Discussion and Analysis ("MD&A").*

2 *EBIT% has been adjusted for impacts not expected to recur in the normal course of business. The adjusting items for the year ended December 31, 2018 are presented in the Company's MD&A.*

DRIVING VALUE **FROM WELLHEAD TO PIPELINE**

“Raw” natural gas consists predominately of mixtures of hydrocarbon gases. It requires a wide variety of equipment to process and transport it safely. 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.





NATURAL GAS PRODUCTION IS GROWING AT A RAPID PACE, DRIVING DEMAND FOR ENERFLEX'S PRODUCTS AND SERVICES.

WELLHEAD

Provides the structural and pressure-containing interface for drilling equipment. From the wellhead, gas moves through a separation system before moving into the processing facility.

Enerflex provides solutions starting from the wellhead, moving to the pipeline, and continuing downstream.

PROCESSING AND TREATING

Removes impurities then brings gas to "pipeline spec" and, when necessary, extracts NGLs.

Enerflex engineers, designs, manufactures, installs, and operates the equipment and systems, including sweetening, polishing, dehydration, condensate stabilization, dew point control (via refrigeration), cryogenic processing, thermal oxidation, and flare systems.

MANUFACTURING AND EXPORT

Export production facilities for NGLs are being constructed in areas of ample supply to serve basic residential and commercial activities.

Enerflex designs, builds, constructs, commissions, and services compression, treating, processing, refrigeration, and electric power solutions for export facilities, such as NGL and LNG terminals, which supply the world with natural gas.

GATHERING SYSTEMS

Low pressure, small diameter pipelines that transport raw natural gas from the wellhead to the compression, treating, and processing facilities.

Enerflex provides skid mounted compression solutions for gathering systems ranging in size from 100 hp to 5,500 hp.

OTHER MIDSTREAM ACTIVITY

Liquids-rich gas offers additional value creating opportunities. Liquids fractionation and "straddle" plants on trunk pipelines are only two examples.

Enerflex's extensive experience and engineering depth allows the Company to create customized solutions for the required application.

STORAGE

Storing gas underground to meet fluctuating demand and reduce price volatility is a critical function in a mature gas system.

Enerflex manufactures and installs compression, treating, and dehydration systems for gas storage facilities.

ELECTRIC POWER

Gas-fired generating plants are a growing source of electric power. Gas is also useful for niche applications where grid power is unreliable/unavailable.

Enerflex designs, packages, installs, maintains, and operates turnkey 250 kW to 50 MW electric power facilities.

LNG

Gas arrives at liquefied natural gas facilities as nearly pure methane.

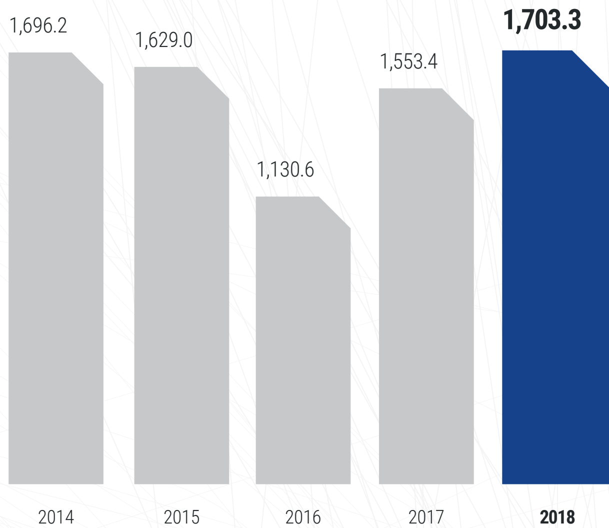
Enerflex is involved in the upstream and midstream stages from the wellhead to the LNG facility.

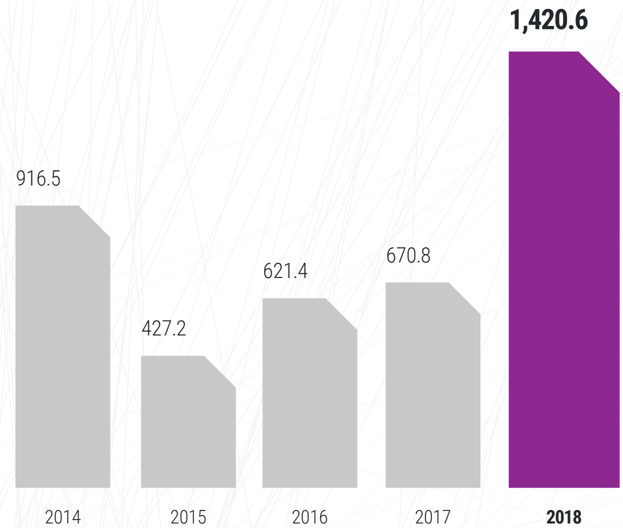
2018 RESULTS AND HIGHLIGHTS

For the years ended December 31, *(Thousands of dollars, except percent and per share) (Unaudited)*	2018	2017	2016	2015	2014
Revenue	**$ 1,703,273**	**$ 1,553,355**	**$ 1,130,604**	**$ 1,629,032**	**$ 1,696,200**
Gross margin	**307,973**	286,523	243,784	326,189	330,414
Operating income	**144,964**	122,274	65,413	121,759	129,488
Earnings (loss) before finance costs and taxes	**151,679**	145,795	(81,472)	94,877	138,922
Net earnings (loss)					
– continuing operations	**101,416**	97,753	(104,528)	48,890	81,097
Net earnings (loss)					
– discontinued operations	**-**	-	388	(845)	(9,879)
	101,416	97,753	(104,140)	48,045	71,218
Earnings (loss) per share (basic)					
– continuing operations	**1.14**	1.10	(1.28)	0.62	1.03
Earnings (loss) per share (basic)					
– discontinued operations	**-**	-	0.01	(0.01)	(0.12)
	1.14	1.10	(1.27)	0.61	0.91
Dividends per share	**0.40**	0.360	0.340	0.340	0.310
Key Financial Performance Indicators[1]					
Bookings	**1,980,363**	1,141,032	853,337	635,059	1,416,880
Backlog	**1,420,621**	670,799	621,397	427,204	916,484
Recurring revenue as a percentage of revenue	**30.6%**	29.7%	41.7%	33.0%	28.7%
Selling and administrative expenses as a percentage of revenue	**9.6%**	10.6%	15.8%	12.5%	11.8%
Earnings before finance costs and taxes as a percentage of revenue	**8.9%**	9.4%	(7.2)%	5.8%	8.2%
Earnings before finance costs, taxes, depreciation and amortization	**241,453**	226,373	11,627	176,771	193,740
Return on capital employed[2]	**10.9%**	10.9%	(5.7)%	6.2%	12.4%
Adjusted return on capital employed[2]	**9.8%**	9.9%	6.8%	10.0%	13.7%

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. Further detail is provided in the Definitions and Non-GAAP Measures sections of the MD&A.*

2 *ROCE is calculated by taking EBIT for the 12-month trailing period divided by capital employed. Further detail is provided in the Definitions and Non-GAAP Measures sections of the MD&A. Adjusted ROCE includes impacts not expected to recur in the normal course of business, as presented in the Adjusted EBITDA section of the MD&A. Included in these adjustments for 2018 is the removal of cost recoveries related to the Oman Oil Exploration and Production LLC ("OOCEP") arbitration. Costs incurred related to the arbitration were not adjusted for in previous periods. Including these cost recoveries in 2018 would result in Adjusted ROCE of 11.4%.*





REVENUE

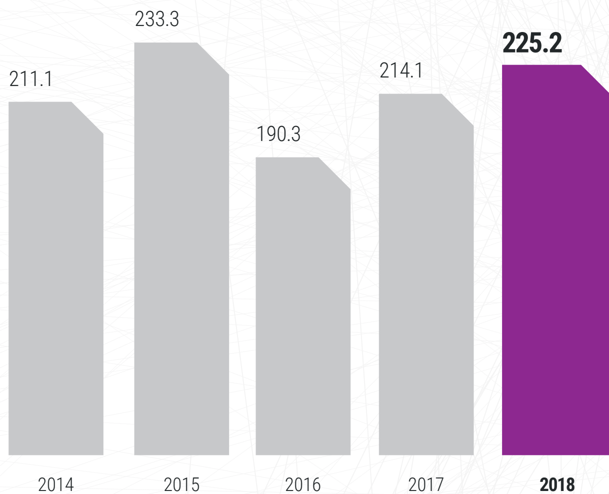
($Millions)

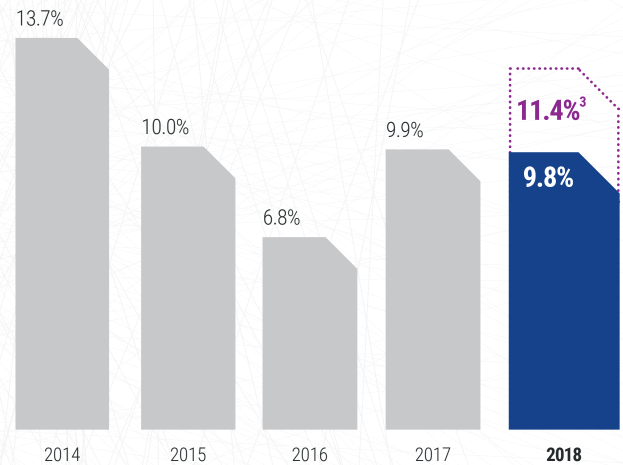
Higher revenue in 2018 was driven by increases across all product lines, particularly Engineered Systems, and significant activity in the USA segment.

ENDING BACKLOG

($Millions at December 31)

The increase in backlog year-over-year was the result of significant bookings in the USA and Canada segments, which was partially offset by reduced activity in Rest of World.





ADJUSTED EBITDA[1]

($Millions)

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

ADJUSTED RETURN ON CAPITAL EMPLOYED[2]

Improvements in gross margin and SG&A offset higher capital employed, resulting in adjusted ROCE of 9.8 percent.

1 *EBITDA has been adjusted for impacts not expected to recur in the normal course of business. The adjusting items for the years ended December 31, 2018, 2017, and 2016 are presented in the Company's MD&A for the respective years.*

2 *ROCE is calculated by taking EBIT for the 12-month trailing period divided by capital employed. Further detail is provided in the Definitions and Non-GAAP Measures sections of the MD&A. Adjusted ROCE includes impacts not expected to recur in the normal course of business, as presented in the Adjusted EBITDA section of the MD&A.*

3 *Impacts not expected to recur in the normal course of business, as presented in the Adjusted EBITDA section of the MD&A, includes the removal of cost recoveries related to the OOCEP arbitration. Costs incurred related to the arbitration were not adjusted for in previous periods. Including these cost recoveries in 2018 would result in Adjusted ROCE of 11.4%.*

LETTER TO SHAREHOLDERS

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

DIVERSIFICATION, PRUDENT FINANCIAL MANAGEMENT, AND STRATEGIC AND RESPONSIBLE LEADERSHIP CONTRIBUTED TO ENERFLEX'S STRONG 2018 RESULTS, POSITIONING THE COMPANY FOR SOLID PERFORMANCE IN THE FUTURE.

As part of Enerflex's long-term strategy to build a global platform delivering natural gas solutions across the world, the Company remained steadfast in diversifying its revenue streams across multiple markets in 2018.

SEVERAL FACTORS CONTRIBUTED TO ENERFLEX'S SUCCESS DURING THE YEAR, INCLUDING:

- Significant backlog growth, both in terms of size and margin, providing a clear line of slight to future revenue and profitable returns;
- Diversification of products and services and the continued growth of a stable recurring revenue foundation; and
- A well-managed business model, financial discipline, and strong balance sheet, enabling the Company to expand its product offerings and remain active across all stages of the natural gas value chain.

During the year, across the organization, the regions collaborated on *Enterprise Execution Excellence* and focused on igniting Company-wide growth through diversified operations and revenue. Pursuant to this collaborative approach, teams shared and utilized key expertise and assets across regions, as well as leveraged lessons learned through the centralized Project Management Office to refine project execution. This allowed us to continue to generate repeat business from internationally active customers, and positioned Enerflex well moving forward.

Enerflex's 2018 accomplishments were driven by our talented people. The steady increase in activity and opportunities globally has enabled us to grow our employee base. Now more than 2,300 strong, our dedicated team demonstrates hard work, continuous improvement, and safety leadership, and I thank them for their commitment and remarkable efforts. As we look towards increasing our employee base in response to improved operational activity, Enerflex will remain disciplined in managing costs and keeping appropriate levels of staffing.

Our talented Executive Management Team ("EMT") has been instrumental in the significant growth of the Company. Each member has a passion for collaboration and success, a diligent management style, and a deep knowledge of their regions and the Company's product and service offerings. In 2018, Marc Rossiter, President, USA, was appointed Executive Vice President and Chief Operating Officer ("COO"). With more than 22 years of experience with Enerflex in a progression of roles, Marc, as COO, has placed additional emphasis on cohesive operations and execution, the results of which translated into further growth this year. Upon Marc's appointment to COO, Greg Stewart, previously Executive Vice President, Corporate Services and Chief Information Officer for the past 10 years, was appointed President of our USA operations. The Canadian region also welcomed a new President in 2018, Andrew Jack. After much deliberation, I have decided to retire as Enerflex's President and Chief Executive Officer ("CEO") effective May 3, 2019. At that time, Marc Rossiter will be appointed as Enerflex's new CEO. I am confident in Marc's ability to lead the Company moving forward. Collectively, this EMT brings vast management experience and a strategic vision – paralleled with the Company's financial strength – will help Enerflex grow to meet the demands of the global oil and natural gas industries.

1 *Certain key performance indicators included herein are non-GAAP measures. Further detail is provided in the Definitions and Non-GAAP Measures sections of the MD&A.*

DIVERSIFIED OPERATIONS AND REVENUE

Enerflex is a diversified, financially strong, and dividend-paying company that delivers profitable growth by serving an expanding industry in seven gas producing regions worldwide. Underpinned by our vision of ***"Transforming Natural Gas to Meet the World's Energy Needs"***, Enerflex is ideally positioned to capture projects in growing natural gas markets, supporting our strategy and enhancing shareholder value.

The Company's strategy and business model have helped Enerflex grow into the global energy services leader it is today. Enerflex now has:

- An operating platform in 16 countries with diverse revenue streams, strong market share, and differentiated capabilities;
- A varied and wide-ranging customer base from local operators to national producers and global majors;
- A growing rental fleet of over 640,000 horsepower; and
- A Build-Own-Operate-Maintain ("BOOM") offering spanning all phases of a project's life-cycle that delivers exceptional customer value.

During the year, Enerflex maintained a balanced approach to growing within our means, evidenced by prudent financial management and disciplined capital allocation. Our flexible balance sheet is the result of controlled planning, including years of:

- Deploying free cash flow towards reducing leverage, strategic acquisitions, and investing in productive assets, resulting in a current net debt to EBITDA ratio of approximately 0.5:1, even with significant investments being made in recent years;
- Strategically sound capital spending, with approximately $1.0 billion invested in the rental fleet through acquisitions and capital expenditures since 2013;
- Aggressively managing working capital, including rigorous management of inventory and receivable balances;
- Maintaining a scalable business that allows for proactively adopting cost-savings; and
- Growing the dividend at an affordable and sustainable rate. The current dividend represents an increase of 75 percent since 2011.

ITK gas plant with a combined design capacity of 450 mmscf/d of refrigeration and 410 mmscf/d of inlet compression, USA.

ENERFLEX'S 2018 FINANCIAL RESULTS

Enerflex continues to have financial flexibility in pursuing its strategy – we have always taken a patient yet opportunistic approach to growth which has allowed the Company to maintain extremely low leverage. Enerflex's 2018 financial performance and balance sheet is a reflection of this mindset and strategy.

2018 Financial Highlights:

Bookings of $1,980.4 million, an increase of 73.6 percent from $1,141.0 million recorded in 2017.

Year-end backlog of $1,420.6 million, a 111.8 percent increase compared to $670.8 million at year-end 2017.

Revenue of $1,703.3 million, compared to $1,553.4 million in 2017.

Recurring revenue of $521.1 million, an increase of 12.9 percent compared with $461.7 million in 2017.

Gross margin of $308.0 million, or 18.1 percent of consolidated revenue, compared to $286.5 million or 18.4 percent in 2017.

Adjusted EBITDA of $225.2 million in 2018 compared with $214.1 million in 2017, as detailed in the MD&A.

Enerflex has never cut its dividend, even during the recent downturn in commodity pricing. In fact, the Company has increased the dividend by 75 percent since 2011 – a major accomplishment that demonstrates Enerflex's ability to grow strategically and intelligently.

After-market service employee completing scheduled maintenance work in Latin America.

OPERATIONAL UPDATE

Enerflex's financial performance benefited from strategic decisions to diversify product offerings for Engineered Systems, and focused on the recurring revenue streams derived from new and existing long-term BOOM, Rental, and Service contracts. Enerflex continues to focus on financial discipline, evidenced by strategically sound capital spending, effective management of working capital, and maintaining a scalable business. We pride ourselves on proactively identifying and adopting cost-saving measures, including aggressively managing SG&A expenses, in order to protect shareholder value.

With high safety standards and sophisticated management systems in each of our facilities, Enerflex continues to take a disciplined approach to building our safety culture. While Enerflex did not hit our ambitious 2018 safety target of zero lost time incidents for the year, the organization is very proud of the progress that our teams have been able to accomplish. The Company is taking a renewed look at our behaviour-based safety program to ensure we are moving in the right direction. As a result, Enerflex welcomed a new global safety leader at the end of 2018. Based out of Houston, this role will report to the COO and will be responsible for a complete audit of the program, including gap analysis, course correction, and recommended action. These efforts will support Enerflex's mission to have the best safety standards for the oil and natural gas manufacturing and services sector.

Managing risk was a common theme within the dialogue and strategies crafted by the EMT and senior leaders in 2018. Every year, we strengthen our ability to rigorously and proactively identify and manage risk, including macroeconomic factors, political uncertainty, and project or contract changes. Moving into 2019, we will continue our disciplined approach to risk management, hosting risk workshops with the Board and the EMT as a means of analyzing risk and reinforcing processes and global initiatives to respond appropriately. Further, we will continue to share monthly articles on the top identified risks throughout the Company to show how every employee can do their part to track and mitigate risk and help Enerflex succeed. The Company believes that raising the education level of all employees will enhance the already well-entrenched risk management culture in the organization.

J. Blair Goertzen (left) with incoming CEO Marc Rossiter (right).

2019 OUTLOOK

Our operational and financial performance in 2018 is a clear indicator that the strategy and decisions we made over a decade ago are working. We have completed many successful projects, welcomed new team members, increased our revenue, and had a record year in terms of backlog and bookings, while continuing to increase our dividend. In 2019, our focus will be on continuing to position ourselves to take advantage of coming opportunities in the natural gas sector by growing recurring revenue, maintaining a strong balance sheet, and expanding our capabilities both geographically and across the natural gas value chain.

Executing on our backlog is one of our main strategic priorities. We will continue to emphasize delivering every project on-time and on-budget, with strong HSE performance and effective communication throughout the project life-cycle. We must also keep our foot on the accelerator for the products and services we offer, ensuring that we sustainably grow BOOM projects and Rentals internationally without taking our eyes off of Engineered Systems opportunities or our desire to outperform the market for new bookings.

We remain cautious as we transition into 2019, yet we believe that by continuing to focus on our customers, keeping our manufacturing facilities running safely, identifying and managing risk, maintaining our reputation for quality, and building recurring revenue organically, we are well-positioned to ignite the future of energy in 2019, and well beyond.

On behalf of the Board of Directors,

[signed] "J. Blair Goertzen"

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

February 21, 2019

REGIONAL OVERVIEW

USA

The U.S. is one of the world's top energy producers and Enerflex's USA segment reaped the benefits of this high-growth market. This region experienced considerable activity throughout the year, which is reflected in the Company's record bookings of $1,354.7 million, a 112.3 percent increase from last year, and a backlog of $930.6 million. The region's performance was largely driven by the market's continued robust investment in the Lower 48 shale oil and gas plays. With production increasing in the Permian, SCOOP/STACK, and other major plays, infrastructure requirements became readily apparent in 2018, resulting in an increase in demand for Enerflex's products and services to meet the needs created by this increased production.

Experiencing positive results across all revenue streams, the USA segment recorded revenue of $980.5 million, a 25.9 percent increase from 2017. The uptick in Engineered Systems can be attributed to proven quality performance throughout the year, as well as strong bookings and continued progress of large projects. Rental revenue, which was built on Enerflex's acquisition of the Contract Compression business of Mesa Compression, LLC saw incredible organic growth due to investment in the asset fleet. The Company significantly increased its Contract Compression horsepower in 2018 in the USA, with contracts already in place for the constructed units. Sustained investment in the region's Contract Compression fleet, now at approximately 210,000 horsepower, will drive a valuable recurring revenue stream, which is projected to continue growing in current operational areas, as well as expand into others. Additionally, Enerflex had an increase in Service revenue due to higher market activity, which is expected to continue through 2019.

Anticipating future project requirements and global demand, Enerflex also set the groundwork for the expansion of the Houston fabrication facility to provide additional manufacturing capacity. These plans were finalized during 2018, and the construction of the facility is expected to be completed in the second quarter of 2019, with further expansion included in the Company's 2019 budget.

The USA segment has been firing on all cylinders across all product lines, and the region's performance in 2018 would not have been possible without the dedicated efforts of the Company's skilled, on-the-ground teams. Enerflex is cautiously optimistic that recent momentum in the region will continue, however, the Company is aware that growth may level off as 2019 progresses. Along with steel pricing, tariffs, and uncertainty around trade agreements, the Company continues to monitor the impacts of egress issues that could affect activity levels in the Permian basin, which are anticipated to be resolved in the latter half of 2019. However, this will be dictated by market forces. The USA segment's strong backlog also bodes well for the region in 2019 and provides line of slight into 2020. Continued development in the region may translate to further demand for Engineered Systems products, while strong activity should drive increased demand for Contract Compression solutions to improve performance in maturing fields. Transitioning into 2019, Enerflex will continue to build on the successes for gas compression and processing solutions for liquids-rich plays in the region, as well as expand the development of LNG infrastructure.

LATIN AMERICA

Enerflex secured several major BOOM projects in Latin America, most notably in Colombia, Argentina, and Brazil, making business development one of the region's biggest successes. In Colombia, the Company commenced operations on Enerflex's first BOOM project in the country (previously awarded in 2017) and booked a significant Engineered Systems project. Operations in Argentina were also strong with the award of a significant contract, as well as continued success with the Service product line. Argentina holds one of the world's largest non-conventional natural gas reserves, the Vaca Muerta shale play, which is a steady source of growth in the region, and the Company continues to demonstrate its capabilities in the area. Enerflex was also awarded a 10-year BOOM project in Brazil in 2018. With successful project deliveries underway, and significant investment in the nation's offshore fields, further growth opportunities are becoming available in the country.

Enerflex maintains solid execution on utilized assets despite slowing utilization rates in Mexico. The rental fleet in Latin America performed well, and Enerflex demonstrated its ability to move underutilized assets across regions to meet demands, including relocating units to Colombia, Brazil, the USA, and Middle East / Africa ("MEA"). As Enerflex has elected not to participate in the bid process to replace a portion of the contracts for its fleet in Mexico, scheduled to expire in June 2019, the Company expects to use this same redeployment strategy to move those assets to potential projects in other regions that offer more project certainty and for stronger returns.

Overall, Enerflex is encouraged by the outlook for Latin America in 2019. As the region continues to recover from the impact of depressed commodity prices and lower investment in infrastructure, the Company believes that there are near-term prospects within Colombia, Argentina, and Brazil, specifically with the production of offshore associated gas and the processing of that gas for domestic use. Mid- to longer-term prospects are also expected in Mexico as its industry rebounds and investments from both Pemex and independent producers drive demand for Enerflex's products.

INTERNATIONAL

Enerflex's International operations consist of MEA, Europe, Australia, and southeast Asia – all of which performed well in 2018. Rest of World ("ROW") revenue, which includes revenue from Latin America, was $422.8 million, a $67.1 million increase from 2017. The increase was driven by higher Engineered Systems revenue mainly from projects in MEA, as well as higher Service revenues due to increased activity levels in Australia.

MEA continues to provide stable earnings with a rental fleet of approximately 100,000 horsepower. In 2018, the MEA region completed a number of projects for national oil companies and oil and gas producers. In addition, the Company was awarded a significant 10-year BOOM project in Oman, a direct result of the team's hard work and emphasis on being well-positioned to take advantage of growth opportunities. During 2018, the MEA team encountered some project execution challenges, however these challenges led to lessons learned which were applied to other successful projects across the Company. Moving into 2019, Enerflex will continue to take a measured approach to exploring new markets and opportunities within this region in order to enhance recurring revenues, specifically focusing on BOOM projects.

In Australia, Enerflex remains ideally situated to capitalize on the need for increased production due to the supply imbalance driven by higher liquefied natural gas exports and increased domestic natural gas demand. At the beginning of 2018, Enerflex restructured the Australian operations to focus on further growth for the Service product line, enhance profitability, and capture key opportunities in the region. A highlight for the year included booking an integrated turnkey electric power plant that uses reciprocating engines to generate electricity, as well as securing its long-term maintenance contract. Enerflex believes that maintenance and service opportunities will continue to increase as producers return to focusing on properly maintaining their assets, which may fuel further growth for the Australian Service product line, supporting the Company's cautious yet positive outlook for the region.

30 mmscf/d rental natural gas compression and processing facility, Oman.

CANADA

By continuing to leverage the Company's capabilities and expertise, Enerflex's operations in Canada performed well in 2018 despite low bookings and backlog in the first half of the year. The Canadian segment recorded operating income of $299.9 million in 2018, down from $418.6 million in 2017. This was a year of solid execution as Enerflex was able to improve on gross margin percentage despite lower activity levels in the region.

The Company captured several major gas compression and processing projects in the back half of the year which propelled bookings and backlog growth in 2018. To add to this, Enerflex's continued emphasis on electric power has enabled the Company to strengthen its skillset to take advantage of upcoming potential opportunities in the region.

3 MW combined heat and power plant, Canada.

Enerflex's Canadian operations continued to face headwinds in 2018. Macroeconomic factors and lack of consistent access to market continued to affect the industry and Enerflex's operations in the country. The recent LNG project approval, petrochemical infrastructure FIDs, and the commissioning of propane export terminals in western Canada, should provide some relief in the future for natural gas egress issues plaguing the Canadian gas industry. However, Enerflex expects the benefits will be felt over the mid- to long-term. While the Company predicts bookings could remain subdued over the next year, Enerflex's goal continues to be market share preservation in the traditional natural gas sector, particularly in liquids-rich reservoirs, as well as to provide the industry with a consistent and capable Service offering.

EXECUTING ON A POWERFUL STRATEGY

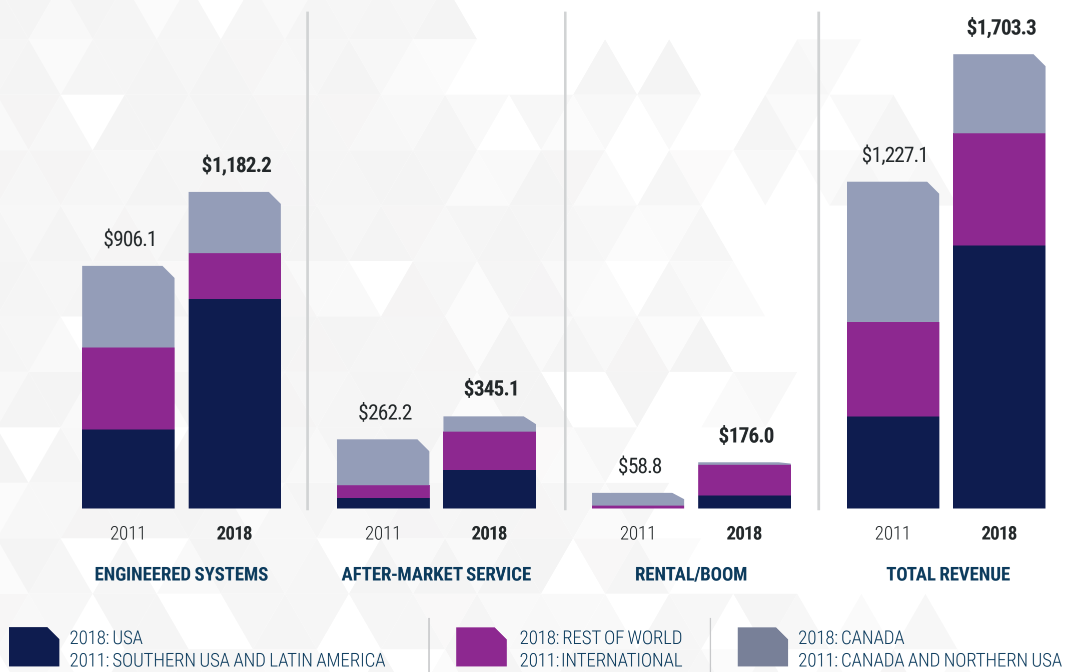
Enerflex's Houston, Texas manufacturing facility.

Since 2011, Enerflex's strategy has been to progress its core product offerings and build recurring revenue with new service lines that deliver greater value for clients across the natural gas value chain. With additional focus being placed on diversification across geography and service type, the Company is well-positioned to capitalize on future natural gas opportunities across the globe.

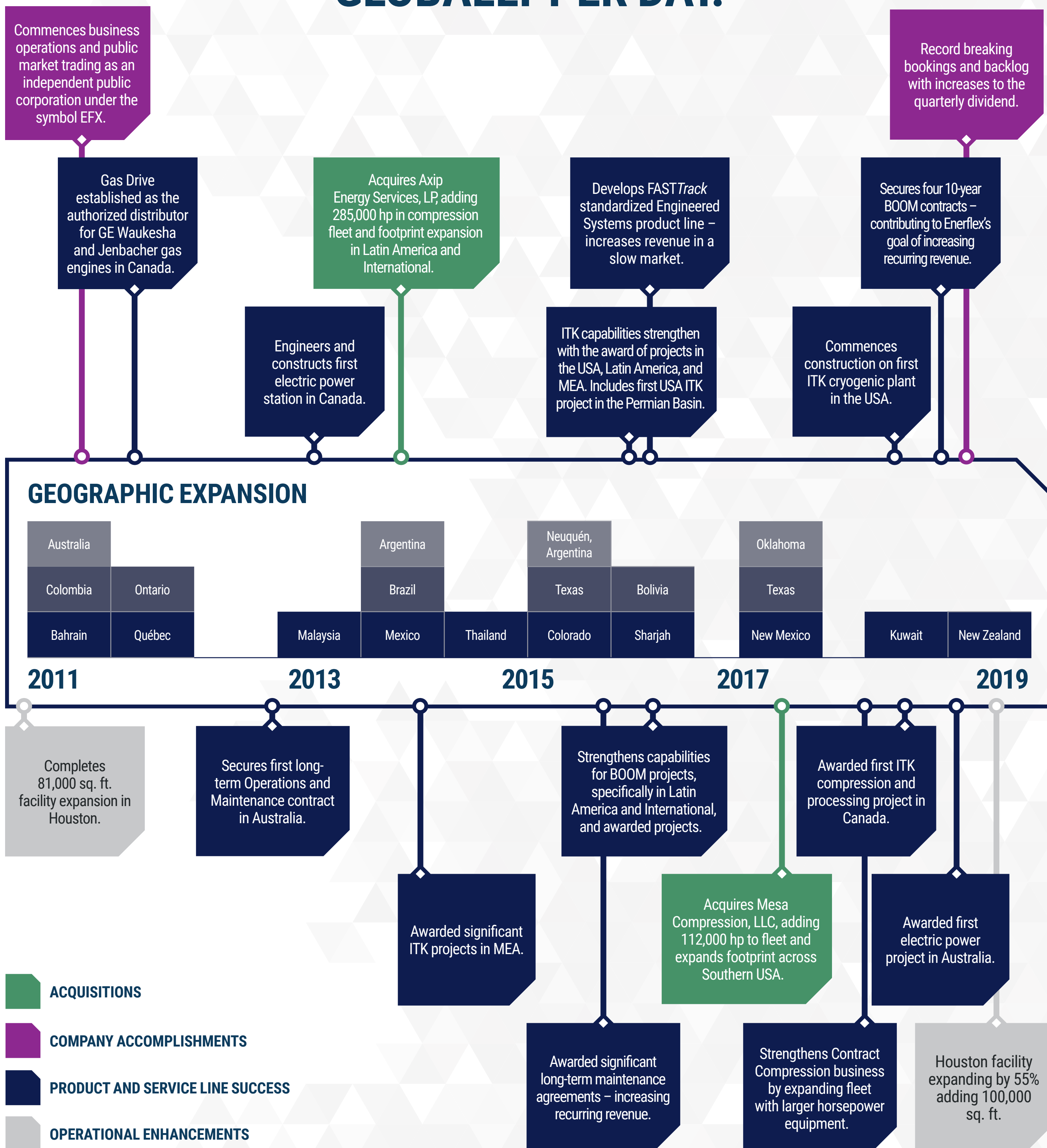
Enerflex has methodically put the pieces in place to grow the business while maintaining a strong balance sheet, including expanding its capabilities in all jurisdictions, as well as increasing its BOOM portfolio with long-term opportunities. Now in 2018, after experiencing success despite a prolonged downturn in the energy space, Enerflex is gaining further traction and making considerable progress on its recurring revenue strategy – something which is expected to continue into 2019.

Enerflex's opportunistic but patient approach has enabled the Company to take on increasingly more sophisticated natural gas projects, and by preserving its use of prudent financial management and responsible leadership, Enerflex will continue to execute on a powerful strategy that is producing tangible results.

REVENUE GROWTH



ENERFLEX'S OWNED INFRASTRUCTURE CURRENTLY TRANSFORMS OVER 2.5 BCF OF NATURAL GAS GLOBALLY PER DAY.



CORPORATE RESPONSIBILITY AND ENGAGEMENT

Enerflex employees working at site, Argentina.

WITH MORE THAN 2,300 EMPLOYEES, 50 LOCATIONS, AND FACILITIES SPANNING 16 COUNTRIES ACROSS FOUR OPERATING REGIONS, ENERFLEX'S COMMITMENT TO CONDUCTING ITS BUSINESS IN A MANNER THAT SAFEGUARDS THE HEALTH AND SAFETY OF ITS EMPLOYEES AND THE COMMUNITIES IN WHICH IT OPERATES HAS REMAINED RESOLUTE.

In 2018, Enerflex's vision to achieve and maintain Health, Safety, and Environment ("HSE") performance excellence was supported by critical systems designed to systemically drive improvement and protect both the Company and its people. Enerflex implemented and improved occupational health and wellness programs, inspection and incident reporting standards, environmental management, as well as other initiatives intended to reinforce Enerflex's safety culture and emphasis on continuous improvement.

Moving into 2019, Enerflex remains focused on strengthening its coordinated approach to HSE by engaging senior leadership and on-the-ground HSE teams to infuse the Company's safety practices throughout its operations and facilities. To champion this strategic initiative, Enerflex appointed a new global safety leader, based in the USA region. This role, working across borders, ensures the Company has consistent programs and processes across all regions and that employees have the required training, equipment, and knowledge to do their jobs effectively and safely.

SINCE 1980, SAFETY HAS BEEN AT THE CORE OF ENERFLEX. THE COMPANY'S SAFETY CULTURE IS INSTILLED IN ITS PROCESSES, OPERATIONS, AND DAILY REQUIREMENTS, RADIATING FROM THE LEADERSHIP TEAM TO FRONT-LINE EMPLOYEES.

Enerflex's high safety standards and commitment to continuously improving its global safety culture inspired the Company to set ambitious safety targets across its operations in 2018.

With over 12 million kilometers driven globally, Enerflex achieved significant results in its Motor Vehicle Incident Rate ("MVIR") in 2018. Having experienced considerable growth in its workforce across several regions, particularly in the USA, Enerflex's 2018 target Total Recordable Injury Rate ("TRIR"), a key measure of safety, fell well below the estimated industry target, although was slightly higher than its own internal goal. While the Company did not meet its aggressive TRIR target, Enerflex will remain disciplined, applying its high safety standards and building sophisticated management systems within every facility it operates. 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.

In an ongoing effort to improve safety performance, Enerflex has refined past programs, as well as instilled several new ones, setting the Company on the right path as it strives to achieve its safety goals in 2019. Continued emphasis was placed on behavioral-based safety through daily stand-down meetings, near miss investigations, strict adherence to everyday safety inspections, and job risk assessments. The Company also completed mock scenarios, both at Enerflex's facilities and on client job sites, to help improve safety procedures. Given its rapid growth, the Company also revamped its onboarding process to clearly communicate Enerflex's values and ensure its safety standards are understood and upheld by all team members, regardless of tenure, across the full organization.

ENVIRONMENT

Enerflex has diversified operations and a global employee base focused on protecting people, communities, and the environment.

As part of its long-term strategy, Enerflex continues to support its customers' transition from coal to natural gas power, the cleanest fossil fuel. The Company is committed to helping reduce the global emission footprint by providing safe natural gas solutions to its customers. Dedicated to conscious operations, Enerflex sees industry-leading HSE programs as critical components of *Executional Excellence*. Beyond recycling and other waste management initiatives at both the corporate and field level, Enerflex places deliberate emphasis on energy and water conservation, spill prevention and response, reducing air emissions, and systematic, location-by-location environmental auditing across all regions and core service offerings. By addressing risk and proactively responding to environmental concerns in both its own operations, as well as in the operations of its clients, Enerflex helps shape the energy industry for a more sustainable future for generations to come.

150 mmscf/d rental natural gas compression facility, Argentina.

COMMUNITY

Enerflex has a core belief that "we are all products of the communities where we live, work, and play". This is why Enerflex works to enhance the lives of not just its employees, but the communities in which they live, by partnering with organizations that build and strengthen communities now, and in the future.

Enerflex's community investment philosophy centres around health and wellness, training and enrichment, as well as community development with a focus on helping make an impact and inspiring positive change. As an organization, Enerflex is actively involved in supporting neighbouring businesses and non-profits such as Kids Cancer Care, Habitat for Humanity, the MS Society, as well as Blood Service agencies. To help strengthen industry HSE practices, Enerflex also partners with and invests in safety-based training programs and shares its own safety-based culture with other like-minded organizations.

Enerflex employees spent the day at Kids Cancer Care's Camp Kindle serving ice cream to all the campers.

SHAREHOLDER ENGAGEMENT

Enerflex's platform delivers a powerful array of natural gas and oil infrastructure solutions. These solutions are supported by a strong strategy and diversified operations that enable the Company to provide improved value to clients and generate returns for shareholders.

Enerflex communicates this value through annual and quarterly reporting, news releases, the Company's website, quarterly teleconferences and audio webcasts with replays, face-to-face meetings, and industry presentations, as well as other disclosure and regulatory documents filed under Enerflex's profile on SEDAR. The Company believes that partnership is key to successful operations, which is why Enerflex takes a direct, constructive, and transparent approach to shareholder engagement. Enerflex welcomes direct communication from shareholders on an ongoing basis to assure effective and constructive conversations that foster better alignment between the Board, management, and shareholders, as well as organizations that represent and advise shareholders on matters of governance, such as the Canadian Coalition for Good Governance. Further, investors may contact Enerflex's Investor Relations department at any time at **ir@enerflex.com**.

120 mmscf/d rental natural gas compression and processing facility, Oman.

MANAGEMENT'S DISCUSSION AND ANALYSIS

18	MANAGEMENT'S DISCUSSION AND ANALYSIS
56	CONSOLIDATED FINANCIAL STATEMENTS
61	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
108	SHAREHOLDERS' INFORMATION

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 years ended December 31, 2018 and 2017, and the cautionary statement regarding forward looking information in the “Forward-Looking Statements” section of this report.

The consolidated financial information reported herein has been prepared in accordance with International Financial Reporting Standards (“IFRS”) and is 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 focuses on information and key statistics from the audited 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 can be found in the Company’s Annual Information Form and Management Information Circular, which are 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, gas lift compression, refrigeration systems, and electric power equipment serving the natural gas production industry.

Headquartered in Calgary, Canada, the Company has approximately 2,300 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint operations, operate in Canada, the United States of America (“USA”), Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom, Bahrain, Kuwait, Oman, the United Arab Emirates (“UAE”), Australia, Indonesia, Malaysia, and Thailand. Through Enerflex’s owned natural gas infrastructure, the Company transforms over 2.5 billion cubic feet of natural gas per day, globally.

Enerflex has fabrication facilities in Calgary, Canada; Houston, USA; and Brisbane, Australia that supply custom fabricated equipment to our customers worldwide. Enerflex is a leading supplier in Canada, the USA, Latin America, and the Middle East rental markets for natural gas compression with a global rental fleet of over 640,000 horsepower. The Company is a highly-qualified service provider with industry-certified mechanics and technicians strategically situated across a network of 46 service locations in Canada, the USA, Latin America, the Middle East, Asia, and Australia.

Enerflex operates three business segments: USA, Rest of World (“ROW”), and Canada. 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.

USA

- The Engineered Systems product line provides custom and standard compression packages for reciprocating and screw compressor applications from Enerflex’s facility located in Houston, Texas. In addition, 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 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. Effective January 2015, the Company became a GE (now INNIO) Waukesha Platinum Power Packager, providing worldwide factory-direct access to Waukesha engines and parts. In addition, Enerflex packages CAT engines and parts. Enerflex’s USA service branches are located in Colorado, Louisiana, North Dakota, Oklahoma, Pennsylvania, Texas, and Wyoming.

- The Rentals product line provides natural gas compression equipment rentals to oil and natural gas customers in the USA, primarily operating in the Permian and SCOOP/STACK formations utilizing a fleet of low-, medium- and high-horsepower packages. These compressor packages are typically used 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

- The Rest of World segment deploys product typically fabricated by Enerflex's Engineered Systems division in Houston, Texas.
- The Latin America region, with locations in Argentina, Bolivia, Brazil, Colombia, and Mexico, provides Engineered Systems products, including BOOM and integrated turnkey natural gas compression and processing solutions, with local construction and installation capabilities. The Service product line in the region focuses on after-market services, parts and components, as well as operations, maintenance, and overhaul services. As a Platinum Power Packager of INNIO'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 Middle East/Africa ("MEA") region, through its operations in Bahrain, Oman, Kuwait, and the UAE, 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. MEA also provides mechanical services and parts as a global Platinum Power Packager of INNIO's Waukesha gas engines for the oil and gas industry.
- The Australia region is headquartered in Brisbane, Queensland with additional locations in New South Wales, and Western Australia providing after-market services, equipment supply, parts supply, and general asset management. The Australia region distributes INNIO's Waukesha natural gas engines as a Global Platinum partner. As an INNIO Global Platinum partner, the Company has worldwide factory-direct access to Waukesha engines and parts.
- The Asia region, with locations and operations in Indonesia, Malaysia, and Thailand, 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 INNIO's Waukesha gas engines for the oil and gas industry in this region.
- 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 INNIO's Waukesha gas engines for the oil and gas industry.

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. Enerflex also provides integrated turnkey power generation and gas processing facilities. Retrofit solutions provide re-engineering, re-configuration, and re-packaging of compressors for various field applications. Enerflex has a manufacturing facility in Calgary, Alberta and retrofit facilities in Calgary, Grand Prairie and Red Deer, Alberta.
- The Service product line, operating as Gas Drive in Canada, provides after-market mechanical service and parts distribution. In 2015, Enerflex's long-term distributorship agreement for INNIO's Waukesha natural gas engines and parts changed from being the exclusive distributor in Canada and Australia to being a Global Platinum Partner under INNIO's Waukesha Power Packager program. As an INNIO Waukesha Platinum Power Packager, the Company has worldwide factory-direct access to Waukesha engines and parts. In addition, Gas Drive is also the authorized distributor and service provider of MAN and INNIO's Jenbacher gas engines and parts in Canada. The Company also packages CAT engines and parts. This product line operates out of service branches located in Alberta, British Columbia, Ontario, and Quebec.
- The Rentals product line provides reciprocating and rotary screw natural gas compression packages ranging from 50 to 2,500 horsepower, as well as electric power equipment for rent to customers from its locations in Calgary and Grand Prairie, Alberta.

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 shop space in Australia devoted to retrofit and service activities. The Company is currently expanding the square footage of its Houston fabrication facility by approximately 100,000 square feet. This additional capacity is expected to be fully operational in the second quarter of 2019.

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 INNIO'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 INNIO'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 46 outlets situated in active natural gas producing areas, over 400 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, processing, and electric power 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 640,000 horsepower on rent or available for rent globally.

FINANCIAL OVERVIEW

($ Canadian thousands, except percentages)		Three months ended December 31,		Twelve months ended December 31,
	2018	2017	**2018**	2017
Revenue	**$ 466,842**	$ 450,065	**$ 1,703,273**	$ 1,553,355
Gross margin	**81,762**	84,100	**307,973**	286,523
Selling and administrative expenses	**34,174**	37,693	**163,009**	164,249
Operating income	**47,588**	46,407	**144,964**	122,274
Earnings before finance costs and income taxes ("EBIT")	**48,240**	47,215	**151,679**	145,795
Net earnings	**$ 32,480**	$ 26,702	**$ 101,416**	$ 97,753
Key Financial Performance Indicators[1]				
Engineered Systems bookings	**$ 676,956**	$ 223,590	**$ 1,980,363**	$ 1,141,032
Engineered Systems backlog	**1,420,621**	670,799	**1,420,621**	670,799
Recurring revenue as a percentage of revenue[2]	**30.6%**	29.7%	**30.6%**	29.7%
Gross margin as a percentage of revenue	**17.5%**	18.7%	**18.1%**	18.4%
EBIT as a percentage of revenue[2]	**8.9%**	9.4%	**8.9%**	9.4%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**$ 75,218**	$ 67,435	**$ 241,453**	$ 226,373
Return on capital employed ("ROCE") [2]	**10.9%**	10.9%	**10.9%**	10.9%

[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. Further detail is provided in the Definitions and Non-GAAP Measures sections.

[2] Determined by taking the trailing 12-month period.

FOURTH QUARTER AND TWELVE MONTHS OF 2018 OVERVIEW

For the three months ended December 31, 2018:

- Recorded bookings of $677.0 million for three months ended December 31, 2018, approximately three times the $223.6 million recorded during the same period last year. The improvement over 2017 was primarily due to several major project bookings in the USA and Canada segments. The fourth quarter of 2018 represents the highest quarterly bookings in the Company's history, breaking the previous record that was established in the third quarter of 2018. The USA segment continues to benefit from large international bookings for projects to be built in the Company's Houston fabrication facility, totaling $199.7 million in the fourth quarter. The movement in exchange rates resulted in an increase of $45.3 million on foreign currency denominated bookings during the fourth quarter of 2018.
- Engineered Systems backlog at December 31, 2018 was $1,420.6 million, a 111.8 percent increase compared to the December 31, 2017 backlog of $670.8 million. Backlog at December 31, 2018 represents the highest quarterly backlog in the Company's history, breaking the previous record established in the third quarter of 2018.
- Enerflex generated revenue of $466.8 million, a 3.7 percent increase compared to $450.1 million in the fourth quarter of 2017. The quarterly revenue increase of $16.8 million is reflective of improved results across all product lines, particularly Service revenue, which increased by $12.9 million, driven by strength in the USA segment.
- Gross margin was $81.8 million in the fourth quarter of 2018 compared to $84.1 million in the same period of 2017. Lower gross margin was the result of lower gross margin percentage, driven by higher estimated costs to complete certain projects in the USA and ROW segments, partially offset by higher revenue.
- Incurred SG&A costs of $34.2 million in the fourth quarter of 2018, down from $37.7 million in the same period last year. The decrease in SG&A is driven by cost recoveries related to the Oman Oil Exploration and Production LLC ("OOCEP") arbitration and lower third-party costs associated with the arbitration, partially offset by higher compensation costs and foreign exchange impacts. The higher compensation costs are driven by higher headcount in the USA segment.
- Reported EBIT of $48.2 million during the fourth quarter of 2018 compared to $47.2 million in the same period of 2017 due to lower SG&A, partially offset by lower gross margin.
- Received the final ruling of the OOCEP arbitration, with the tribunal awarding Enerflex an amount of $12.5 million for costs, fees, taxes, and expenses incurred as part of the proceedings. In addition, interest of $0.5 million was recognized on previously awarded amounts. The tribunal also dismissed OOCEP's claim for costs and concluded the arbitration proceedings. The earnings impact, net of tax, of $11.1 million has been recognized in the fourth quarter results. At December 31, 2018, the amount owing for all awards was $54.7 million and interest on the outstanding amounts totaled $4.8 million.
- Positive outlook, record backlog, and continued high enquiry levels, particularly in the USA and ROW segments, provides strong line of sight on the need for additional manufacturing capacity to meet demand in these segments. Given the current and anticipated future project requirements, the Company is currently expanding the square footage of its Houston fabrication facility by 55%, adding approximately 100,000 square feet. Construction on the expansion has progressed well, with additional capacity expected to be fully operational in the second quarter of 2019. Further expansion is included in the Company's 2019 budget.
- Enerflex was awarded two 10-year Build-Own-Operate-Maintain ("BOOM") contracts, one in Latin America and one in MEA, continuing our success with this path to market in 2018. During the year, the Company commenced operations on a previously awarded 10-year BOOM project in Latin America and was awarded an additional 10-year BOOM contract in Latin America.
- The Company invested $56.6 million in rental assets, largely in the USA, continuing the organic expansion of the USA rental fleet, which has grown 44 percent since the acquisition of the contract compression business from Mesa Compression, LLC ("Mesa").
- Subsequent to December 31, 2018, Enerflex declared a quarterly dividend of $0.105 per share, payable on April 4, 2019, to shareholders of record on March 7, 2019.

For the twelve months ended December 31, 2018:

- Recorded bookings of $1,980.4 million for twelve months ended December 31, 2018, a 73.6 percent increase compared to the $1,141.0 million recorded during the same period last year. 2018 represented the highest annual bookings in the Company's history, driven by consecutive record quarterly bookings.
- Enerflex generated revenue of $1,703.3 million, a 9.7 percent increase compared to $1,553.4 million in the twelve months of 2017. The revenue increase of $149.9 million was due to improved results across all product lines, particularly Engineered Systems, which increased by $90.5 million, driven by strength in the USA segment.

- Gross margin was $308.0 million in the twelve months of 2018 compared to $286.5 million in the same period of 2017. Higher gross margin was the result of increased revenues, while gross margin as a percentage of revenue decreased slightly compared to 2017 due to higher estimated costs to complete certain projects in the USA and ROW segments.
- Incurred SG&A costs of $163.0 million in the twelve months of 2018, down from $164.2 million in the same period last year. The decrease in SG&A is driven by cost recoveries related to the OOCEP arbitration totaling $22.4 million and lower third-party costs associated with the arbitration, partially offset by higher compensation costs and foreign exchange impacts.
- Reported EBIT of $151.7 million during the twelve months of 2018 compared to $145.8 million in the same period of 2017. Gains on PP&E included in EBIT were $5.9 million compared to $22.5 million in 2017.
- The Company repaid $45.6 million of debt and increased cash and cash equivalents held by $99.6 million, resulting in a bank-adjusted net debt to EBITDA ratio of 0.5:1, compared to a maximum ratio of 3:1.

ADJUSTED EBITDA

The Company's results include items that are unique and items that management and users of the financial statements add back when evaluating the Company's results. The presentation of Adjusted EBITDA should not be considered in isolation from EBIT or EBITDA as determined under IFRS. 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 have been adjusted for presentation purposes relate generally to four categories: 1) impairment or gains on idle facilities; 2) restructuring activities; 3) acquisition costs; and, 4) share-based compensation. Identification of these items allows for an understanding of the underlying operations of the Company based on the current assets and structure. Enerflex has presented the impact of share-based compensation as it is an item that can fluctuate significantly with share price changes during a period based on factors that are not specific to the long-term performance of the Company. The disposal of idle facilities is isolated within Adjusted EBITDA as they are not reflective of the ongoing operations of the Company and are idled as a result of restructuring activities.

				Three months ended December 31, 2018
($ Canadian thousands)	**Total**	**Canada**	**USA**	**ROW**
Reported EBIT	**$ 48,240**	**$ 6,269**	**$ 24,394**	**$ 17,577**
Cost recovery related to OOCEP	**(12,961)**	**-**	**-**	**(12,961)**
Share-based compensation	**2,534**	**463**	**1,287**	**784**
Depreciation and amortization	**26,978**	**1,986**	**6,575**	**18,417**
Adjusted EBITDA	**$ 64,791**	**$ 8,718**	**$ 32,256**	**$ 23,817**

				Three months ended December 31, 2017
($ Canadian thousands)	Total	Canada	USA	ROW
Reported EBIT	$ 47,215	$ 12,018	$ 22,282	$ 12,915
Write-down of equipment in COGS	1,213	-	1,213	-
(Gain) loss on disposal of idle facilities	(44)	8	9	(61)
Share-based compensation	(423)	129	(231)	(321)
Depreciation and amortization	20,220	3,184	4,823	12,213
Adjusted EBITDA	$ 68,181	$ 15,339	$ 28,096	$ 24,746

($ Canadian thousands)		Twelve months ended December 31, 2018 Total		Canada		USA		ROW
Reported EBIT	$	**151,679**	$	**14,343**	$	**87,638**	$	**49,698**
Restructuring costs in COGS and SG&A		**2,367**		**1,429**		**-**		**938**
(Gain) loss on disposal of idle facilities		**(6,208)**		**(3,735)**		**(2,432)**		**(41)**
Cost recovery related to OOCEP		**(22,368)**		**-**		**-**		**(22,368)**
Share-based compensation		**9,938**		**1,462**		**5,047**		**3,429**
Depreciation and amortization		**89,774**		**8,535**		**23,395**		**57,844**
Adjusted EBITDA	$	**225,182**	$	**22,034**	$	**113,648**	$	**89,500**

($ 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		-		488
Write-down of equipment in COGS		1,213		-		1,213		-
(Gain) loss on disposal of idle facilities		(22,465)		(22,474)		26		(17)
Acquisition costs		1,110		-		1,110		-
Share-based compensation		6,915		1,995		2,693		2,227
Depreciation and amortization		80,578		13,311		14,536		52,731
Adjusted EBITDA	$	214,086	$	31,253	$	92,773	$	90,060

Adjusted EBITDA for the three months ended December 31, 2018 has decreased over the same period from the prior year, while adjusted EBITDA for the twelve months ended December 31, 2018 has increased over the comparative period. Please refer to the section “Segmented Results” for additional information about results by geographic location.

There were no costs related to the ongoing arbitration proceedings with OOCEP during 2018. The fourth quarter and twelve months of 2017 included approximately $1.1 million and $8.7 million, respectively, of arbitration related costs. These amounts are not adjusted for in the calculation of Adjusted EBITDA.

Included in reported results for the fourth quarter and twelve months of 2018 were cost recoveries related to the OOCEP arbitration, totaling $13.0 million and $22.4 million, respectively. These amounts are comprised of $12.5 million for costs, fees, taxes and expenses incurred as part of the proceedings, awarded in the fourth quarter of 2018, and interest of $0.5 million on previously awarded amounts recognized in the fourth quarter, as well as $9.4 million for variation claims in respect of additional costs and delays in construction, and interest on the outstanding amounts, awarded in the third quarter of 2018.

ENGINEERED SYSTEMS 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.

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

($ Canadian thousands)	Three months ended December 31, 2018	Three months ended December 31, 2017	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017
Bookings				
Canada	**$ 218,839**	$ 30,902	**$ 484,018**	$ 347,944
USA	**451,132**	160,560	**1,354,745**	638,165
Rest of World	**6,985**	32,128	**141,600**	154,923
Total bookings	**$ 676,956**	$ 223,590	**$ 1,980,363**	$ 1,141,032

Backlog

($ Canadian thousands)	December 31, 2018	December 31, 2017
Backlog		
Canada	**$ 414,816**	$ 172,918
USA	**930,595**	394,861
Rest of World	**75,210**	103,020
Total backlog	**$ 1,420,621**	$ 670,799

Bookings for the fourth quarter of 2018 represent the highest quarterly bookings in the Company's history, exceeding the previous record set in the third quarter of 2018. Bookings were higher in the fourth quarter and twelve months of 2018 compared to the same period of 2017, driven by several major project bookings in the USA and Canada segments. The USA segment continues to benefit from large international bookings for projects to be built in the Company's Houston fabrication facility. The Rest of World segment was also successful in booking a large project in Latin America during the first quarter of 2018.

Backlog improved from December 31, 2017 due to record bookings outpacing Engineered Systems revenue recognized in the period. The balance at December 31, 2018 represents the highest quarterly backlog in the Company's history, exceeding the record from the previous quarter. The trend of strengthening backlog over the past two years is reflected in a 324.2 percent increase from $334.9 million for the first quarter of 2016 to $1,420.6 million for the fourth quarter of 2018.

The movement in exchange rates resulted in an increase of $45.3 million and $56.0 million during the fourth quarter and twelve months of 2018 on foreign currency denominated bookings, compared to an increase of $2.2 million in fourth quarter of 2017 and a decrease of $31.5 million during twelve months of 2017.

SEGMENTED RESULTS

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate head office. Corporate overheads are allocated to the operating segments based on revenue. In assessing its operating segments, the Company considered economic characteristics, the nature of products and services provided, the nature of production processes, the type of customer for its products and services, and distribution methods used.

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

- USA generates revenue from manufacturing natural gas compression and processing equipment in addition to generating revenue from product support services and contract compression rentals;
- Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), service, and rentals. In addition, the Rest of World segment has been successful in securing build-own-operate-maintain and integrated turnkey projects; and
- Canada generates revenue from manufacturing, service, and rentals.

USA SEGMENT RESULTS

($ Canadian thousands)	Three months ended December 31, 2018	2017	Twelve months ended December 31, 2018	2017
Engineered Systems Bookings	**$ 451,132**	$ 160,560	**$ 1,354,745**	$ 638,165
Engineered Systems Backlog	**930,595**	394,861	**930,595**	394,861
Segment revenue	**$ 300,149**	$ 208,336	**$ 1,004,676**	$ 796,807
Intersegment revenue	**(3,641)**	(3,476)	**(24,137)**	(17,772)
Revenue	**$ 296,508**	$ 204,860	**$ 980,539**	$ 779,035
Revenue – Engineered Systems	**$ 239,778**	$ 155,892	**$ 783,114**	$ 633,703
Revenue – Service	**$ 41,865**	$ 36,426	**$ 145,358**	$ 119,398
Revenue – Rental	**$ 14,865**	$ 12,542	**$ 52,067**	$ 25,934
Operating income	**$ 24,413**	$ 22,291	**$ 85,224**	$ 73,221
EBIT	**$ 24,394**	$ 22,282	**$ 87,638**	$ 73,195
EBITDA	**$ 30,969**	$ 27,105	**$ 111,033**	$ 87,731
Segment revenue as a % of total revenue	**63.5%**	45.5%	**57.6%**	50.2%
Recurring revenue as a % of segment revenue	**19.1%**	23.9%	**20.1%**	18.7%
Operating income as a % of segment revenue	**8.2%**	10.9%	**8.7%**	9.4%
EBIT as a % of segment revenue	**8.2%**	10.9%	**8.9%**	9.4%
EBITDA as a % of segment revenue	**10.4%**	13.2%	**11.3%**	11.3%

In the fourth quarter of 2018, bookings increased by $290.6 million or 181.0 percent compared to the same period in the prior year, driven by major project wins and international projects to be built in the Company's Houston fabrication facility. Backlog in the USA segment is $930.6 million, which represents the highest level of backlog for this segment since the Company re-segmented to create the USA segment in 2014, exceeding the record set in the previous quarter. With consistently high activity levels in the region, the Company continues to see a strong bid pipeline for project work in the USA segment.

Revenue increased by $91.6 million and $201.5 million in the fourth quarter and the twelve months of 2018 compared to the same periods of 2017. Engineered Systems revenue increased over the prior year as a result of the realization of strong bookings seen in prior quarters and continued progress of certain large projects, as well as the impact of the stronger U.S. dollar in 2018 versus the comparative period. Service revenues increased over the same period 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 organic growth of the contract compression fleet.

Operating income was higher in the fourth quarter and twelve months of 2018 compared to the prior year by $2.1 million and $12.0 million respectively, due to higher revenues across all product lines and warranty provision releases due to improving warranty experience rates, partially offset by higher than projected costs impacting gross margin on certain projects as well as higher SG&A costs. Increases in SG&A were driven by increased compensation on a larger workforce and increased profit share on improved operational results.

Included in EBIT in the twelve months of 2018 is a gain on sale of an idle facility of $2.2 million.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)	Three months ended December 31, 2018	2017	Twelve months ended December 31, 2018	2017
Engineered Systems Bookings	**$ 6,985**	$ 32,128	**$ 141,600**	$ 154,923
Engineered Systems Backlog	**75,210**	103,020	**75,210**	103,020
Segment revenue	**$ 102,678**	$ 86,238	**$ 425,435**	$ 356,932
Intersegment revenue	**(450)**	(582)	**(2,603)**	(1,202)
Revenue	**$ 102,228**	$ 85,656	**$ 422,832**	$ 355,730
Revenue – Engineered Systems	**$ 34,255**	$ 23,189	**$ 169,410**	$ 115,641
Revenue – Service	**$ 36,794**	$ 32,147	**$ 139,015**	$ 124,336
Revenue – Rental	**$ 31,179**	$ 30,320	**$ 114,407**	$ 115,753
Operating income	**$ 17,822**	$ 12,854	**$ 50,005**	$ 34,614
EBIT	**$ 17,577**	$ 12,915	**$ 49,698**	$ 34,631
EBITDA	**$ 35,994**	$ 25,128	**$ 107,542**	$ 87,362
Segment revenue as a % of total revenue	**21.9%**	19.0%	**24.8%**	22.9%
Recurring revenue as a % of segment revenue	**66.5%**	72.9%	**59.9%**	67.5%
Operating income as a % of segment revenue	**17.4%**	15.0%	**11.8%**	9.7%
EBIT as a % of segment revenue	**17.2%**	15.1%	**11.8%**	9.7%
EBITDA as a % of segment revenue	**35.2%**	29.3%	**25.4%**	24.6%

Bookings in the Rest of World segment are typically larger in nature and scope and as a result are less frequent. Bookings in the quarter related to projects in Australia, MEA, and Colombia.

Rest of World revenue increased by $16.6 million and $67.1 million in the fourth quarter and twelve months of 2018 compared to the same periods in the prior year, driven by higher Engineered Systems and Service revenues. Engineered Systems revenue in the quarter was higher due to projects in MEA, while Service revenues increased as a result of higher activity levels in Australia.

Operating income increased by $5.0 million and $15.4 million in the fourth quarter and twelve months of 2018 compared to the same periods of 2017. The current quarter increase is driven by the increase in revenues for the segment and a reduction in SG&A costs, partially offset by lower project margins in MEA resulting from higher estimated costs to complete certain projects. Year-to-date results are also impacted by margin erosion from the first and third quarters of 2018. SG&A costs have decreased from the prior year due to cost recoveries related to the OOCEP arbitration, totaling $13.0 million and $22.4 million for the fourth quarter and twelve months of 2018, respectively, and lower third-party costs associated with the arbitration. Decreased SG&A resulting from OOCEP proceedings was partially offset by some negative foreign exchange impacts, primarily in Mexico, and higher compensation costs for the twelve months of 2018 compared to 2017. Year-to-date results are also partially offset by the effects of restructuring activities in Australia recognized in the first quarter of 2018.

CANADA SEGMENT RESULTS

($ Canadian thousands)	Three months ended December 31, 2018	2017	Twelve months ended December 31, 2018	2017
Engineered Systems Bookings	**$ 218,839**	$ 30,902	**$ 484,018**	$ 347,944
Engineered Systems Backlog	**414,816**	172,918	**414,816**	172,918
Segment revenue	**$ 82,621**	$ 159,996	**$ 319,223**	$ 421,077
Intersegment revenue	**(14,515)**	(447)	**(19,321)**	(2,487)
Revenue	**$ 68,106**	$ 159,549	**$ 299,902**	$ 418,590
Revenue – Engineered Systems	**$ 47,406**	$ 141,575	**$ 229,646**	$ 342,286
Revenue – Service	**$ 17,942**	$ 15,163	**$ 60,725**	$ 64,451
Revenue – Rental	**$ 2,758**	$ 2,811	**$ 9,531**	$ 11,853
Operating income	**$ 5,353**	$ 11,262	**$ 9,735**	$ 14,439
EBIT	**$ 6,269**	$ 12,018	**$ 14,343**	$ 37,969
EBITDA	**$ 8,255**	$ 15,202	**$ 22,878**	$ 51,280
Segment revenue as a % of total revenue	**14.6%**	35.5%	**17.6%**	26.9%
Recurring revenue as a % of segment revenue	**30.4%**	11.3%	**23.4%**	18.2%
Operating income as a % of segment revenue	**7.9%**	7.1%	**3.2%**	3.4%
EBIT as a % of segment revenue	**9.2%**	7.5%	**4.8%**	9.1%
EBITDA as a % of segment revenue	**12.1%**	9.5%	**7.6%**	12.3%

Bookings have increased to $218.8 million from $30.9 million a year ago, driven by several project wins in the quarter.

Revenue decreased by $91.4 million and $118.7 million for the fourth quarter and twelve months of 2018 compared to the same periods of 2017. This decrease was driven by lower Engineered Systems revenue as a result of weaker bookings seen in the first half of 2018. Service revenue increased by $2.8 million in the fourth quarter due to parts sales, however this product line decreased by $3.7 million for twelve months of 2018 due to lower activity levels. Rental revenue decreased due to lower associated equipment sales.

The Canadian segment recorded an operating income of $5.4 million and $9.7 million for the fourth quarter and twelve months of 2018 compared to $11.3 million and $14.4 million over the same periods in 2017. The decrease in operating income is due to lower gross margins from reduced revenue, partially offset by improved project margins. For the fourth quarter and twelve months of 2018, SG&A costs were consistent with the comparable periods in 2017. The Company continues to closely monitor SG&A costs in response to a challenging Canadian business environment.

Included in EBIT for the twelve months of 2018 is a gain on sale of an idle facility of $3.7 million compared to a gain on sale of $22.5 million for the same period in 2017.

INCOME TAXES

Income tax expense totaled $11.2 million or 25.6 percent and $31.1 million or 23.5 percent of earnings before tax for the three and twelve months ended December 31, 2018 compared to $16.8 million or 38.6 percent and $35.3 million or 26.5 percent of earnings before tax in the same periods of 2017. Income tax expense for the fourth quarter of 2018 was lower primarily due to the exchange rate effects on tax bases, partially offset by the effect of earnings taxed in foreign jurisdictions. Income tax expense for the twelve months of 2018 was lower primarily due to the effect of earnings taxed in foreign jurisdictions and exchange rate effects on tax bases, partially offset by the inclusion of withholding tax on dividends received from foreign subsidiaries. The change in the effective tax rate is primarily due to the mix of earnings taxed in foreign jurisdictions, as well as the effect of the exchange rate fluctuations on tax bases in foreign jurisdictions.

OUTLOOK

The Company's products and services remain dependent on strength and stability in commodity prices. Stability and improvement in commodity prices are required to allow customers to continue to increase investment, which should translate to further demand for the Company's products and services. Record bookings and backlog in the second half of 2018 provide visibility for Engineered Systems revenue through 2019 and early 2020, however the Company has no assurances that bookings in future quarters will continue the strong trend seen in 2018. Bidding activity for Engineered Systems remains strong, particularly in the USA, and the Company continues to see interest for Rentals and BOOM solutions in the USA and ROW segments. Despite a healthy near-term bid pipeline in all regions, the conversion of those opportunities into bookings and backlog has moderated to start 2019. The third and fourth quarters of 2018 benefitted from numerous multi-million dollar equipment orders, which may not recur in future quarters. As a result, the Company expects quarterly bookings in 2019 to be more in line with historical activity.

Enerflex's financial performance continues to benefit from strategic decisions to diversify product offerings for Engineered Systems, to focus on increasing the recurring revenue streams derived from new and existing long-term BOOM, rental, and service contracts, and to develop a geographically diversified business. However, in Canada and Mexico these product lines will remain under pressure until the market sees a return to more profitable commodity pricing and producers are incentivized to invest in these regions.

The Company will continue to aggressively manage SG&A expenses. Steps taken in prior years 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 in response to increased operational levels, particularly in the USA segment, but remains disciplined in keeping the appropriate levels of staffing.

In the near term, Enerflex has a positive outlook supported by the record backlog and continued high enquiry levels across all regions. In the longer term, the Company continues to monitor the impacts of volatility in realized commodity prices, political uncertainty, egress issues in the Permian, as well as the lack of consistent access to market causing pricing differentials to widen in Canada. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on our customers' activity levels, which could reduce demand for the Company's products and services in future periods.

OUTLOOK BY SEGMENT

USA

The recent performance of the USA segment has been largely driven by investment in, and production from, shale oil and gas. Stronger commodity prices throughout 2018, along with lower corporate tax rates, has led to increased activity. The Company has seen significant demand for both compression and processing equipment in 2018, required to provide takeaway capacity in underserved resource plays and maximize the value of extracted gas. The Company continues to monitor the impact of egress issues that could impact activity levels in the Permian. Enerflex anticipates these issues will be resolved in the latter half of 2019. Continued development in these resource plays should translate to further demand for Engineered Systems products, as well as contract compression solutions to improve performance in maturing fields. The Company's contract compression fleet consists of approximately 210,000 horsepower, providing a valuable recurring revenue source that the Company will continue to grow and invest in through 2019. Given the current and anticipated future project requirements, the Company is currently expanding its Houston fabrication facility to provide additional manufacturing capacity to meet demand in the USA and ROW segments.

Rest of World

In the Rest of World segment, the Company has seen project successes in both the MEA region and in 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 region in order to enhance recurring revenues, focusing on BOOM projects, and was awarded two 10-year BOOM projects in the fourth quarter of 2018, in addition to commencing operations on a previously awarded 10-year BOOM project in Latin America and being awarded an additional 10-year BOOM contract in Latin America.

Enerflex remains cautiously optimistic about the outlook in the Latin America region as customers recover from the crash in commodity prices. The Company believes that there are near-term prospects within Argentina, Brazil, and Colombia and mid- to longer-term prospects in Mexico. The Company was awarded a 10-year BOOM contract in Argentina in the fourth quarter of 2018, and signed additional long-term service and rental contracts with producers in the country. In Brazil, Enerflex agreed to a 10-year contract to provide a natural gas treatment facility in the third quarter of 2018. In Colombia, during the first quarter of 2018, Enerflex booked an Engineered Systems project and commenced operations on a previously awarded BOOM project. In Mexico, there continues to be limited investment; however, Enerflex booked a rental contract with an independent producer during the first quarter. A portion of the contracts for the Company's fleet in Mexico will expire in June 2019 and the Company elected not to participate in the bid process to replace those contracts. Enerflex expects to be able to redeploy those assets to potential projects in other regions with more project certainty and for stronger returns. With the Mexican presidential elections completed during the third quarter, there is some uncertainty on the impact to Energy Reform and capital investment, however the new President has expressed his desire to make Mexico productive again, which may be positive for the market since compression service is necessary for the oil and gas sector. Enerflex intends to continue to aggressively pursue opportunities with either Pemex or independent producers.

In Australia, Enerflex is well positioned to capitalize on the need for increased production due to the supply imbalance driven by higher liquefied natural gas exports and increased domestic natural gas demand. The Company believes that maintenance and service opportunities will continue to increase as producers return to the minimum maintenance requirements for their assets, which may result in further growth for the Australian Service product line. The Company restructured the Australian operations in the first quarter in order to focus on these opportunities and enhance profitability in the region.

Canada

The Canadian market remains constrained by negative sentiment and the lack of consistent access to market that is causing uncertain pricing and limiting development potential in Canada. However, recent major project wins provide visibility on near-term Engineered Systems revenue, and the midstream sector continues to maximize the value of Canadian production, where possible. While recent liquified natural gas ("LNG") project approval has offered some future relief to the Canadian gas industry, management still expects activity to be largely subdued through 2019.

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 its Enterprise-wide collaborative approach to deploy key expertise worldwide and generate repeat business from internationally active customers. Enerflex has developed regional strategies to support its Company-wide goals.

In the USA segment, Enerflex has concentrated its efforts on consolidating its business in certain regions, 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 optimizing the Service business across the region while responding to higher activity levels in all locations. The acquisition of the contract compression business from Mesa has allowed Enerflex to expand recurring revenues from the Rental product line, as well as provides 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 these regions, the Company has targeted integrated turnkey projects and BOOM solutions of varying size and scope, including projects requiring construction and installation support at site. Early successes have been experienced in Bahrain, Kuwait, and Oman in MEA, and in Argentina, Brazil, and Colombia in Latin America. The Company continues to look at opportunities throughout these regions. In Mexico, the Company holds a large rental fleet which can be deployed as opportunities arise in Mexico and other countries.

Enerflex has aimed its efforts in Canada on leveraging its capabilities and expertise to continue to preserve market share in the traditional natural gas sector, 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 signing long-term service contracts with customers in order to secure recurring revenues.

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, 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*.

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. These revenue streams are contracted and extend into the future, rather than being recognized as a single transaction. Service revenues are derived from the ongoing maintenance of equipment that produces gas over the life of a field. Rental revenues relate to compression, processing, and electric power equipment. This classification is to contrast revenue from these product lines with the Company's Engineered Systems revenues, which are for the manufacturing and delivery of equipment and do not have any recurring aspect once the goods are delivered. While the contracts are subject to cancellation or have varying lengths, the Company does not believe that these characteristics preclude them from being considered recurring in nature.

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.

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.

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.

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 four quarters.

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)	**2018**	2017	**2018**	2017
EBITDA				
EBIT	**$ 48,240**	$ 47,215	**$ 151,679**	$ 145,795
Depreciation and amortization	**26,978**	20,220	**89,774**	80,578
EBITDA	**$ 75,218**	$ 67,435	**$ 241,453**	$ 226,373
Recurring Revenue				
Service	**$ 96,601**	$ 83,736	**$ 345,098**	$ 308,185
Rental	**48,802**	45,673	**176,005**	153,540
Total Recurring Revenue	**$ 145,403**	$ 129,409	**$ 521,103**	$ 461,725
ROCE				
Trailing 12-month EBIT	**$ 151,679**	$ 145,795	**$ 151,679**	$ 145,795
Capital Employed - beginning of period				
Net debt	**$ 159,149**	$ 202,758	**$ 232,726**	$ 226,402
Shareholders' equity	**1,199,800**	1,115,155	**1,134,472**	1,117,627
	$ 1,358,949	$ 1,317,913	**$ 1,367,198**	$ 1,344,029
Capital Employed - end of period				
Net debt	**$ 117,848**	$ 232,726	**$ 117,848**	$ 232,726
Shareholders' equity	**1,282,519**	1,134,472	**1,282,519**	1,134,472
	$ 1,400,367	$ 1,367,198	**$ 1,400,367**	$ 1,367,198
Average Capital Employed[1]	**$ 1,386,863**	$ 1,342,871	**$ 1,386,863**	$ 1,342,871
Return on Capital Employed	**10.9%**	10.9%	**10.9%**	10.9%

[1]Based on a trailing four-quarter average.

FREE CASH FLOW

($ Canadian thousands)	Three months ended December 31, 2018	Three months ended December 31, 2017	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017
Cash provided by operating activities	**$ 108,434**	$ 12,485	**$ 242,868**	$ 179,251
Net change in non-cash working capital and other	**37,983**	(47,972)	**38,208**	9,736
	$ 70,451	$ 60,457	**$ 204,660**	$ 169,515
Add-back:				
Net finance costs	**4,574**	3,740	**19,145**	12,727
Current income tax expense	**2,075**	2,007	**20,871**	27,525
Deduct:				
Net interest paid	**(8,331)**	(3,927)	**(18,373)**	(11,957)
Net cash taxes paid	**(2,013)**	(125)	**(2,273)**	(31,580)
Dividends paid	**(8,435)**	(7,526)	**(33,676)**	(30,066)
Net capital spending	**(63,766)**	(35,386)	**(102,457)**	(13,159)
Free cash flow	**$ (5,445)**	$ 19,240	**$ 87,897**	$ 123,005

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, 2018	**$ 466,842**	**$ 32,480**	**$ 0.37**	**$ 0.36**
September 30, 2018	445,803	37,696	0.43	0.42
June 30, 2018	404,848	20,367	0.23	0.23
March 31, 2018	385,780	10,873	0.12	0.12
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

[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, 2018	**$ 2,482,859**	**$ 444,712**	**$ 0.39**
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, 2018 compared to December 31, 2017:

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets and liabilities	$85.1	The increase in current assets and liabilities is due to higher cash and accounts receivable balances, as well as lower accounts payable balances, partially offset by higher deferred revenues. Accounts receivable increased due to higher activity levels, as well as amounts owing from OOCEP, which were reclassified to accounts receivable from other assets in the year. Deferred revenues increased due to higher activity levels.
Property, plant and equipment	$(8.5)	The decrease in property, plant and equipment is due to the sale of idle facilities in the Canada and USA segments, as well as depreciation of property, plant and equipment assets, partially offset by additions in the year.
Rental equipment	$78.6	The increase in rental assets is due to continued investment in the contract compression rental fleet in the USA segment and the strengthening of the U.S. dollar relative to the Canadian dollar, offset by depreciation of rental equipment.
Total assets	$352.3	The increase in total assets is primarily related to the increase in cash, accounts receivable, and rental equipment and the impact of the strengthening U.S. dollar relative to the Canadian dollar, partially offset by the decrease in inventories, property, plant and equipment, and other assets.
Long-term debt	$(15.3)	The decrease in long-term debt is due to repayments made on the Bank Facility, partially offset by the strengthening U.S. dollar that impacts the revaluation of U.S. dollar denominated debt.
Shareholders' equity before non-controlling interest	$147.9	Shareholders' equity before non-controlling interest increased due to net earnings of $101.0 million, $8.7 million of stock option impacts, $2.7 million opening retained earnings adjustment on adoption of IFRS 15 and $70.1 million unrealized gain on translation of foreign operations, partially offset by dividends of $34.6 million.

During the fourth quarter, the Company received the final ruling of the OOCEP arbitration, with the tribunal awarding Enerflex an amount of $12.5 million for costs, fees, taxes and expenses incurred as part of the proceedings. In addition, interest of $0.5 million was recognized on previously awarded amounts. The tribunal also dismissed the respondent's claim for costs. The earnings impact, net of tax, of $11.1 million has been recognized in the fourth quarter results. At December 31, 2018, the amount owing for all awards was $54.7 million and interest on the outstanding amounts totaled $4.8 million.

LIQUIDITY

The Company expects that continued cash flows from operations in 2018, 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, 2018, the Company held cash and cash equivalents of $326.9 million and had cash drawings of $124.9 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $571.9 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and the Company's unsecured notes (the "Senior Notes"), with a bank-adjusted net debt to EBITDA ratio of 0.5:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of greater than 12:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

($ Canadian thousands)	Three months ended December 31, 2018	Three months ended December 31, 2017	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017
Cash, beginning of period	**$ 267,121**	$ 260,371	**$ 227,284**	$ 167,561
Cash provided by (used in):				
Operating activities	**108,434**	12,485	**242,868**	179,251
Investing activities	**(62,434)**	(34,392)	**(100,410)**	(154,838)
Financing activities	**12,502**	(11,075)	**(44,450)**	37,455
Exchange rate changes on foreign currency cash	**1,241**	(105)	**1,572**	(2,145)
Cash, end of period	**$ 326,864**	$ 227,284	**$ 326,864**	$ 227,284

Operating Activities

For the three and twelve months ended December 31, 2018, as compared with the same period in 2017, cash provided by operating activities increased primarily due to changes in non-cash working capital and improved net earnings.

Investing Activities

For the three months ended December 31, 2018 cash used in investing activities increased due to additions to rental equipment. For the twelve months ended December 31, 2018 cash used in investing activities decreased due to the Mesa acquisition in the third quarter of 2017, partially offset by continued investment in rental equipment.

Financing Activities

For the three months ended December 31, 2018, cash provided by financing activities increased primarily due to draws on the credit facility. For the twelve months ended December 31, 2018 cash used in financing activities increased due to repayment of the credit facility and dividends paid in the period.

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; oil and natural gas prices; 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 reduced 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 and oil and gas producing customers decide to cancel or postpone major capital expenditures, the Company's business may be adversely impacted.

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 that Enerflex offers to customers. Further, 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, gas lift compression, 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 material 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 and bring 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. While the Company will assess the recoverability of any 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 oil and natural gas industry has become increasingly dependent on the continued operation of sophisticated information technology systems and network infrastructure. Cyber-attacks have become more prevalent and much harder to detect and defend against. 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.

The Company has been, and will continue to be, targeted by parties using fraudulent spoof and phishing emails to misappropriate Enerflex information, or 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, its customers or suppliers. If a member of Enerflex or a member of one of its customers or suppliers fails to recognize that a phishing email has been sent or received and responds or forwards such phishing email, this activity may corrupt the computer networks and/or confidential information of Enerflex, its customers and/or suppliers, including passwords through email or downloaded malware. In addition to spoof and phishing emails, 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.

Security measures and employee education and training have been implemented to protect the Company's information technology systems and network infrastructure. However, the Company's mitigation measures 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 conducts due-diligence and 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 Enerflex's 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 through industry leading design, build, and installation of the Company's product offering. Enerflex competes for these professionals, not only with other companies in the same industry, but with oil and natural 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 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.

There are few barriers to entry in a number of Enerflex's businesses, so retention of qualified staff is essential in order to differentiate Enerflex's businesses and compete in its various markets. Enerflex's success depends on key personnel and its ability to hire and retain skilled personnel, and the loss of skilled personnel could delay the completion of certain projects or otherwise adversely impact certain of our operational and financial results.

Health, Safety, and Environment Regulations

The Company is subject to a variety of federal, provincial, state, local, and international laws and regulations relating to the environment, and worker health and safety. These laws and regulations are complex, change frequently, are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase over time. Failure to comply with these laws and regulations may result in administrative, civil, and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance.

Compliance with 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. In addition, many of the Company's current and former properties are or have been used for industrial purposes. Certain environmental laws may impose joint and several and strict liability for environmental contamination, which may render the Company liable for remediation costs, natural resource damages, and other damages as a result of our conduct that may have been lawful at the time it occurred or the conduct of, or conditions caused by, prior owners or operators or other third parties. In addition, where contamination may be present, it is not uncommon for neighboring land owners and other third parties to file claims for personal injury, property damage, and recovery of response costs. Remediation costs and other damages arising as a result of environmental laws and regulations, and costs associated with new information, changes in existing environmental laws and regulations or the adoption of new environmental laws and regulations could be substantial and could negatively impact financial condition, profitability and results of operations.

Enerflex may need to apply for or amend facility permits or licenses from time to time with respect to storm water or wastewater discharges, waste handling, or air emissions relating to manufacturing activities or equipment operations, which may subject Enerflex to new or revised permitting conditions. These permits and authorizations may contain numerous compliance requirements, including monitoring and reporting obligations and operational restrictions, such as emission limits, which may be onerous or costly to comply with. Given the large number of facilities in which Enerflex operates, and the numerous environmental permits and other authorizations that are applicable to our operations, the Company may occasionally identify or be notified of technical violations of certain compliance requirements. Occasionally, we have been assessed penalties for our non-compliance, and Enerflex could be subject to such penalties in the future.

The Company is also subject to various federal, provincial, state, and local 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 modification or interpretation of existing HSE laws or regulations, the more vigorous enforcement of existing laws or regulations, or the adoption of new laws or regulations may also negatively impact oil and natural gas exploration, production, gathering and pipeline companies, including Enerflex customers, which in turn could have a negative impact on the Company's financial results and operations.

Foreign Corrupt Practices and Anti-Bribery Laws

The Company is required to comply with Canadian, U.S. and international laws and regulations, including those involving bribery and anti-corruption. Enerflex conducts business in many parts of the world that experience high levels of corruption, including Nigeria, Mexico, Bolivia, Peru, Brazil, Thailand, Colombia, Bahrain and, Indonesia, and our business brings us in frequent contact with foreign officials. In addition, in certain jurisdictions, including Mexico, Indonesia and Nigeria, the Company may be reliant on third-party agents to interface with its clients.

The Company has controls, policies, procedures, and training that mandate the compliance with all applicable anti-bribery and anti-corruption laws, however there can be no assurance that employees, contractors or agents will not violate these controls, policies, and procedures. It is possible that the Company or its subsidiaries could be charged with bribery or corruption as a result of the unauthorized actions of its employees, contractors or agents. If the Company is found guilty of such a violation, which could include a failure to take effective steps to prevent or address corruption by its employees, contractors or agents, the Company could be subject to onerous penalties and reputational damage. Even an investigation could lead to significant corporate disruption, high legal costs and forced settlements. In addition, bribery allegations or bribery or corruption convictions could impair the Company's ability to work with governments or nongovernmental organizations. Such convictions or allegations could result in the formal exclusion of the Company from a country or area, national or international lawsuits, government sanctions or fines, project suspension or delays, reduced market capitalization and increased investor concern.

Contracted Revenue

Many of Enerflex's 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. In addition, the Company 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 Enerflex's business, financial condition, results from operations and cash flows. To the extent that the Company is unable to renew existing contracts or enter into new contracts that are on favorable terms to Enerflex, our overall revenue mix may change over time which could have a material adverse effect on the Company's 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 Enerflex's 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 Enerflex customer satisfaction.

If the availability of certain OEM components and repair parts, which are generally in steady demand, is constrained or delayed, certain of Enerflex's operational or financial results may be adversely impacted.

Information Technology

We are dependent upon the availability, capacity, reliability and security of our information technology infrastructure and our ability to expand and continually update this infrastructure, to conduct daily operations. Information technology assets and protocols become increasingly important to Enerflex as it continues to expand internationally, provide information technology access to global personnel, develop web-based applications and monitoring products, and improve its business software applications. The Company has attempted to protect its information technology assets 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

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 remains unchanged in the current year. Further information on Enerflex's hedging activities is provided in Note 27 in the audited consolidated financial statements for the year ended 2018.

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, 2018, a 5 percent depreciation in the Canadian dollar against the U.S. dollar, Australian dollar, British pound and Brazilian real would increase AOCI by $25.3 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 $6.7 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, 2017 was $72.4 million, which increased to $142.5 million at December 31, 2018 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 2018 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, 2018, the Company had no individual customer which accounted to more than 10 percent of its revenue. 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 represented 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 Bank Facility and 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, 2022 and may be renewed annually with the consent of the

lenders. As of December 31, 2018, the Company had $323.7 million in Senior Notes issued and outstanding, and $124.9 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, 2018, the Company had $571.9 million available in borrowing base on its Bank Facility.

The Company's Bank Facility and 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 its 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 conducting 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 conducting 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 the business to markets where the Company has 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 Enerflex's 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.

Distribution Agreements

One of Enerflex's strategic assets is its purchase and distribution agreements with leading manufacturers, notably for INNIO Waukesha gas engines and parts business globally and for INNIO's 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, 2018 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, 2018 the Company had $124.9 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 one percent change in the rate of interest on the Bank Facility, the change in interest expense for the twelve months ended December 31, 2018 would be approximately $1.2 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 natural 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 natural 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. There has been an increased focus in the last several years on climate change and the possible role that emissions of GHGs such as CO_2 and methane play in climate change.

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 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 USA, the 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. To the extent there are significant climate changes in the markets Enerflex serves or areas where our assets reside, Enerflex could incur increased expenses, operations could be materially impacted, and demand for the Company's products could decrease. Such climate events have the potential to adversely affect the Company's operations or those of its clients, which could reduce revenue and increase the costs of the Company.

Technological Risks

Demand for our products may also be adversely affected by conservation plans and efforts undertaken in response to global climate change. Many governments provide, or may in the future provide, tax advantages and other subsidies to support the use and development of alternative energy technologies. 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 reduce the Company's revenue.

Legislative and Regulatory Initiatives Relating to Hydraulic Fracturing

Hydraulic fracturing is an important and common practice that is used to stimulate production of natural gas and/or oil from dense subsurface rock formations. Hydraulic fracturing involves the injection of water, sand or alternative proppant and chemicals under pressure into target geological formations to fracture the surrounding rock and stimulate production. Hydraulic fracturing is typically regulated by provincial and state agencies, however recently, there has been increased public concern regarding an alleged potential for hydraulic fracturing to adversely affect drinking water supplies, and proposals have been made to enact separate federal, provincial, state, and local legislation that would increase the regulatory burden imposed on hydraulic fracturing.

If new or more stringent federal, state, or local legal restrictions relating to the hydraulic fracturing process are adopted in areas where our natural gas exploration and production customers operate, those customers could incur potentially significant added costs to comply with such requirements, experience delays or curtailment in the pursuit of exploration, development, or production activities and

perhaps even be precluded from drilling wells. Any such restrictions could reduce demand for Enerflex's products, and as a result could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

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 Enerflex's 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 Enerflex's North American 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 customer will continue to contract with Enerflex. The inability to negotiate extensions or renew a substantial portion of the Company's contract operations services contract, the renewal of such contracts at reduced rates, the inability to contract for additional services with 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 Enerflex's 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 appropriate insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available on commercially reasonable terms or 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.

CAPITAL RESOURCES

On January 31, 2019, Enerflex had 89,083,621 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. Subsequent to the fourth quarter of 2018, the Company declared a quarterly dividend of $0.105 per share.

At December 31, 2018, the Company had drawn $124.9 million against the Bank Facility (December 31, 2017 - $160.6 million). The weighted average interest rate on the Bank Facility at December 31, 2018 was 3.5 percent (December 31, 2017 – 2.6 percent).

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

($ Canadian thousands)		**December 31, 2018**		December 31, 2017
Drawings on Bank Facility	**$**	**124,852**	$	160,576
Senior Notes due June 22, 2021		**40,000**		40,000
Senior Notes due December 15, 2024		**158,241**		146,723
Senior Notes due December 15, 2027		**125,494**		117,815
Deferred transaction costs		**(3,875)**		(5,104)
	$	**444,712**	$	460,010

At December 31, 2018, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $164.9 million, and $283.7 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**
2019	$	16,225	$	425,558	$	441,783
2020		11,011		5,854		16,865
2021		9,259		1,771		11,030
2022		5,450		-		5,450
2023		2,666		-		2,666
Thereafter		1,698		-		1,698
Total contractual obligations	**$**	**46,309**	**$**	433,183	**$**	**479,492**

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.

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,		**2018**		2017
Associate – Roska DBO				
Revenue	**$**	**186**	$	881
Purchases		**2**		-
Accounts receivable		**-**		10
Accounts payable		**-**		-
Joint Operation – Geogas				
Revenue	**$**	**90**	$	20
Purchases		**75**		91
Accounts receivable		**236**		85
Accounts payable		-		-

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, 2018. 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 audited consolidated financial statements:

Revenue Recognition – Performance Obligation Satisfied Over Time

The Company reflects revenues relating to performance obligations satisfied over time using the percentage-of-completion approach of accounting. The Company uses the input method of percentage-of-completion accounting, whereby actual input costs as a percentage of estimated total costs is used as the basis for determining the extent to which performance obligations are satisfied. It was determined that the input method of percentage-of-completion accounting provides a faithful depiction of the transfer of control to the customer, as the Company is able to recover costs incurred relating to the satisfaction of the associated performance obligation. 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.

Revenue Recognition – Performance Obligation Satisfied at a Point in Time

The Company reflects revenues relating to performance obligations satisfied at a point in time when control – indicated by transfer of the legal title, physical possession, significant risks and rewards of ownership, or any combination of these indicators – is transferred to the customer.

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 and Rental Equipment

Property, plant and equipment and rental equipment is 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 and rental equipment is reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment and rental equipment requires judgment and is based on currently available information. Property, plant and equipment and rental equipment is 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 ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of property, plant and equipment and rental equipment constitutes a change in accounting estimate and are applied prospectively.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the full lifetime expected credit losses for trade receivables. The Company determines allowances based on management's best estimate of future expected credit losses, considering historical default rates, current economic conditions, and forecasts of future economic conditions. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses.

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 of the audited consolidated financial statements.

NEW ACCOUNTING POLICIES

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

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 establishes requirements for recognition and measurement, impairment, derecognition, and general hedge accounting. IFRS 9 supersedes IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS 9, expected credit losses on financial assets are required to be measured through a loss allowance equal to 12-month or lifetime expected credit losses, depending on the type of financial asset and the level of credit risk. This standard was adopted on January 1, 2018, with prospective changes to allowance for doubtful accounts to reflect full lifetime expected credit losses on trade receivables. Adjustments made on transition to the new standard are detailed in Note 33 of the audited consolidated 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. The Company adopted IFRS 15 effective January 1, 2018. Adjustments made on transition to the new standard are detailed in Note 33.

The Company has elected to use the practical expedients in IFRS 15 paragraphs 63 and 94 with regards to the existence of a significant financing component in the contract and incremental costs of obtaining a contract, respectively. For the years ended December 31, 2018 and 2017 the Company had no contracts with a significant financing component. Incremental costs of obtaining a contract predominantly relate to commission costs on Engineered Systems projects, which are typically completed within one year. Accordingly, the Company did not recognize commission costs incurred as an asset in the consolidated statements of financial position.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

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. Under the new standard, lessees will be required to move off-balance sheet rights and obligations on to the balance sheet as a right-of-use asset and lease liability. This in-turn impacts debt covenants, financial metrics, and key performance indicators. The impact of IFRS 16 on lessors is anticipated to be minimal.

A lessee can apply the standard using either a full retrospective or a modified retrospective approach. Management has elected to adopt IFRS 16 using the modified retrospective approach. Upon adoption, the Company will include an adjustment to opening balances to reflect the Company's financial position at that date had the new standard been applied in prior periods.

The Company has performed a detailed review of existing contracts with vendors to identify leases. To ensure completeness of the population, the Company considered all recurring payments to vendors, and assessed if the underlying contracts with those vendors contained leases. Based on this review, the Company identified leases for the following asset types: land and buildings (including manufacturing facilities, office space, and rental accommodations), vehicles, office equipment, office furniture, and computer equipment.

A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In assessing whether a contract conveys the right to control the use of an identified asset, the Company determines if:

- The contract involves the use of an identified asset, either explicitly or implicitly, and whether the supplier has a substantive substitution right for the asset;
- It has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period; and
- It has the right to direct the use of the identified asset.

Upon adoption, the Company will recognize a right-of-use asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract, respectively.

The lease liability is initially measured at the present value of remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability include fixed payments, index- or rate-based variable lease payments, amounts expected to be payable under a residual value guarantee, and amounts owing under purchase or termination options, if the Company is reasonable certain to exercise these options. If the lease contains an extension option that the Company is reasonably certain to exercise, all payments in the renewal period are also included in determining the lease liability.

The amount of the liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the right-of-use asset, or is recorded on the statements of earnings if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to decommission the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lesser of lease term or the useful life of the underlying asset.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases, as per IFRS 16.5. Payments associated with these leases will be recognized as an expense on a straight-line basis over the lease term. Certain leases include

both lease and non-lease components, which are generally accounted for separately. For certain equipment leases, the Company applies a portfolio approach to account for the lease right-of-use assets and lease liabilities.

The Company has completed an assessment of the impact of the new standard on policies and procedures, IT systems, and internal controls. Upon adoption of IFRS 16, the Company will record right-of-use assets and lease liabilities on the statement of financial position in accordance with the new standard. The resulting impact of adoption of the new standard, to be recorded as an adjustment to opening retained earnings on January 1, 2019 is expected to be:

Lease right-of-use assets	$	32,292
Deferred tax assets		953
Lease liabilities		(40,138)
Other liabilities		4,352
Retained earnings adjustment	$	2,541

The retained earnings adjustment is the result of asymmetry between depreciation of the right-of-use assets and the repayment of the lease liabilities. The Company adopted IFRS 16 using the modified retrospective approach, and generally elected to depreciate right-of-use assets from the commencement of the lease. The retained earnings adjustment reflects the impact on the Company's financial position at January 1, 2019 had the new standard been applied in prior periods.

The Company has appropriate policies, procedures, and controls in place for adoption of the new standard on January 1, 2019.

IAS 28 Investments in Associates and Joint Ventures ("IAS 28")

IAS 28 sets out the principles for accounting for investments in associates and the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Narrow scope amendments made to IAS 28 provide clarification on applying IFRS 9 impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The Company applied the amendments beginning January 1, 2019, with no significant changes to the Company's consolidated financial statements.

The initial views presented on the future accounting changes are based on work completed to date and may be subject to change as the assessments continue.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying audited 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 audited 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, 2018, 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, 2018, 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, 2018, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS.

There have been no significant changes in the design of the Company's ICFR during the twelve months ended December 31, 2018 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.

SUBSEQUENT EVENTS

Subsequent to December 31, 2018, Enerflex declared a quarterly dividend of $0.105 per share, payable on April 4, 2019, to shareholders of record on March 7, 2019.

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; and implications of changes in government regulation, laws and income taxes.

All forward-looking information in this MD&A, primarily in the Outlook and Enerflex Strategy 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. While the Company believes that there is a reasonable basis for the forward-looking information and statements included in this MD&A, 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. 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 financial data included in the text of the Annual Report with that in the consolidated financial statements.

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

The Audit Committee is appointed by the Board of Directors. The Audit Committee meets with management, as well as with the external auditors, Ernst & Young LLP, 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 21, 2019

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ENERFLEX LTD.

Opinion

We have audited the consolidated financial statements of Enerflex Ltd. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of earnings, comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report
  Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

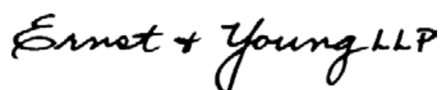
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Gord Graham.



Chartered Professional Accountants
Calgary, Canada

February 21, 2019

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)		December 31, 2018		*(restated)* December 31, 2017
Assets				
Current assets				
Cash and cash equivalents	**$**	**326,864**	$	227,284
Accounts receivable (Note 8)		**469,337**		310,719
Contract assets (Note 8)		**158,027**		134,995
Inventories (Note 9)		**176,206**		171,455
Income taxes receivable		**9,057**		14,621
Derivative financial instruments (Note 27)		**1,079**		470
Other current assets		**12,737**		9,937
Total current assets		**1,153,307**		869,481
Property, plant and equipment (Note 10)		**88,706**		97,232
Rental equipment (Note 10)		**538,489**		459,853
Deferred tax assets (Note 19)		**53,053**		47,862
Other assets (Note 11)		**21,591**		50,423
Intangible assets (Note 12)		**28,882**		35,452
Goodwill (Note 13)		**598,831**		570,299
Total assets	**$**	**2,482,859**	$	2,130,602
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities (Note 14)	**$**	**306,859**	$	322,951
Provisions (Note 15)		**12,890**		15,653
Income taxes payable		**17,057**		5,585
Deferred revenues (Note 16)		**348,804**		143,177
Deferred financing income		**179**		298
Derivative financial instruments (Note 27)		**1,400**		813
Total current liabilities		**687,189**		488,477
Long-term debt (Note 17)		**444,712**		460,010
Deferred tax liabilities (Note 19)		**52,237**		32,957
Other liabilities		**16,202**		14,686
Total liabilities	**$**	**1,200,340**	$	996,130
Shareholders' equity				
Share capital (Note 20)	**$**	**366,120**	$	357,696
Contributed surplus (Note 21)		**654,324**		654,076
Retained earnings		**118,134**		49,011
Accumulated other comprehensive income		**142,492**		72,364
Total shareholders' equity before non-controlling interest		**1,281,070**		1,133,147
Non-controlling interest		**1,449**		1,325
Total shareholders' equity and non-controlling interest		**1,282,519**		1,134,472
Total liabilities and shareholders' equity	**$**	**2,482,859**	$	2,130,602

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

CONSOLIDATED STATEMENTS OF EARNINGS

($ Canadian thousands, except per share amounts)		Years ended December 31, **2018**		2017
Revenue (Note 22)	**$**	**1,703,273**	$	1,553,355
Cost of goods sold		**1,395,300**		1,266,832
Gross margin		**307,973**		286,523
Selling and administrative expenses		163,009		164,249
Operating income		**144,964**		122,274
Gain on disposal of property, plant and equipment (Note 10)		**5,882**		22,465
Equity earnings from associate and joint venture		**833**		1,056
Earnings before finance costs and income taxes		**151,679**		145,795
Net finance costs (Note 25)		**19,145**		12,727
Earnings before income taxes		**132,534**		133,068
Income taxes (Note 19)		**31,118**		35,315
Net earnings	**$**	**101,416**	$	97,753
Net earnings attributable to:				
Controlling interest	**$**	**100,999**	$	97,623
Non-controlling interest		**417**		130
	$	**101,416**	$	97,753
Earnings per share – basic (Note 26)	**$**	**1.14**	$	1.10
Earnings per share – diluted (Note 26)	**$**	**1.14**	$	1.10
Weighted average number of shares – basic		**88,709,142**		88,491,714
Weighted average number of shares – diluted		**89,088,628**		89,104,588

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

($ Canadian thousands)	Years ended December 31, 2018	2017
Net earnings	**$ 101,416**	$ 97,753
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	**(318)**	(287)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**208**	360
Unrealized gain (loss) on translation of foreign denominated debt	**(17,781)**	23,813
Unrealized gain (loss) on translation of financial statements of foreign operations	**87,726**	(78,188)
Other comprehensive income (loss)	**$ 69,835**	$ (54,302)
Total comprehensive income (loss)	**$ 171,251**	$ 43,451
Other comprehensive income (loss) attributable to:		
Controlling interest	**$ 70,128**	$ (52,860)
Non-controlling interest	**(293)**	(1,442)
	$ 69,835	$ (54,302)

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
($ Canadian thousands)	**2018**	2017
Operating Activities		
Net earnings	**$ 101,416**	$ 97,753
Items not requiring cash and cash equivalents:		
Depreciation and amortization	**89,774**	80,578
Equity earnings from associate and joint venture	**(833)**	(1,056)
Deferred income taxes (Note 19)	**10,247**	7,790
Share-based compensation expense (Note 23)	**9,938**	6,915
Gain on sale of property, plant and equipment (Note 10)	**(5,882)**	(22,465)
	204,660	169,515
Net change in non-cash working capital and other (Note 29)	**38,208**	9,736
Cash provided by operating activities	**$ 242,868**	$ 179,251
Investing Activities		
Acquisition (Note 7)	**$ -**	$ (144,207)
Additions to:		
Property, plant and equipment (Note 10)	**(16,920)**	(6,952)
Rental equipment (Note 10)	**(115,325)**	(50,695)
Proceeds on disposal of:		
Property, plant and equipment (Note 10)	**22,853**	36,746
Rental equipment (Note 10)	**6,935**	7,742
Change in other assets	**2,047**	2,528
Cash used in investing activities	**$ (100,410)**	$ (154,838)
Financing Activities		
Repayment of long-term debt (Note 29)	**$ (17,335)**	$ (205,165)
Issuance of long-term debt (Note 17)	**-**	269,595
Dividends	**(33,676)**	(30,066)
Stock option exercises	**6,561**	3,091
Cash (used in) provided by financing activities	**$ (44,450)**	$ 37,455
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ 1,572**	$ (2,145)
Increase in cash and cash equivalents	**99,580**	59,723
Cash and cash equivalents, beginning of period	**227,284**	167,561
Cash and cash equivalents, end of period	**$ 326,864**	$ 227,284

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, 2017	$ 353,263	$ 653,503	$ (17,000)	$ 126,258	$ (1,034)	$ 125,224	$ 1,114,990	$ 2,637	$ 1,117,627
Net earnings	-	-	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 (Note 20, 21)	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
IFRS 15 opening retained earnings adjustment (Note 33)	-	-	2,738	-	-	-	2,738	-	2,738
Net earnings	-	-	100,999	-	-	-	100,999	417	101,416
Other comprehensive income (loss)	-	-	-	70,238	(110)	70,128	70,128	(293)	69,835
Effect of stock option plans (Note 20, 21)	8,424	248	-	-	-	-	8,672	-	8,672
Dividends	-	-	(34,614)	-	-	-	(34,614)	-	(34,614)
At December 31, 2018	**$ 366,120**	**$ 654,324**	**$ 118,134**	**$ 143,563**	**$ (1,071)**	**$ 142,492**	**$ 1,281,070**	**$ 1,449**	**$ 1,282,519**

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, gas lift compression, refrigeration systems, and electric power equipment serving the natural gas production industry.

Headquartered in Calgary, the registered office is located at 904, 1331 Macleod Trail SE, Calgary, Canada. Enerflex has approximately 2,300 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint operations, operate in Canada, the United States of America, Argentina, Bolivia, Brazil, Colombia, Mexico, Peru, the United Kingdom ("UK"), Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, Indonesia, Malaysia, and Thailand. Enerflex operates three business segments: USA, Rest of World, and Canada.

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, USA	100.0 percent	USA
Enerflex Middle East LLC	Oman	70.0 percent[1]	Rest of World
Enerflex Middle East Ltd.	Barbados	100.0 percent	Rest of World
Enerflex Middle East SPC	Bahrain	100.0 percent	Rest of World
Enerflex Service Pty Limited	Australia	100.0 percent	Rest of World
Enerflex Compression Services S de RL de CV	Mexico	100.0 percent	Rest of World
Enerflex Services Argentina SRL	Argentina	100.0 percent	Rest of World

[1] *Enerflex indirectly owns 100.0 percent of Enerflex Middle East LLC.*

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 21, 2019. Certain prior year amounts have been reclassified to conform with the current period's presentation. In the year, the Company finalized the fair value of the identifiable assets acquired and liabilities assumed as part of the acquisition of Mesa Compression, LLC ("Mesa"), including adjustments to reflect the recoverable amount of certain assets, confirmed subsequent to the acquisition date. These adjustments made are detailed in Note 7.

(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 issued but not yet 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 Inc. ("Roska DBO"). Under the equity method, the investment is 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 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. 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 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 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.

On the disposal of a foreign subsidiary, accumulated exchange differences are recognized in the consolidated statements of earnings 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 fair value on the date of the acquisition. 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 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. 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 is included in selling and administrative expenses in the consolidated statements of earnings. The expected useful lives and amortization method are reviewed on an annual basis with any change in the useful life or pattern of consumption adjusted at year end. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

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

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

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

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

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

(i) Inventories

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

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

Cost of work-in-process includes cost of direct materials, labour, and an allocation of 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. The Company calculates an expected credit loss based on historical experience of bad debts and specific provisions created when there is objective evidence that the collection of the full amount of a receivable is no longer probable under the terms of the original invoice. The amount of this allowance represents management's best estimate of expected credit losses. Trade receivables are derecognized when they are assessed as uncollectible.

Prior to January 1, 2018, the Company's policy was as follows:
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) 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.

(n) 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.

(o) Share-Based Payments

Equity-Settled Share-Based Payments

The Company offers a Stock Option Plan to 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 a Cash Performance Target ("CPT") plan to certain employees. The Company also offers the DSU plan to non-employee directors. 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.

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 seventh 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. The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

(p) 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.

(q) Revenue Recognition

Revenue is recognized as the Company satisfies its performance obligations by transferring promised goods or services to customers, regardless of when payment is received. Revenue is measured at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties, and may include fixed amounts, variable amounts, or both. Variable amounts are recorded at the most likely amount, as determined upon initial recognition of the contract, and are reassessed at each reporting period. In estimating variable consideration, the Company reviews any potential for returns, refunds, and other similar obligations. For contracts containing multiple performance obligations, the amount of consideration to which the Company expects to be entitled is allocated to individual performance obligations proportionately based on the stand-alone selling price.

Engineered Systems

Revenue from the supply of equipment systems – contracts typically involving engineering, design, manufacture, installation, and start-up of equipment – is accounted for as Engineered Systems revenue. Such revenue is recognized on a percentage-of-completion basis proportionate to the costs incurred in the construction of the project. At the completion of the contract, any remaining profit on the contract is recognized as revenue. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Revenue from Engineered Systems includes the supply of compression, processing, and electric power equipment, as well as retrofit work and construction on integrated turnkey projects. The Company also provides a warranty on manufactured equipment as part of the standard terms and conditions of the contract. No options are provided for the customer to purchase a warranty separately.

For Engineered Systems contracts, the Company generally requires customers to pay based on milestones as manufacturing progresses. These milestones are generally structured to keep the Company cash flow positive. Contracts are also structured to ensure the Company is made whole for costs incurred in the event of cancellation of a contract.

Service

Service revenues include the sales of parts and equipment, as well as the servicing and maintenance of equipment. For the sale of parts and equipment, revenue is recognized when the part is shipped to the customer. For servicing and maintenance of equipment, revenue is recognized on a straight-line basis 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. Payments are typically required on a monthly basis or as work is performed, with no unusual payment terms. 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. Long-term service contracts include scheduled milestone maintenance, corrective or crash maintenance, the supply of parts, and the operation of equipment.

Rentals

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. Payments are typically required on a monthly basis with no unusual payment terms. 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.

The Company has elected to use the practical expedients in IFRS 15 paragraphs 63 and 94 with regards to the existence of a significant financing component in the contract and incremental costs of obtaining a contract, respectively. For years ended December 31, 2018 and 2017 the Company had no contracts with a significant financing component. Incremental costs of obtaining a contract predominantly relate to commission costs on Engineered Systems projects, which are typically completed within one year. Accordingly, the Company did not recognize commission costs incurred as an asset in the consolidated statements of financial position.

Prior to January 1, 2018, the Company's policy was as follows:
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).*

(r) Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. For the purposes of measuring financial assets after initial recognition, the Company classifies financial assets as either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value throw profit or loss ("FVTPL"), based on the contractual cash flow characteristics and the Company's business model for managing the financial asset. For the purposes of measuring financial liabilities after initial recognition, the Company classifies all financial liabilities as amortized cost, except certain financial liabilities, such as derivatives, which are classified as fair value through profit or loss.

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 measured at fair value through profit or loss. Gains and losses resulting from the periodic revaluation are recorded in the consolidated statement of earnings;
- Accounts receivable are recorded at amortized cost using the effective interest rate method; and
- Accounts payable, accrued liabilities, and long-term debt 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 using the effective interest rate method.

Prior to January 1, 2018, the Company's policy was as follows:
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.

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

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.

(t) 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 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.

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 and the statement of financial position.

(u) 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.

(v) Finance Costs and Income

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

Finance costs comprise interest expense on borrowings.

NOTE 4. CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 establishes requirements for recognition and measurement, impairment, derecognition, and general hedge accounting. IFRS 9 supersedes IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS 9, expected credit losses on financial assets are required to be measured through a loss allowance equal to 12-month or lifetime expected credit losses, depending on the type of financial asset and the level of credit risk. This standard was adopted on January 1, 2018, with prospective changes to allowance for doubtful accounts to reflect full lifetime expected credit losses on trade receivables. Adjustments made on transition to the new standard are detailed in Note 33.

(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. The Company adopted IFRS 15 effective January 1, 2018. Adjustments made on transition to the new standard are detailed in Note 33.

The Company has elected to use the practical expedients in IFRS 15 paragraphs 63 and 94 with regards to the existence of a significant financing component in the contract and incremental costs of obtaining a contract, respectively. For the years ended December 31, 2018 and 2017 the Company had no contracts with a significant financing component. Incremental costs of obtaining a contract predominantly relate to commission costs on Engineered Systems projects, which are typically completed within one year. Accordingly, the Company did not recognize commission costs incurred as an asset in the consolidated statements of financial position.

NOTE 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT

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 – Performance Obligation Satisfied Over Time

The Company reflects revenues relating to performance obligations satisfied over time using the percentage-of-completion approach of accounting. The Company uses the input method of percentage-of-completion accounting, whereby actual input costs as a percentage of estimated total costs is used as the basis for determining the extent to which performance obligations are satisfied. It was determined that the input method of percentage-of-completion accounting provides a faithful depiction of the transfer of control to the customer, as the Company is able to recover costs incurred relating to the satisfaction of the associated performance obligation. 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.

Revenue Recognition – Performance Obligation Satisfied at a Point in Time

The Company reflects revenues relating to performance obligations satisfied at a point in time when control – indicated by transfer of the legal title, physical possession, significant risks and rewards of ownership, or any combination of these indicators – is transferred to the customer.

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 and Rental Equipment

Property, plant and equipment and rental equipment is 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 and rental equipment is reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment and rental equipment requires judgment and is based on currently available information. Property, plant and equipment and rental equipment is 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 ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of property, plant and equipment and rental equipment constitutes a change in accounting estimate and are applied prospectively.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the full lifetime expected credit losses for trade receivables. The Company determines allowances based on management's best estimate of future expected credit losses, considering historical default rates, current economic conditions, and forecasts of future economic conditions. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses.

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.

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 may have an impact on the Company:

(a) 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. Under the new standard, lessees will be required to move off-balance sheet rights and obligations on to the balance sheet as a right-of-use asset and lease liability. This in-turn impacts debt covenants, financial metrics, and key performance indicators. The impact of IFRS 16 on lessors is anticipated to be minimal.

A lessee can apply the standard using either a full retrospective or a modified retrospective approach. Management has elected to adopt IFRS 16 using the modified retrospective approach. Upon adoption, the Company will include an adjustment to opening balances to reflect the Company's financial position at that date had the new standard been applied in prior periods.

The Company has performed a detailed review of existing contracts with vendors to identify leases. To ensure completeness of the population, the Company considered all recurring payments to vendors, and assessed if the underlying contracts with those vendors contained leases. Based on this review, the Company identified leases for the following asset types: land and buildings (including manufacturing facilities, office space, and rental accommodations), vehicles, office equipment, office furniture, and computer equipment.

A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In assessing whether a contract conveys the right to control the use of an identified asset, the Company determines if:

- The contract involves the use of an identified asset, either explicitly or implicitly, and whether the supplier has a substantive substitution right for the asset;
- It has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period; and
- It has the right to direct the use of the identified asset.

Upon adoption, the Company will recognize a right-of-use asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract, respectively.

The lease liability is initially measured at the present value of remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability include fixed payments, index- or rate-based variable lease payments, amounts expected to be payable under a residual value guarantee, and amounts owing under purchase or termination options, if the Company is reasonable certain to exercise these options. If the lease contains an extension option that the Company is reasonably certain to exercise, all payments in the renewal period are also included in determining the lease liability.

The amount of the liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the right-of-use asset, or is recorded on the statements of earnings if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to decommission the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lesser of lease term or the useful life of the underlying asset.
The Company has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases, as per IFRS 16.5. Payments associated with these leases will be recognized as an expense on a straight-line basis over the lease term. Certain leases include both lease and non-lease components, which are generally accounted for separately. For certain equipment leases, the Company applies a portfolio approach to account for the lease right-of-use assets and lease liabilities.

The Company has completed an assessment of the impact of the new standard on policies and procedures, IT systems, and internal controls. Upon adoption of IFRS 16, the Company will record right-of-use assets and lease liabilities on the statement of financial position in accordance with the new standard. The resulting impact of adoption of the new standard, to be recorded as an adjustment to opening retained earnings on January 1, 2019 is expected to be:

Lease right-of-use assets	$	**32,292**
Deferred tax assets		**953**
Lease liabilities		**(40,138)**
Other liabilities		**4,352**
Retained earnings adjustment	$	**2,541**

The retained earnings adjustment is the result of asymmetry between depreciation of the right-of-use assets and the repayment of the lease liabilities. The Company adopted IFRS 16 using the modified retrospective approach, and generally elected to depreciate

right-of-use assets from the commencement of the lease. The retained earnings adjustment reflects the impact on the Company's financial position at January 1, 2019 had the new standard been applied in prior periods.

The Company has appropriate policies, procedures, and controls in place for adoption of the new standard on January 1, 2019.

(b) IAS 28 Investments in Associates and Joint Ventures ("IAS 28")

IAS 28 sets out the principles for accounting for investments in associates and the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Narrow scope amendments made to IAS 28 provide clarification on applying IFRS 9 impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The Company applied the amendments beginning January 1, 2019, with no 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 was a supplier of contract compression services with operations in Oklahoma, Texas, and New Mexico.

The fair value of the identifiable net assets and goodwill acquired effective July 31, 2017 was determined provisionally. The preliminary fair value of the fixed assets was reduced by $2.3 million to reflect the recoverable amount of certain assets with a corresponding increase in goodwill. Given the nature of these assets and the scope of the valuation work performed, physical condition and the Company's ability to rent these assets was confirmed subsequent to the acquisition date. The decrease in depreciation resulting from the reduction in fair value of these assets was immaterial.

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

Net working capital	$	**2,686**
Net fixed assets		**113,432**
Identified intangible assets		**8,365**
Goodwill		**20,578**
Property taxes payable		**(854)**
Total net assets acquired	**$**	**144,207**

NOTE 8. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

December 31,		2018		2017
Trade receivables	$	**406,659**	$	297,636
Less: allowance for doubtful accounts		**(992)**		(968)
Trade receivables, net	$	**405,667**	$	296,668
Other receivables[1]		**63,670**		14,051
Total accounts receivable	$	**469,337**	$	310,719

[1] Other receivables include amounts that were reclassified from long-term to current during the second quarter of 2018. 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 were included in arbitration proceedings initiated in the second quarter of 2015. In July 2018, Enerflex was awarded the full amount relating to these milestone payments, as well as variation claims in respect of additional costs and delays in construction and interest on the outstanding amounts, by the arbitration tribunal. In addition, in December 2018, the tribunal awarded Enerflex amounts relating to costs, fees, taxes, and expenses incurred as part of the proceedings. At December 31, 2018, the amount owing for all awards was $54.7 million and interest on the outstanding amounts totaled $4.8 million. The amounts remain unpaid, however Enerflex expects to collect the full amount of all receivables as per the rulings.

Aging of trade receivables:

December 31,		2018		2017
Current to 90 days	$	**371,324**	$	262,523
Over 90 days		**35,335**		35,113
	$	**406,659**	$	297,636

Movement in allowance for doubtful accounts:

December 31,		2018		2017
Balance, beginning of year	$	**968**	$	1,808
Impairment provision additions on receivables		**635**		737
Amounts written off during the year as uncollectible		**(652)**		(1,505)
Currency translation effects		**41**		(72)
Balance, end of year	$	**992**	$	968

Movement in contract assets:

December 31,		2018		2017
Balance, January 1	$	**134,995**	$	100,742
IFRS 15 transitional adjustment		**14,657**		-
Unbilled revenue recognized		**565,306**		266,876
Amounts billed		**(575,694)**		(232,135)
Currency translation effects		**18,763**		(488)
Closing balance	$	**158,027**	$	134,995

Contract assets, defined as the amount to which contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, were previously included as unbilled receivables. All amounts included in contract asset balances at January 1, 2018 and 2017 were subsequently billed to customers in the respective years.

NOTE 9. INVENTORIES

Inventories consisted of the following:

December 31,		2018		2017
Equipment	**$**	**6,371**	$	9,510
Repair and distribution parts		**45,483**		43,745
Direct materials		**84,021**		50,193
Work-in-process		**40,331**		68,007
Total inventories	**$**	**176,206**	$	171,455

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold during 2018 was $1,395.3 million (December 31, 2017 – $1,266.8 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also 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 charged to the consolidated statements of earnings and included in cost of goods sold December 31, 2018 was $4.3 million (December 31, 2017 – $4.4 million).

Work-in-process inventory decreased by $44.7 million on January 1, 2018 as a result of the adoption of IFRS 15. Refer to Note 33 for a reconciliation of transitional adjustments relating to the adoption of the new standard.

NOTE 10. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

		Land		Building		Equipment		Assets under construction		Total property, plant and equipment		Rental equipment
Cost												
January 1, 2018	$	24,870	$	108,427	$	61,127	$	2,300	$	196,724	$	646,907
Acquisition		-		-		-		-		-		-
Additions		-		525		2,169		14,226		16,920		115,325
Reclassification		-		380		3,193		(5,291)		(1,718)		(172)
Disposals		(3,143)		(26,157)		(8,792)		-		(38,092)		(12,293)
Currency translation effects		1,307		5,493		1,988		406		9,194		49,232
December 31, 2018	**$**	**23,034**	**$**	**88,668**	**$**	**59,685**	**$**	**11,641**	**$**	**183,028**	**$**	**798,999**
Accumulated depreciation												
January 1, 2018	$	-	$	(50,668)	$	(48,824)	$	-	$	(99,492)	$	(187,054)
Depreciation charge		-		(5,043)		(7,034)		-		(12,077)		(66,572)
Impairment		-		-		-		-		-		-
Disposals		-		12,905		8,216		-		21,121		5,358
Currency translation effects		-		(2,410)		(1,464)		-		(3,874)		(12,242)
December 31, 2018	**$**	**-**	**$**	**(45,216)**	**$**	**(49,106)**	**$**	**-**	**$**	**(94,322)**	**$**	**(260,510)**
Net book value – December 31, 2018	**$**	**23,034**	**$**	**43,452**	**$**	**10,579**	**$**	**11,641**	**$**	**88,706**	**$**	**538,489**

		Land		Building		Equipment		Assets under construction		Total property, plant and equipment		Rental equipment[1]
Cost												
January 1, 2017	$	34,040	$	129,518	$	66,343	$	3,600	$	233,501	$	570,150
Acquisition		6		33		2,647		-		2,686		110,746
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	$	646,907
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	$	459,853

[1] On July 31, 2017, Enerflex completed the acquisition of the U.S. based contract compression business of Mesa for $115.5 million U.S. dollars, including closing purchase price adjustments. The fair value of the identifiable net assets and goodwill acquired effective July 31, 2017 was determined provisionally. The preliminary fair value of the fixed assets was reduced by $2.3 million to reflect the recoverable amount of certain assets with a corresponding increase in goodwill.

Depreciation of property, plant and equipment and rental equipment included in earnings for the year ended December 31, 2018 was $78.6 million (December 31, 2017 – $69.1 million), of which $74.7 million was included in cost of goods sold (December 31, 2017 – $64.3 million) and $3.9 million was included in selling and administrative expenses (December 31, 2017 – $4.8 million).

During the year ended December 31, 2018, the Company recognized gains on disposal of property, plant and equipment of $5.9 million (December 31, 2017 – $22.5 million). The gains relate primarily to the sale of idle facilities in Canada and the USA.

NOTE 11. OTHER ASSETS

December 31,		**2018**		2017
Investment in associates and joint ventures	**$**	**20,284**	$	19,451
Prepaid deposits		**320**		342
Long-term receivable[1]		**-**		29,195
Net investment in finance leases		**987**		1,435
	$	**21,591**	$	50,423

[1] Long-term receivables had included amounts that were reclassified from long-term to current during the second quarter of 2018. These assets represent milestone payments with respect to a gas processing plant constructed and delivered to OOCEP during 2015, which were included in arbitration proceedings initiated in the second quarter of 2015. In July 2018, Enerflex was awarded the full amount relating to these milestone payments by the arbitration tribunal and reclassified the receivable accordingly.

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,		**2018**		2017		**2018**		2017
Less than one year	**$**	**444**	$	519	**$**	**425**	$	499
Between one and five years		**987**		1,435		**827**		1,157
Greater than five years		**-**		-		**-**		-
	$	**1,431**	$	1,954	**$**	**1,252**	$	1,656
Less: unearned finance income		**(179)**		(298)		**-**		-
	$	**1,252**	$	1,656	**$**	**1,252**	$	1,656

The average interest rates inherent in the leases are fixed at the contract date for the entire lease term and are approximately 8.3 percent per annum (December 31, 2017 – 7.3 percent). The finance lease receivables at the end of reporting period are neither past due nor impaired.

NOTE 12. INTANGIBLE ASSETS

		Customer relationships and other		Software		Total intangible assets
Acquired value						
January 1, 2018	$	72,196	$	47,645	$	119,841
Acquisition		-		-		-
Additions		-		-		-
Reclassification				1,890		1,890
Disposal		(2,469)		(559)		(3,028)
Currency translation effects		3,172		588		3,760
December 31, 2018	**$**	**72,899**	**$**	**49,564**	**$**	**122,463**
Accumulated amortization						
January 1, 2018	$	(46,193)	$	(38,196)	$	(84,389)
Amortization charge		(5,057)		(4,031)		(9,088)
Disposal		1,268		559		1,827
Currency translation effects		(1,344)		(587)		(1,931)
December 31, 2018	**$**	**(51,326)**	**$**	**(42,255)**	**$**	**(93,581)**
Net book value – December 31, 2018	**$**	**21,573**	**$**	**7,309**	**$**	**28,882**

		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

NOTE 13. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

December 31,		2018		(restated) 2017
Balance, January 1	**$**	**570,299**	$	571,826
Acquisition		**-**		18,267
Adjustment		**-**		2,311
Currency translation effects		**28,532**		(22,105)
	$	**598,831**	$	570,299

Goodwill acquired through business combinations was 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. Upon acquisition of Mesa, fair value of the identifiable net assets and goodwill acquired effective July 31, 2017 was determined provisionally. The preliminary fair value of the fixed assets was reduced by $2.3 million to reflect the recoverable amount of certain assets, confirmed subsequent to the acquisition date, with a corresponding increase in goodwill. For the year ended December 31, 2018, the Company did not identify any indicators of impairment.

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, 2018. 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 2.0 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 1.0 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 10.8 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 $145.5 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 10.6 percent (December 31, 2017 – 9.5 percent), 9.1 percent (December 31, 2017 – 8.1 percent) and 12.8 percent (December 31, 2017 – 11.6 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 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31,		2018		2017
Accounts payable and accrued liabilities	**$**	**293,652**	$	310,343
Accrued dividend payable		**9,349**		8,411
Cash-settled share-based payments		**3,858**		4,197
	$	**306,859**	$	322,951

NOTE 15. PROVISIONS

December 31,		2018		2017
Warranty provision	**$**	**9,720**	$	10,927
Onerous lease provision		**2,049**		4,347
Legal provision		**1,121**		94
Restructuring provision		**-**		285
	$	**12,890**	$	15,653

2018		Warranty provision		Onerous lease provision		Legal provision		Restructuring provision		Total
Balance, January 1	$	10,927	$	4,347	$	94	$	285	$	15,653
Additions during the year		9,674		-		1,160		150		10,984
Amounts settled and released in the year		(11,348)		(2,245)		(138)		(429)		(14,160)
Currency translation effects		467		(53)		5		(6)		413
Balance, December 31	**$**	**9,720**	**$**	**2,049**	**$**	**1,121**	**$**	**-**	**$**	**12,890**

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

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, 2018 is $0.2 million for Canada and $1.8 million for Australia (December 31, 2017 – $0.5 million and $3.9 million, respectively).

NOTE 16. DEFERRED REVENUES

December 31,		2018		2017
Balance, January 1	$	**143,177**	$	81,930
IFRS 15 transitional adjustment		**(33,954)**		-
Cash received in advance of revenue recognition		**705,468**		570,475
Revenue subsequently recognized		**(479,934)**		(500,482)
Currency translation effects		**14,047**		(8,746)
Closing balance	$	**348,804**	$	143,177

All amounts included in deferred revenue balances at January 1, 2018 and 2017 were recognized into revenue in the respective years.

Upon adoption of IFRS 15, amounts previously included in deferred revenue were recognized as revenue, thereby decreasing the deferred revenue balance at January 1, 2018. Under previous standards the Company did not recognize revenue on percentage-of-completion projects until the outcome of the project could be estimated reliably. Under IFRS 15, revenue is required to be recognized at least to the extent that costs are incurred in the construction of the project until the Company can reasonably measure the outcome. Refer to Note 33 for a reconciliation of transitional adjustments relating to the adoption of the new standard.

NOTE 17. LONG-TERM DEBT

Through private placement, the Company has $323.7 million of unsecured notes ("Notes") issued and outstanding. These Notes consist of $105.0 million U.S. dollar and $15.0 million Canadian dollar 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 maturing December 15, 2027 bearing an interest rate of 4.87 percent and 4.79 percent respectively, issued December 15, 2017. 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.

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, 2022 ("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, 2018, the Company was in compliance with these covenants.

The weighted average interest rate on the Bank Facility for the year ended December 31, 2018 was 3.5 percent (December 31, 2017 – 2.6 percent).

The composition of the borrowings on the Bank Facility and the Company's senior unsecured notes ("Notes") was as follows:

December 31,		2018		2017
Drawings on Bank Facility	**$**	**124,852**	$	160,576
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**158,241**		146,723
Notes due December 15, 2027		**125,494**		117,815
Deferred transaction costs		**(3,875)**		(5,104)
	$	**444,712**	$	460,010

At December 31, 2018, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $164.9 million, and $283.7 million thereafter.

NOTE 18. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At December 31, 2018, the Company had outstanding letters of credit of $78.2 million (December 31, 2017 – $53.9 million).

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

Operating leases relate to leases of land and buildings, vehicles, office equipment, office furniture, and computer equipment 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:

2019	$	16,225
2020		11,011
2021		9,259
2022		5,450
2023		2,666
Thereafter		1,698
Total	**$**	**46,309**

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

2019	$	425,558
2020		5,854
2021		1,771

NOTE 19. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

Years ended December 31,		2018		2017
Current income taxes	$	**20,871**	$	27,525
Deferred income taxes		**10,247**		7,790
	$	**31,118**	$	35,315

(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,		2018		2017
Earnings before income taxes	$	**132,534**	$	133,068
Canadian statutory rate		**27.0%**		27.0%
Expected income tax provision	$	**35,784**	$	35,928
Add (deduct):				
Exchange rate effects on tax basis		**(2,319)**		3,636
Earnings taxed in foreign jurisdictions		**(5,903)**		(2,856)
Withholding tax on dividends received from foreign subsidiaries		**3,188**		-
Revaluation of USA deferred taxes at new statutory rate		**-**		(149)
Amounts not deductible (taxable) for tax purposes		**700**		(844)
Impact of accounting for associates and joint ventures		**(338)**		(320)
Other		**6**		(80)
Income tax expense from continuing operations	$	**31,118**	$	35,315

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 (2017 – 15.0 percent) and the provincial income tax rate of 12.0 percent (2017 – 12.0 percent).

(c) Income Tax Recognized in Other Comprehensive Income

Years ended December 31,		2018		2017
Deferred Tax				
Arising on income and expenses recognized in other comprehensive income:				
Fair value remeasurement of hedging instruments entered into for cash flow hedges	$	(130)	$	(95)
Arising on income and expenses reclassified from other comprehensive income to net earnings:				
Relating to cash flow hedges		67		120
Total income tax recognized in other comprehensive income	$	(63)	$	25

(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, 2018	$ 21,884	$ 23,185	$ (15,577)	$ 1,732	$ (16,640)	$ 321	$ 14,905
Charged to net earnings	(2,437)	9,475	(19,410)	(194)	2,319	-	(10,247)
Charged to OCI	-	-	-	-	-	63	63
Charged to retained earnings	(892)	-	-	-	-	-	(892)
Exchange differences	501	(64)	(1,999)	(1)	(1,455)	5	(3,013)
December 31, 2018	**$ 19,056**	**$ 32,596**	**$ (36,986)**	**$ 1,537**	**$ (15,776)**	**$ 389**	**$ 816**

[1]Net deferred tax assets at December 31, 2018 of $0.8 million consist of assets of $53.0 million net of liabilities of $52.2 million.

	Accounting provisions and accruals	Tax losses	Long-term assets	Other	Exchange rate effects on tax bases	Cash flow hedges	Total
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)
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

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, 2018 are expected to be utilized against future taxable profit. Certain of the tax losses recognized are subject to expiration in the years 2026 through 2038.

(e) Unrecognized Deferred Tax Assets

The Company has unused tax losses of $57.4 million for the year ended December 31, 2018 (December 31, 2017 – $61.4 million). Certain of these unrecognized tax losses are subject to expiration in the years 2019 through 2029. Deferred tax assets totaling $14.2 million on these tax losses have not been recognized in the consolidated statements of financial position at December 31, 2018 (December 31, 2017 – $15.2 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

	2018			2017		
	Number of common shares		**Common share capital**	Number of common shares		Common share capital
Balance, January 1	**88,540,398**	**$**	**357,696**	88,296,818	$	353,263
Exercise of stock options	**543,223**		**8,424**	243,580		4,433
Balance, December 31	**89,083,621**	**$**	**366,120**	88,540,398	$	357,696

Total dividends declared in the year were $34.6 million, or $0.095 per share during the first three quarters and $0.105 per share during the last quarter of 2018 (December 31, 2017 – $31.0 million, or $0.085 during the first three quarters and $0.095 per share during the last quarter of 2017).

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:

Years ended December 31,		**2018**		2017
Balance, January 1	**$**	**654,076**	$	653,503
Share-based compensation		**2,112**		1,915
Exercise of stock options		**(1,864)**		(1,342)
Balance, December 31	**$**	**654,324**	$	654,076

NOTE 22. REVENUE

Years ended December 31,		**2018**		2017
Engineered Systems	**$**	**1,182,170**	$	1,091,630
Service		**345,098**		308,185
Rentals		**176,005**		153,540
Total revenue	**$**	**1,703,273**	$	1,553,355

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

Years ended December 31,		2018		2017
United States	**$**	**970,691**	$	745,469
Canada		**277,061**		393,070
Oman		**93,462**		58,256
Australia		**62,783**		38,922
Kuwait		**47,032**		107,205
Mexico		**47,032**		53,897
Bahrain		**43,587**		45,358
Argentina		**37,476**		41,007
Colombia		**35,675**		167
India		**24,634**		62
Indonesia		**13,131**		6,159
Other		**50,709**		63,783
Total revenue	**$**	**1,703,273**	$	1,553,355

The following table outlines the Company's unsatisfied performance obligations, by product line, as at December 31, 2018:

		Less than one year		One to two years		Greater than two years		Total
Engineered Systems	$	1,399,939	$	20,682	$	-	$	1,420,621
Service		72,416		61,773		155,581		289,770
Rental		100,503		138,504		287,709		526,716
	$	**1,572,858**	**$**	**220,959**	**$**	**443,290**	**$**	**2,237,107**

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,		2018		2017
Equity settled share-based payments	**$**	**2,112**	$	1,915
Deferred share units		**2,294**		55
Phantom share entitlement plan		**226**		357
Performance share units		**1,778**		1,670
Restricted share units		**2,366**		1,988
Cash performance target		**1,162**		930
Share-based compensation expense	**$**	**9,938**	$	6,915

(b) Equity-Settled Share-Based Payments

The Company's current Stock Option Plan provides grants to certain employees. Under the plan, a maximum of 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.

			2018			2017
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Options outstanding, beginning of period	**3,556,575**	**$**	**14.03**	2,999,757	$	13.47
Granted	**885,404**		**16.20**	800,498		15.75
Exercised[1]	**(543,223)**		**12.08**	(243,580)		12.70
Forfeited	**(228,058)**		**15.83**	-		-
Expired	**(8,000)**		**11.66**	(100)		12.96
Options outstanding, end of period	**3,662,698**	**$**	**14.74**	3,556,575	$	14.03
Options exercisable, end of period	**1,555,909**	**$**	**14.13**	1,604,238	$	13.47

[1]*The weighted average share price of Options at the date of exercise for the year ended December 31, 2018 was $16.50 (December 31, 2017 - $18.30).*

The company granted 885,404 Options during 2018 (2017 – 800,498). Using the Black-Scholes option pricing model, the weighted average fair value of Options granted for the period ended December 31, 2018 was $3.99 per Option (December 31, 2017 - $3.77).

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

	December 31, 2018	December 31, 2017
Expected life (years)	**5.32**	5.31
Expected volatility[2]	**32.8%**	31.1%
Dividend yield	**2.4%**	2.2%
Risk-free rate	**2.2%**	1.9%
Estimated forfeiture rate	**2.4%**	1.4%

[2]*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, 2018:

	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 – $13.80	1,467,632	3.84	$	12.27	886,306	2.89	$	12.09
$13.81 – $15.94	1,024,037	4.45		15.34	441,106	2.92		14.80
$15.95 – $20.75	1,171,029	5.63		17.31	228,497	2.61		20.75
Total	**3,662,698**	**4.40**	**$**	**14.74**	**1,555,909**	**2.86**	**$**	**14.13**

(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 on the Toronto Stock Exchange ("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, 2018, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled $1.9 million (December 31, 2017 – $1.3 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2018	593,771	$	13.93
Granted	123,282		15.49
In lieu of dividends	14,860		15.42
Vested	(86,200)		15.85
DSUs outstanding, December 31, 2018	**645,713**	**$**	**14.01**

The carrying amount of the liability relating to DSUs as at December 31, 2018 included in other long-term liabilities was $10.3 million (December 31, 2017 – $9.1 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 TSX for 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 2018, the Board of Directors granted 85,013 PSEs (December 31, 2017 – 119,565). The intrinsic value of the vested awards at December 31, 2018 was $0.3 million (December 31, 2017 – $1.1 million).

	Number of PSEs		Weighted average grant date fair value per unit
PSEs outstanding, January 1, 2018	410,546	$	14.13
Granted	85,013		16.12
Vested	(123,881)		13.07
Forfeited	(75,946)		14.49
PSEs outstanding, December 31, 2018	**295,732**	**$**	**15.05**

The carrying amount of the liability relating to the PSEs as at December 31, 2018 included in current liabilities was $0.3 million (December 31, 2017 – $0.5 million) and in other long-term liabilities was $0.3 million (December 31, 2017 – $0.3 million).

(e) Performance Share Units

The Company offers a PSU plan for executive officers of the Company. 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 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 zero 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 2018, the Company paid $2.0 million for the period ended December 31, 2018 representing units vested in the year (December 31, 2017 – $1.1 million).

	Number of PSUs		Weighted average grant date fair value per unit
PSUs outstanding, January 1, 2018	493,871	$	14.40
Granted	211,239		16.23
In lieu of dividends	11,930		15.43
Vested	(133,443)		15.01
Forfeited	(47,504)		13.35
Expired	(29,315)		11.69
PSUs outstanding, December 31, 2018	**506,778**	**$**	**15.28**

The carrying amount of the liability relating to PSUs as at December 31, 2018 included in current liabilities was $1.5 million (December 31, 2017 – $2.3 million) and in other long-term liabilities was $1.9 million (December 31, 2017 – $1.3 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 on the TSX during the last five trading days immediately preceding the vesting date. Unless otherwise determined by the Board, 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 2018, the Board of Directors granted 245,156 RSUs to officers or key employees of the Company (2017 – 122,054). The Company paid $1.8 million for the period ended December 31, 2018 representing units vested in the year (December 31, 2017 – $2.1 million).

	Number of RSUs		Weighted average grant date fair value per unit
RSUs outstanding, January 1, 2018	255,598	$	12.27
Granted	245,156		15.55
In lieu of dividends	6,755		15.54
Vested	(123,548)		14.90
Forfeited	(30,999)		14.29
RSUs outstanding, December 31, 2018	**352,962**	**$**	**13.51**

The carrying amount of the liability included in current liabilities relating to RSUs at December 31, 2018 was $1.4 million (December 31, 2017 – $0.9 million).

(g) Cash Performance Target Plan

The Company offers a CPT plan to certain non-executive, U.S.-based employees of the Company or its related entities. 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 2018, the Board of Directors distributed $1.8 million of CPT cash grants (2017 – $1.3 million). The Company paid $1.1 million for the period ended December 31, 2018 representing units vested in the year (December 31, 2017 – $0.8 million). The weighted average grant fair value per unit was $16.12 (December 31, 2017 – $15.75), 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, 2018 was $0.6 million (December 31, 2017 – $0.5 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 BENEFITS PLAN

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,		**2018**		2017
Defined contribution plans	**$**	**4,996**	$	4,869
401(k) matched savings plan		**3,488**		1,781
Net pension expense	**$**	**8,484**	$	6,650

NOTE 25. FINANCE COSTS AND INCOME

Years ended December 31,		2018		2017
Finance Costs				
Short and long-term borrowings	**$**	**22,598**	$	13,786
Finance Income				
Bank interest income	**$**	**3,334**	$	911
Income from finance leases		**119**		148
Total finance income	**$**	**3,453**	$	1,059
Net finance costs	**$**	**19,145**	$	12,727

NOTE 26. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

Year ended December 31, 2018		**Net earnings**	**Weighted average shares outstanding**		**Per share**
Basic	**$**	**101,416**	**88,709,142**	**$**	**1.14**
Dilutive effect of stock option conversion		**-**	**379,486**		**-**
Diluted	**$**	**101,416**	**89,088,628**	**$**	**1.14**

Year ended December 31, 2017		Net earnings	Weighted average shares outstanding		Per share
Basic	$	97,753	88,491,714	$	1.10
Dilutive effect of stock option conversion		-	612,874		-
Diluted	$	97,753	89,104,588	$	1.10

NOTE 27. FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows:

December 31, 2018		Carrying value		Estimated fair value
Financial Assets				
Cash and cash equivalents	$	326,864	$	326,864
Derivative instruments in designated hedge accounting relationships		1,079		1,079
Loans and receivables:				
Accounts receivable		469,337		469,337
Contract assets		158,027		158,027
Financial Liabilities				
Derivative instruments in designated hedge accounting relationships		1,400		1,400
Other financial liabilities:				
Accounts payable and accrued liabilities		306,859		306,859
Long-term debt – bank facility		124,852		124,852
Long-term debt – notes		323,735		317,987
Other long-term liabilities		16,202		16,202

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		310,719		310,719
Contract assets		134,995		134,995
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

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, 2018 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2018, 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. 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	$	1,079	$	-	$	1,079	$	-
Financial Liabilities								
Derivative financial instruments	$	1,400	$	-	$	1,400	$	-
Long-term debt – notes	$	323,735	$	-	$	317,987	$	-

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 5.4 percent, was $318.0 million at December 31, 2018.

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, 2018:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**19,886**	January 2019 – July 2019
Sales contracts	USD	**(26,973)**	January 2019 – September 2019
Purchase contracts	EUR	**444**	February 2019 – June 2019
Australian Dollar Denominated Contracts			
Purchase contracts	USD	**1,879**	January 2019

Management estimates that a loss of $0.3 million would be realized if the contracts were terminated on December 31, 2018. 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 2018 year (December 31, 2017 – $0.3 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 2018 year was a gain of $0.2 million (December 31, 2017 – $0.4 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, Argentina, Brazil, Colombia, Mexico, Bahrain, Kuwait, Oman, the UAE, and Australia.

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 2018 year of a five percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real, everything else being equal. A five 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**
Earnings before income taxes	**$ 6,483**	**$ 50**	**$ 27**	**$ 123**

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 five percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real. A five percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis relates to the position as at December 31, 2018 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	$	23,746	$	1,093	$	161	$	253
Financial instruments held in Canadian operations								
Earnings before income taxes	$	(12,232)	$	-	$	-	$	-

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, 2018 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 one percent change in the rate of interest on the Bank Facility, the change in interest expense for the year ended December 31, 2018 would be $1.2 million. All interest charges are recorded on the annual consolidated statements of earnings as finance costs.

Credit Risk

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

The Company has accounts receivable from clients engaged in various industries. These specific industries may be affected by economic factors that may impact accounts receivable. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Credit is extended based on an evaluation of the customer's financial condition and, generally, advance payment is not required. Outstanding customer receivables are regularly monitored and an allowance for doubtful accounts is established based expected credit losses.

The Company evaluates the concentration of risk at December 31, 2018 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 accounts receivable balance for one customer in the USA and Canada segments was $77.4 million, which represented 17.4 percent of total 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 Bank Facility for future drawings to meet the Company's future growth targets. As at December 31, 2018, the Company held cash and cash equivalents of $326.9 million and had drawn $124.9 million against the Bank Facility, leaving it with access to $571.9 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and Notes, with a bank-adjusted net debt to EBITDA ratio of 0.5:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of greater than 12:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

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, 2018:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 1,110	$ 290	$ -	$ 1,400
Accounts payable and accrued liabilities	306,859	-	-	306,859
Long-term debt - Bank Facility	-	-	124,852	124,852
Long-term debt - Notes	-	-	323,735	323,735
Other long-term liabilities	-	-	16,202	16,202

The Company expects that cash flows from operations in 2019, 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, 2018, the net debt to EBITDA ratio was:

Years ended December 31,		2018		2017
Long-term debt	$	**444,712**	$	460,010
Cash and cash equivalents		**(326,864)**		(227,284)
Net debt	$	**117,848**	$	232,726
Earnings before finance costs and income taxes	$	**151,679**	$	145,795
Depreciation and amortization		**89,774**		80,578
EBITDA	$	**241,453**	$	226,373
Net debt to EBITDA ratio		**0.49:1**		1.03:1

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, 2018, the Company is in compliance with its covenants. The net debt to EBITDA using adjusted EBITDA (as defined in the "Adjusted EBITDA" section of the annual Management Discussion and Analysis) is 0.52 at December 31, 2018 (1.09 at December 31, 2017).

NOTE 29. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,		2018		2017
Net change in non-cash working capital and other				
Accounts receivable and contract assets	$	**(181,650)**	$	(135,089)
Inventories		**(4,751)**		(7,512)
Deferred revenue		**205,627**		61,095
Accounts payable and accrued liabilities, provisions, and income taxes payable		**(7,383)**		112,918
Foreign currency and other		**26,365**		(21,676)
	$	**38,208**	$	9,736

Cash paid and received during the period:

Years ended December 31,		2018		2017
Interest paid	$	**21,749**	$	13,019
Interest received		**3,376**		1,062
Taxes paid		**13,609**		31,913
Taxes received		**11,336**		333

Changes in liabilities arising from financing activities during the period:

	2018	2017
Long-term debt, opening balance	**$ 460,010**	$ 393,963
Changes from financing cash flows	**(45,610)**	87,146
The effect of changes in foreign exchange rates	**29,083**	(19,861)
Amortization of deferred transaction costs	**2,037**	1,617
Other changes	**(808)**	(2,855)
Long-term debt, closing balance	**$ 444,712**	$ 460,010

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.

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:

Years ended December 31,	2018	2017
Associate – Roska DBO		
Revenue	**$ 186**	$ 881
Purchases	**2**	-
Accounts receivable	**-**	10
Accounts payable	**-**	-
Joint Operation – Geogas		
Revenue	**$ 90**	$ 20
Purchases	**75**	91
Accounts receivable	**236**	85
Accounts payable	-	-

All related party transactions are settled in cash.

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

Years ended December 31,	2018	2017
Short-term compensation	**$ 5,496**	$ 5,289
Post-employment compensation	**541**	445
Share-based payments	**9,808**	5,621

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 identified three reportable operating segments as outlined below, each supported by the Corporate head office. Corporate overheads are allocated to the operating segments based on revenue. In assessing its operating segments, the Company considered economic characteristics, the nature of products and services provided, the nature of production processes, the type of customer for its products and services, and distribution methods used. 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, 2018, the Company had no individual customers which accounted for more than 10 percent of its revenue. 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 represented 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 represented 17.4 percent of total accounts receivable.

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

- USA generates revenue from manufacturing natural gas compression and processing equipment in addition to generating revenue from product support services and contract compression rentals;
- Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), service, and rentals. In addition, the Rest of World segment has been successful in securing build-own-operate-maintain and integrated turnkey projects; and
- Canada generates revenue from manufacturing, service, and rentals.

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

Years ended December 31,	USA		Rest of World		Canada		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Segment revenue	**$ 1,004,676**	$ 796,807	**$ 425,435**	$ 356,932	**$ 319,223**	$ 421,077	**$ 1,749,334**	$ 1,574,816
Intersegment revenue	**(24,137)**	(17,772)	**(2,603)**	(1,202)	**(19,321)**	(2,487)	**(46,061)**	(21,461)
Revenue	**$ 980,539**	$ 779,035	**$ 422,832**	$ 355,730	**$ 299,902**	$ 418,590	**$ 1,703,273**	$ 1,553,355
Revenue – Engineered Systems	**783,114**	633,703	**169,410**	115,641	**229,646**	342,286	**1,182,170**	1,091,630
Revenue – Service	**145,358**	119,398	**139,015**	124,336	**60,725**	64,451	**345,098**	308,185
Revenue – Rental	**52,067**	25,934	**114,407**	115,753	**9,531**	11,853	**176,005**	153,540
Operating income	**$ 85,224**	$ 73,221	**$ 50,005**	$ 34,614	**$ 9,735**	$ 14,439	**$ 144,964**	$ 122,274

As at		USA Dec 31, 2018		Dec. 31, 2017[1]		Rest of World Dec 31, 2018		Dec. 31, 2017		Canada Dec 31, 2018		Dec. 31, 2017		Total Dec 31, 2018		Dec. 31, 2017[1]
Segment assets	**$**	**990,819**	$	696,270	**$**	**676,676**	$	648,648	**$**	**490,135**	$	485,232	**$**	**2,157,630**	$	1,830,150
Goodwill		**166,179**		152,806		**344,285**		329,126		**88,367**		88,367		**598,831**		570,299
Corporate		**-**		-		**-**		-		**-**		-		**(273,602)**		(269,847)
Total segment assets	**$**	**1,156,998**	$	849,076	**$**	**1,020,961**	$	977,774	**$**	**578,502**	$	573,599	**$**	**2,482,859**	$	2,130,602

[1] On July 31, 2017, Enerflex completed the acquisition of the U.S. based contract compression business of Mesa for $115.5 million U.S. dollars, including closing purchase price adjustments. The fair value of the identifiable net assets and goodwill acquired effective July 31, 2017 was determined provisionally. The preliminary fair value of the fixed assets was reduced by $2.3 million to reflect the recoverable amount of certain assets with a corresponding increase in goodwill.

NOTE 33. RECONCILIATION OF TRANSITIONAL ADJUSTMENTS

In preparing its consolidated financial statements as at and for the year ended December 31, 2018, the Company has adjusted the opening retained earnings balance reported previously in the financial statements as at and for the year ended December 31, 2017 for the adoption of IFRS 15. In addition, results reported under IFRS 15 and IFRS 9 differ from results that would have been reported under the previous standards. A reconciliation of the Company's consolidated statements of financial position, earnings, and comprehensive income under both the new and previous standards is set out in the following tables and accompanying notes.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)	Notes	December 31, 2018 Per IAS 11, 18, and 39	Effect of Transition	December 31, 2018 Per IFRS 15 and 9
Assets				
Current assets				
Cash and cash equivalents		$ 326,864	$ -	$ 326,864
Accounts receivable	i, ii	469,764	(427)	469,337
Contract assets		151,005	7,022	158,027
Inventories	ii	210,796	(34,590)	176,206
Income taxes receivable		9,057	-	9,057
Derivative financial instruments		1,079	-	1,079
Other current assets		12,737	-	12,737
Total current assets		1,181,302	(27,995)	1,153,307
Property, plant and equipment		88,706	-	88,706
Rental equipment		538,489	-	538,489
Deferred tax assets	i, ii	53,678	(625)	53,053
Other assets		21,591	-	21,591
Intangible assets		28,882	-	28,882
Goodwill		598,831	-	598,831
Total assets		$ 2,511,479	$ (28,620)	$ 2,482,859
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 306,859	$ -	$ 306,859
Provisions		12,890	-	12,890
Income taxes payable		17,172	(115)	17,057
Deferred revenues	ii	385,750	(36,946)	348,804
Deferred finance income		179	-	179
Derivative financial instruments		1,400	-	1,400
Total current liabilities		724,250	(37,061)	687,189
Long-term debt		444,712	-	444,712
Deferred tax liabilities	i, ii	50,584	1,653	52,237
Other liabilities		16,202	-	16,202
Total liabilities		$ 1,235,748	$ (35,408)	$ 1,200,340
Shareholders' equity				
Share capital		$ 366,120	$ -	$ 366,120
Contributed surplus		654,324	-	654,324
Retained earnings	ii	111,346	6,788	118,134
Accumulated other comprehensive income		142,492	-	142,492
Total shareholders' equity before non-controlling interest		1,274,282	6,788	1,281,070
Non-controlling interest		1,449	-	1,449
Total shareholders' equity and non-controlling interest		1,275,731	6,788	1,282,519
Total liabilities and shareholders' equity		$ 2,511,479	$ (28,620)	$ 2,482,859

CONSOLIDATED STATEMENTS OF EARNINGS

($ Canadian thousands, except per share amounts)	Notes	December 31, 2018 Per IAS 11, 18, and 39	Effect of Transition	December 31, 2018 Per IFRS 15 and 9
Revenue	ii	$ 1,659,305	$ 43,968	$ 1,703,273
Cost of goods sold	ii	1,360,710	34,590	1,395,300
Gross margin	ii	298,595	9,378	307,973
Selling and administrative expenses	i	162,582	427	163,009
Operating income		136,013	8,951	144,964
Gain on disposal of property, plant and equipment		5,882	-	5,882
Equity earnings from associate and joint venture		833	-	833
Earnings before finance costs and income taxes		142,728	8,951	151,679
Net finance costs		19,145	-	19,145
Earnings before income taxes		123,583	8,951	132,534
Income taxes	i, ii	28,955	2,163	31,118
Net earnings		$ 94,628	$ 6,788	$ 101,416
Net earnings attributable to:				
Controlling interest		$ 94,211		$ 100,999
Non-controlling interest		417		417
		$ 94,628		$ 101,416
Earnings per share – basic		$ 1.07		$ 1.14
Earnings per share – diluted		$ 1.06		$ 1.14
Weighted average number of shares – basic		88,709,142		88,709,142
Weighted average number of shares – diluted		89,088,628		89,088,628

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ Canadian thousands)	Notes	December 31, 2018 Per IAS 11, 18, and 39	Effect of Transition	December 31, 2018 Per IFRS 15 and 9
Net earnings		$ 94,628	$ 6,788	$ 101,416
Other comprehensive income 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		(318)	-	(318)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		208	-	208
Unrealized gain (loss) on translation of foreign denominated debt		(17,781)	-	(17,781)
Unrealized (loss) gain on translation of financial statements of foreign operations		87,726	-	87,726
Other comprehensive income		$ 69,835	$ -	$ 69,835
Total comprehensive income		$ 164,463	$ 6,788	$ 171,251
Other comprehensive income attributable to:				
Controlling interest		$ 70,128		$ 70,128
Non-controlling interest		(293)		(293)
		$ 69,835		$ 69,835

NOTES TO THE RECONCILIATIONS

i. Financial Instruments – Expected Credit Losses

Under IAS 39, an allowance for doubtful accounts was recorded when there was objective evidence that it was no longer probable that the Company would collect the full amount of a receivable balance. Under IFRS 9, allowance for doubtful accounts is determined using an expected credit losses model, under which the lifetime expected credit losses are measured on initial recognition of the receivable. As a result, the allowance for doubtful accounts balance increased by $0.4 million on adoption of IFRS 9, with a corresponding increase in bad debt expense included in selling and administrative expenses. The Company has determined that the change in allowance for doubtful accounts will also have a current tax impact of $0.1 million.

ii. Revenue Recognition

Under previous revenue guidance in IAS 11, IAS 18, and related interpretations on revenue recognition, the Company did not recognize revenue on percentage-of-completion projects until the outcome of the project could be estimated reliably. Under IFRS 15, revenue is required to be recognized at least to the extent that costs are incurred in the construction of the project until the Company can reasonably measure the outcome. The effect of this change is to increase revenue for the year ended December 31, 2018 by $44.0 million. The change in revenue is due to timing of revenue recognition on individual projects, as percentage-of-completion revenue is recognized from inception of a given project. Cost of goods sold for the year ended December 31, 2018 increased by $34.6 million, with a corresponding decrease in work-in-process inventory, as project costs are recognized as incurred. The net impact of the changes in revenue and cost of goods sold for the year ended December 31, 2018 was an increase in gross margin of $9.4 million.

Contract assets, defined as the amount to which contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, increased by $7.0 million as percentage-of-completion projects are recognized into revenue earlier in the project lifecycle. Contract liabilities, when progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, decreased by $37.0 million, also due to earlier revenue recognition.

The Company elected to apply IFRS 15 using the modified retrospective approach, and recognized the cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings. This adjustment resulted in an increase of $2.7 million in retained earnings as the revenue that was not yet recognized under the previous standard, net of cost of goods sold and taxes, was included in opening retained earnings, as follows:

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

NOTE 34. SUBSEQUENT EVENTS

Subsequent to December 31, 2018, Enerflex declared a quarterly dividend of $0.105 per share, payable on April 4, 2019, to shareholders of record on March 7, 2019.

QUARTERLY AND SHARE DATA

Quarterly Data

(unaudited)	2018				2017			
($ millions, except per share data and percentages)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**466.8**	**445.8**	**404.8**	**385.8**	450.1	315.0	433.5	354.8
Operating income	**47.6**	**49.6**	**28.3**	**19.5**	46.4	12.8	32.8	30.3
Earnings before finance costs and income tax	**48.2**	**55.6**	**28.5**	**19.3**	47.2	32.8	32.7	33.1
Net earnings - continuing operations	**32.5**	**37.7**	**20.4**	**10.9**	26.7	25.2	21.3	24.5
Net earnings - discontinued operations	**-**	**-**	**-**	**-**	-	-	-	-
Earnings per share - continuing operations	**0.36**	**0.43**	**0.23**	**0.12**	0.30	0.28	0.24	0.28
Earnings per share - discontinued operations	**-**	**-**	**-**	**-**	-	-	-	-
Depreciation and amortization	**27.0**	**20.5**	**21.4**	**21.0**	20.2	20.2	20.4	19.8
Cash from operations	**108.4**	**30.7**	**78.6**	**25.1**	12.5	98.2	67.3	1.3
Capital expenditures, net								
Property, plant and equipment	**10.3**	**(15.0)**	**(3.0)**	**1.8**	1.7	(31.5)	1.3	(2.6)
Rental equipment	**51.0**	**19.1**	**17.3**	**18.6**	33.2	9.7	1.8	(1.0)
Dividends (declared)	**9.3**	**8.4**	**8.4**	**8.4**	8.4	7.5	7.5	7.5
Dividends per share	**0.105**	**0.095**	**0.095**	**0.095**	0.095	0.085	0.085	0.085
Pre-tax earnings (continuing as % of revenue)	**9.4%**	**11.4%**	**5.8%**	**3.7%**	9.7%	9.4%	6.9%	8.6%

Share Data

(unaudited)	2018				2017			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Trading price range of shares ($)								
High	**18.72**	**16.79**	**16.85**	**16.83**	18.59	19.12	20.57	19.17
Low	**15.11**	**13.56**	**13.55**	**13.74**	14.38	15.10	16.52	16.52
Close	**15.98**	**16.53**	**14.14**	**15.36**	15.34	18.40	18.82	18.98
Trading volume (millions)	**13.245**	**10.008**	**13.184**	**16.757**	16.13	10.48	11.98	12.47
Shares (millions)								
Outstanding at the end of the period	**89.084**	**88.825**	**88.606**	**88.606**	88.540	88.540	88.540	88.478
Weighted averages - basic	**88.969**	**88.707**	**88.606**	**88.549**	88.540	88.540	88.529	88.353

DIRECTORS AND EXECUTIVES

Enerflex's Board of Directors: Top Left to Right - Michael A. Weill, J. Blair Goertzen, W. Byron Dunn, H. Stanley Marshall, and Stephen J. Savidant
Bottom Left to Right - Maureen Cormier Jackson, Robert S. Boswell, Helen J. Wesley, and Kevin Reinhart

BOARD OF DIRECTORS

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Denver, CO

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Calgary, AB

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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, CPA, CA
Executive Vice President and
Chief Financial Officer
Calgary, AB

MARC ROSSITER
Executive Vice President and
Chief Operating Officer
Houston, TX

ANDREW JACK
President, Canada
Calgary, AB

PATRICIA MARTINEZ
President, Latin America
Houston, TX

PHIL PYLE
President, International
Abu Dhabi, UAE

GREG STEWART
President, United States of America
Houston, TX

SHAREHOLDERS' INFORMATION

42 mmscf/d natural gas compressor station, Colombia.

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

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Calgary, AB, Canada and Toronto, ON, Canada

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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

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

ANNUAL GENERAL AND SPECIAL MEETING INFORMATION

Shareholders of Enerflex are invited to attend the Annual General and Special Meeting which will be held on May 3, 2019, at 10:30 a.m. MDT. The meeting will be held at the Calgary Marriott Downtown Hotel (Kensington Room), 110 – 9th Avenue SE, Calgary, Alberta. Those unable to attend are encouraged to sign and return the proxy form mailed to them.

ENERFLEX

2018 **ANNUAL REPORT**

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